Endavo Media & Communications, Inc.
Form 424B3
May 20, 2005

PROSPECTUS

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Registration No. 333-124315

ENDAVO MEDIA AND COMMUNICATIONS, INC.

10,064,449 shares of our common stock

This prospectus relates to the resale by the selling stockholders of up to 10,064,449 shares of common stock, including up to (i) 1,597,534 shares of common stock issuable upon conversion of $1,425,000 aggregate principal amount 8% senior secured convertible promissory notes issued to certain selling stockholders based upon an assumed conversion price of $0.892 per share, (ii) 1,597,529 shares of common stock issuable upon the exercise of warrants issued to holders of the foregoing notes, (iii) 3,195,067 shares of common stock issuable upon the conversion of additional 8% senior secured convertible promissory notes issuable upon exercise of investment right "A" and "B" held by the current noteholders and based upon an assumed note conversion price of $0.892 per share and (iv) 3,195,058 shares of common stock issuable upon the exercise of warrants issuable upon exercise of investment rights "A" and "B." The selling stockholders may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions.

This prospectus also relates to the issuance of (i) 239,630 shares of common stock underlying warrants and (ii) 239,630 shares of common stock underlying convertible debenture warrants issued to our placement agent, H. C. Wainwright & Co., Inc., and certain of its principals. The placement agent warrants have an exercise price of $.89 per share and the convertible debenture warrants have an exercise price of $1.27.

We are not selling any shares of Common Stock in this offering and therefore will not receive any proceeds from this offering. We may, however, receive proceeds upon the exercise of the warrants described throughout this prospectus in the event that such warrants are exercised. We will bear all costs associated with this registration.

These shares may be sold by the selling stockholders from time to time in the over-the-counter market or other national securities exchange or automated interdealer quotation system on which our common stock is then listed or quoted, through negotiated transactions or otherwise at market prices prevailing at the time of sale or at negotiated prices.

The selling stockholders, and any participating broker-dealers, may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended, or the "Securities Act," and any commissions or discounts given to any such broker-dealer may be regarded as underwriting commissions or discounts under the Securities Act. The selling stockholders have informed us that they do not have any agreement or understanding, directly or indirectly, with any person to distribute their common stock.

Our common stock is registered under Section 12(g) of the Securities Exchange Act of 1934 and is listed on the over-the-counter bulletin board under the symbol "EDVO." The closing price of our common stock as reported on the over-the-counter bulletin board on April 21, 2005 was $0.89.

Investing in these securities involves significant risks. Investors should not buy these securities unless they can afford to lose their entire investment. See "Risk Factors" beginning on page 6.

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

criminal offense.

The date of this prospectus is May 20, 2005.

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The selling stockholders are offering and selling shares of our common stock only to those persons and in those in jurisdictions where these offers and sales are permitted.

You should rely only on the information contained in this prospectus, as amended and supplemented from time to time. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. The information in this prospectus is complete and accurate only as of the date of the front cover regardless of the time of delivery or of any sale of shares. Neither the delivery of this prospectus nor any sale made hereunder shall under any circumstances create an implication that there has been no change in our affairs since the date hereof.

This prospectus has been prepared based on information provided by us and by other sources that we believe are reliable. This prospectus summarizes information and documents in a manner we believe to be accurate, but we refer you to the actual documents or the agreements we entered into for additional information of what we discuss in this prospectus.

We issue from time to time securities convertible or exercisable into common stock. We cannot predict the actual number of shares that we will be required to issue upon exercise or conversion because this number depends on variables that cannot be known precisely until the conversion or exercise date. The most significant of these variables is the closing price of our common stock on a certain day or during certain specified periods of time. Nevertheless, we can estimate the number of shares of common stock that may be issued using certain assumptions (including but not

limited to assuming a conversion and/or exercise date). These calculations are illustrative only and will change based, among other things, on changes in the market price of our common stock and the number of outstanding shares.

In making a decision to invest in our common stock, you must conduct your own evaluation of the information provided including, among other things, of our company; its business, financial condition and results of operations, the terms of this offering and the common stock, our capital structure, our recent acquisitions and the risks factors and uncertainties. You should not consider any information in this prospectus to be legal, business, tax or other advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the common stock due to your particular circumstances.

In this prospectus, "Endavo," the "Company," "we," "us" and "our" refer to Endavo Media and Communications, Inc. and its subsidiaries, taken as a whole, unless the context otherwise requires.

This prospectus contains trademarks, service marks and registered marks of Endavo Media and Communications, Inc. and its subsidiaries and other companies, as indicated. Unless otherwise provided in this prospectus, as amended and supplemented from time to time, trademarks identified by ® and ™ are registered trademarks or trademarks, respectively, of Endavo Media and Communications, Inc. or its subsidiaries. All other trademarks trade names and service names are the properties of their respective owners.

Our principal offices are located at 50 West Broadway, Suite 400, Salt Lake City, Utah, 84101, and our telephone number is (801) 297-8500. Our web site is located at www.endavo.com. Information contained on our web site is not part of this prospectus. We were formed under the laws of the State of Delaware.

PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, the “Risk Factors” section on page 6, and the financial statements and the notes to the financial statements beginning on page F-1. You should also review the other available information referred to in the section entitled “Available Information” on page 43. As used throughout this prospectus, the terms “Endavo,” the “Company,” “we,” “us,” and “our” refer to Endavo Media and Communications, Inc., a Delaware corporation.

GENERAL OVERVIEW

Historically, we have provided bundled broadband services, including high-speed Internet services, cable television and Voice over Internet Protocol, or “VOIP,” to residential and commercial customers through fiber-based community networks and over fiber-to-the-premises, or “FTTP.” We plan to continue delivering Internet Protocol, or “IP,” voice, video and data services to our current residential customer base in Utah and also to operate, support and expand our network facilities in both our local and other potential markets. However, our new business plan also includes the development of a distribution and transaction management system over a national IP Multicast network services delivery system that will enable the distribution of digital entertainment and communications services to connected customers and communities. We call this distribution and transaction management system the Endavo EcoSystem™.

Once our technologies and products are sufficiently developed and tested, we plan to market our “d-commerce marketplace” of digital services and content, on a wholesale and retail basis, to defined groups of customers. We define the d-commerce marketplace as any product or service that can be delivered over an IP network. This includes individual pieces of media, such as movies, music, books or images, and complete digital services, such as VoIP and secure instant messages. We intend to initially target our marketing efforts toward geographical markets located within close proximity to, or already connected to, our national fiber network and that have existing local or metropolitan fiber network infrastructure.

Our principal offices are located at 50 West Broadway, Suite 400, Salt Lake City, Utah, 84101, and our telephone number is (801) 297-8500. Our web site is located at www.endavo.com. Information contained on our web site is not part of this prospectus. We were formed under the laws of the State of Delaware.

RECENT DEVELOPMENTS

Private Placement

On February 22, 2005, we entered into (and simultaneously completed the transaction contemplated by) a Securities Purchase Agreement with the entities listed below pursuant to which we issued $1,425,000 principal amount of 8% Senior Secured Convertible Notes and related securities.

Name	Aggregate Principal Amount of Notes	Warrants	Additional Investment Right “A”	Additional Investment Right “B”
Iroquois Capital L.P.	$ 425,000	476,457	$ 425,000	$ 425,000
Notzer Chesed, Inc.	$ 100,000	112,107	$ 100,000	$ 100,000
Basso Multi-Strategy Holding Fund Ltd.	$ 100,000	112,107	$ 100,000	$ 100,000

Double U Master Fund LP	$	100,000	112,107	$	100,000	$	100,000
Enable Growth Partners LP	$	150,000	168,161	$	150,000	$	150,000
Nite Capital LP	$	300,000	336,332	$	300,000	$	300,000
Puritan LLC	$	100,000	112,107	$	100,000	$	100,000
TCMP3 Partners	$	150,000	168,161	$	150,000	$	150,000
TOTAL	$	1,425,000	1,597,529	$	1,425,000	$	1,425,000

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The following summarizes the principal terms of the transaction:

Terms of Senior Secured Convertible Promissory Note

Pursuant to the Securities Purchase Agreement, we sold to the parties listed above an aggregate of $1,425,000 principal amount of 8% senior secured convertible notes, together with warrants to purchase an aggregate of 1,597,529 shares of our common stock, and two series of additional investment rights entitling the holders to purchase from us up to an additional $2,850,000 of 8% senior secured convertible notes and warrants to purchase an aggregated 3,195,058 shares of our common stock.

These notes will be senior to or pari passu with all our current and future indebtedness and we will pledge all of our assets as collateral for the notes. Additional terms of the 8% senior secured convertible notes include:

- Unless converted or redeemed as described below, the 8% senior secured convertible notes are due on February 22, 2007.
  - 8% annual interest, payable semi-annually in arrears beginning June 30, 2005. The interest is payable either in cash or at our option (subject to the satisfaction of certain conditions) in shares of our common stock valued at 85% of the volume weighted average price of our common stock for the 20 trading days prior to the payment date.
- While the notes are outstanding, if we issue equity or equity linked securities at a price lower than the conversion price, then the conversion price of these 8% senior secured convertible notes will be reduced to the same price. If we issue any variable priced equity securities or variable price equity linked securities, then the conversion price of these 8% senior secured convertible notes will be reduced to the lowest issue price applied to those securities.
- The notes are convertible at any time at the option of the holder into shares of our common stock at a conversion price of $.892 per share (which was 70% of the average closing market price of the common stock on the over-the-counter bulletin board for the 20 trading days prior to the closing of the transaction).
- If we do not achieve revenues of at least $4,000,000 for calendar year 2005, the conversion price of the notes will be adjusted to 85% of the volume weighted average closing market price of the common stock on the over-the-counter bulletin board for the 20 trading days prior to the release of the calendar 2005 financial statements, but in no event higher than the initial conversion price of $.892. The conversion price is also subject to adjustment upon the occurrence of certain specified events, including stock dividends and stock splits, pro rata distributions of equity securities, evidences of indebtedness, rights or warrants to purchase common stock or cash or any other asset, mergers or consolidations, or certain issuances of common stock at a price below the initial conversion price of $.892 per share, subject to adjustment as set forth above.
- The number of shares of our common stock acquired by any holder upon conversion of the notes is limited to the extent necessary to ensure that following the conversion the total number of shares of our common stock beneficially owned by the holder does not exceed 4.999% of our issued and outstanding common stock,
- We can prepay all or any portion of the principal amount of the notes, plus any accrued but unpaid interest at 115% of face amount, but only if certain equity conditions are satisfied for underlying conversion shares, including an effective registration. If we should elect to prepay the notes, the holders will have 10 trading days to convert the notes into shares of our common stock. If we elect to prepay the notes, we must do so pro-rata amongst the holders.

Terms of Warrants

We also issued warrants to purchase up to 1,597,529 shares of our common stock. The warrants are exercisable for five years from the date of issuance at an exercise price of $1.27 per share, which was 100% of the average closing market price of the common stock on the over-the-counter bulletin board for the 20 trading days prior to the closing of the transaction.

The conversion price is also subject to adjustment upon the occurrence of certain specified events, including stock dividends and stock splits, pro rata distributions of equity securities, evidences of indebtedness, rights or warrants to purchase common stock or cash or any other asset, mergers or consolidations, or certain issuances of common stock at a price below the initial conversion price of $1.27 per share, subject to adjustment.

The warrants include a "cashless exercise" feature, which permits the holder to exercise the warrants by surrender of a portion of the warrants. The cashless exercise feature is available to the holder, if at the time of exercise, there is not in effect a registration statement covering the shares underlying the warrants are registered.

Terms of Investment Rights

We also issued two additional investment rights - investment right A and investment right B. Each investment right separately entitles the holders to purchase up to an additional $1,425,000 or an aggregate of 2,850,000, principal amount of 8% senior secured convertible notes and warrants to purchase up to an additional 1,597,529, or an aggregate of 3,195,058, shares of our common stock beginning on the date of the registration of the underlying shares of common stock and ending six months thereafter. The terms and conditions of the securities contained in these additional investment rights will be identical to the initial notes and warrants. The terms of investment right A and investment right B are identical, except that we have the right to redeem (for no consideration) investment right A if the weighted average closing price of our common stock exceeds $1.78 (200% of the original conversion price) for 20 consecutive trading days, our common stock trades at least 75,000 shares a day during the period, and a registration statement covering the shares issuable upon conversion is in effect.

Registration of Common Stock

We agreed to file a registration statement with the Securities and Exchange Commission registering the shares of common stock issuable upon the conversion of the notes, the exercise of the warrants, and the shares related to the additional investment right if it is exercised in the future. We have also granted the purchaser's piggy-back registration rights under certain circumstances. If we had failed to file the registration statement on a timely basis, or if it is not declared effective by the Securities and Exchange Commission within a maximum of 120 days from the filing date, we are required to pay to the investors liquidated damages equal to 2.0% of the amount invested and shall pay to the investors liquidated damages equal to 1.0% of the amount invested for each subsequent 30-day period.

Exchange Rights

For the 24-months from the date of the closing, if we complete a private equity or equity-linked financing, the holders of the notes may exchange the notes at 100% of face value for the securities in such new financing, provided that the exchange is in compliance with applicable securities laws.

Right of First Offer

So long as they hold any notes, the note holders will have the right of first offer to purchase all or part of any private financing, subject to carve outs for employee options plans, the issuance of stock for situations involving strategic partnerships, acquisition candidates and underwritten public offerings of at least $15 million consummated within 12 months after the Closing.

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Change of Control

In the of a third party acquiring greater than 50% in voting rights in one or a series of related transaction, the holders may elect to have the Notes redeemed by us at 110% of face value plus all accrued interest and unpaid interest, which, at our option, may be paid in cash or common stock.

Placement Agent Fees; Other Fees

We engaged H. C. Wainwright & Co., Inc., as the exclusive placement agent in connection with the private placement. Under our agreement with Wainwright we paid them a cash fee of $128,250 (9% of the gross proceeds of the financing plus a non-accountable cash allowance of 2% of the gross proceeds, less any legal fees payable to counsel to the investors). We paid the investors $35,000 for the legal fees they incurred in connection with this transaction. In addition, we issued to Wainwright, warrants to purchase 239,630 shares of common stock at $.89 and 239,630 shares of common stock at $1.27. The warrants have the same terms as the warrants issued to the investors. In addition, we agreed to pay to Wainwright, a cash fee of 8% of the aggregate consideration received by us from the exercise of any warrants.

Reverse Stock Split

We recently took steps to address an oversight in an earlier attempt to effect a combination of our common stock through a reverse stock split. We intended to consummate a 1-for-16 reverse stock split of our common stock in September 2004. Our books and records and those of our transfer agent have continually reflected this transaction as contemplated. However, we discovered that an amendment to our certificate of incorporation was not properly filed at the time. Accordingly, we have taken the appropriate steps to rectify this oversight. The certificate of amendment to our certificate of incorporation, which we intend to file with the Delaware Secretary of State, will only effect those shares that were outstanding as of September 23, 2004, the original effective date of the intended reverse stock split. Accordingly, these efforts should not have any effect on the current holders of our common stock.

Preferred Stock Exchange

In September 2004, prior to the effectiveness of the 1-for-16 reverse stock split discussed above, certain shareholders exchanged 36,646,158 shares of common stock for 3,821,197 shares of our newly created Series A Preferred Stock.

The Series A Preferred Stock was not effected by the subsequent reverse stock split also effected in September 2004 and, therefore, each share of Series A Preferred Stock is convertible into 9.6 shares of our common stock at any time after September 2005, which is the one year anniversary of their issuance.

The shares of Series A Preferred Stock do not have a stated dividend rate and have a liquidation preference of $.001 per share. Each share is also entitled to vote with the common shareholders as if such share had converted to common.

SUMMARY FINANCIAL INFORMATION

The following financial information is derived from our audited financial statements for the fiscal years ended December 31, 2004 and 2003. This information is only a summary and does not provide all of the information contained in our financial statements and related notes. You should read the “Management’s Discussion and Analysis” beginning on page 19 of this prospectus and our financial statements and related notes beginning on page F-1.

Statement of operations data:	Years Ended December 31, 2004	2003
Revenues	$ 178,000	$ 431,000
Cost of Revenue	419,000	511,000
Gross (Loss)	(241,000)	(80,000)
Selling, General and Administrative Costs	(3,283,000)	(3,868,000)
Operating (Loss)	(4,154,000)	(3,948,000)
Other Income (Expense)	(1,149,000)	(348,000)
Loss From Litigation Settlements	(213,000)	--
Loss From Impairment of Assets	(417,000)	--
Net (Loss)	$ (5,303,000)	$ (4,296,000)

Balance sheet data:	As of December 31, 2004
Working Capital (deficit)	$ 2,457,000
Total Assets	$ 251,000
Total Liabilities and stockholders’ deficit	$ 251,000

THE OFFERING

Common stock offered by selling stockholders	Up to 10,064,449 shares of our common stock, which includes up to (i) 1,597,534 shares of common stock issuable upon conversion of $1,425,000 aggregate principal amount 8% senior secured convertible promissory notes issued to certain selling stockholders based upon an assumed conversion price of $0.892 per share, (ii) 1,597,529 shares of common stock issuable upon the exercise of warrants issued to holders of the foregoing notes, (iii) 3,195,067 shares of common stock issuable upon the conversion of additional 8% senior secured convertible promissory notes issuable upon exercise of investment right “A” and “B” held by the current noteholders and based upon an assumed note conversion price of $0.892 per share, (iv) 3,195,058 shares of common stock issuable upon the exercise of warrants issuable upon exercise of investment rights “A” and “B” and (v) 479,260 shares of common stock

	issuable upon exercise of warrants and convertible debenture warrants held by H. C. Wainwright & Co., Inc., and certain of its principals, as our exclusive placement agent. This number represents 50.1% of the total number of shares to be outstanding following this offering assuming the exercise of all securities being registered as of April 1, 2005.
Common stock to be outstanding after the offering	Up to 20,565,449 shares assuming the exercise and conversion of all securities being registered as of April 1, 2005.

Risk factors	See “Risk Factors,” beginning on page 6 for a description of certain factors you should consider before making an investment in our common stock.
Use of proceeds	We will not receive any proceeds from the sale of the common stock. However, we will receive the exercise price of any common stock we issue to the selling stockholders upon exercise, if any, of the warrants. We expect to use the proceeds received from any exercise of warrants for general working capital purposes.
Over-The-Counter Bulletin Board Symbol	EDVO

The above information regarding common stock to be outstanding after the offering is based on 10,501,000 shares of common stock outstanding as of April 1, 2005 and assumes the subsequent issuance of common stock to the selling stockholders, conversion of the promissory notes, exercise of warrants and exercise of the investment rights “A” and “B” by our selling stockholders.

RISK FACTORS

INVESTMENT IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CONSIDER THE FOLLOWING DISCUSSION OF RISKS AS WELL AS OTHER INFORMATION IN THIS PROSPECTUS. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES. ADDITIONAL RISKS AND UNCERTAINTIES NOT PRESENTLY KNOWN TO US OR THAT WE CURRENTLY DEEM IMMATERIAL ALSO MAY IMPAIR OUR BUSINESS OPERATIONS. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS COULD BE HARMED. IN SUCH CASE, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE.

RISKS RELATED TO OUR BUSINESS

We have a history of losses, anticipate future losses and our independent auditors have expressed doubt about our ability to continue as a going concern, any of which may hinder our ability to obtain future financing.

In their report for our most recent fiscal year, our independent auditors stated that our financial statements for the year ended December 31, 2004 were prepared assuming that we would continue as a going concern. Our ability to continue as a going concern is an issue raised as a result of a loss for the year ended December 31, 2004 in the amount of approximately $5,303,000 and a loss for the year ended December 31, 2003 in the amount of approximately $4,296,000. We continue to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining loans and grants from various financial institutions where possible. The going concern qualification in the auditor’s report increases the difficulty in meeting such goals and there can be no assurances that such methods will prove successful. If we do not continue as a going concern, stockholders may lose their entire investment.

We may have difficulty raising additional capital, which could deprive us of necessary resources to grow our business and achieve our business objectives.

We expect to continue to devote capital resources to fund continued development of our voice, video and data services and Internet Protocol, or "IP," open standard architecture and maintain and grow existing marketing capacity. In order to support the initiatives envisioned in our business plan, we intend to raise additional funds through the sale of equity, debt or a combination of the two. Our ability to raise additional financing depends on many factors beyond our control, including the state of capital markets, the market price of our common stock and the development, or prospects for development, of competitive technology by others.

Because our common stock is listed on the over-the-counter bulletin board, many investors may not be willing or allowed to purchase it or may demand steep discounts. Sufficient additional financing may not be available to us or may be available only on terms that would result in further dilution to the current owners of our common stock. If we are unable to raise additional funds when we need them, we may have to severely curtail our operations.

We may not successfully enhance existing or develop new products and services in a cost-effective manner to meet customer demand in the rapidly evolving market for voice, video and data services.

The opportunity for voice, video and data services in residential, commercial, governmental and educational markets is characterized by rapidly changing technology, evolving industry standards, changes in customer needs and frequent new service and product introductions. We are currently focused on developing and evaluating technologies and applications associated with voice, video and data services over a fiber network; developing applications to enhance customers' experiences; and researching and testing technologies used to deliver broadband services, among others. Our future success will depend, in part, on our ability to use leading technologies effectively, to continue to develop our technical expertise, to enhance our existing services and to develop new services that meet changing customer needs on a timely and cost-effective basis. We may not be able to adapt quickly enough to changing technology, customer requirements and industry standards. If we fail to use new technologies effectively, to develop our technical expertise and new services or to enhance existing services on a timely basis, either internally or through arrangements with third parties, our product and service offerings may fail to meet customer needs, which would adversely affect our revenues.

We may not be able to successfully implement our broadband strategy, which could adversely affect our ability to grow or sustain revenues and our profitability.

Our broadband, or high-speed, services comprised a substantial portion of our total customer base, and our broadband services have favorably contributed to our overall revenue per subscriber. One component of our strategy for increasing our broadband customer base and revenues is to ensure we can cost-effectively purchase wholesale broadband access. We continue to experience resistance from the regional bell operating companies, "RBOCs," and cable providers in gaining cost-effective, wholesale access to their networks over which we could provide our high-speed access services. We continue to observe competitive retail pricing by the RBOCs for high-speed access without corresponding declines in the prices for wholesale access, which inhibits our ability to compete on a cost-effective basis. Cable providers have generally resisted granting us wholesale access to their networks to provide high-speed access services and have generally not been required by law to make access available. Our results of operations could be adversely affected if we are unable to maintain or expand our broadband footprint or are unable to obtain wholesale prices that allow us to cost effectively sell our high-speed services. A significant component of our voice, video and data strategy is managing and reducing the costs associated with delivering services, including recurring service costs such as telecommunications and customer support costs as well as costs incurred to add new customers such as sales and marketing. While we believe cost reductions associated with the delivery of our services will contribute positively to overall operating profit margins, our profitability would be adversely affected if we are unable to continue to manage and reduce recurring service costs associated with the delivery of our services and costs incurred to add new broadband customers.

Competitive product, price or marketing pressures could cause us to lose existing customers, or may cause us to reduce our prices for our services, which could adversely impact our revenues.

The voice, video and data services industry is intensely competitive. Some of our competitors have significantly greater financial, technical, manufacturing, marketing and distribution resources, as well as greater experience in the industry than we have. The particular solutions our product lines address can also be addressed by other voice, video and data services by our competitors. Many of these alternatives are widely accepted by potential customers and have a long history of use. Competitors have used and may continue to use aggressive marketing efforts, including significantly discounting the retail price of their services to attract new subscribers. There can be no assurance that in response to these marketing efforts we will not experience increased churn with respect to these services. Increased churn rates indicate customers are discontinuing services, which result in a decrease in our customer base and adversely impacts our revenue. If any of these possibilities occur, it may adversely impact our revenue and subscribers we are able to add. Competition may additionally result in price reductions, reduced gross margins and loss of market

share.

Our service offerings may fail to be competitive with existing and new competitors.

Current and prospective competitors include many large companies that have substantially greater market presence, financial, technical, marketing and other resources than we have. We compete directly or indirectly with the following categories of companies:

- CLECs, such as Qwest;
- Local, regional, free or value-priced ISPs, such as United Online, Mindspring, Earthlink;
- National telecommunications companies, such as AT&T and MCI;
- RBOCs, such as SBC, Verizon, BellSouth and Qwest;
- Content companies, such as Yahoo! and Vonage, who have expanded their service offerings; and
- Cable television companies providing broadband access or video on demand, including Comcast, Charter and Cox Communications, Inc.

Competition is likely to continue increasing, particularly as large diversified telecommunications and media companies continue to provide voice, video and data services. Diversified competitors may continue to bundle other content, services and products with Internet access services, potentially placing us at a significant competitive disadvantage.

As competition in the telecommunication market continues to intensify, competitors may merge or form strategic alliances that would increase their ability to compete with us for subscribers. These relationships may negatively impact our ability to form or maintain our own strategic relationships and could adversely affect our ability to expand our customer base.

Service interruptions or impediments could harm our business.

Harmful software programs. Our network infrastructure and the networks of our third-party providers are vulnerable to damaging software programs, such as computer viruses and worms. Certain of these programs have disabled the ability of computers to access the Internet or other services we provide, requiring users to obtain technical support. Other programs have had the potential to damage or delete computer programs. The development and widespread dissemination of harmful programs has the potential to seriously disrupt usage. If usage is significantly disrupted for an extended period of time, or if the prevalence of these programs results in decreased usage of our voice, video or data services, our business could be materially and adversely impacted.

Security breaches. We depend on the security of our network and, in part, on the security of the network infrastructures of our third-party service providers and our outsourced customer support service providers. Unauthorized or inappropriate access to, or use of, our network, computer systems and services could potentially jeopardize the security of confidential information, including credit card information, of our subscribers and of third parties. Consumers or businesses may use our services to perpetuate crimes in the future. Subscribers or third parties may assert claims of liability against us as a result of any failure by us to prevent these activities. Although we use security measures, there can be no assurance that the measures we take will be successfully implemented or will be effective in preventing these activities. Further, the security measures of our third-party providers may be inadequate. These activities may subject us to legal claims, may adversely impact our reputation, and may interfere with our ability to provide our services, all of which could have a material adverse effect on our business, financial position and results of operations.

Natural disaster or other catastrophic event. Our operations and services depend on the extent to which our computer equipment and the computer equipment of our third-party providers are protected against damage from fire, flood, earthquakes, power loss, telecommunications failures, break-ins, acts of war or terrorism and similar events. We have technology centers in the U.S. that contain a significant portion of our computer and electronic equipment. These technology centers host and manage our voice, video and data services. Despite precautions taken by us, a natural disaster or other unanticipated problem that impacts our locations could cause interruptions in the services that we provide. Such interruptions in our services could have a material adverse effect on our ability to provide services to our subscribers and, in turn, on our business, financial condition and results of operations.

Network infrastructure. The success of our business depends on the capacity, reliability and security of our network infrastructure. We may be required to expand and improve our infrastructure and/or purchase additional capacity from third-party providers to meet the needs of an increasing number of subscribers and to accommodate the expanding amount and type of information our customers communicate. Such expansion and improvement may require substantial financial, operational and managerial resources. We may not be able to expand or improve our network infrastructure to meet additional demand or changing subscriber requirements on a timely basis and at a commercially reasonable cost, or at all. As a result, users may be unable to use our services. Inaccessibility, interruptions or other limitations on the ability of customers to access our services due to excessive user demand, or any failure of our network to handle user traffic, could have a material adverse effect on our reputation, which could cause an increase in churn and would adversely impact our revenues.

We and our technology partners may not be able to develop or protect our respective proprietary technologies and may be required to enter licensing arrangements on unfavorable terms.

We regard our trademarks, service marks, copyrights, patents, trade secrets, proprietary technologies and similar intellectual property and those of our technology partners as critical to our success. We rely on trademark, copyright and patent law, trade secret protection, and confidentiality agreements with our employees, customers, partners and others to protect our proprietary rights and our technology partners employ similar practices. The efforts that both we and our technology partners have taken to protect our proprietary rights may not be sufficient or effective. Third parties may infringe or misappropriate either of our copyrights, trademarks, patents and similar proprietary rights. If either we or our technology partners are unable to protect our respective proprietary rights from unauthorized use, our respective brand images may be harmed and our business may suffer.

The protection of trademarks, service marks, copyrights, patents, trade secrets, proprietary technologies and intellectual property may require the expenditure of significant financial and managerial resources. Moreover, we cannot be certain that the steps we or our technology partners take to protect these assets will adequately protect our respective rights or that others will not independently develop or otherwise acquire equivalent or superior technology or other intellectual property rights. Such events could substantially diminish the value of our respective technology and property, which could adversely affect our business.

We may be accused of infringing upon the intellectual property rights of third parties, which is costly to defend and could limit our ability to use certain technologies in the future.

We may be subject to claims and legal proceedings regarding alleged infringement by us of the patents, trademarks, licenses and other intellectual property rights of third parties. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us or the imposition of damages that we must pay. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all. Any of these could result in increases in our operating expenses or could limit or reduce the number of our service offerings.

We may decide to initiate litigation in order to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of our proprietary rights. Any such litigation could result in substantial expense, may reduce our profits, and may not adequately protect our intellectual property rights. In addition, we may be exposed to future litigation by third parties based on claims that our products or services infringe their intellectual property rights. Any such claim or litigation against us, whether or not successful, could result in substantial costs and harm our reputation. In addition, such claims or litigation could force us to do one or more of the following:

- cease selling or using any of our products that incorporate the challenged intellectual property, which would adversely affect our revenue;
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obtain a license from and/or make royalty payments to the holder of the intellectual property right alleged to have been infringed, which license may not be available on reasonable terms, if at all;

- divert management's attention from our business;

· redesign or, in the case of trademark claims, rename our products or services to avoid infringing the intellectual property rights of third parties, which may not be possible and in any event could be costly and time-consuming.

· Even if we were to prevail, such claims or litigation could be time-consuming and expensive to prosecute or defend, and could result in the diversion of our management's time and attention. These expenses and diversion of managerial resources could have a material adverse effect on our business, prospects, financial condition, and results of operations.

We may be unable to hire and retain sufficient qualified personnel, and the loss of any of our key executive officers could adversely affect us.

We believe that our success will depend in large part on our ability to attract and retain highly skilled, knowledgeable, sophisticated and qualified managerial, professional and technical personnel. We have experienced significant competition in attracting and retaining personnel who possess the skills that we are seeking. As a result of this competition, we may experience a shortage of qualified personnel. In addition, the loss of any of our key executives could have a material adverse effect on us. Much of our success depends upon the ability of our President and Chief Executive Officer, Paul D. Hamm, to identify, hire and retain senior management, sales, marketing and personnel. The loss of Mr. Hamm or the failure to attract, integrate, motivate and retain additional key employees could adversely impact our business. We do not have key person insurance on the life of Mr. Hamm or any other executive officer or key employee.

Government regulations could force us to change our business practices.

Federal, state and local governments extensively regulate the cable industry and the circuit-switched phone services industry and may begin regulating the Internet services industry. We expect that legislative enactments, court actions and regulatory proceedings will continue to clarify and in some cases change the rights and obligations of cable companies and other entities under the Communications Act and other laws, possibly in ways that we have not foreseen. The results of these legislative, judicial and administrative actions may materially affect our business operations.

Changes in the regulatory environment regarding the Internet and the voice, video and data services that we provide could cause our revenues to decrease and/or our costs to increase. Currently, we are classified as a "telecommunications" provider, and therefore directly regulated by the state and the FCC. We operate our services throughout the U.S. Regulatory authorities at the state level may seek to regulate aspects of our activities as telecommunications services, including Internet access and voice services, such as VoIP. We are also subject to other regulations that govern businesses generally, such as regulations related to consumer protection.

The tax treatment of activities on or relating to the Internet is currently unsettled. A number of proposals have been made at the federal, state and local levels and by foreign governments that could impose taxes on the online sale of goods and services and other Internet activities. Future federal and state laws imposing taxes on the provision of goods and services over the Internet could make it substantially more expensive to operate our business.

Declining levels of economic activity or fluctuations in the use of our services could negatively impact our subscriber growth rates and incremental revenue levels.

Changes in general economic conditions that affect demand for our voice, video and data services could adversely affect our revenues. While the number of subscribers has been rising, the infrastructure may not expand fast enough to meet the increased levels of demand. If use of the voice, video and data services as a medium for commerce declines or grows at a slower rate than we anticipate, our revenues could be lower than expected and our business could be harmed.

We may face risks as we expand our business into international markets.

We currently may explore opportunities to offer our products in foreign markets. If so, we have limited experience in developing and marketing our services internationally, and we may not be able to successfully execute our business model in markets outside the United States. We may face a number of risks inherent in doing business in international markets, including the following:

- changing regulatory requirements;

- fluctuations in the exchange rate for the United States dollar;
- the availability of export licenses;
- potentially adverse tax consequences;
- political and economic instability;
- changes in diplomatic and trade relationships;
- difficulties in staffing and managing foreign operations, tariffs and other trade barriers;
- complex foreign laws and treaties;
- changing economic conditions;
- difficulty of collecting foreign account receivables;
- exposure to different legal standards, particularly with respect to intellectual property and distribution of products;

In addition, we would be subject to the Foreign Corrupt Practices Act, which prohibits us from making payments to government officials and others in order to influence the granting of contracts we may be seeking. Our non-U.S. competitors are not subject to this law and this may give them a competitive advantage over us.

To the extent that international operations represent a significant portion of our business in the future, our business could suffer if any of these risks occur.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 10-KSB for the fiscal year ending December 31, 2006, we will be required to furnish a report by our management on our internal control over financial reporting. The internal control report must contain (i) a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting, (ii) a statement identifying the framework used by management to conduct the required evaluation of the effectiveness of our internal control over financial reporting, (iii) management's assessment of the effectiveness of our internal control over financial reporting as of the end of our most recent fiscal year, including a statement as to whether or not internal control over financial reporting is effective, and (iv) a statement that the Company's independent auditors have issued an attestation report on management's assessment of internal control over financial reporting.

In order to achieve compliance with Section 404 of the Act within the prescribed period, we will need to engage in a process to document and evaluate our internal control over financial reporting, which will be both costly and challenging. In this regard, management will need to dedicate internal resources, engage outside consultants and adopt a detailed work plan to (i) assess and document the adequacy of internal control over financial reporting, (ii) take steps to improve control processes where appropriate, (iii) validate through testing that controls are functioning as documented and (iv) implement a continuous reporting and improvement process for internal control over financial reporting. We can provide no assurance as to our, or our independent auditors', conclusions at December 31, 2006 with respect to the effectiveness of our internal control over financial reporting under Section 404 of the Act. There is a risk that neither we nor our independent auditors will be able to conclude at December 31, 2006 that our internal controls over financial reporting are effective as required by Section 404 of the Act.

During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

RISKS RELATED TO OUR OUTSTANDING SECURITIES

The sale of the shares of our common stock acquired in private placements could cause the price of our common stock to decline.

The shares being registered on this prospectus were sold to or underlie derivative securities sold to the selling stockholders in a private placement that closed on February 22, 2005. In the private offering we issued a total of $1,425,000 principal amount of 8% senior secured convertible notes due February 22, 2007. The financing further included warrants to purchase an aggregate of 1,597,529 shares of our common stock and two additional investment rights entitling the holders to purchase from us up to an additional $2,850,000 of 8% senior secured convertible notes and warrants to purchase an aggregate of 3,195,058 shares of our common stock. As required under the terms of that transaction, we are required to file this registration statement with the United States Securities and Exchange Commission under which the selling stockholders may resell to the public common stock acquired upon the conversion of the notes, as well as common stock acquired upon the exercise of the warrants and other investment rights held by them.

The selling stockholders under this prospectus may sell none, some or all of the shares of common stock acquired from us, as well as common stock acquired upon the exercise of the warrants and investment rights held by them. We have no way of knowing whether the selling stockholders will sell the shares covered by the prospectus. Depending upon market liquidity at the time, a sale of shares covered by the registration statement at any given time could cause the trading price of our common stock to decline. The sale of a substantial number of shares of our common stock under this prospectus, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales.

The large number of shares underlying the derivative securities we issued in our recent private placement may be available for future sale and the sale of these shares may depress the market price of our common stock.

The issuance of common stock to the investors in our recent private placement upon the conversion or exercise of the derivative securities that they hold may cause downward pricing pressure and will dilute our stockholders' percentage of ownership. The convertible promissory notes sold in the offering are convertible at any time at the option of the holder into shares of our common stock at a conversion price of $0.892 per share, which was 70% of the average closing market price of the common stock on the over-the-counter bulletin board for the 20 trading days prior to the closing of the transaction. In addition, the sale of the common stock issued upon the exercise of the related warrants and additional investment rights issued to the investors will also place downward pricing pressure on our common stock.

We also expect to pay 8% annual interest on the convertible promissory notes, payable semi-annually in cash or at our option (subject to the satisfaction of certain conditions) in shares of our common stock valued at 85% of the volume weighted average price of a common stock for the 20 trading days prior to the payment date. This will further dilute our stockholders ownership and put additional downward pricing pressure on the common stock.

The issuance of shares of our common stock upon conversion of the convertible notes and exercise of outstanding warrants may cause immediate and substantial dilution to our existing stockholders.

The issuance of shares upon conversion of the convertible notes and exercise of warrants may result in substantial dilution to the interests of other stockholders since the selling stockholders may ultimately convert and sell the stock at a price lower than the current market prices. Although the selling stockholders may not convert their convertible notes and/or exercise their warrants if such conversion or exercise would cause them to beneficially own more than 4.99% of our outstanding common stock, this restriction does not prevent the selling stockholders from converting and/or exercising some of their holdings, selling the shares obtained and then converting the rest of their holdings. In this way, the selling stockholders could sell more than this limit while never holding more than this limit.

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We have increased the amount of our secured indebtedness as a result of our recent private placement of convertible secured promissory notes.

All of our material assets have been pledged as collateral for the $1,425,000 in principal amount of the convertible promissory notes that we sold in our recent private placement. In addition to the security interest in our assets, the promissory notes carry substantial covenants that impose significant requirements on us, including, among others, requirements that:

- we pay principal and other charges on the promissory notes when due and we pay interest semi-annually in arrears beginning June 30, 2005;
- we use the proceeds from the sale of the promissory notes only for permitted purposes;
- while the promissory notes are outstanding, if we issue equity or equity linked securities at a price lower than the conversion price then the conversion price of the promissory notes will be reduced to the same price. If we issue any variable priced equity securities or variable price equity linked securities, then the conversion price of the promissory notes will be reduced to the lowest issue price applied to those securities;
- we keep reserved out of our authorized shares of common stock sufficient shares to satisfy our obligation to issue shares on conversion of the promissory notes and the exercise of the related warrants and other investment rights issued in connection with the sale of the promissory notes;
- if we do not achieve revenues of at least $4,000,000 for calendar year 2005, the conversion price of the promissory notes will be adjusted to 85% of the volume weighted average closing market price of the common stock on the over-the-counter bulletin board for the 20 trading days prior to the release of the calendar 2005 financial statements, but in no event higher than the initial conversion price of $.892. The conversion price is also subject to adjustment upon the occurrence of certain specified events, including stock dividends and stock splits, pro rata distributions of equity securities, evidences of indebtedness, rights or warrants to purchase common stock or cash or any other asset, mergers or consolidations, or certain issuances of common stock at a price below the initial conversion price of $.892 per share, subject to adjustment as set forth above;
- we file a registration statement with the SEC by April 25, 2005, registering the shares of common stock issuable upon the conversion of the promissory notes and the exercise of the related warrants. If we fail to file the registration statement on a timely basis, or if it is not declared effective by the SEC within a maximum of 120 days from the filing date, we are required to pay to the investors liquidated damages equal to 2.0% of the amount invested and shall pay to the investors liquidated damages equal to 1.0% of the amount invested for each subsequent 30-day period; and
- we shall not, directly or indirectly, (i) redeem, purchase or otherwise acquire any capital stock or set aside any monies for such a redemption, purchase or other acquisition or (ii) issue any floating price security with a floor price below the conversion price.

Our ability to comply with these provisions may be affected by changes in our business condition or results of our operations, or other events beyond our control. The breach of any of these covenants could result in a default under the promissory notes, permitting the holders of the promissory notes to accelerate their maturity and to sell the assets securing them. Such actions by the holders of the promissory notes could cause us to cease operations or seek bankruptcy protection.

If we are required for any reason to repay the promissory notes, we would be required to deplete our working capital, if available, or raise additional funds. Our failure to repay the promissory notes, if required, could result in legal action against us, which could require the sale of substantial assets.

The promissory notes are due and payable on February 22, 2007 unless sooner converted into shares of our common stock. In addition, any event of default as described in the promissory notes could require the early repayment of the notes including a default interest rate of 18% on the outstanding principal balance of the promissory notes if the default is not cured with the specified grace period. We anticipate that the full amount of the promissory notes, together with accrued interest will be converted into shares of our common stock, in accordance with the terms of the promissory note. If we are required to repay the promissory notes, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the promissory notes when required, the promissory noteholders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

There may be volatility in our stock price.

The trading price of our common stock on the over-the-counter bulletin board has been and continues to be subject to wide fluctuations. The trading price of our common stock has closed as low as $0.32 per share and as high as $2.26 per share in the last twelve months. The market price of the common stock could be subject to significant fluctuations in response to various factors and events, including, among other things, the depth and liquidity of the trading market of the common stock, quarterly variations in actual or anticipated operating results, growth rates, changes in estimates by analysts, market conditions in the industry, announcements by competitors, regulatory actions and general economic conditions. In addition, the stock market from time to time experienced significant price and volume fluctuations, which may be unrelated to the operating performance of particular companies. As a result of the foregoing, our operating results and prospects from time to time may be below the expectations of public market analysts and investors. Any such event would likely result in a material adverse effect on the price of the common stock.

We do not intend to pay cash dividends on our common stock in the foreseeable future.

We currently anticipate that we will retain all future earnings, if any, to finance the growth and development of our business and do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends will depend upon our financial condition, capital requirements, earnings and other factors deemed relevant by our board of directors.

Our common stock is subject to the "penny stock" rules of the SEC and the trading market in our securities is limited, which makes transactions in our stock cumbersome and may reduce the value of an investment in our stock.

The Securities and Exchange Commission has adopted Rule 15g-9, which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require a broker or dealer to approve a person's account for transactions in penny stocks and that the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must obtain financial information and investment experience objectives of the person and make a reasonable determination that the transactions in penny stocks are suitable for that person and that the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form sets forth the basis on which the broker or dealer made the suitability determination and that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the “penny stock” rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

If we fail to remain current on our reporting requirements, we could be removed from the over-the-counter bulletin board, which would limit the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Companies trading on the over-the-counter bulletin board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13 in order to maintain price quotation privileges on the over-the-counter bulletin board.

If we fail to remain current on our reporting requirements, we could be removed from the over-the-counter bulletin board. As a result, the market liquidity for our securities could be severely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market

Stock prices of technology companies have declined precipitously at times in the past and the trading price of our common stock is likely to be volatile, which could result in substantial losses to investors.

The trading price of our common stock has fluctuated significantly in the past and could continue to be volatile in response to factors including the following, many of which are beyond our control:

- variations in our operating results;
- announcements of technological innovations or new services by us or our competitors;
- changes in expectations of our future financial performance, including financial estimates by securities analysts and investors;
- our failure to meet analysts’ expectations;
- changes in operating and stock price performance of other technology companies similar to us;
- conditions or trends in the technology industry;
- additions or departures of key personnel; and
- future sales of our common stock.

Domestic and international stock markets often experience significant price and volume fluctuations that are unrelated to the operating performance of companies with securities trading in those markets. These fluctuations, as well as political events, terrorist attacks, threatened or actual war, and general economic conditions unrelated to our performance, may adversely affect the price of our common stock. In the past, securities holders of other companies often have initiated securities class action litigation against those companies following periods of volatility in the market price of those companies’ securities. If the market price of our stock fluctuates and our stockholders initiate this type of litigation, we could incur substantial costs and experience a diversion of our management’s attention and resources, regardless of the outcome. This could materially and adversely affect our business, prospects, financial condition, and results of operations.

Provisions in our corporate charter and under Delaware law are favorable to our directors.

Pursuant to our certificate of incorporation, members of our management and board of directors will have no liability for violations of their fiduciary duty of care as officers and directors, except in limited circumstances. This means that you may be unable to prevail in a legal action against our officers or directors even if you believe they have breached their fiduciary duty of care. In addition, our certificate of incorporation allows us to indemnify our officers and directors from and against any and all expenses or liabilities arising from or in connection with their serving in such capacities with us. This means that if you were able to enforce an action against our directors or officers, in all likelihood we would be required to pay any expenses they incurred in defending the lawsuit and any judgment or settlement they otherwise would be required to pay.

Certain provisions of Delaware General Corporation Law and in our charter, as well as our current stockholder base may prevent or delay a change of control of our company.

Under the Delaware General Corporation Law, which we are subject to, it will be more difficult for a third party to take control of our company and may limit the price some investors are willing to pay for shares of our common stock. Furthermore, our certificate of incorporation authorizes the issuance of preferred stock without a vote or other stockholder approval. Finally, a majority of our outstanding common stock is held by insiders. Without a disparate stockholder base or a fluid aggregation of stockholders, it will be more difficult for a third-party to acquire our company without the consent of the insiders.

RISKS RELATED TO THE INTERNET

We may not be able to adapt as the Internet market changes.

Our failure to respond in a timely manner to changing market conditions or client requirements could have a material adverse effect on our business, prospects, financial condition, and results of operations. The Internet is characterized by:

- rapid technological change;
- changes in advertiser and user requirements and preferences;
- frequent new product and service introductions embodying new technologies; and
- the emergence of new industry standards and practices that could render our existing service offerings, technology, and hardware and software infrastructure obsolete.

In order to compete successfully in the future, we must

- enhance our existing services and develop new services and technology that address the increasingly sophisticated and varied needs of our prospective or current customers;
- license, develop or acquire technologies useful in our business on a timely basis; and
- respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

Our future success may depend on continued growth in the use of the Internet and Internet -based services.

Because the Internet is a rapidly evolving industry, the ultimate demand and market acceptance for our services will be subject to a high level of uncertainty. Significant issues concerning the commercial use of the Internet and online service technologies, including security, reliability, cost, ease of use, and quality of service, remain unresolved and may inhibit the growth of Internet business solutions that use these technologies. In addition, the Internet or other online services could lose their viability due to delays in the development or adoption of new standards and protocols required to handle increased levels of Internet activity, or due to increased governmental regulation. Our business, prospects, financial condition, and results of operations would be materially and adversely affected if the use of the Internet and other online services does not continue to grow or grows more slowly than we expect.

We may be required to keep pace with rapid technological change in the Internet industry.

In order to remain competitive, we will be required continually to enhance and improve the functionality and features of our existing services, which could require us to invest significant capital. If our competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, our existing services, technologies, and systems may become obsolete. We may not have the funds or technical know-how to upgrade our services, technology, and systems. If we face material delays in introducing new services, products, and enhancements, our customers may forego the use of our services and select those of our competitors, in which event our business, prospects, financial condition and results of operations could be materially and adversely affected.

Regulation of the Internet and Internet-based services may adversely affect our business.

Due to the increasing popularity and use of the Internet and online services, federal, state, local, and foreign governments may adopt laws and regulations, or amend existing laws and regulations, with respect to the Internet and other online services. These laws and regulations may affect issues such as user privacy, pricing, content, taxation, copyrights, distribution, and quality of products and services. The laws governing the Internet remain largely unsettled, even in areas where legislation has been enacted. It may take years to determine whether and how existing laws, such as those governing intellectual property, privacy, libel, and taxation, apply to the Internet. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, that may impose additional burdens on companies conducting business via the Internet. Any new legislation could hinder the growth in use of the Internet generally or in our industry and could impose additional burdens on companies conducting business online, which could, in turn, decrease the demand for our services, increase our cost of doing business, or otherwise have a material adverse effect on our business, prospects, financial condition, and results of operations.

Our business could be negatively impacted if the security of the Internet becomes compromised.

To the extent that our activities involve the storage and transmission of proprietary information about our customers, security breaches could damage our reputation and expose us to a risk of loss or litigation and possible liability. We may be required to expend significant capital and other resources to protect against security breaches or to minimize problems caused by security breaches. Our security measures may not prevent security breaches. Our failure to prevent these security breaches or a misappropriation of proprietary information may have a material adverse effect on our business, prospects, financial condition, and results of operations.

Our technical systems could be vulnerable to online security risks, service interruptions or damage to our systems.

Our systems and operations may be vulnerable to damage or interruption from fire, floods, power loss, telecommunications failures, break-ins, sabotage, computer viruses, penetration of our network by unauthorized computer users and "hackers," natural disaster, and similar events. Preventing, alleviating, or eliminating computer viruses and other service-related or security problems may require interruptions, delays or cessation of service. We may need to expend significant resources protecting against the threat of security breaches or alleviating potential or actual service interruptions. The occurrence of such unanticipated problems or security breaches could cause material interruptions or delays in our business, loss of data, or misappropriation of proprietary or customer-related information or could render us unable to provide services to our customers for an indeterminate length of time. The occurrence of any or all of these events could materially and adversely affect our business, prospects, financial condition, and results of operations.

If we are sued for content distributed through, or linked to by, our website or those of our customers, we may be required to spend substantial resources to defend ourselves and could be required to pay monetary damages.

We aggregate and distribute third-party data and other content over the Internet. In addition, third-party websites are accessible through our website or those of our customers or affiliates. As a result, we could be subject to legal claims for defamation, negligence, intellectual property infringement, and product or service liability. Other claims may be based on errors or false or misleading information provided on or through our website or websites of our customers or affiliates. Other claims may be based on links to sexually explicit websites and sexually explicit advertisements. We may need to expend substantial resources to investigate and defend these claims, regardless of whether we successfully defend against them. In addition, implementing measures to reduce our exposure to this liability may require us to spend substantial resources and limit the attractiveness of our content to users.

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This prospectus may contain forward looking statements that may prove to be inaccurate.

Information in this prospectus contains "forward-looking statements." These forward-looking statements can be identified by the use of words such as "believes," "estimates," "could," "possibly," "probably," "anticipates," "projects," "expe "may," "will," or "should" or other variations or similar words. No assurances can be given that the future results anticipated by the forward-looking statements will be achieved. The following matters constitute cautionary statements identifying important factors with respect to those forward-looking statements, including certain risks and uncertainties that could cause actual results to vary materially from the future results anticipated by those forward-looking statements. Among the key factors that have a direct bearing on our results of operations are the effects of various governmental regulations, fluctuations in currency exchange rates or interest rates, the fluctuation of our direct costs and the costs and effectiveness of our operating strategy.

USE OF PROCEEDS

We will not receive any proceeds from the sale of common stock by the selling stockholders. All of the net proceeds from the sale of our common stock will go to the selling stockholders. However, we will receive the proceeds from any exercise of warrants issued or issuable to the selling stockholders.

We anticipate that any proceeds from the exercise of warrants by the selling stockholders will be used for general corporate purposes, which may include but are not limited to working capital, capital expenditures, acquisitions and the repayment or refinancing of our indebtedness.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

OUR COMMON STOCK

Our common stock trades publicly on the over-the-counter bulletin board under the symbol "EDVO." The over-the-counter bulletin board is a regulated quotation service that displays real-time quotes, last-sale prices and volume information in over-the-counter equity securities. The over-the-counter-bulletin board securities are traded by a community of market makers that enter quotes and trade reports. This market is extremely limited and any prices quoted are not a reliable indication of the value of our common stock.

The following table sets forth the quarterly high and low bid prices per share of our common stock by the over-the-counter bulletin board during the last two fiscal years. The quotes represent inter-dealer quotations, without adjustment for retail mark-up, markdown or commission and may not represent actual transactions. The trading volume of our securities fluctuates and may be limited during certain periods. As a result of these volume fluctuations, the liquidity of an investment in our securities may be adversely affected.

Fiscal Year	Quarter Ended	High	Low
2005	March 31, 2005	$1.67	$1.03
2004	March 31, 2004	$0.46	$0.15
	June 30, 2004	$0.28	$0.05
	September 30, 2004	$0.80*	$0.02*
2003	December 31, 2004	$2.26	$0.51
	March 31, 2003	$1.55	$0.30
	June 30, 2003	$0.95	$0.45
	September 30, 2003	$1.95	$0.43
	December 31, 2003	$0.58	$0.26

* On September 23, 2004, the Company effected a 16-for-1 reverse stock split. For a more detailed discussion of this reverse stock split and recent steps taken by the Company to address certain oversights in connection with that corporate action see *Management's Discussion and Analysis - Recent Developments*.

HOLDERS OF RECORD

On March 31, 2005, there were approximately 1,600 holders of record of our common stock according to our transfer agent. The Company has no record of the number of shareholders who hold their stock in "street" name with various brokers.

DIVIDENDS

We have never paid a cash dividend on our common stock nor do we anticipate paying cash dividends on our common stock in the near future. It is our present policy not to pay cash dividends on the common stock but to retain earnings, if any, to fund growth and expansion. Under Delaware law, a company is prohibited from paying dividends if the company, as a result of paying such dividends, would not be able to pay its debts as they become due, or if the company's total liabilities and preferences to preferred shareholders exceed total assets. Any payment of cash dividends on our common stock in the future will be dependent on our financial condition, results of operations, current and anticipated cash requirements, plans for expansion, as well as other factors our board of directors deems relevant.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the fiscal year ended December 31, 2004, this "Management's Discussion and Analysis" should be read in conjunction with the Consolidated Financial Statements, including the related notes.

FORWARD-LOOKING STATEMENTS

This portion of this prospectus includes statements that constitute "forward-looking statements." These forward-looking statements are often characterized by the terms "may," "believes," "projects," "expects," or "anticipates," and do not reflect historical facts. Specific forward-looking statements contained in this portion of the prospectus include, but are not limited to the Company's (i) expectation that certain of its liabilities listed on the balance sheet under the headings "Accounts Payable," "Accrued Liabilities" and "Note Payable" will be retired by issuing stock versus cash during the next 12 months; (ii) expectation that it will continue to devote capital resources to fund continued development of voice, video and data services and IP open standard architecture and maintain and grow existing marketing capacity; (iii) expectation that it will execute employment agreements with certain executive officers in the next fiscal quarter; (iv) anticipation that it will incur significantly less capital expenditures for broadband fiber infrastructure as a result of its new emphasis as a distributor of IP-based content and services to existing broadband network and service providers; (v) anticipation that it will incur significantly more capital expenditures as it expects to procure new equipment and software systems to be installed into existing network facilities that will accommodate the delivery of content and services over its network or the network of its partners; (vi) anticipation of acquiring credit or leasing facilities by a third party in order to finance new equipment expenditures; and (vii) anticipation of a significant increase in operational and SG&A costs as it accelerates the development and launch of new operations in 2005.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in the section titled "*Risk Factors*," as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

In addition, the foregoing factors may affect generally our business, results of operations and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements.

EXECUTIVE OVERVIEW

As we embark upon a new year and a new stage in Endavo's development, we are faced with a number of challenges. However, we believe we have made significant progress during the last few months and further believe that we have repositioned ourselves with a view toward the launch of new strategic plans. We are confident that we can accomplish our interrelated objectives and believe our new plans will help us create a robust and differentiated product set and delivery/management model.

During the fourth quarter of 2004, we focused primarily on consolidating our previous local operations in Utah and restructuring our balance sheet and capitalization in order to position ourselves to attract equity capital. We quickly realized some of the key challenges in executing these activities, primarily, the lack of capital. We needed to acquire and install new equipment at the new community data center in Orem, Utah in order to accommodate new switching and connectivity requirements for our customers. For initial installments, we were able to acquire a significant amount of equipment through our strategic partnerships, rather than purchasing it all ourselves in the retail markets. This helped conserve precious capital.

There will be other issues that will emerge that will require our attention and ingenuity if we are to be successful in delivering IP-based content. These include foreseeable challenges such as digital rights management, or "DRM," franchise rights, state and federal regulatory issues and issues related to the taxation of Internet services. Although we believe that the market will ultimately be characterized more by the need to spread opportunity and information than to protect manufacturers of content and established interests, we do recognize that we may need to become more sensitive to DRM issues at some point. We can relieve many of these potential pressures by leveraging partners that are already solving these issues. We also think the "local" delivery nature of the multicast model, as opposed to broadcast, will help us circumvent some of these issues, at least at the outset.

We will confront our challenges as they emerge. However, we believe that we remain ahead of the market in terms of our vision of "convergence" and that we have a unique window of opportunity to lead the market in terms of our product set and our ability to locally deliver integrated digital services to wide array of broadband customers.

Our key attributes are our small size and our reference base of existing customers that have been receiving "triple play" services from us for some time. Being a small company means that our planned changes in the strategy can quickly make meaningful impact on results without a major overhaul if we are successful in implementation.

RECENT DEVELOPMENTS

Private Placement

On February 22, 2005, we consummated a private placement of $1,425,000 principal amount of our 8% Senior Secured Convertible Notes and related securities, including common stock warrants and additional investment rights. Specifically, this transaction may ultimately result in gross proceeds to us of $4.275 million if both the additional investment rights are exercised in full.

We have agreed to file a registration statement with the Securities and Exchange Commission prior to April 25, 2005, registering the shares of common stock issuable upon conversion of the 8% Senior Secured Convertible Notes, exercise of the warrants, and the shares related to the additional investment rights if they are exercised in the future. If we fail to file the registration statement by April 25, 2005, or if it is not declared effective by the Securities and Exchange Commission within 120 days from the filing date, we are required to pay to the investors liquidated damages equal to 2.0% of the amount invested and shall pay to the investors liquidated damages equal to 1.0% of the amount invested for each subsequent 30-day period.

We engaged H. C. Wainwright & Co., Inc., as the exclusive placement agent in connection with the private placement. Under our agreement with Wainwright we paid them a cash fee of $121,750 (9% of the gross proceeds of the financing plus a non-accountable cash allowance of 2% of the gross proceeds, less any legal fees payable to counsel to the investors). We paid the investors $35,000 for the legal fees they incurred in connection with this transaction, which was included in the H.C. Wainwright fee calculation. In addition, we issued to Wainwright, warrants to purchase 239,630 shares of common stock at $.89 and 239,630 shares of common stock at $1.27. The warrants have the same terms as the warrants issued to the investors. In addition, we agreed to pay to Wainwright, a cash fee of 8% of the aggregate consideration received by us from the exercise of any warrants.

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Reverse Stock Split

We recently took steps to address an oversight in an earlier attempt to effect a combination of our common stock through a reverse stock split. We intended to consummate a 1-for-16 reverse stock split of our common stock in September 2004. Our books and records and those of our transfer agent have continually reflected this transaction as contemplated. However, we discovered that an amendment to our certificate of incorporation was not properly filed at the time. Accordingly, we have taken the appropriate steps to rectify this oversight. The certificate of amendment to our certificate of incorporation, which we intend to file with the Delaware Secretary of State, will only effect those shares that were outstanding as of September 23, 2004, the original effective date of the intended reverse stock split. Accordingly, these efforts should not have any effect on the current holders of our common stock.

Preferred Stock Exchange

In September 2004, prior to the effectiveness of the 1-for-16 reverse stock split discussed above, certain shareholders exchanged 36,646,158 shares of common stock for 3,821,197 shares of our newly created Series A Preferred Stock.

The Series A Preferred Stock was not effected by the subsequent reverse stock split also effected in September 2004 and, therefore, each share of Series A Preferred Stock is convertible into 9.6 shares of our common stock at any time after September 2005, which is the one year anniversary of their issuance.

The shares of Series A Preferred Stock do not have a stated dividend rate and have a liquidation preference of $.001 per share. Each share is also entitled to vote with the common shareholders as if such share had converted to common.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. A summary of our significant accounting policies are detailed in the notes to the financial statements, which are an integral component of this filing.

We identified our most critical accounting policies to be related to revenue recognition, allowance for doubtful accounts, asset valuation and accounting for stock options. A complete list of our accounting policies is contained in Note 1 to the notes of the consolidated financial statements. The following summarizes critical estimates made by management in the preparation of the financial statements.

Revenue Recognition. Revenue is recognized when a valid contract or purchase order has been executed or received, services have been performed or product has been delivered, the selling price is fixed or determinable, and collectability is reasonably assured. Payments received prior to performance are recorded as deferred revenue. We enter into long-term service contracts in which we receive payments for initial equipment installation. These revenues are typically deferred over the life of the service term. Equipment installations relating to residential monthly contracts are recognized when installed.

Allowance for Doubtful Accounts. Financial instruments that potentially subject us to concentration of credit risk consist primarily of trade receivables. In the normal course of business, we provide on-going credit evaluations of our customers and maintain allowances for possible losses, which, when realized, have been within the range of management's expectations. Management assesses its estimates of uncollectible accounts based on age of receivables and direct negotiations with our customers if disputes arise.

Impairment of Long-lived Assets. We review our long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. We evaluate, at each balance sheet date, whether events and circumstances have occurred that indicate possible impairment. We use an estimate of future undiscounted net cash flows of the related asset or group of assets over their estimated remaining life in measuring whether the assets are recoverable.

Accounting for Stock-based Compensation. We account for stock-based compensation issued to employees and directors under Accounting Principles Board Opinion, or “APB,” No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Under APB No. 25, compensation related to stock options, if any, is recorded if an option’s exercise price on the measurement date is below the fair value of the Company’s common stock and amortized to expense over the vesting period. Compensation expense for stock awards or purchases, if any, is recognized if the award or purchase price on the measurement date is below the fair value of the common stock and is recognized on the date of award or purchase. Statement of Financial Accounting Standards, or “SFAS,” No. 123, “Accounting for Stock Based Compensation,” requires pro forma information regarding net loss and net loss per common share as if the Company had accounted for its stock options granted under the fair value method.

We account for stock-based compensation issued to persons other than employees using the fair value method in accordance with SFAS No. 123 and related interpretations. Under SFAS No. 123, stock-based compensation is determined as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for these issuances is the earlier of either the date at which a commitment for performance by the recipient to earn the equity instruments is reached or the date at which the recipient’s performance is complete.

RESULTS OF OPERATIONS

Our operating results showed a significant decrease in revenues and other areas of financial performance for the year ended 2004.

Summary of Operations

		2004		2003
Revenues	$	178,000	$	431,000
Cost of Revenue		419,000		511,000
Gross (Loss)		(241,000)		(80,000)
Selling, General and Administrative Costs		(3,283,000)		(3,868,000)
Operating (Loss)		(4,154,000)		(3,948,000)
Other Income (Expense)		(1,149,000)		(348,000)
Loss From Litigation Settlements		(213,000)		--
Loss From Impairment of Assets		(417,000)		--
Net (Loss)	$	(5,303,000)	$	(4,296,000)

Our revenues decreased 58.7% in 2004 compared to 2003. At the same time, our cost of revenues also declined; however, it increased dramatically as a percentage of revenue from 235% in 2004 compared to 119% in 2003. Selling, general and administrative costs declined slightly in 2004 as compared to 2003 but increased sharply as a percentage of revenues.

Revenues

Our revenues decreased to $178,000 in 2004 from $431,000 in 2003. This was due in large part to a decline in service revenue, which comprises the majority of our revenue, to $174,000 in 2004 from $370,000 in 2003. This decrease in service revenue is the result of a lack of new service agreements during 2004 and the termination of service agreements with certain commercial and residential customers during the same period. In the third and fourth quarters of 2004, we received minimal revenues from residential service agreements that we maintained as we focused on our corporate restructure and redirection of our business plans.

Cost of Revenues and Gross Margins

Our cost of revenues decreased slightly to $419,000 in 2004 from $511,000 in 2003, a decrease of 18%. This was the result of the elimination of expenses associated with labor and equipment in 2004 compared to a combined expenses for those items in 2003 of approximately $110,000, offset by an increase in expenses associated with the provision of services. We also discontinued our agreements with our telecommunications and network bandwidth provider, which represented a significant percentage of our cost of revenues, as we switched to a new lower cost bandwidth provider and began providing VoIP services to our residential customers directly from our new local facility in Orem, Utah.

Our gross margin on sales in 2004 was $(241,000) compared to a gross margin of $(80,000) in 2003. This increased negative margin was primarily due to high bandwidth costs relating to the addition of new residential and commercial customers in 2003 and maintained during the majority of 2004 and also due to the decline in high margin equipment sales. We had limited revenues from equipment sales in 2004.

Selling, General and Administrative Costs

Selling, general and administrative costs decreased to $3,496,000 in 2004 compared to $3,868,000 in 2003. These costs decreased primarily due to a significant reduction in costs associated with professional services from $2,403,000 in 2003 to $1,517,000 in 2004 and the reduction of bad debt expense, offset by a dramatic increase in payroll expense from $984,000 in 2003 to $1,351,000 in 2004. The increase in payroll expense came largely in the form of non-cash compensation for consulting services rendered in connection with our corporate restructure and redirection of our business plan in the third and fourth quarters of 2004.

Selling, General and Administrative

	2004	2003
Payroll Expenses	$ 984,000	$ 556,000
Contract Labor	284,000	121,000
Deferred Payroll Expense	83,000	307,000
Office Expense	43,000	53,000
Professional Services	1,517,000	2,403,000
Travel	165,000	84,000
Bad Debt	35,000	149,000
Depreciation	158,000	77,000
Other	227,000	118,000
Total	$ 3,496,000	$ 3,868,000

Other Income (Expense)

	2004	2003
Interest expense	$ 1,159,000	$ 349,000
Other	10,000	1,000
Total	$ 1,149,000	$ 348,000

Other expenses increased significantly in 2004 from 2003 largely due to interest expenses related to certain loans made to the company made by third party.

LIQUIDITY AND CAPITAL RESOURCES

In 2004, we consolidated our operations in order to focus on our new business plan. As a result, we do not currently have substantial revenues to fund ongoing operations and, therefore, rely upon best-efforts third party funding from individual accredited and institutional investors. We do not have any significant credit facilities available with financial institutions or other third parties. During 2004, we financed operations through the sale of equity and debt securities. Though we have been successful at raising capital on a best efforts basis in the past, we can provide no assurance that we will be successful in any future funding efforts. If we are unable to either obtain financing from external sources or generate internal liquidity from operations in the future, we may need to curtail operations.

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Current assets for 2004 totaled approximately $53,000 as compared to $245,000 reported for 2003. During 2004, we received net proceeds of $1,773,000 through the issuance of convertible promissory notes, through the exercise of common stock warrants and the sale of common stock.

We expect that certain of our liabilities listed on the balance sheet under the headings “Accounts Payable,” “Accrued Liabilities” and “Note Payable” will be retired by issuing stock versus cash during the next 12 months. We may also retire certain liabilities.

We anticipate that we will incur significantly less capital expenditures for broadband fiber infrastructure as a result of our new emphasis as a distributor of IP-based content and services to existing broadband network and service providers. Historically, we built out fiber-to-the-premise networks, thereby incurring significant capital resources. Until we achieve substantial revenues or profitability over several quarters, we must be considered as a start-up entity. We have also reduced our operations and SG&A costs as a result of consolidating our historical operations. Going forward, however, we anticipate that we will incur significantly more capital expenditures as we expect to procure new equipment and software systems to be installed into existing network facilities that will accommodate the delivery of content and services over our network or the network of our partners. We anticipate acquiring credit or leasing facilities by a third party in order to finance new equipment expenditures but can provide no assurance that we will be successful. We also anticipate a significant increase in operational and SG&A costs, as we accelerate the development and launch of new operations in 2005.

GOING CONCERN

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States applicable to a going concern that contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. Our general business strategy is unproven, and we have only recently begun to record revenues. To date, we have relied primarily on the sale of our equity and debt securities to fund our operations. We have incurred losses since our inception and we continue to incur legal, accounting, and other business and administrative expenses. Our auditor has therefore recognized that there is substantial doubt about our ability to continue as a going concern.

OFF-BALANCE SHEET ARRANGEMENTS

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

EFFECT OF INFLATION AND CHANGES IN PRICES

We do not believe that inflation and changes in price will have a material effect on operations.

BUSINESS

CORPORATE HISTORY

Endavo Media and Communications, Inc., a Delaware corporation (“Endavo,” the “Company,” “we,” “us” or “our”), is headquartered in Salt Lake City, Utah. We provide integrated broadband services, including voice, video and data services to residential customers through Internet Protocol, or “IP,” based networks. We are also targeting commercial and municipal concerns. Our website is www.endavo.com. Any information contained on our website or any other websites referenced on our website or in this Annual Report are not a part of this Annual Report.

We were originally incorporated as Ceristar, Inc. in December 1999. On September 10, 2002, we entered into a merger with a subsidiary of Planet Resources, Inc., a Delaware corporation, in which Ceristar survived the merger and became a wholly owned subsidiary of Planet and all of our issued and outstanding common and preferred stock was exchanged for Planet's common stock. Accordingly, as a result of the merger, we succeeded to the ownership of Planet, which was now a holding company, and continued to operate our business through Ceristar, now a wholly-owned subsidiary of Planet. Prior to the merger, Planet had no operations for two years. Subsequent to the merger, we changed our name to Endavo Media and Communications, Inc. in order to more accurately reflect the new direction of the Company and our operating subsidiary became Susquina, Inc.

BUSINESS DESCRIPTION

Historically, we have provided bundled broadband services, including high-speed Internet services, cable television and Voice over Internet Protocol, or "VOIP," to residential and commercial customers through fiber-based community networks and over fiber-to-the-premises, or "FTTP." We plan to continue delivering Internet Protocol, or "IP," voice, video and data services to our current residential customer base in Utah and also to operate, support and expand our network facilities in both our local and other potential markets. However, our new business plan also includes the development of a distribution and transaction management system over a national IP Multicast network services delivery system that will enable the distribution of digital entertainment and communications services to connected customers and communities. We call this distribution and transaction management system the Endavo EcoSystem™.

Once our technologies and products are sufficiently developed and tested, we plan to market our "d-commerce marketplace" of digital services and content, on a wholesale and retail basis, to defined groups of customers. We define the d-commerce marketplace as any product or service that can be delivered over an IP network. This includes individual pieces of media, such as movies, music, books or images, and complete digital services, such as VoIP and secure instant messages. We intend to initially target our marketing efforts toward geographical markets located within close proximity to, or already connected to, our national fiber network and that have existing local or metropolitan fiber network infrastructure.

MARKET OPPORTUNITY

The convergence of voice, video and data in today's marketplace is being facilitated by the maturation of certain IP technologies that allow these types of transmissions to be "digitized" into data packets and transported over common data networks. Traditionally, voice, video and data services have been provided via multiple delivery systems or networks, and, until recently, via separate service providers. For example, traditional telephone vendors formerly provided (i) call termination over copper wires; (ii) television over broadcast antenna, encoded cable or satellite receivers; and (iii) data services over the Internet by Internet Service Providers, or "ISPs." In today's marketplace, many incumbent service providers find themselves competing to offer customers bundled voice, video, and data services, known as the "triple play." With the proliferation of broadband, along with the convergence of voice, video and data to IP, the triple play has become increasingly popular in the United States.

We believe that as IP technologies evolve, many of the current differences between cable television signals, phone transmissions and Internet data will converge until all broadband communications become IP-based, although there is no assurance that such results will occur. There are a number of dynamics existing in today's environment that we believe are restricting the growth of the U.S. broadband market. The incumbent telephone and cable providers have found themselves in a regulatory battle to protect their turf and legacy systems. Because the natural focal point for competition among large providers is the larger markets, small-to-mid-sized markets are often left underserved. This leaves few available alternatives for next-generation technologies and services for the smaller markets. Conversely, the Internet is a hotbed market for new services, products and applications. However, the Internet is potentially overwhelming to the average consumer and does not provide them with a sufficient level of quality of service or confidence.

OUR CORPORATE VISION AND MISSION

At this point in time, the d-commerce space is not well defined. Our strategy is to define (or redefine) that space and declare ourselves a leader in d-commerce. We envision a paradigm shift in which communication and entertainment evolve very rapidly. We intend to facilitate that evolution by bringing together key enabling technologies and an effective and profitable distribution system that will provide a marketplace for digital content and services representing clearly defined value to the consumer marketplace.

Our mission is to become the leading provider of managed distribution solutions for digital entertainment, data and voice products that are deliverable to our customers over broadband networks. We believe that to achieve our vision of becoming a leader in the d-commerce space, we continually will need to refine our core management and distribution services and expand our offerings of content and services in order to differentiate ourselves within the marketplace. We have identified certain key elements to increase our market presence and growth strategy:

- Attract buyers and sellers to our marketplace by offering buyers selection, choice, control, value, security, convenience and entertainment, and offering sellers managed delivery of products, efficient distribution and marketing, logistics, operations systems support and opportunity to increase sales;

- Continually refine and develop our message and brand;
- Make strategic investments; and
- Build shareholder value through innovation, operational efficiency and financial performance.

BUSINESS STRATEGY

We are uniting forms of entertainment and communications services into a converged, all IP distribution and management system. We are enabling the delivery of those services over a national IP Multicast network to local broadband communities. We have combined all these components to provide an end-to-end, "trusted" services system that guarantees delivery, quality of service and accountability throughout the network from content and applications to end-users.

Our business model is built around an open but managed network utilizing standard interfaces, equipment and protocols that facilitates the integration and efficient distribution of any certified product or service across the entire network. Through this open platform, a robust and differentiated menu of integrated IP content and services can be sent to the end user and delivered over multiple qualified devices that communicate and perform different or interrelated functions. The non-proprietary nature of our system allows for scalability, interoperability, mesh redundancy and easy insertion of next-generation services, applications and technologies.

PRODUCTS AND SERVICES

The Endavo EcoSystem

Our EcoSystem concept is an open software platform designed to accommodate many suppliers selling symbiotic voice, video and data products and services. Using software standards, such as Session Initiated Protocol, different types of IP-based content can be integrated, distributed and managed together in a completely automated environment. Our EcoSystem model allows integrated content to be delivered through a single broadband network to anyone or everyone connected. Once physically connected to Endavo or through the Internet, service providers and broadband communities will have access to an entire marketplace of individual or bundled IP-based products aggregated from multiple independent providers across the digital content and services spectrum.

The EcoSystem is comprised of the following basic components:

- An integration and distribution platform used to translate all content and applications into common signals and protocols enabling unified transmission over a single IP network;
- An IP multicast stream delivers the digital signals over a national backbone network that can be accessed by broadband communities throughout the network and delivered over local fiber or other "last-mile" broadband media, including wireless, copper and powerline, all the way to the end user;
- A common Operational Support System framework allows us to preside over the entire network, account and bill for the services, secure and control access, and provide centralized customer service and support, while allowing for decentralized network management;
- We partner with consumer premise equipment and "last-mile" network providers to provide the connection and components necessary to make the network accessible to consumers. For instance, components might include the set-top boxes or media servers that allow subscribers to manage content, surf the Internet, send and receive email and manage their accounts; and

- A unique characteristic of Endavo's network will be the capability to multicast and unicast content, creating significant bandwidth efficiencies within an on-demand environment.

Residential IP Services

We currently provide bundled services for residential customers over fiber-to-the-home. These services include high-speed Internet connectivity, IP telephone service and cable-style television over fiber. We also engineer, install and manage the fiber network to and within the communities, which consist of three main parts:

- the community operations center;
- the point of presence facility in each community; and
- the fiber optic cable network and supporting equipment.

However, we do not intend to expand operations as a residential service provider or fiber optic network manager.

Telephone Services

Using the latest in fiber optic and IP technologies, we currently provide traditional VoIP to our residential customers, along with typical enhanced services, such as call return, call forwarding, call waiting, caller ID, conference calling, speed dial, and last number redial.

High Speed Internet Access/Data

We currently provide Internet connectivity ranging from 128 kbps to 10 mbps on both the upstream and downstream and can provide up to 1gbps bandwidth within the Local Area Network. Internet service includes POP3 e-mail, integrated calendaring, news and sports feeds.

Digital Packet Television

We currently offer more than 230 channels of local off-air, basic, premium movie, audio music channels, video-on-demand, near-video-on-demand, music-on-demand and pay-per-view events delivered as Digital Packet Television, or “DPTV.” Our network also supports a migration to the new High Definition Television, or “HDTV,” standards.

Types of Content Delivered Through the Endavo EcoSystem

The following is a list of the content that we expect to become available to our distribution partners and subscribers, once appropriate content and application providers register their products with the EcoSystem.

- *Voice Service*. Basic to enhanced Voice over IP services and applications
  - Residential
  - Enterprise
- *Video Services*
  - IP-based Television
    - Expanded Channel Line-Ups
    - Pay-Per-View Television
    - Video-On-Demand Services
    - Pay-Per View On-Demand

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§ High Definition Television
§ Digital Music Channels
§ World Wide Web at TV
§ Email-at-TV Control
§ Appliance-at-TV Control
o Niche and specialized video content on-demand
o Video conferencing

· *Interactive and community gaming*

· *Music/Audio*

· *Static media*

o Image libraries
o Comic books
o Books
o Electronic art

· *Data and information services*

· *Advertising*

· *Wireless access*

DISTRIBUTION CHANNELS

We separate our distribution partners according to the method by which they are connected to our marketplace of digital content and services:

- **Physical Community Owners**. This group of distribution partners includes any entity that has a captured market based on geography. This may include building owners, developers, corporate campuses, office parks, homeowners associations, independent telcos or municipalities. This group installs, or arranges to have installed, the broadband connectivity (i.e., a fiber connection to the home or office) required to deliver content to the subscriber. We currently market our products and services primarily to existing service providers, local government broadband projects, university campuses and real estate developers. Geographically, we are currently focusing on smaller to mid-sized cities and communities where the large incumbent cable and telephone providers do not compete as aggressively;

- **Virtual Community Owners**. This group of distribution partners includes any entity that has a captured market regardless of geography and without the ability to determine the infrastructure on which subscribers will access the EcoSystem. This may include university student and/or alumni associations, professional associations, trade groups, and ISPs.

CONSUMERS

We separate consumers according to the method by which they are connected to our marketplace of digital content and services:

- **Endavo Enabled Communities**. These communities that have our services are enabled upon construction. The builder or community management company has installed fiber connections to every unit similar to how they would install electricity, gas, sewers and other public utilities. Upon occupancy, residents are immediately able to choose from an array of entertainment, data and voice services from a variety of providers.

- **Broadband Enabled Subscribers**. Even in the absence of living in an enabled community, much of the content in the Endavo Ecosystem will still be available to any Internet user with enough bandwidth (and the correct hardware and software) to support the data streams.

COMPETITION

The industry for telecommunications and broadband is very large and competitive. We face significant competition from larger, better-capitalized companies, as well as emerging companies, that operate and/or own broadband infrastructure in our target markets. We may compete directly with cable and satellite television providers, traditional local exchange carriers, VoIP telephony providers and ISPs. Many of these established companies have resources greater than ours and are direct competitors. We believe that we initially compete favorably with these and other entities in the smaller markets on the basis of diversity of products, distribution technology, systems support and quality assurance. Our prices are expected to be generally lower and/or will include more features, thereby offering what we believe to be a better value package. In addition, our market emphasis permits us to make these advanced services available in underserved markets. However, we cannot provide any assurance that our efforts will be successful in overcoming the efforts of our competition.

REGULATORY MATTERS

We do not hold any domestic license with the Federal Communication Commission, or “FCC.”

Presently, the FCC does not regulate companies that provide IP telephony services as common carriers or telecommunications service providers. Despite current laws, the FCC’s potential jurisdiction over the Internet is broad because the Internet relies on wire and radio communications facilities and services over which the FCC has long-standing authority.

Currently, we do not believe we are subject to any state regulation with respect to our Internet related services. However, there can be no assurances that VoIP will not be subject to such regulations in the future. Additionally, we are not aware of any pending legislation that would have a material adverse affect on our operations.

We are currently licensed as a Competitive Local Exchange Carrier, or “CLEC,” licensed with the Utah Public Utility Commission, or “PUC,” under certificate number 2389, but we do not offer traditional CLEC services. A CLEC designation permits the resale of local telecommunications services.

As a CLEC, we may be subject to certain FCC rules and regulations for telephony services. However, we believe that since we provide our service using 100% IP Protocol, our VoIP services are not covered under current PUC and FCC regulation. Any proposed or enacted changes should only affect our voice services, but it is possible that new legislation in the future could also affect our data and video services.

We have previously requested CLEC status in other states and territories of the United States, but do not presently intend to pursue such additional CLEC licenses.

Many states also impose various reporting requirements or require prior approval for transfers of control of certified carriers, corporate reorganizations, acquisitions of telecommunications operations, assignments of carrier assets, including subscriber bases, carrier stock offerings and incurrence by carriers of significant debt obligations. Certificates of authority can generally be conditioned, modified, canceled, terminated or revoked by state regulatory authorities for failure to comply with state law and the rules, regulations and policies of the state regulatory authorities. Fines and other penalties, including the disgorgement of all monies received for intrastate traffic from residents of a state, may be imposed for such violations. In certain states, prior regulatory approval may be required for acquisitions of telecommunications operations.

Most states have consumer protection laws that further define the framework within which our marketing activities must be conducted. We intend to comply fully with all laws and regulations; however, the constraints of federal and state restrictions could impact the success of direct marketing efforts and otherwise increase our costs of doing business.

FUTURE REGULATION

Due to the increasing popularity and use of the Internet, it is possible that additional laws and regulations may be adopted with respect to the Internet, covering issues such as content, privacy, access to adult content by minors, pricing, bulk e-mail, encryption standards, consumer protection, electronic commerce, taxation, copyright infringement, and other intellectual property issues.

We cannot predict the impact, if any, that future regulatory changes or developments may have on our business, financial condition, or results of operation. Changes in the regulatory environment relating to the Internet access industry, including regulatory changes that directly or indirectly affect telecommunication costs or increase the likelihood or scope of competition from regional telephone companies or others, could increase our operating costs, limit our ability to offer services and reduce the demand for our services.

As the law in this area develops, we could become liable for information carried on, stored on, or disseminated through our gateways, it may be necessary for us to take steps to reduce our exposure to this type of liability through alterations in our equipment, expanded insurance coverage or other methods. This may require us to spend significant amounts of money for new equipment or premiums and may also require us to discontinue offering certain of our products or services.

In a report to Congress in 1998, the FCC stated its intention to consider whether to regulate voice and fax telephony services provided over the Internet as “telecommunications” even though Internet access itself would not be regulated. The FCC is also considering whether such Internet-based telephone service should be subject to universal service support obligations or pay carrier access charges on the same basis as traditional telecommunications companies.

A governmental body could impose further sales and other taxes on the provision of our services, which could increase the costs of doing business. A number of state and local government officials have asserted the right or indicated a willingness to impose taxes on Internet-related services and commerce, including sales, use and access taxes. To date, no such laws have become effective. We cannot accurately predict whether the imposition of any such taxes would materially increase our costs of doing business or limit the services that we provide. It may be possible to pass on some of these costs to the consumer and continue to remain competitive.

EMPLOYEES

As of March 31, 2005, we had 14 employees and seven independent contractors. All of our employees are full-time. Of our 14 employees, 10 are in service operations and four are in general administration. Of our seven independent contractors, two provide sales and marketing services on a month-to-month basis and five provide technical engineering services. None of our employees are represented by a labor union or subject to a collective bargaining agreement. We have never experienced a work stoppage and consider our employee relations to be good.

DESCRIPTION OF PROPERTY

Our corporate headquarters are located in Salt Lake City, Utah. We currently lease approximately 2,000 square feet of office space on a month-to-month basis for approximately $2,500 per month. We believe that our facilities are adequate to meet our requirements through the end of fiscal 2005.

LEGAL PROCEEDINGS

On March 4, 2004, Wired, L.C. filed a lawsuit against us in the Third Judicial District Court, Salt Lake County, State of Utah. Wired alleges a breach of contract under an agreement that we entered into with Wired. We believed that the case was without merit and in our response filed on March 24, 2004, we denied any breach and asserted various affirmative defenses along with counterclaims against Wired for declaratory judgment. On July 1, 2004, we settled

this lawsuit and agreed to pay Wired $90,000 and return to Wired certain equipment, of which we had to replace approximately $54,000 worth. In November 2004, Wired claimed that we breached the terms of the July agreement and filed a Motion for Entry of Final Judgment. We opposed Wired's claim and filed a Motion to Enforce Settlement Agreement on December 10, 2004. We believed that the continued prosecution and defense of these Motions would be expensive and that there was uncertainty and risk in the outcome of any litigation. On April 14, 2005, we agreed to full and complete settlement of all claims related to this case in exchange for our payment to Wired of $60,000.

In August 2003, we delivered to Basin Digital Media, LLC certain equipment, which redelivered the equipment to Summit Development and Management, LLC for installation in a residential apartment complex in Utah County, Utah known as Parkway Crossing. This equipment was to be used in connection with a Service Agreement between us and Basin.

To obtain such equipment, we entered into a loan transaction with Ridgeline, LLC and executed a secured promissory note due August 1, 2004 in the principal sum of $182,000. We also entered into a Collateral Assignment and Security Agreement to secure repayment of the note. In addition, David Bailey, our former CEO and Chairman of the Board, entered into a personal guarantee with Ridgeline with respect to our obligations under the note.

On January 7, 2004, Summit and/or Basin delivered a notice of termination of the Service Agreement, which we refused to accept as we believe they did not have any grounds to terminate the agreement and thereafter they defaulted on their obligations under the Service Agreement, as well as their obligation to pay for the equipment. As a result, on August 1, 2004 we defaulted on our obligations under the note to Ridgeline.

On June 18, 2004, we filed a lawsuit in the Third Judicial District Court, Salt Lake County, State of Utah against Parkway Crossing, Basin and Summit alleging breach of contract, breach of the covenant of good faith and fair dealing, conversion, fraudulent inducement and tortious interference with economic relations. Parkway Crossing and Summit subsequently filed a motion to dismiss the action, which was denied and the parties are currently in the discovery phase.

As a result of our default on the promissory note with Ridgeline, Ridgeline made demand upon us and Mr. Bailey for payment of the entire remaining unpaid portion of the note. In September 2004, Mr. Bailey paid Ridgeline $200,000 under his guarantee and took an assignment of all of Ridgeline’s rights and interest in the note and related Security Agreement. At the same time, Mr. Bailey made a demand upon us for payment of the note and related obligation.

On January 26, 2005, Mr. Bailey filed a claim in the Fourth Judicial District Court, Utah County, State of Utah against us, Basin and Summit alleging breach of contract and unjust enrichment and seeking judgment against all parties in the amount of $200,000, plus interest, as well as possession of the equipment that was collateral for the note and fees and costs. We expect that this lawsuit will be settled without any material adverse effect on us; however, we cannot provide assurance that it will be settled on a basis that it acceptable to us if at all or that such settlement will not have an adverse effect on our business or operations.

In addition to the foregoing, we may, from time to time, be party to certain legal proceedings and other various claims and lawsuits in the normal course of our business, which, in the opinion of management, are not material to our business or financial condition.

MANAGEMENT

Our directors will serve for a term of one year unless they resign or are earlier removed. Our chief executive officer and key employees and consultants are appointed by our board of directors and serve at its discretion.

CURRENT DIRECTORS AND EXECUTIVE OFFICERS

Our board of directors currently consists of three members. There are no arrangements or understandings between any of the directors or any other persons pursuant to which any of the directors have been selected as directors, other than as described below. There are no “family relationships” among the directors, as that term is defined by the Securities and Exchange Commission. Set forth below is our current board of directors, including each member’s age and position with the Company.

Name	Age	Position with the Company
Paul D. Hamm	38	President, Chief Executive Officer, and Chairman of the Board
Mark S. Hewitt	53	Chief Technology Officer, Chief Operations Officer and Director
Jerry Dunlap	52	Director

PAUL D. HAMM. Mr. Hamm has served as our President, Chief Executive Officer and a member of our Board of Directors since June 24, 2004. Mr. Hamm is a 14-year financial services industry veteran, financial entrepreneur, investment banking professional and private equity fund manager. In 2002, Mr. Hamm founded and is currently the Managing Partner of AlphaWest Capital Partners, a specialized capital marketing firm providing extensive market/industry research, financial planning and modeling, transaction advisory, marketing and investment banking services to emerging public and "pre-public" U.S. companies. In 1998, Mr. Hamm co-founded and currently serves as Managing Director of SovCap Investment Management Group, the investment manager to SovCap Equity Partners, Ltd., an offshore private investment partnership, and our principal stockholder. As a principal investor, Mr. Hamm has made numerous private equity investments into publicly traded companies across technology and communications related industries. He has been actively involved with portfolio companies in business planning and execution, often serving as primary financial and strategic advisor to a portfolio company's management. Mr. Hamm holds NASD securities licenses, served as a Transportation/Civil Affairs Commissioned Officer for 8 years with the U.S. Army/USAR, and has a Bachelor of Science degree in Political Science from Stetson University.

MARK S. HEWITT. Mr. Hewitt has served as our Chief Technology Officer and Chief Operations Officer since June 24, 2004 and a member of our Board of Directors since December 1999. Since July 2001, Mr. Hewitt has been the Chief Technology Officer of Nextbend, Inc. a start-up consumer electronics company based in Florida. Previously he was Chief Technology Officer of Mediacentric Group, a communications solutions provider from February 2000 until September 2001. From August 1999 until October 2000 he was Senior VP at I-Link, Incorporated, a unified messaging and IP telephony company. From May 1998 until September 1999 he was the Senior Director of New Product Development for Frontier Communications, a NASDAQ company which was acquired by Global Crossing. Mr. Hewitt earned a BS in Electronics Engineering in 1974 from the University of Alaska.

JERRY DUNLAP. Mr. Dunlap has served as a member of our Board of Directors since July 1, 2004. Mr. Dunlap is co-founder and currently serves as President and Chief Executive Officer for ISDN-Net, a internet service provider located in Nashville, Tennessee. After ten years in existence, ISDN-Net is Tennessee's oldest and largest independent Internet Service Provider serving 87 of the state's 95 counties. Mr. Dunlap oversees many of the day-to-day operations of ISDN-Net and manages the company's long-term, strategic direction. Viewed as a pioneer in telecom networking and communications, Mr. Dunlap was asked by the Tennessee Public Service Commission in 1992 to direct a pilot project that ultimately resulted in the introduction of digital connectivity services in Tennessee. Shortly after that project, in 1994, Mr. Dunlap co-founded ISDN-Net to serve the data needs of Tennessee businesses. Mr. Dunlap has a Bachelor of Science degree in pharmacy from the University of Tennessee.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers, directors, and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Executive officers, directors, and greater than 10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by it during the year ended December 31, 2004, we believe

that during such year our executive officers, directors and 10% stockholders complied with all such filing requirements except for the following late or delinquent filings: (i) Form 3 for Mr. Dunlap reporting his appointment as a director; (ii) Form 4 for Mr. Dunlap reporting certain transactions in our common stock by a company of which he is a stockholder, officer and director; (iii) Form 4 for Mr. Hamm reporting certain transactions in our common stock; (iv) Form 3 for Mr. Hewitt reporting his appointment as a director; (v) Form 4 for Mr. Hewitt reporting certain transactions in our common stock; and (vi) Form 3 and two Form 4s for SovCap Equity Partners reporting certain transactions in our common stock.

CODE OF ETHICS

Our board of directors is currently in the process of adopting a code of ethics that complies with the rules promulgated under the Sarbanes-Oxley Act of 2002 and that applies to our principal executive officer and principal financial and accounting officer and to all of our staff.

AUDIT COMMITTEE FINANCIAL EXPERT

The Securities and Exchange Commission has adopted rules implementing Section 407 of the Sarbanes-Oxley Act of 2002 requiring public companies to disclose information about "audit committee financial experts." We do not have a standing Audit Committee. The functions of the Audit Committee have been assumed by our full Board of Directors. Additionally, we do not have a member of our board of directors that qualifies as an "audit committee financial expert." The Securities and Exchange Commission's rules do not require us to have an audit committee financial expert, and our Board of Directors has determined that it possesses sufficient financial expertise to effectively discharge its obligations.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth the total compensation for the fiscal years ended December 31, 2004, 2003 and 2002 paid to or accrued for our chief executive officer and our four other executive officers who provided services to us at December 31, 2004, excluding executive officers paid less than $100,000 annually. Additionally, we have included the compensation for two former executive officers for whom disclosure would have been required had these two individuals been serving as executive officers as of December 31, 2004, the end of our most recently completed fiscal year. Each of the following executive officers is referred to as a "Named Executive Officer."

		Annual Compensation		Long Term Compensation
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Securities Underlying Options/SARs (#)**
Paul D. Hamm (1)	2004	$ 67,500	--	525,000
Chief Executive Officer	2003	--	--	--
and President	2002	--	--	--
Frederick A. Weismiller(2)	2004	$ 45,000	-	1,750,000(3)
Former Chairman of the	2003	$ 135,075	$ 7,500	--
Board, Chief Executive Officer and President	2002	--	--	--

(1) Mr. Hamm became our Chief Executive Officer and President on June 24, 2004. The amounts shown herein as compensation to Mr. Hamm are the total amounts paid by the Company to AlphaWest Capital Partners, LLC, or AlphaWest, for executive management services provided to us by Mr. Hamm between July 1, 2004 through December 31, 2004, pursuant to successive consulting agreements between Mr. Hamm and the Company. Mr.

Hamm is the sole member of AlphaWest. These amounts may not reflect Mr. Hamm's actual compensation from AlphaWest, which may be greater or less than the amounts shown. The initial consulting agreement, pursuant to which Mr. Hamm provided us with executive management services expired on September 30, 2004. On October 1, 2004, a new consulting agreement was executed between AlphaWest and the Company, which expired on December 31, 2004. Currently, Mr. Hamm continues to provide us with the executive management services through AlphaWest and we have continued to honor the most recent consulting agreement despite its expiration. We intend to maintain this arrangement until a formal written employment agreement with Mr. Hamm is executed, at which time Mr. Hamm will become an employee of the Company. We expect this to occur during the second fiscal quarter of 2005. A more detailed description of the consulting agreements with AlphaWest and the arrangement under which Mr. Hamm continues to provide executive management services is set forth under *Certain Relationships and Related Transactions - Agreements with Executive Officers*.

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(2) Mr. Weismiller resigned as Chief Executive Officer and President on June 24, 2004 and as a director on September 13, 2004. Mr. Weismiller was employed by us pursuant to an employment agreement, dated October 8, 2003. Pursuant to Mr. Weismiller's employment agreement, he was entitled to a monthly base salary of $7,500 with annual adjustments approved by our board of directors.

(3) Pursuant to Mr. Weismiller's employment agreement, Mr. Weismiller received options to purchase 1,750,000 shares of our common stock at an exercise price of $0.46 per share. All of these options terminated upon his departure from the Company.

Option Grants in Last Fiscal Year

The following is information regarding stock options granted to Messrs. Hamm and Weismiller during the year ended December 31, 2004.

	Individual Grants			
Name	**Number of Securities Underlying Options Granted (#)**	**Percent of Total Options Granted to Employees in Fiscal Year**	**Exercise Price ($/Share)**	**Expiration Date**
Paul D. Hamm	25,000(1)	0.4%	$ 0.05(4)	6/20/14
	500,000(2)	8.3%	$ 0.60(4)	12/31/14
Frederick A. Weismiller	1,750,000(3)	29.2%	$ 0.46(4)	1/22/14

(1) Options granted pursuant to the 2004 Directors, Officers and Consultants Stock Option, Stock Warrant and Stock Award Plan, or "2004 Plan," which vested in three equal monthly installments commencing on July 1, 2004. The options were not issued in tandem with stock appreciation or similar rights and are not transferable other than by will or the laws of descent and distribution. The options expire on June 30, 2014.

(2) Options granted pursuant to the 2004 Plan, which were completely rested on January 1, 2005. The options were not issued in tandem with stock appreciation or similar rights and are not transferable other than by will or the laws of descent and distribution. The options expire on December 31, 2014.

(3) Options granted to Mr. Weismiller outside of any formal plan. These options expired when Mr. Weismiller resigned without disagreement on June 24, 2004.

(4) The exercise price of these options was equal to the fair market value (closing price) of the underlying common stock on the date of grant. These options are nonqualified options.

Fiscal Year End Option Values

The following table provides information on the value of each of our Named Executive Officer's unexercised options at December 31, 2004. None of our Named Executive Officers exercised any options during 2004.

Name	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-the Money Options at Fiscal Year-End($)(1)	
	Exercisable	**Unexercisable**	**Exercisable**	**Unexercisable**
Paul D. Hamm	525,000	--	$ 229,000	--

COMPENSATION OF DIRECTORS

Our non-employee directors do not receive any additional compensation for serving as a member of our board of directors or for attending any of our board committees, but non-employee directors are reimbursed for out-of-pocket expenses incurred in connection with attending our board and board committee meetings.

AGREEMENTS WITH EXECUTIVE OFFICERS

On July 1, 2004, we entered into identical consulting agreements with AlphaWest Capital Partners, of which our President and CEO, Paul Hamm, is the controlling owner, and also Mark Hewitt. Under these consulting agreements, Mr. Hamm agreed to act as our President and Chief Executive Officer, as well as our interim Chief Financial Officer and Mr. Hewitt agreed to serve as our Chief Technology Officer and Chief Operating Officer. The consulting agreements were for terms of three months and both expired on October 31, 2004. As compensation for services under the consulting agreements, Messrs. Hamm and Hewitt were each entitled to receive a consulting fee of $7,500 per month, all of which they agreed to defer until the closing of our recent financing. In connection with their engagement by the Company, Messrs. Hamm and Hewitt were also both issued options to purchase 25,0000 shares of our common stock. On October 1, 2004, we entered into new agreements with AlphaWest and Mr. Hewitt, except the consulting fee under each agreement was $15,000 per month. These agreements were also for terms of three months and expired on December 31, 2004. In connection with this agreement, Messrs. Hamm and Hewitt were each issued options to purchase an additional 500,000 shares of our common stock. Currently, Messrs. Hamm and Hewitt continue to provide us with the executive management services contemplated by the latest consulting agreements, which we continue to honor despite their expiration. We intend to maintain this arrangement until a formal written employment agreement is negotiated and executed with each of them, at which time they will become employees of the Company. We expect this to occur during the second fiscal quarter of 2005.

OTHER RELATIONSHIPS AND RELATED TRANSACTIONS

Between August 21, 2003 and September 8, 2004, we borrowed a total of $762,800 from our largest security holder, SovCap Equity Partners, Ltd. in the form of 13 different convertible promissory notes. Each of theses notes is due within 10 days of demand by SovCap. The notes are not subject to interest; however there is a repayment fee equal to the product of (i) 1.5% of the outstanding principal amount under the note and (ii) the number of 30-day periods (rounded up) that the note has been outstanding. The repayment fee is owed regardless of whether the note is prepaid in advance or becomes due upon demand or default. If we are unable to make the payments upon demand or when otherwise due, interest will also accrue on the amount owed at an annual interest rate of 12%. Each note is convertible into shares of our common stock at 75% of the average closing bid price of our common stock over the five trading

days preceding the conversion. We also granted SovCap piggyback registration rights with respect to the shares of common stock issuable upon conversion of the notes, which SovCap waived in connection with our recent private placement of convertible promissory notes and warrants. As of March 31, 2005, the aggregate amount of principal and repayment premiums due upon demand under the notes was $894,700, or approximately 1,192,933 shares of our common stock had SovCap elected to convert.

DESCRIPTION OF SECURITIES

COMMON STOCK

We are authorized to issue up to 100,000,000 shares of common stock, par value $.001 per share. As of April 1, 2005, there were 10,501,000 shares of common stock outstanding.

The holders of the issued and outstanding shares of our common stock are entitled to receive dividends if declared by our board of directors out of any funds lawfully available therefore. The board of directors intends to retain future earnings to finance the development and expansion of our business and does not expect to declare any dividends in the foreseeable future. The holders of the common stock have the right, in the event of liquidation, to receive pro rata all assets remaining after payment of debts and expenses. The common stock does not have any preemptive rights and does not have cumulative voting rights. The issued and outstanding shares of common stock are fully paid and non-assessable.

Holders of shares of common stock are entitled to vote at all meetings of such shareholders for the election of directors and for other purposes. Such holders have one vote per share for each share of common stock held by them.

We have engaged Atlas Stock Transfer Corp. as independent transfer agent and registrar.

PREFERRED STOCK

We are authorized to issue up to 5,000,000 shares of preferred stock, par value $.001 per share. Of the amount authorized, 4,500,000 shares have been designated as Series A Preferred Stock, of which 3,821,197 are issued and outstanding and 100,000 as Series B Preferred Stock, none of which have been issued. Each share of Series A Preferred Stock is convertible into 9.6 shares of our common stock at any time after September 30, 2005. Neither the Series A nor Series B have a stated dividend rate. Both series have a liquidation value of $.001 per share and voting rights that entitle their holders to vote with our common stockholders as if the preferred stock had converted to common stock at a conversion ration of 1-to-9.6.

Generally, our shares of preferred stock may be issued in series, and shall have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issuance of such stock adopted from time to time by the board of directors. Our board of directors are expressly vested with the authority to determine and fix in the resolution or resolutions providing for the issuances of preferred stock the voting powers, designations, preferences and rights, and the qualifications, limitations or restrictions thereof, of each such series to the full extent now or hereafter permitted by the laws of the State of Delaware.

WARRANTS

We issued warrants to the investors that participated in our recent private placement of 8% secured convertible promissory notes. In total, we issued warrants to purchase an aggregate of 1,597,529 shares of our common stock. The warrants have an exercise price of $1.27 per share and expire in February 2010.

The conversion price is also subject to adjustment upon the occurrence of certain specified events, including stock dividends and stock splits, pro rata distributions of equity securities, evidences of indebtedness, rights or warrants to purchase common stock or cash or any other asset, mergers or consolidations, or certain issuances of common stock at a price below the initial conversion price of $1.27 per share, subject to adjustment.

The warrants include a “cashless exercise” feature, which permits the holder to exercise the warrants by surrender of a portion of the warrants. The cashless exercise feature is available to the holder, if at the time of exercise, there is not in effect a registration statement covering the shares underlying the warrants are registered.

In addition, we issued to H. C. Wainwright & Co., Inc., and certain of its principals, convertible debenture warrants to purchase 239,630 shares of our common stock at $.89 per share and warrants to purchase 239,630 shares of our common stock at $1.27 per share, all of which were issued in connection with their services as exclusive placement agent for the recent private placement. The warrants have the same terms as those issued to the investors.

INVESTMENT RIGHTS

We also issued two additional investment rights to the investors that participated in our recent offering - investment right A and investment right B. Each investment right separately entitles the holders to purchase up to an additional $1,425,000 or an aggregate of 2,850,000, principal amount of 8% senior secured convertible notes and warrants to purchase up to an additional 1,597,529, or an aggregate of 3,195,058, shares of our common stock beginning on the date of the registration of the underlying shares of common stock and ending six months thereafter. The terms and conditions of the securities contained in these additional investment rights will be identical to the initial notes and warrants. The terms of investment right A and investment right B are identical, except that we have the right to redeem (for no consideration) investment right A if the weighted average closing price of our common stock exceeds $1.78 (200% of the original conversion price) for 20 consecutive trading days, our common stock trades at least 75,000 shares a day during the period, and a registration statement covering the shares issuable upon conversion is in effect.

DELAWARE ANTI-TAKEOVER STATUTE AND CHARTER PROVISIONS

Delaware anti-takeover statute. We are subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. Subject to some exceptions, the statute prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

· Before this date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

· Upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned:

§ by persons who are directors and also officers, and

§ by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be offered in a tender or exchange offer; or

§ On or after the date the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock, which is not owned by the interested stockholder.

For purposes of Section 203, a “business combination” includes a merger, asset sale, or other transaction resulting in a financial benefit to the interested stockholder, and an “interested stockholder” is a person who, together with affiliates and associates, owns, or within three years before the date of determination whether the person is an “interested stockholder” did own, 15% or more of the corporation’s voting stock.

Certificate of incorporation. Our certificate of incorporation provides for the authorization of our board of directors to issue, without further action by the stockholders, up to 5,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions on the preferred stock.

These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors and to discourage transactions that may involve an actual or threatened change of control of Endavo. These provisions are designed to reduce the vulnerability of Endavo to an unsolicited proposal for a takeover of Endavo. However, these provisions could discourage potential acquisition

proposals and could delay or prevent a change in control of Endavo. These provisions may also have the effect of preventing changes in the management of Endavo.

INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Our certificate of incorporation, as amended, provides, to the fullest extent permitted by Delaware General Corporation Law, that our directors or officers shall not be personally liable to us or our shareholders for damages for breach of such director's or officer's fiduciary duty. The effect of this provision of our certificate of incorporation, as amended, is to eliminate our right and those of our shareholders (through shareholders' derivative suits on our behalf) to recover damages against a director or officer for breach of the fiduciary duty of care as a director or officer (including breaches resulting from negligent or grossly negligent behavior), except under certain situations defined by statute. We believe that the indemnification provisions in our certificate of incorporation, as amended, are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or the "Securities Act," may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SELLING STOCKHOLDERS

The following table sets forth information regarding beneficial ownership of our common stock by the selling stockholders as of May 20, 2005. The table further sets forth the name of each person who is offering the resale of shares of common stock by this prospectus, the number of shares of common stock that may be sold in this offering and the number of shares of common stock each person will own after the offering, assuming they sell all of the shares offered. For purposes of presentation, we have assumed that the selling stockholders will convert all indebtedness and exercise all warrants, subject to the contractual prohibition prohibiting the investors from beneficially owning more than 4.99% of our issued and outstanding common stock. Therefore, for the purposes of this table, the investor's beneficial ownership shall not exceed 4.99%. However, the investors will over time have the ability to convert the entire amount being offered upon the conversion of the notes and exercise of the warrants, and therefore we are registering the entire amount offered in this registration statement. Each selling stockholder acquired the shares to be sold by the selling stockholder in the ordinary course of business and, at the time of acquisition of the shares, no selling stockholder had any agreement or understanding, directly or indirectly, to distribute the shares.

We will not receive any proceeds from the resale of the common stock by the selling stockholders. However, we will receive proceeds from any exercise of the warrants. Assuming all the shares registered below are sold by the selling stockholders, none of the selling stockholders will continue to own any shares of our common stock.

Name of Selling Stockholder	Shares of Stock Owned(1)(2)(3)	Shares of Common Stock Being Offered(1)(2)(3)	Percentage of Shares Owned Before the Offering(3)	Percentage of Shares Owned After the Offering(4)
Iroquois Capital, L.P.(5)	2,858,746	2,858,746	4.99%	--
Notzer Chesed, Inc. (6)	672,644	672,644	4.99%	--
Basso Multi-Strategy Holding Fund Ltd. (7)	672,644	672,644	4.99%	--
Double U Master Fund L.P (8)	672,644	672,644	4.99%	--

Enable Growth Partners LP (9)	1,008,966	1,008,966	4.99%	--
Nite Capital LP (10)	2,017,935	2,017,935	4.99%	--
Puritan LLC	672,644	672,644	4.99%	--
TCMP3 Partners (11)	1,008,966	1,008,966	4.99%	--
H. C. Wainwright & Co., Inc. (12)	239,630	239,630	2.23%	--
John R. Clarke (13)	113,814	113,814	1.07%	--
Scott F. Koch (14)	113,816	113,816	1.07%	--
Ari J. Fuchs (15)	12,000	12,000	0.11%	--
Total	10,064,449	10,064,449		

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(1) The number of shares beneficially owned is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the selling stockholder has sole or shared voting power or investment power and also any shares, which the selling stockholders has the right to acquire within 60 days. The actual number of shares of common stock issuable upon the conversion of the 8% senior secured promissory notes and exercise of the warrants currently held by the selling stockholders and also such notes and warrants issuable to them upon exercise of investment rights “A” and “B” are subject to adjustment depending on, among other factors, the future market price of the common stock and our financial performance, and could be materially less or more than the number estimated in the table.

(2) The foregoing common stock consists of (i) 1,597,534 shares that would be issuable upon conversion of 8% senior secured convertible notes based upon an assumed conversion price $0.892 per share, (ii) 1,597,529 shares that would be issuable upon exercise of outstanding warrants, (iii) and 6,390,125 shares issuable upon conversion or exercise, respectively, of additional notes or warrants issuable upon exercise of investment rights “A” and “B,” all of which are being registered under this prospectus for the benefit of the selling stockholders. The foregoing common stock further consists of (a) 239,630 shares of the Company’s common stock issuable upon exercise of outstanding warrants and (b) 239,630 shares of the Company’s common stock issuable upon exercise of convertible debenture warrants, all of which are being registered under this prospectus for the benefit of H. C. Wainwright & Co., Inc. and certain of its principals in connection with their services as exclusive placement agent for the private placement.

(3) The actual number of shares of common stock offered in this prospectus, and included in the registration statement of which this prospectus is a part, includes such additional number of shares of common stock as may be issued or issuable upon conversion of the secured convertible notes and exercise of the related warrants by reason of any stock split, stock dividend or similar transaction involving the common stock, in accordance with Rule 416 under the Securities Act. However, the selling stockholder has contractually agreed to restrict their ability to convert their secured convertible note or exercise its warrants and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock as determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended. Accordingly, the percentage of shares owned prior to the offering is listed as 4.99%; however, the number of shares of common stock set forth in the table for the selling stockholder exceeds the number of shares of common stock that the selling stockholder could own beneficially at any given time through their ownership of the secured convertible note and the warrants.

(4) Assumes all shares registered on this prospectus are sold.

(5) The number of shares being offered includes 2,858,746 shares of the Company’s common stock issuable upon conversion of the notes and upon exercise of the additional investment rights warrants. Joshua Silverman, a principal of Iroquois Capital LP, exercises voting and investment control over the securities owned by Iroquois Capital LP. Mr. Silverman disclaims beneficial ownership of these securities except to the extent of his beneficial interest therein.

(6) The number of shares being offered includes 672,644 shares of the Company’s common stock issuable upon conversion of the notes and upon exercise of the additional investment rights warrants. Abraham Nussbaum, a principal of Notzer Chesed, Inc., exercises voting and dispositive power over all of the shares beneficially owned. Mr. Nussbaum disclaims beneficial ownership of these securities except to the extent of his beneficial interest therein.

(7) The number of shares being offered includes 672,644 shares of the Company’s common stock issuable upon conversion of the notes and upon exercise of the additional investment rights warrants. Basso Capital Management, L.P. is the investment manager of Basso Multi-Strategy Holding Fund Ltd. Howard I. Fischer is a managing member of Basso GP, LLC, the general partner of Basso Capital Management, L.P., and as such has investment power and voting control over these securities. Mr. Fischer disclaims beneficial ownership of these securities.

(8) The number of shares being offered includes 672,644 shares of the Company’s common stock issuable upon conversion of the notes and upon exercise of the additional investment rights warrants. Isaac Winehouse, a principal of B&W Equities LLC., the General Partner of Double U Master Fund, LP, exercises voting and investment control over the securities owned by this selling stockholder. Mr. Winehouse disclaims beneficial ownership of these securities except to the extent of his beneficial interest therein.

(9) The number of shares being offered includes 1,008,966 shares of the Company’s common stock issuable upon conversion of the notes and upon exercise of the additional investment rights warrants. Mitch Levine, Managing Partner of Enable Growth Partners LP, exercises sole voting and investment power of the shares of our common stock on behalf of this selling stockholder. Mr. Levine disclaims beneficial ownership of these securities except to the extent of his beneficial interest therein.

(10) The number of shares being offered includes 2,017,935 shares of the Company’s common stock issuable upon conversion of the notes and upon exercise of the additional investment rights warrants. Keith Goodman, Manager of the General Partner of Nite Capital, LP exercises sole voting and investment power of the shares of our common stock on behalf of this selling stockholder. Mr. Goodman disclaims beneficial ownership of these securities except to the extent of his beneficial interest therein.

(11) The number of shares being offered includes 1,008,966 shares of the Company's common stock issuable upon conversion of the notes and upon exercise of the additional investment rights warrants. Steven Slawson and Walter Schenker, as principals of TCMP3 Partners, have voting and investment control over the securities held by TCMP3 Partners. Messrs. Slawson and Schenker disclaim beneficial ownership of these securities except to the extent of their respective beneficial interest therein.

(12) The number of shares being offered includes 239,630 shares of the Company's common stock issuable upon exercise of warrants and convertible debenture warrants issued to H. C. Wainwright & Co., Inc. and its designees. Michael Bradford, principal of H. C. Wainwright & Co., Inc., has voting and investment control over the securities held by H. C. Wainwright & Co., Inc. Mr. Bradford disclaims beneficial ownership of the securities except to the extent of his beneficial interest therein.

(13) The number of shares being offered includes 113,814 shares of the Company's common stock issuable upon exercise of warrants and convertible debenture warrants issued to H. C. Wainwright & Co., Inc., and its designees. John R. Clarke is the president of H. C. Wainwright & Co., Inc.

(14) The number of shares being offered includes 113,816 shares of the Company's common stock issuable upon exercise of warrants and convertible debenture warrants issued to H. C. Wainwright & Co., Inc., and its designees. Scott F. Koch is a managing director of H. C. Wainwright & Co., Inc.

(15) The number of shares being offered includes 12,000 shares of the Company's common stock issuable upon exercise of warrants and convertible debenture warrants issued to H. C. Wainwright & Co., Inc., and its designees. Ari J. Fuchs is an associate of H. C. Wainwright & Co., Inc.

PLAN OF DISTRIBUTION

The selling stockholders may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

- Ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- Block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- Purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- An exchange distribution in accordance with the rules of the applicable exchange;
- Privately negotiated transactions;
- Short sales;
- Broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- A combination of any such methods of sale; and
- Any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

The selling stockholders may also engage in short sales against the box, puts and calls and other transactions in our securities or derivatives of our securities and may sell or deliver shares in connection with these trades.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved. Any profits on the resale of shares of common stock by a broker-dealer acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, attributable to the sale of shares will be borne by a selling stockholder. The selling stockholders may agree to indemnify any agent, dealer or broker-dealer that participates in transaction involving sales of the shares if liabilities are imposed on that person under the Securities Act.

The selling stockholders may from time to time pledge or grant a security interest in some or all the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledges or secured parties may offer and sell the shares of common stock from time to time under this prospectus after we have filed an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus and may sell the shares of common stock from time to time under this prospectus after we have filed an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of selling stockholders to include the pledge, transferee or other successors in interest as selling stockholders under this prospectus.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares of common stock may and be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares of common stock purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

The selling stockholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their shares of common stock, nor is there an underwriter or coordinating broker acting in connection with a proposed sale of shares of common stock by any selling stockholder. If we are notified by any selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of shares of common stock, if required, we will file a supplement to this prospectus. If the selling stockholders use this prospectus for any sale of the shares of common stock, they will be subject to the prospectus delivery requirements of the Securities Act.

The anti-manipulation rules of Regulation M under the Securities Exchange Act of 1934 may apply to sales of our common stock and activities of the selling stockholders.

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for the Registrant by Rogers & Theobald LLP, 2425 East Camelback Road, Suite 850, Phoenix, Arizona 85016.

EXPERTS

The balance sheet and financial statements of Endavo Media and Communications, Inc. as of and for the year ended December 31, 2004 in this prospectus have been audited by Hein & Associates, LLP, independent registered public accounting firm upon the authority of such firm as experts in accounting and auditing. The balance sheet and financial statements of Endavo Media and Communications, Inc. as of and for the year ended December 31, 2003 in this prospectus have been audited by Tanner + Co, independent registered public accounting firm upon the authority of such firm as experts in accounting and auditing.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

On March 14, 2005, the Company appointed Hein & Associates, LLP to serve as the Company's independent certified public accountants, effective March 14, 2005. Hein & Associates, LLP replaced Tanner + Co. The reports of Tanner + Co. for the fiscal year ending December 31, 2003 did not contain an adverse opinion or disclaimer or opinion and were not qualified or modified as to audit scope or accounting principles. However, the report of Tanner + Co. was qualified with respect to uncertainty as to the Company's ability to continue as a going concern. There were no "disagreements" (as such term is defined in Item 304(a)(1)(iv) of Regulations S-B) with Tanner + Co. at any time during the period described above regarding any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures that if not resolved to the satisfaction of Tanner + Co., would have caused it to make reference to such disagreements in its reports. In addition, during the same periods, no "reportable events" (as such term is defined in Item 304 (a)(1)(v)(A) through (E) of Regulations S-B and its related instructions) arose in the context of the Company's relationship with Tanner + Co.

During each of the two most recent fiscal years, neither the Company nor anyone on its behalf consulted with Hein & Associates, LLP with respect to any accounting or auditing issues involving the Company. In particular, there was no discussion with the Company regarding the type of audit opinion that might re rendered on the Company's financial statements, the application of accounting principles applied to a specified transaction or any matter that was the subject of a disagreement or a "reportable event" as defined in Item 304 (a)(1) of Regulation S-B and its related instructions.

We requested that Tanner + Co. furnish us with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the above statements. A copy of such letter, dated April 5, 2005, was filed as Exhibit 16.1 to a Current Report on Form 8-K filed with the Securities and Exchange Commission on April 5, 2005.

AVAILABLE INFORMATION

We filed with the SEC a registration statement on Form SB-2 under the Securities Act for the common stock to be sold in this offering. This prospectus does not contain all of the information in the registration statement and the exhibits and schedules that were filed with the registration statement. For further information with respect to the common stock and us, we refer you to the registration statement and the exhibits and schedules that were filed with the registration statement. Statements made in this prospectus regarding the contents of any contract, agreement or other document that is filed as an exhibit to the registration statement are not necessarily complete, and we refer you to the full text of the contract or other document filed as an exhibit to the registration statement. A copy of the registration statement and the exhibits and schedules that were filed with the registration statement may be inspected without charge at the public reference facilities maintained by the SEC in Room 1024, 450 Fifth Street, NW, Washington, DC 20549, and at the SEC's regional offices at 5670 Wilshire Boulevard, 11th Floor, Los Angeles, California 90036-3648. Copies of all or any part of the registration statement may be obtained from the SEC upon payment of the prescribed fee. Information regarding the operation of the public reference rooms may be obtained by calling the SEC at 1-323-965-3998. The SEC maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the site is http://www.sec.gov.

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, and file and furnish to our stockholders annual reports containing financial statements audited by our independent auditors, make available to our stockholders quarterly reports containing unaudited financial data for the first three quarters of each fiscal year, proxy statements and other information with the Securities and Exchange Commission.

You should rely only on the information contained in this prospectus or to which we have referred you. We have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal

to sell these securities. The information in this prospectus may only be accurate on the date of this prospectus.

ENDAVO MEDIA AND COMMUNICATIONS, INC.

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December 31, 2004
December 31, 2003

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Endavo Media and Communications, Inc.
Salt Lake City, Utah

We have audited the accompanying consolidated balance sheet of Endavo Media and Communications, Inc. and subsidiaries as of December 31, 2004 and the related consolidated statements of operations, changes in stockholders' equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Endavo Media and Communications, Inc and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has limited revenue, has incurred substantial losses from operations and has working capital and stockholders deficits. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters are described in Note 3. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Hein & Associates LLP
Phoenix, Arizona
April 9, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Endavo Media and Communications, Inc.
Salt Lake City, Utah

We have audited the accompanying consolidated balance sheet of Endavo Media and Communications, Inc. and subsidiaries (Formerly known as CeriStar, Inc.) as of December 31, 2003 and the related consolidated statements of operations, stockholders' deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Endavo Media and Communications, Inc. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3, the Company has a deficit in working capital, negative cash flows from operations, and recurring net losses. These issues raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The accompanying financial statements do not include any adjustment that might result form the outcome of this uncertainty.

Tanner + Co.
Salt Lake City, Utah
February 13, 2004

ENDAVO MEDIA AND COMMUNICATIONS, INC.
Consolidated Balance Sheets

	December 31,			
Assets		2004		2003
Current assets:				
Cash	$	1,000	$	164,000
Accounts receivable, net of allowance for doubtful accounts of $11,000 and $142,000, respectively		31,000		69,000
Prepaid expenses		3,000		4,000
Deposits		18,000		8,000
Total current assets		53,000		245,000
Property and equipment, net		153,000		549,000
Asset held for sale		45,000		--
Total Assets	$	251,000	$	794,000
Liabilities and Stockholders' Deficit				
Current liabilities:				
Accounts payable	$	651,000	$	437,000
Accrued liabilities		460,000		304,000
Deferred revenue		321,000		236,000
Notes payable including related parties		1,078,000		934,000
Total current liabilities		2,510,000		1,911,000
Commitments and contingencies (Notes 3,9, and 13)				
Stockholders' deficit:				
Preferred stock, $.001 par value; 5,000,000 shares Authorized. Of the amount authorized 4,500,000 shares have been designated as Series A, and 100,000 shares as Series B. There are 3,821,197 shares of Series A issued and outstanding. The liquidation preference of the Series A is $4,000.		4,000		--
Common stock, $.001 par value, voting, 100,000,000 shares authorized, 9,517,303 and 491,206 shares issued and outstanding, respectively		10,000		1,000
Additional paid-in capital		15,197,000		10,484,000
Deferred compensation		(688,000)		(97,000)
Subscriptions receivable		(2,000)		(28,000)
Accumulated deficit		(16,780,000)		(11,477,000)
		(2,259,000)		(1,117,000)
Total liabilities and stockholders' deficit	$	251,000	$	794,000

ENDAVO MEDIA AND COMMUNICATIONS, INC.
Consolidated Statements of Operations

	Years Ended December 31, 2004	2003
Total revenues	$ 178,000	$ 431,000
Cost of sales	(419,000)	(511,000)
Selling, general, and administrative expense	(3,496,000)	(3,868,000)
Impairment of property and equipment	(417,000)	--
Loss from operations	(4,154,000)	(3,948,000)
Other income (expense)	10,000	1,000
Interest expense	(1,159,000)	(349,000)
Net loss	(5,303,000)	(4,296,000)
Imputed preferred stock dividend	(1,891,000)	--
Net loss attributable to common shareholders	$ (7,194,000)	$ (4,296,000)
Net loss per common share - basic and diluted	$ (2.84)	$ (9.90)
Weighted average shares - basic and diluted	2,532,939	433,750

ENDAVO MEDIA AND COMMUNICATIONS, INC.
Consolidated Statement of Stockholders' Equity/Deficit

Years Ended December 31, 2004, and 2003

	Preferred Stock		Common Stock		Additional Paid-in Capital	Deferred Compensation	Subscriptions Receiveable	Accumulate Deficit
	Shares	Amount	Shares	Amount				
Balance January 1, 2003	--	$ --	365,762	$ 1,000	$ 8,551,000	$ (615,000)	$ 996,000)	$ (7,181,000)
Issuance of common stock for:								
Cash	--	--	14,006	--	462,000	--	--	--
Services	--	--	121,836	--	1,267,000	--	(769,000)	--
Employee stock subscriptions satisfied through services	--	--	--	--	--		70,000	--
Non-vested common stock canceled through employee terminations	--	--	(10,398)	--	(223,000)	211,000	11,000	--
Amortization of deferred compensation and subscriptions receivable	--	--	--	--	--	307,000	1,656,000	--
Preferential conversion feature and issue of warrants with long-term debt	--	--	--	--	427,000	--	--	--
Net loss	--	--	--	--	--	--	--	(4,296,000)
Balance December 31, 2003	--	--	491,206	1,000	10,484,000	(97,000)	(28,000)	(11,477,000)
Conversion of notes payable to common stock			3,511,363	3,000	1,691,000			

Conversion of common stock to preferred stock	3,821,197	4,000	(2,292,718)	(2,000)	(2,000)			
Issuance of common stock for:								
Cash			48,000	--	30,000		(8,000)	
Cash-Warrants Exercised			2,006,892	2,000	352,000			
Services			5,752,560	6,000	1,342,000	(1,348,000)		
Deferred Compensation relating to issuance of warrants					401,000	(401,000)		
Consultant stock subscriptions satisfied through services							34,000	
Compensation costs related to issuance of options to officers					458,000			
Amortization of deferred compensation						1,158,000		
Preferential conversion feature associated with long-term Debt					441,000			
Net loss								(5,303,000)
Balance December 31, 2004	3,821,197	$ 4,000	9,517,303	$ 10,000	$ 15,197,000	$ (688,000)	$ (2,000)	$ (16,780,000)

ENDAVO MEDIA AND COMMUNICATIONS, INC.
Consolidated Statement of Cash Flows

	Years Ended December 31, 2004	2003
Cash flows from operating activities:		
Net loss	$ (5,303,000)	$ (4,296,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	158,000	77,000
Loss on sale of fixed assets	12,000	--
Impairment of fixed assets	417,000	--
Stock and options issued for services	458,000	497,000
Interest expense converted to common stock	197,000	--
Interest expense and fees added to note balance	29,000	--
Amortization of deferred compensation	1,158,000	307,000
Stock subscription satisfied with services	34,000	1,726,000
Amortization of discount on long-term debt	678,000	213,000
Bad debt expense	35,000	126,000
Decrease (increase) in:		
Accounts receivable	3,000	(90,000)
Prepaid expense	1,000	(1,000)
Deposits	(10,000)	--
Increase (decrease) in:		
Accounts payable	214,000	51,000
Accrued liabilities	156,000	202,000
Deferred revenue	85,000	4,000
Net cash used in operating activities	(1,678,000)	(1,184,000)
Cash flows used in investing activities -		
Purchase of property and equipment	(236,000)	(287,000)
Cash flows from financing activities:		
Proceeds from issuance of common stock and exercise of warrants	376,000	462,000
Proceeds from related party note	1,397,000	103,000
Payments on related party convertible notes payable	(40,000)	(10,000)
Proceeds from note payable	18,000	210,000
Payments on note payable	--	(10,000)
Proceeds from convertible short-term debt	--	864,000
Payments on convertible long-term debt	--	(12,000)
Net cash provided by financing activities	1,751,000	1,607,000
Net increase (decrease) in cash and cash equivalents	(163,000)	136,000
Cash and cash equivalents at beginning of period	164,000	28,000
Cash and cash equivalents at end of period	$ 1,000	$ 164,000

ENDAVO MEDIA AND COMMUNICATIONS, INC.

Notes to Consolidated Financial Statements

December 31, 2004, and 2003

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1. Organization and Description of Business

Endavo Media and Communications, Inc. and subsidiaries (collectively referred to as the "Company") provide integrated broadband services, including voice, video and data services to residential customers through IP based networks. The Company is also targeting commercial and municipal concerns. The Company is located in Salt Lake City, Utah, and was formed in December 1999. The Company was formerly known as CeriStar Inc.

2. Summary of Significant Accounting Policies

Principles of Consolidation
The financial statement reflect the consolidated results of Endavo Media and Communications and its wholly owned subsidiaries Susquina, Inc. and New Planet Resources, Inc. All material intercompany transactions have been eliminated in the consolidation.

Reverse Stock Split
In the third quarter of 2004, the Company completed a reverse stock split whereby the shareholders received 1 share of stock for every 16 that the previously owned. All share and per share amounts in prior periods have been restated to reflect the reverse stock split.

Concentration of Credit Risk
Financial instruments, which potentially subject the Company to concentration of credit risk consist primarily of trade receivables. In the normal course of business, the Company provides on-going credit evaluations of its customers and maintains allowances for possible losses.

The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents
Cash includes all cash and highly liquid investments with original maturities of three months or less.

Property and Equipment
Property and equipment are recorded at cost less accumulated depreciation. Depreciation and amortization on property and equipment are determined using the straight-line method over the three to five year estimated useful lives of the assets.

2. Summary of Significant Accounting Policies *Continued*

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life in measuring whether the assets are recoverable. If it is determined that an impairment loss has occurred based on expected cash flows, such loss is recognized in the statement of operations. In the fourth quarter of 2004 the Company analyzed its expected cash flows related to its installed equipment, and determined that the cash flows will not be sufficient to recover its investment in those assets, resulting in an impairment of those assets. The company also impaired an asset that is being held for sale to its estimated net realizable value. The total amount impaired was $417,000 and is recorded in operating expenses.

Revenue Recognition

Revenue is recognized when a valid contract or purchase order has been executed or received, services have been performed or product has been delivered, the selling price is fixed or determinable, and collectability is reasonably assured. Payments received prior to performance are recorded as deferred revenue and amortized over the estimated service period.

Income Taxes

Deferred taxes are computed using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are not recognized unless it is more likely than not that the asset will be realized in future years.

2. Summary of Significant Accounting Policies ***Continued***

Earnings Per Common and Common Equivalent Share
The computation of basic earnings per common share is computed using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus common stock equivalents which would arise from the exercise of warrants outstanding using the treasury stock method and the average market price per share during the year. Options, warrants, convertible debt and convertible preferred stock which if exercised or converted would require the company to issue 39,798,385 and 80,675 common stock equivalents are not included in the diluted earnings per share calculation for 2004 and 2003, respectively, since their effect is anti-dilutive.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include the cash flow projections used for the impairment tests, the assumption underlying estimate of the period used to amortize deferred revenue and the assumptions used to value the stock options issued to non-employees. It is reasonable possible that these estimates may change in the near term and that such as change may be material.

Stock-Based Compensation
The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, “Accounting for Stock-Based Compensation.” Accordingly, In accordance with APB Opinion No. 25, no compensation is recognized for options granted to employees unless those options are subject to variable accounting or they are issued with an exercise price less than market. During the year ended December 31, 2004, the Company issued 1,100,000 options to Officers of the Company to purchase the Company’s common stock at exercise prices of $.05 to $.60 per share. These options expire in 2014 and were vested as of December 31, 2004.

Because the exercise price of these options would not be decreased proportionately if the Company has a reverse stock split, they are being accounted for as though the terms of the options are variable, resulting in a non-cash expense of $458,000 in 2004.

2. Summary of Significant Accounting Policies *Continued*

Stock-Based Compensation - Continued

Had compensation cost for these options been determined based upon the fair value at the grant date consistent with the methodology prescribed under SFAS No. 123, the Company's net earnings would have changed as set forth in the table below:

	Years Ended December 31,			
	2004			2003
Net loss - attributable to common shareholders as reported	$	(7,194,000)	$	(4,296,000)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects		458,000		-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(605,000)		(340,000)
Net loss - attributable to common shareholders pro forma	$	(7,341,000)	$	(4,636,000)
Loss per share - attributable to common shareholders as reported	$	(2.84)	$	(9.90)
Loss per share - attributable to common shareholders pro forma	$	(2.89)	$	(10.69)

These options were valued at the date of grant with the total calculated pro forma expense reflected above, as all options are fully vested.

The fair value of each warrant grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions at December 31:

		2004		2003
Expected dividend yield	$	--	$	--
Expected stock price volatility		259%		100%
Risk-free interest rate		4.0%		4%
Expected life of options		10 years		10 years

The weighted average fair value of each option granted to employees during 2004 and 2003 was $0.58 and $6.56, respectively.

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2. Summary of Significant Accounting Policies *Continued*

Reclassifications
Certain amounts in the 2003 financial statements have been reclassified to conform with classifications adopted in the current year. Such reclassifications had no effect on the net loss.

3. Liquidity and Going Concern

The Company has a working capital deficit, a stockholders' deficit, and recurring net losses. These factors create substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustment that might be necessary if the Company is unable to continue as a going concern.

The ability of the Company to continue as a going concern is dependent on the Company generating cash from the sale of its common stock or obtaining debt financing and attaining future profitable operations. Management's plans include selling its equity securities and obtaining debt financing to fund its capital requirement and ongoing operations, however, there can be no assurance the Company will be successful in these efforts.

4. Property and Equipment

Property and equipment consists of the following at December 31:

	2004	2003
Computer equipment and software	$ 239,000	$ 694,000
Furniture and fixtures	14,000	14,000
	253,000	708,000
Less accumulated depreciation, amortization	(100,000)	(159,000)
	$ 153,000	$ 549,000

The Company also has communication equipment uninstalled and held for sale totalling $45,000 at December 31, 2004.

5. Accrued Liabilities

Accrued liabilities consisted of the following at December 31:

	2004	2003
Accrued payroll	$ 204,000	$ 230,000
Other	256,000	74,000
	$ 460,000	$ 304,000

6. Deferred Revenue

The Company has entered into long-term service contracts which are accompanied by payments received from customers for initial equipment installation to service residential developments and other services. Amounts initially received are deferred until they are earned based on the terms of the contract. The balance of the deferred revenue at December 31, 2004 and 2003 was $408,000 and $236,000, respectively.

7. Notes Payable

Notes payable consisted of the following at December 31:

	2004	2003
Discounted convertible notes payable due to SovCap. SovCap is affiliated with an officer and director of the Company and is a significant stockholder of the Company. These notes have a face interest rate of 18%. At December 2003 there was an unamortized discount of $178,000. This amount, plus an additional $263,000 (related to discounts on notes issued in 2004) was expensed in 2004. There is no remaining unamortized discount at December 31. 2004. The notes are unsecured and are due on demand. The notes are convertible at a rate of 75% of the average closing bid price of the Company’s common stock for the five trading days ending on the trading day immediately preceding the conversion date.	$ 763,000	$ 686,000

7. Notes Payable *Continued*

During 2004 $1,638,000 in notes payable and accrued interest was converted to 3,511,363 shares of common stock.

Note payable originally to a finance company and with an effective interest rate of 57% including an original discount of $78,000 from issuance of detachable warrants with the note. As of December 31, 2003, the unamortized portion of the discount was $46,000, no unamortized discount remaining as of December 31, 2004. The note is in default and the finance company required repayment by a former officer of the Company who repaid the note, accrued interest and fees under a guarantee. The Company's obligation is now to the former officer and shareholder. The note was collateralized by equipment.	200,000	137,000
Convertible notes due to a former officer and shareholder of the Company. These notes bear interest at 12%, are unsecured, and due on demand. Subsequent to December 31, 2004 these notes were in default. The notes are convertible into approximately 10,251 shares at approximately $8.00 per share.	82,000	93,000
Note payable to an individual with interest at 10% collateralized by receivables and due on demand.	18,000	18,000
Note payable to a financial group with interest at 6% and due on demand.	15,000	--
Note payable to a financial institution. The note is payable in monthly installments of $2,000, including interest at 14%, collateralized by equipment, and matures on May 30, 2007. At December 31, 2004 and 2003 the outstanding balance of the debt was $41,000 and $55,000 less a discount of $41,000 and $55,000, respectively.	--	--
	$ 1,078,000	$ $934,000

7. Notes Payable *Continued*

Future maturities of notes payable are as follows:

Year Ending December 31:	Amount
2005	$ 1,119,000
Less discount	(41,000)
	$ 1,078,000

8. Income Taxes

The benefit for income taxes is different than amounts which would be provided by applying the statutory federal income tax rate to loss before benefit for income taxes for the following reasons:

	Years Ended December 31,	
	2004	2003
Income tax benefit at statutory rate	$ 1,967,000	$ 1,592,000
Stock valuation for services	(649,000)	(538,000)
Change in valuation allowance	(1,316,000)	(1,053,000)
Other	(2,000)	(1,000)
	$ --	$ --

Deferred tax assets (liabilities) are comprised of the following as of December 31:

	2004	2003
Net operating loss carry-forwards	$ 3,691,000	$ 2,401,000
Amortization of license technology	259,000	287,000
Depreciation	(44,000)	(114,000)
Deferred revenue	119,000	88,000
Allowance for doubtful accounts	4,000	43,000
Other	23,000	-
Valuation allowance	(4,052,000)	(2,705,000)
	$ --	$ --

8. Income Taxes ***Continued***

At December 31, 2004, the Company has net operating loss (NOL) carry-forwards available to offset future taxable income of approximately $9,500,000, which will begin to expire in 2019. The utilization of the net operating loss carry-forwards is dependent upon the tax laws in effect at the time the net operating loss carry-forwards can be utilized. It is also likely that utilization of the NOL's are limited based on changes in control of the Company. A valuation allowance has been recorded against the deferred tax asset due to the uncertainty surrounding its realization caused by the Company's recurring losses.

9. Stockholders' Equity (Deficit)

Conversion of Debt to Common Stock

As discussed in Note 7, pursuant to the original terms of the agreements, certain creditors converted $1,694,000 of loans and accrued interest into 3,511,363 shares of common stock.

Conversion of Preferred Stock to Common Stock

In the third quarter of 2004, certain shareholders converted 2,292,718 shares of common stock into 3,821,197 shares of Series A Convertible Preferred Stock.

The 3,821,197 shares of preferred stock are convertible into 36,683,592 shares of common stock any time after September 30, 2005. This conversion feature is beneficial as to the preferred stockholders. As a result the Company is reflecting a preferred stock dividend of $7,566,000 ratably over the term that the preferred stock first is convertible. As of December 31, 2004, $1,891,000 of the dividend has been reflected on the statement of operations.

The Series A has no stated dividend rate and has a liquidation preference of $.001 per share. The Series A Preferred Stock also has voting rights that entitle the preferred shareholders to vote with the common shareholders as if the preferred stock had converted to common. The conversion ratio of the preferred into common is not subject to revision upon reverse stock dividends or splits that reduce the total shares outstanding.

Common Shares Issued for Service

The company has issued 5,752,560 shares, as well as 2,600,000 warrants (with exercise prices of $0.035 to 0.65) to consultants under consulting agreements that are generally one year or less. The associated expense are amortized over the term of the contracts, with the unamortized portion (totaling $688,000 at December 31, 2004) reflected as a reduction to stockholders equity (deficit).

Options and warrants

The Company has issued 0 and 22,547 warrants in conjunction with the issuance of its securities and convertible debt during the years ended December 31, 2004 and 2003, respectively. Warrants that were issued generally do not have a life that exceeds five years. Information regarding warrants and options to purchase common shares is summarized

below:

		Number of Options and Warrants		Exercise Price Per Share
Outstanding at January 1, 2003	$	20,279	$	26.72 - 72.00
Granted		266,298		6.08 - 72.00
Expired		--		--
Outstanding at December 31, 2003		286,577		6.08 - 72.00
Granted		1,000,000		.035 - .035
Granted		50,000		.05 - .05
Granted		2,600,000		.28 - .60
Granted		3,900,000		.46 - .46
Canceled		(250,000)		6.08 - 7.36
Canceled		(3,900,000)		.46 - .46
Exercised		(1,000,000)		.035 - .035
Exercised		(1,005,405)		.28 - .37
Outstanding at December 31, 2004	$	1,681,172	$	.05 - 72.00

The following table summarizes information about outstanding warrants and options for common stock at December 31, 2004:

		Outstanding		Exercisable	
Range of Exercise Prices	Number Out-Standing	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Average Exercise Price
$16.00 - 72.00	36,577	1.10	41.73	36,577	41.73

.37 - .65	594,595	.74	.50	594,595	.50
.05 - .05	50,000	9.58	.05	50,000	.05
.60 - .60	1,000,000	10.00	.60	1,000,000	.60
$.05 - 72.00	1,681,172	6.52	1.44	1,681,172	1.44

10. Stock Subscriptions Receivable

Subscriptions receivable consist of the obligation of employees to purchase common shares. In addition the Company may enter into contracts with consultants in which the Company issues stock at the commencement of the contract period. The value of the services or common stock given, which ever is more determinable is recorded as a stock subscription and amortized as expense over the period of the service contract. At December 31, 2004 and 2003 there were approximately $2,000 and $28,000 of subscriptions receivable related to these contracts.

11. Deferred Compensations

Deferred compensation is comprised of common stock issuances to employees and consultants, which have not yet vested. As of December 31, 2004 and 2003, the company had common stock for employee services valued at $638,000 and $97,000, respectively. The measurement date of compensation is the date the shares were granted.

12. Supplemental Cash Flow Information

During the year ended December 31, 2004, the Company had significant non - cash financing and investing activities as follows

- Converted $1,691,000 of notes payable and accrued interest into 3,511,363 shares of common stock.
- Issued common stock and warrants to consultants and amortized the expense over the terms of the contract resulting in amortization of deferred compensation of $1,158,000.

During the year ended December 31, 2003, the Company had significant non - cash financing and investing activities as follows:

- Issued 80,125 common shares valued at $769,000 to consultants for short-term contract services.
- Cancelled 10,397 unvested shares of common stock valued at $223,000 recorded as deferred compensation of $212,000 and subscriptions receivable of $11,000, due to employee terminations.
- Issued warrants in connection with debt which resulted in a debt discount of $139,000.
- Debt issued with beneficial conversion features valued at $288,000 which resulted in debt discounts.

12. Supplemental Cash Flow Information *Continued*

Cash paid for interest and income taxes are as follows:

	Years Ended December 31,	
	2004	2003

Interest	$	156,000	$	122,000
Income taxes	$	--	$	--

13. Commitments and Contingencies

The Company may become or is subject to investigations, claims or lawsuits ensuing out of the conduct of its business. The Company is currently unable to estimate the loss (if any) related to these matters.

The Company is currently litigating a claim from a former officer and director on a note guarantee secured by equipment. The note balance, accrued interest, and related fees are accrued as a liability at December 31, 2004.

14. Fair Value of Financial Instruments

The Company's financial instruments consist of cash, receivables and payables. Due to the liquidity concerns of the Company, it is currently not able to estimate the fair value of its financial instruments.

15. Fourth Quarter Adjustments

In the fourth quarter of 2004, the Company recorded an adjustment to its stockholders equity to reflect the conversion of 2,292,718 shares of its common stock into 3,821,197 shares of Series A Convertible Preferred Stock. This adjustment should have been reflected in the Company's September 30, 2004 interim financial statements.

The 3,821,197 shares of preferred stock are convertible into 36,683,592 shares of common stock any time after September 30, 2005. This conversion feature is beneficial as to the preferred stockholders. As a result the Company is reflecting a preferred stock dividend of 7,566,000 over the term until the preferred stock first is convertible. As of December 31, 2004, 1,891,000 of the dividend has been reflected on the statement of operations.

Had the conversion been reflected in the third quarter, additional preferred stock dividends reflected in that quarter would have been approximately $15,000.

16. Subsequent Events

On February 22, 2005, the Company consummated a private placement of $1,425,000 principal amount of 8% Senior Secured Convertible Notes and related securities, including common stock warrants and additional investment rights. Specifically, this transaction may ultimately result in gross proceeds to the Company of $4.275 million if both the additional investment rights are exercised in full.

The Company has agreed to file a registration statement with the Securities and Exchange Commission prior to April 25,2005, registering the shares of common stock issuable upon conversion of the 8% Senior Secured Convertible Notes, exercise of the warrants, and the shares related to the additional investment rights if they are exercised in the future. If the Company fails to file the registration statement by April 25, 2005, or if it is not declared effective by the

Securities and Exchange Commission within 120 days from the filing date, the Company will be required to pay to the investors liquidated damages equal to 2.0% of the amount invested and shall pay to the investors liquidated damages equal to 1.0% of the amount invested for each subsequent 30-day period.

The Company engaged H. C. Wainwright & Co., Inc., as the exclusive placement agent in connection with the private placement. Under the agreement with Wainwright the Company paid them a cash fee of $121,750(9% of the gross proceeds of the financing plus a non-accountable cash allowance of 2% of the gross proceeds, less any legal fees payable to counsel to the investors). The Company paid the investors $35,000 for the legal fees they incurred in connection with this transaction, which were included in the H.C. Wainwright fee calculation. In addition, the Company issued to Wainwright, warrants to purchase 239,630 shares of common stock at $.89 and 239,630 shares of common stock at $1.27. The warrants have the same terms as the warrants issued to the investors. In addition, the Company agreed to pay to Wainwright, a cash fee of 8% of the aggregate consideration received by us from the exercise of any warrants.

17. Recent Accounting Pronouncements

In December 2003, the FASB issued Interpretation No. 46 ("FIN 46R") (revised December 2003), Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 ("ARB 51"), which addresses how a business enterprise should evaluate whether it has a controlling interest in an entity though means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46 (FIN 46), which was issued in January 2003. Before concluding that it is appropriate to apply ARB 51 voting interest consolidation model to an entity, an enterprise must first determine that the entity is not a variable interest entity (VIE). As of the effective date of FIN 46R, an enterprise must evaluate its involvement with all entities or legal structures created before February 1, 2003, to determine whether consolidation requirements of FIN 46R apply to those entities. There is no grandfathering of existing entities. Public companies must apply either FIN 46 or FIN 46R immediately to entities created after January 31, 2003 and no later than the end of the first reporting period that ends after March 15, 2004. The adoption of FIN 46 had no effect on the Company's consolidated financial position, results of operations or cash flows.

In December 2004, the Financial Accounting Standards Board ("FASB") issued revised Statement of Financial Accounting Standards No. 123 entitled "Share-Based Payment" ("FAS No. 123R"). This revised statement addresses accounting for stock-based compensation and results in the fair value of all stock-based compensation arrangements, including options, being recognized as an expense in a company's financial statements. The revised Statement eliminates the ability to account for stock-based compensation transactions using APB Opinion No. 25 with supplemental disclosure in the notes to financial statements as previously allowed under FAS 123. FAS No. 123R is effective for public entities that file as small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The Company is currently assessing the impact that FAS 123R will have on its financial statements.

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UP TO 10,064,449 SHARES
OF OUR
COMMON STOCK

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Endavo Media And Communications, Inc.

PROSPECTUS

May 20, 2005

Illinois on March 12, 2013.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

By: /s/ ROBERT J. CURREY
Robert J. Currey
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature			Title		Date
By:	/s/ ROBERT J. CURREY		President and Chief Executive		March 12, 2013
	Robert J. Currey		Officer and Director		
			(Principal Executive Officer)		
By:	/s/ STEVEN L. CHILDERS		Senior Vice President and		March 12, 2013
	Steven L. Childers		Chief Financial Officer (Principal		
			Financial and Accounting Officer)		
By:	/s/ RICHARD A. LUMPKIN		Chairman of the Board		March 12, 2013
	Richard A. Lumpkin		and Director		
By:	/s/ ROGER H. MOORE		Director		March 12, 2013
	Roger H. Moore				
By:	/s/ MARIBETH S. RAHE		Director		March 12, 2013
	Maribeth S. Rahe				
By:	/s/ TIMOTHY D. TARON		Director		March 12, 2013
	Timothy D. Taron				
By:	/s/ THOMAS A. GERKE		Director		March 12, 2013
	Thomas A. Gerke				

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Consolidated Communications Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Consolidated Communications Holdings, Inc. and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Consolidated Communications Holdings, Inc. at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Consolidated Communications Holdings, Inc. s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 12, 2013, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

St. Louis, Missouri

March 12, 2013

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands except per share amounts)

	Year Ended December 31, 2012	2011	2010
Net revenues	$ 503,457	$ 374,263	$ 383,366
Operating expense:			
Cost of services and products (exclusive of depreciation and amortization)	193,743	139,264	142,302
Selling, general and administrative expenses	111,617	81,050	88,025
Financing and other transaction costs	20,800	2,649	-
Impairment of intangible assets	2,923	-	-
Depreciation and amortization	120,976	88,745	87,142
Operating income	53,398	62,555	65,897
Other income (expense):			
Interest expense, net of interest income	(72,604)	(49,394)	(50,740)
Loss on extinguishment of debt	(4,455)	-	-
Investment income	30,667	27,843	27,744
Other, net	601	823	(758)
Income before income taxes	7,607	41,827	42,143
Income tax expense	1,436	14,845	8,991
Net income	6,171	26,982	33,152
Less: net income attributable to noncontrolling interest	531	572	557
Net income attributable to common shareholders	$ 5,640	$ 26,410	$ 32,595
Net income per common share - basic and diluted	$ 0.15	$ 0.88	$ 1.09
Dividends declared per common share	$ 1.55	$ 1.55	$ 1.55

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(amounts in thousands)

	Year Ended December 31,		
	2012	**2011**	**2010**
Net income	$ 6,171	$ 26,982	$ 33,152
Change in prior service cost and net actuarial loss, net of tax benefit (expense) of $8,159, $8,434 and $(948) in 2012, 2011 and 2010, respectively	(12,929)	(13,959)	1,572
Change in fair value of cash flow hedges, net of tax expense of $3,055, $4,434 and $1,430 in 2012, 2011 and 2010, respectively	4,978	7,597	2,497
Comprehensive income (loss)	(1,780)	20,620	37,221
Less: comprehensive income attributable to noncontrolling interest	531	572	557
Total comprehensive income (loss) attributable to common shareholders	$ (2,311)	$ 20,048	$ 36,664

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share and per share amounts)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,854	$ 105,704
Accounts receivable, net of allowance for doubtful accounts	58,582	35,492
Income tax receivable	11,819	8,988
Deferred income taxes	9,000	4,825
Prepaid expenses and other current assets	11,269	6,941
Total current assets	108,524	161,950
Property, plant and equipment, net	908,236	338,426
Investments	109,750	98,069
Goodwill	604,988	520,562
Other intangible assets	49,530	70,158
Deferred debt issuance costs, net and other assets	13,800	4,904
Total assets	$ 1,794,828	$ 1,194,069
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 19,162	$ 6,651
Advance billings and customer deposits	28,592	20,324
Dividends payable	15,463	11,571
Accrued compensation	21,968	12,814
Accrued expense	46,232	21,358
Current portion of long-term debt and capital lease obligations	9,596	8,992
Current portion of derivative liability	3,164	3,580
Total current liabilities	144,177	85,290
Long-term debt and capital lease obligations	1,208,248	875,719
Deferred income taxes	138,842	77,327
Pension and other postretirement obligations	156,710	93,754
Other long-term liabilities	10,746	14,167
Total liabilities	1,658,723	1,146,257
Commitments and contingencies		
Shareholders equity:		
Common stock, par value $0.01 per share; 100,000,000 shares authorized, 39,877,998 and 29,869,512, shares outstanding as of December 31, 2012 and 2011, respectively	399	299
Additional paid-in capital	177,315	79,852
Retained earnings	-	-
Accumulated other comprehensive loss, net	(45,784)	(37,833)
Noncontrolling interest	4,175	5,494
Total shareholders equity	136,105	47,812
Total liabilities and shareholders equity	$ 1,794,828	$ 1,194,069

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(amounts in thousands)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Non-controlling Interest	Total
Balance at January 1, 2010	29,609	$ 296	$ 109,746	$	$ (35,540)	$ 6,215	$ 80,717
Cash dividends on common stock			(13,584)	(32,595)			(46,179)
Shares issued under employee plan, net of forfeitures	208	2					2
Non-cash, stock-based compensation			2,363				2,363
Purchase and retirement of common stock	(54)		(1,001)				(1,001)
Tax on restricted stock vesting			602				602
Distributions to non-controlling interests						(1,850)	(1,850)
Other comprehensive income (loss)					4,069		4,069
Net income				32,595		557	33,152
Balance at December 31, 2010	29,763	$ 298	$ 98,126	$	$ (31,471)	$ 4,922	$ 71,875
Cash dividends on common stock			(19,938)	(26,410)			(46,348)
Shares issued under employee plan, net of forfeitures	145	1					1
Non-cash, stock-based compensation			2,132				2,132
Purchase and retirement of common stock	(39)		(726)				(726)
Tax on restricted stock vesting			258				258
Other comprehensive income (loss)					(6,362)		(6,362)
Net income				26,410		572	26,982
Balance at December 31, 2011	29,870	$ 299	$ 79,852	$	$ (37,833)	$ 5,494	$ 47,812
Cash dividends on common stock			(52,352)	(5,640)			(57,992)
Shares issued upon acquisition of SureWest	9,966	100	148,293				148,393
Shares issued under employee plan, net of forfeitures	79						
Non-cash, stock-based compensation			2,348				2,348
Purchase and retirement of common stock	(37)		(559)				(559)
Tax on restricted stock vesting			47				47
Distributions to non-controlling interests						(1,850)	(1,850)
Other comprehensive income (loss)					(7,951)		(7,951)
Other			(314)				(314)
Net income				5,640		531	6,171
Balance at December 31, 2012	39,878	$ 399	$ 177,315	$	$ (45,784)	$ 4,175	$ 136,105

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	Year Ended December 31, 2012	2011	2010
Cash flows from operating activities:			
Net income	$ 6,171	$ 26,982	$ 33,152
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	120,976	88,745	87,142
Impairment of intangible assets	2,923		
Deferred income taxes	(757)	8,546	(2,390)
Cash distributions from wireless partnerships in excess of/(less than) current earnings	(1,309)	945	16
Stock-based compensation expense	2,348	2,132	2,363
Amortization of deferred financing costs	6,360	1,411	1,293
Loss on extinguishment of debt	4,455		
Other, net	(332)	108	(3,112)
Changes in operating assets and liabilities:			
Accounts receivable, net	(1,512)	6,520	113
Income tax receivable	(2,846)	(2,498)	(3,699)
Other assets	(803)	421	317
Accounts payable	4,504	2,179	(2,501)
Accrued expenses and other liabilities	(16,963)	(5,987)	3,448
Net cash provided by operating activities	123,215	129,504	116,142
Cash flows from investing activities:			
Business acquisition, net of cash acquired	(385,346)		
Purchases of property, plant and equipment, net	(77,095)	(41,913)	(42,917)
Purchase of investments	(6,728)		
Proceeds from sale of assets	924	840	1,065
Other	(314)	272	35
Net cash used for investing activities	(468,559)	(40,801)	(41,817)
Cash flows from financing activities:			
Proceeds on bond offering	298,035		
Proceeds from issuance of long-term debt	544,850		
Payment of capital lease obligation	(228)	(149)	(399)
Payment on long-term debt	(510,038)		
Payment of financing costs	(18,616)	(3,471)	
Distributions to noncontrolling interest	(1,850)		(1,850)
Repurchase and retirement of common stock	(559)	(726)	(1,001)
Dividends on common stock	(54,100)	(46,307)	(46,179)
Net cash provided by (used in) financing activities	257,494	(50,653)	(49,429)
(Decrease)/increase in cash and cash equivalents	(87,850)	38,050	24,896
Cash and cash equivalents at beginning of period	105,704	67,654	42,758
Cash and cash equivalents at end of period	$ 17,854	$ 105,704	$ 67,654

See accompanying notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

1. BUSINESS DESCRIPTION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Basis of Accounting

Consolidated Communications Holdings, Inc. (the Company , we or our) is a holding company with operating subsidiaries (collectively Consolidated) that provide communications services to residential and business customers in Illinois, Texas, Pennsylvania, California, Kansas and Missouri. We classify our operations into two reportable segments: Telephone Operations and Other Operations.

Our Telephone Operations segment primarily consists of the delivery of a wide range of telecommunications services to residential and business customers. Our telecommunications services include local and long-distance service, high-speed broadband Internet access, video services, digital telephone service (VOIP), custom calling features, private line services, carrier grade access services, network capacity services over our regional fiber optic networks, directory publishing and Competitive Local Exchange Carrier (CLEC) services. As of December 31, 2012, we had approximately 269 thousand access lines, 130 thousand voice connections, 248 thousand data and Internet connections and 106 thousand video connections.

Our Other Operations segment consists primarily of two non-core businesses, including telephone services to correctional facilities (prison services) and equipment sales. See the Recent Business Developments section below for information regarding our prison services business.

We completed the acquisition of SureWest Communications on July 2, 2012. SureWest Communications results of operations are included within our results following the acquisition date. For a more complete discussion of the transaction, refer to Note 3.

Use of Estimates

Preparation of the financial statements in conformity with accounting principles generally accepted in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from those estimates. Our critical accounting estimates include (i) impairment evaluations associated with indefinite-lived intangible assets (Note 1), (ii) revenue recognition (Note 1), (iii) derivatives (Notes 1 and 7), (iv) the determination of deferred tax asset and liability balances (Notes 1 and 10), (v) pension plan and other post-retirement costs and obligations (Notes 1 and 9) and (vi) accounting for the SureWest acquisition (Note 3). Events subsequent to the balance sheet date have been evaluated for inclusion in the accompanying consolidated financial statements through the date of issuance.

Principles of Consolidation

Our consolidated financial statements include the accounts of the Company and our wholly-owned subsidiaries and subsidiaries in which we have a controlling financial interest. All significant intercompany transactions have been eliminated.

Recent Business Developments

We currently provide telephone service to inmates incarcerated at facilities operated by the Illinois Department of Corrections. On June 27, 2012, the Illinois Department of Central Management Services announced its intent to replace us as the provider of those services with a competitor. We have challenged our competitors bid and the State s decision to accept that bid in a variety of different forums. Although we will continue to seek legal recourse to the State s decision, our business plans and projections assume that our contract with the State of Illinois will end during 2013. All related assets have been assessed for recoverability in light of this change. During 2012, the prison services contract comprised 82% of the operating revenues in our Other Operations segment, 5% of consolidated operating revenues and approximately 2% of consolidated operating income, excluding financing and other transaction fees.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Our cash equivalents consist primarily of money market funds. The carrying amounts of our cash equivalents approximate their fair value.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses, which result from the inability of our customers to make required payments. Such allowance is based on the likelihood of recoverability of accounts receivable based on past experience and management s best estimates of current bad debt exposures. We perform ongoing credit evaluations of our customers financial condition and management believes that adequate allowances for doubtful accounts have been provided. Accounts are determined to be past due if customer payments have not been received in accordance with the payment terms. Uncollectible accounts are charged against the allowance for doubtful accounts and removed from the accounts receivable balances when internal collection efforts have been unsuccessful in collecting the amount due. The following table summarizes the activity in our accounts receivable allowance account for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,		
(In thousands)	**2012**	**2011**	**2010**
Balance at beginning of year	$ 2,547	$ 2,694	$ 1,796
Provision charged to expense	5,615	4,104	5,963
Write-offs, less recoveries	(4,137)	(4,251)	(5,065)
Balance at end of year	$ 4,025	$ 2,547	$ 2,694

Investments

If we have the ability to exercise significant influence over the operations and financial policies of an affiliated company, the investment in the affiliated company is accounted for using the equity method. If we do not have control and also cannot exercise significant influence, the investment in the affiliated company is accounted for using the cost method.

We review our investment portfolio each reporting period to determine whether there are identified events or circumstances that would indicate there is a decline in the fair value that is considered to be other than temporary. If we believe the decline is other than temporary, we evaluate the financial performance of the business and compare the carrying value of the investment to quoted market prices (if available) or the fair value of similar investments. In certain circumstances, fair value is based on traditional valuation models utilizing a multiple of cash flows. If an investment is deemed to have experienced an impairment, we reduce the carrying amount of the investment to its quoted or estimated fair value, as applicable, and establish a new cost basis for the investment. For cost method investments, we record the impairment to investment income (loss), net. For our equity method investments, we record the impairment to other income (expense).

Fair Value of Financial Instruments

We account for certain assets and liabilities at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A financial asset or liability s classification within a three-tiered value hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The hierarchy prioritizes the inputs to valuation techniques into three broad levels in order to maximize the use of observable inputs and minimize the use of unobservable inputs. The levels of the fair value hierarchy are as follows:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs that reflect quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets and inputs other than quoted prices that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs which are supported by little or no market activity.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. We capitalize additions and substantial improvements and expense repairs and maintenance costs as incurred.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

We capitalize the cost of internal-use network and non-network software which has a useful life in excess of one year. Subsequent additions, modifications or upgrades to internal-use network and non-network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of internal-use network and non-network software.

Property, plant and equipment consisted of the following as of December 31, 2012 and 2011:

(In thousands)	**December 31, 2012**	**December 31, 2011**	**Estimated Useful Lives**
Land and buildings	$ 94,929	$ 66,704	18-40 years
Network and outside plant facilities	1,469,418	897,140	3-50 years
Furniture, fixtures and equipment	95,710	73,185	3-15 years
Assets under capital lease	10,375	10,014	11 years
Total plant in service	1,670,432	1,047,043	
Less: accumulated depreciation and amortization	(785,502)	(721,527)	
Plant in service	884,930	325,516	
Construction in progress	12,922	6,530	
Construction inventory	10,384	6,380	
Totals	$ 908,236	$ 338,426	

Construction inventory, which is stated at weighted average cost, consists primarily of network construction materials and supplies that when issued are predominately capitalized as part of new customer installations and the construction of the network.

We record depreciation using the straight line method over estimated useful lives using either the group or unit method. The useful lives are estimated at the time the assets are acquired and are based on historical experience with similar assets, anticipated technological changes and the expected impact of our strategic operating plan on our network infrastructure. The group method is used for depreciable assets dedicated to providing regulated telecommunication services, including the majority of the network and outside plant facilities. A depreciation rate for each asset group is developed based on the average useful life of the group. The group method requires periodic revision of depreciation rates. When an individual asset is sold or retired, the difference between the proceeds, if any, and the cost of the asset is charged or credited to accumulated depreciation, without recognition of a gain or loss.

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

Depreciation and amortization expense was $98.6 million, $66.6 million and $65.0 million in 2012, 2011 and 2010, respectively. Amortization of assets under capital leases is included in depreciation and amortization expense.

We evaluate the recoverability of our property, plant and equipment whenever events or substantive changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If the total of the expected future undiscounted cash flows were less than the carrying amount of the asset group, we would recognize an impairment charge for the difference between the estimated fair value and the carrying value of the asset group.

Intangible Assets

Indefinite-Lived Intangibles

Goodwill and tradenames are evaluated for impairment annually or more frequently when events or changes in circumstances indicate that the asset might be impaired. We evaluate the carrying value of our indefinite-lived assets, tradenames and goodwill, as of November 30 of each year.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

Tradenames

Our most valuable tradename is the federally registered mark CONSOLIDATED, which is used in association with our telephone communication services and is a design of interlocking circles. The Company s corporate branding strategy leverages a CONSOLIDATED naming structure. With the acquisition of SureWest on July 2, 2012, we also own the tradenames associated with SureWest. All of the Company s business units and several of our products and services incorporate the CONSOLIDATED name, except for the SureWest business units. We do not amortize our tradenames, as we have determined that they have an indefinite life. If facts and circumstances change relating to a tradenames continued use in the branding of our products and services, it may be treated as a finite-lived asset and begin to be amortized over its estimated remaining life. We estimate the fair value of our tradenames using discounted cash flows (DCF) based on a relief from royalty method. If the fair value of our tradenames was less than the carrying amount, we would recognize an impairment charge for the difference between the estimated fair value and the carrying value of the assets. We perform our impairment testing of our tradenames as single units of accounting based on their use in the reporting units, Telephone Operations reporting unit (TORU), Prison Services and Business Systems.

The carrying value of the TORU tradenames was $11.5 million and $10.6 million at December 31, 2012 and 2011, respectively. For the years ended December 31, 2012 and 2011, we completed our annual impairment test using a DCF methodology based on a relief from royalty method and determined that there was no impairment of our tradenames included in the TORU.

The tradenames associated with the Prison Services and Business Systems reporting units included in the Other Operations segment had a carrying value of $1.8 million as of December 31, 2011. We performed our annual impairment test of the tradenames associated with the Prison Services and Business Systems as of November 30, 2012 using a DCF based on a relief from royalty method. The DCF models were negatively impacted by the cancellation of the state of Illinois Prison Services contract, which is expected to be fully terminated during the year ending December 31, 2013 and forecasted break-even operating results of Business Systems. Based on the relief from royalty method we determined that the carrying value the tradenames associated with the Prison Services and Business Systems exceeded the estimated fair value and were impaired. During the quarter ended December 31, 2012, we recorded an impairment charge of $1.8 million to write off the tradenames associated with the Prison Services and Business Systems reporting units included in the Other Operations segment.

Goodwill

Goodwill is the excess of the acquisition cost of a business over the fair value of the identifiable net assets acquired. As noted above, goodwill is not amortized but instead evaluated annually for impairment using a preliminary qualitative assessment and two-step process, if deemed necessary. In 2012, we adopted an Accounting Standards Update No. 2011-08 *Intangibles-Goodwill and Other (Topic 350) Testing Goodwill for Impairment*, that allows an entity to consider qualitative indicators to determine if the current two-step test is necessary. Under the provisions of the amended guidance, the step-one test of a reporting unit s fair value is not required unless, as a result of the qualitative assessment, it is more likely than not (a likelihood of more than 50%) that fair value of the reporting unit is less than its carrying amount. Events and circumstances integrated into the qualitative assessment process include a combination of macroeconomic conditions affecting equity and credit markets, significant changes to the cost structure, overall financial performance and other relevant events affecting the reporting unit. A company is permitted to skip the qualitative assessment at its election, and proceed to Step 1 of the quantitative test, which we chose to do in 2012. In the first step of the impairment test, the fair value of each of our two reporting units is compared to its carrying amount, including

goodwill.

The estimated fair value of the reporting unit is determined using a combination of market-based approaches and a DCF model. The assumptions used in the estimate of fair value are based upon a combination of historical results and trends, new industry developments and future cash flow projections, as well as relevant comparable company earnings multiples for the market-based approaches. Such assumptions are subject to change as a result of changing economic and competitive conditions. We use a weighting of the results derived from the valuation approaches to estimate the fair value of the TORU. We used a DCF model to estimate the fair value of the Prison Services and Business Systems reporting units. The fair value of the TORU exceeded the carrying value at December 31, 2012. For the Prison Services and Business Systems reporting units, the carrying values exceeded the fair value indicating a potential impairment existed.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

If the carrying value of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss. In measuring the fair value of our reporting units as previously described, we consider the combined carrying and fair values of our reporting units in relation to our overall enterprise value, measured as the publicly traded stock price multiplied by the fully diluted shares outstanding plus the value of outstanding debt. Our reporting unit fair value models are consistent with a range in value indicated by both the preceding three month average stock price and the stock price on the valuation date, plus an estimated acquisition premium which is based on observable transactions of comparable companies, if applicable.

The second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The implied fair value is determined by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill in a manner similar to a purchase price allocation. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the carrying amount of goodwill is greater than the implied fair value of that goodwill, then an impairment charge would be recorded equal to the difference between the implied fair value and the carrying value. We determined that the based on the allocation of the fair value of the reporting unit to assets and liabilities in second step of the impairment testing that the goodwill recorded at the Prison Services and Business Systems reporting units included in the Other Operations segment were impaired and recorded an impairment charge of $1.0 million during the quarter ended December 31, 2012.

The following table summarizes the carrying amount of goodwill recorded for the Telephone Operations and Other Operations segments at December 31, 2012 and 2011:

(In thousands)	**2012**	**2011**
Telephone operations	$ 604,988	$ 519,542
Other operations		1,020
Total	$ 604,988	$ 520,562

Finite-Lived Intangible Assets

Customer Lists

Finite lived intangible assets subject to amortization consist primarily of our customer lists of an established base of customers that subscribe to our services. Customer lists are amortized on a straight-line basis over their estimated useful lives (ranging from 3 to 13 years) based upon our historical experience with customer attrition. In accordance with the applicable guidance relating to the impairment or disposal of long-lived assets, we evaluate the potential impairment of finite-lived intangible assets when impairment indicators exist. If the carrying value is no longer recoverable based upon the undiscounted future cash flows of the asset, an impairment equal to the difference between the carrying amount and the fair value of the asset is recognized. In 2012, we removed the fully amortized customer list balances of $0.2 million and $4.4 million included in the Telephone Operations and Other Operations, respectively.

The following is the carrying amount of customer lists at December 31, 2012 and 2011:

	Telephone Operations		**Other Operations**	
(In thousands)	**2012**	**2011**	**2012**	**2011**
Gross carrying amount	$ 195,651	$ 193,124		$ 4,405
Less: accumulated amortization	(157,579)	(135,754)		(3,964)
Net carrying amount	$ 38,072	$ 57,370	$ -	$ 441

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

Amortization expense for the years ended December 31, 2012, 2011 and 2010 was $22.4 million and $22.1 million and $22.1 million, respectively. The weighted-average remaining period over which customer lists are being amortized is 2.63 years. Expected amortization expense for the years 2013 through 2017 is as follows:

(In thousands)		
2013	$	8,921
2014		8,921
2015		8,848
2016		8,776
2017		2,606
Total	$	38,072

Derivative Financial Instruments

We use derivative financial instruments to manage our exposure to the risks associated with fluctuations in interest rates. Our interest rate swap agreements effectively convert a portion of our floating-rate debt to a fixed-rate basis, thereby reducing the impact of interest rate changes on future cash interest payments. At the inception of a hedge transaction, we formally document the relationship between the hedging instruments including our objective and strategy for establishing the hedge. In addition, the effectiveness of the derivative instrument is assessed at inception and on an ongoing basis throughout the hedging period. Counterparties to derivative instruments expose us to credit-related losses in the event of nonperformance. We execute agreements only with financial institutions we believe to be creditworthy and regularly assess the credit worthiness of each of the counterparties. We do not use derivative instruments for trading or speculative purposes.

Derivative financial instruments are recorded at fair value in our consolidated balance sheet. Certain of our interest rate swaps are designated as cash flow hedges of our expected future interest payments. Fair value is determined based on publicly available interest rate yield curves and an estimate of our nonperformance risk or our counterparty s nonperformance credit risk, as applicable. We do not anticipate any nonperformance by any counterparty.

For derivative instruments designated as a cash flow hedges, the effective portion of the change in the fair value is recognized as a component of accumulated other comprehensive income (loss) (AOCI) and is recognized as an adjustment to earnings over the period in which the hedged item impacts earnings. When an interest rate swap agreement terminates, any resulting gain or loss is recognized over the shorter of the remaining original term of the hedging instrument or the remaining life of the underlying debt obligation. The ineffective portion of the change in fair value of any hedging derivative is recognized immediately in earnings. If a derivative instrument is de-designated, the remaining gain or loss in AOCI on the date of de-designation is amortized to earnings over the remaining term of the hedging instrument. For derivative financial instruments that are not designated as a hedge, changes in fair value are recognized on a current basis in earnings. Cash flows from hedging activities are classified under the same category as the cash flows from the hedged items in our consolidated statement of cash flows. See Note 7 for further discussion of our derivative financial instruments.

Share-based Compensation

Our share-based compensation consists of the issuance of restricted stock awards (RSAs) and performance share awards (PSAs) (collectively stock awards). Associated costs are based on a stock award s estimated fair value at the date of the grant and are recognized over a period in which any related services are provided. We recognize the cost of RSAs and PSAs on a straight-line basis over the requisite service period, generally from immediate vest to a four-year vesting period. See Note 8 for further details regarding share-based compensation.

Pension Plan and Other Post-Retirement Benefits

We maintain noncontributory defined benefit pension plans and provide certain post-retirement benefits other than pensions to certain eligible employees. We also maintain unfunded supplemental retirement plans to provide incremental pension payments to certain former employees.

We recognize pension expense during the current period in the consolidated income statement using certain assumptions, including the expected long-term rate of return on plan assets, interest cost implied by the discount rate

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

and the amortization of unrecognized gains and losses. Refer to Note 9 for further details regarding the determination of these assumptions.

We recognize the overfunded or underfunded status of our defined benefit pension and post-retirement plans as either an asset or liability in the consolidated balance sheet. We recognize changes in the funded status in the year in which the changes occur through comprehensive income, net of applicable income taxes, including unrecognized actuarial gains and losses and prior service costs and credits.

Income Taxes

We base our provision for income taxes on our current period income, changes in our deferred income tax assets and liabilities, income tax rates, changes in estimates of our uncertain tax positions and tax planning opportunities available in the jurisdictions in which we operate. We recognize deferred tax assets and liabilities when there are temporary differences between the financial reporting basis and tax basis of our assets and liabilities and for the expected benefits of using net operating loss and tax credit loss carryforwards. When a change in the tax rate or tax law has an impact on deferred taxes, we apply the change based on the years in which the temporary differences are expected to reverse. As we operate in more than one state, changes in our state apportionment factors, based on operational results, may affect our future effective tax rates and the value of our deferred tax assets and liabilities. We record a change in tax rates in our consolidated financial statements in the period of enactment.

Income tax consequences that arise in connection with a business combination include identifying the tax basis of assets and liabilities acquired and any contingencies associated with uncertain tax positions assumed or resulting from the business combination. Deferred tax assets and liabilities related to temporary differences of an acquired entity are recorded as of the date of the business combination and are based on our estimate of the ultimate tax basis that will be accepted by the various taxing authorities.

We classify interest and penalties, if any, associated with our uncertain tax positions as a component of interest expense and general and administrative expense, respectively. See Note 10 for additional information on income taxes.

Revenue Recognition

We recognize revenue when (i) persuasive evidence of an arrangement exists between us and the customer, (ii) delivery of the product to the customer has occurred or service has been provided to the customer, (iii) the price to the customer is fixed or determinable and (iv) collectability of the sales price is reasonably assured. Revenues based on a flat fee, derived principally from local telephone, dedicated network access, data communications, Internet access service and residential/business broadband service are billed in advance and recognized in subsequent periods when the services are provided. Revenues for usage-based services, such as per-minute long-distance service and access charges billed to other telephone carriers for originating and terminating long-distance calls on our network, are billed in arrears. We recognize revenue from these

services in the period the services are rendered rather than billed. Earned but unbilled usage-based services are recorded in accounts receivable.

When required as part of providing service, revenues related to nonrefundable, upfront service activation and setup fees are deferred and recognized over the estimated customer life.

Incremental direct costs of telecommunications service activation are charged to expense in the period in which they are incurred, except when we maintain ownership of wiring installed during the activation process. In such cases the cost is capitalized and charged to expense over the estimated useful life of the asset.

Telephone equipment revenues generated from retail channels are recorded at the point of sale. Telecommunications systems and structured cabling project revenues are recognized when the project is completed. Maintenance services are provided on both a contract and time and material basis and are recorded when the service is provided. Print advertising and publishing revenues are recognized ratably over the life of the related directory, generally 12 months.

Subsidies, including universal service revenues, are government-sponsored support mechanisms to assist in funding services in mostly rural, high-cost areas. These revenues typically are based on information we provide and are calculated by the administering government agency. Subsidies are recognized in the period the service is provided. There is a reasonable possibility that out of period subsidy adjustments may be recorded in the future, but they are anticipated to be immaterial to our results of operation, financial position and cash flow.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

We collect and remit Federal Universal Service contributions on a gross basis, which resulted in recorded revenue of $11.0 million for the year ended December 31, 2012. We account for all other taxes collected from customers and remitted to the respective government agencies on a net basis.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was $5.1 million, $2.4 million and $2.5 million in 2012, 2011 and 2010 respectively.

Statement of Cash Flows Information

During 2012, 2011 and 2010, we made payments for interest and income taxes as follows:

(In thousands)	**2012**	**2011**	**2010**
Interest, net of amounts capitalized ($515, $144 and $173 in 2012, 2011 and 2010, respectively)	$ 63,541	$ 47,071	$ 50,032
Income taxes paid, net	$ 4,991	$ 8,788	$ 18,706

Noncash investing and financing activities:

As described in Note 3, we issued $148.4 million in shares of the Company s common stock in connection with the acquisition of SureWest in 2012.

In 2012, we acquired equipment of $0.4 million through a capital lease agreement.

Noncontrolling Interest

We have a majority-owned subsidiary, East Texas Fiber Line Incorporated (ETFL) which is a joint venture owned 63% by the Company and 37% by Eastex Telecom Investments, LLC. ETFL provides connectivity over a fiber optic transport network to certain customers residing in Texas.

Recent Accounting Pronouncements

In July 2012, Financial Accounting Standards Board (FASB) issued the Accounting Standards Update No. 2012-02 (ASU 2012-02), *Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 permits an entity to perform an initial assessment of qualitative factors to determine whether it is more likely than not that a non-goodwill indefinite-lived intangible asset is impaired and thus whether it is necessary to calculate the asset s fair value for the purpose of comparing it with the asset s carrying amount. The amended guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We are currently evaluating the impact this update will have on our condensed consolidated financial statements.

Effective January 1, 2012, we adopted Accounting Standards Update No. 2011-04 (ASU 2011-04), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS).* This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The adoption of this standard did not have a material impact on our consolidated financial statements.

Effective January 1, 2012, we adopted Accounting Standards Update No. 2011-05 (ASU 2011-05), *Presentation of Comprehensive Income*. ASU 2011-05 requires an entity to either present components of net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. Accordingly, we have presented net income and other comprehensive income in two consecutive statements.

Effective January 1, 2012, we adopted Accounting Standards Update No. 2011-08 (ASU 2011-08), *Intangibles-Goodwill and Other (Topic 350) Testing Goodwill for Impairment*. ASU 2011-08 provides entities an option to perform a qualitative assessment to determine whether further impairment testing on goodwill is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. Our adoption of this guidance did not impact our consolidated financial position or results of operations. For a more detailed discussion of the effects of applying the provisions of this guidance, refer to the Intangible Assets-Goodwill section above in Note 1.

Reclassifications

Certain amounts in our 2011 and 2010 consolidated financial statements have been reclassified to conform to the presentation of our 2012 consolidated financial statements. Inventories and the related activity have been

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reclassified from current assets to property, plant and equipment on the consolidated balance sheets and statements of cash flows. Inventories consist primarily of network construction materials and supplies that when issued are capitalized as part of new customer installations and the construction of the network. The proportion of the items included in inventories that are capitalized to property, plant and equipment continues to increase as a result of the growth in the broadband services offered by the Company.

2. EARNINGS PER SHARE

We compute net income per share using the two-class method. The two-class method is an earnings allocation formula that determines income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income attributable to our shareholders is computed using the weighted-average number of common shares and the effect of potentially dilutive securities outstanding during the period. Potentially dilutive shares consist of restricted shares, and shares subject to repurchase and cancellation.

The computation of basic and diluted earnings per share attributable to common shareholders is as follows:

(In thousands, except per share amounts)	**2012**	**2011**	**2010**
Basic and Diluted Earnings Per Share using Two-class Method:			
Net income	$ 6,171	$ 26,982	$ 33,152
Less: net income attributable to noncontrolling interest	531	572	557
Net income attributable to common shareholders before allocation of earnings to participating securities	5,640	26,410	32,595
Less: earnings allocated to participating securities	351	429	439
Net income attributable to common shareholders	$ 5,289	$ 25,981	$ 32,156
Weighted-average number of common shares outstanding	34,652	29,600	29,490
Net income per common share attributable to common shareholders - basic and diluted	$ 0.15	$ 0.88	$ 1.09

An additional 0.3 million shares were not included in the computation of potentially dilutive securities at December 31, 2012, 2011 and 2010, because they were anti-dilutive.

3. MERGER WITH SUREWEST COMMUNICATIONS

On July 2, 2012, we completed the merger with SureWest Communications (SureWest), which resulted in the acquisition of 100% of all the outstanding shares of SureWest for $23.00 per share in a cash and stock transaction. SureWest provides telecommunication services in Northern California, primarily in the greater Sacramento region, and in the greater Kansas City, Kansas and Missouri areas. The total purchase price of $550.8 million consisted of cash and assumed debt of $402.4 million and 9,965,983 shares of the Company s common stock valued at the Company s opening stock price on July 2, 2012 of $14.89, which totaled $148.4 million. We acquired SureWest to provide additional diversification of our revenues and cash flows.

Subsequent to the merger, the financial results of SureWest operations have been included in our consolidated statement of operations within the Telephone Operations segment. SureWest contributed $133.1 million in net revenues and recorded net income of $2.5 million for the period of July 2, 2012 through December 31, 2012, which includes $9.5 million in acquisition related costs. As of December 31, 2012, we recognized change-in-control payments to former members of the SureWest management team of $8.6 million, which is expected to be paid during the six months ended June 30, 2013. These payments were recognized in financing and other transaction costs in the consolidated statement of operations during the year ended December 31, 2012 due to the close of the acquisition and the change or elimination of job duties.

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The acquisition of SureWest has been accounted for using the acquisition method in accordance with the FASB s Accounting Standards Codification Topic 805, *Business Combinations*. Accordingly, the net assets acquired are recorded at their estimated fair values at July 2, 2012. These values are derived from a preliminary purchase price allocation, which is subject to change based on the completed tax analysis. The Company expects to complete the tax analysis by June 30, 2013, which may impact the fair values of the net assets acquired at the acquisition date during the measurement period.

The following table summarizes the preliminary purchase price allocation:

	(In thousands)	
Current assets	$	46,872
Property, plant and equipment		591,818
Goodwill		85,559
Other intangible assets		3,600
Other long-term assets		4,860
Total assets acquired		732,709
Current liabilities		53,566
Pension and other post-retirement obligations		55,916
Deferred income taxes		68,317
Other long-term liabilities		4,114
Total liabilities assumed		181,913
Net assets acquired	$	550,796

The acquired current assets include cash of $17.1 million and trade receivables with a fair value of approximately $21.6 million and a gross value of approximately $23.4 million. We believe that the estimated fair value of the trade receivables approximates the amount to be eventually collected. The acquired other intangible assets of approximately $3.6 million consists of the estimated fair values assigned to customer lists of $2.7 million and tradenames of $0.9 million. The customer list intangible asset is being amortized over the estimated useful life of 3 or 5 years, depending on customer type. During the period ending December 31, 2012, we recorded amortization expense of approximately $0.3 million relating to the customer lists. Goodwill of $85.6 million and the tradenames of $0.9 million are indefinite-lived assets which are not subject to amortization; however, they are tested annually for impairment or more frequently when events or changes in circumstances indicate that the asset might be impaired. We evaluate our goodwill for impairment annually as of November 30, as described in Note 1 above. Goodwill recognized from the acquisition primarily relates to the expected contributions of the entity to the overall corporate strategy in addition to synergies and acquired workforce, which are not separable from goodwill. Goodwill is not deductible for income tax purposes.

During the quarter ended December 31, 2012, the Company adjusted its preliminary purchase price allocation due to the finalization of amounts recorded based on estimates and the reclassification of $2.2 million previously included in other long term liabilities to current liabilities. We also updated our valuation of the real and personal property and intangible assets, which resulted in an increase to property, plant and equipment of $40.5 million, a decrease to other intangible assets relating to customer lists of $6.9 million and an increase to deferred tax liabilities of $10.0 million due to the increase in value assigned to the property, plant and equipment. Goodwill was reduced by $23.8 million due to the changes in valuation of assets and liabilities. These adjustments to the preliminary purchase price allocation have been recorded retrospectively as of the acquisition date.

Unaudited Pro Forma Results

The following unaudited pro forma information presents our results of operations as if the acquisition of SureWest occurred on January 1, 2011. The adjustments to arrive at the pro forma information below included additional depreciation and amortization expense for the fair value increases to property plant and equipment, software and customer relationships. Interest expense was increased to reflect the additional debt entered into to finance a portion of the acquisition price. Shares used to calculate the basic and diluted earnings per share were adjusted to reflect the additional shares of common stock issued to fund a portion of the acquisition price. The pro forma information below does not purport to present the actual results that would have resulted if the acquisition had in fact occurred at

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the beginning of the fiscal periods presented, nor does the information project results for any future period.

(Unaudited; in thousands, except share amounts)	**Year Ended December 31, 2012**	**2011**
Operating revenues	$ 631,359	$ 623,590
Income from operations	$ 71,862	$ 70,411
Net income	$ 10,465	$ 9,969
Less: income attributable to noncontrolling interest	531	572
Net income attributable to common stockholders	$ 9,934	$ 9,397
Basic and diluted earnings per common share:		
Net income	$ 0.29	$ 0.24

4. INVESTMENTS

Our investments are as follows:

(In thousands)	**2012**	**2011**
Cash surrender value of life insurance policies	$ 2,045	$ 1,978
Cost method investments:		
GTE Mobilnet of South Texas Limited Partnership (2.34% interest)	21,450	21,450
Pittsburgh SMSA Limited Partnership (3.60% interest)	22,950	22,950
CoBank, ACB Stock	5,023	3,394
Other	430	15
Equity method investments:		
GTE Mobilnet of Texas RSA #17 Limited Partnership (20.51% interest)	25,695	19,422
Pennsylvania RSA 6(I) Limited Partnership (16.6725% interest)	7,286	7,063
Pennsylvania RSA 6(II) Limited Partnership (23.67% interest)	23,338	21,797
CVIN, LLC (13.61% interest)	1,533	
Totals	$ 109,750	$ 98,069

Cost Method

We own 2.34% of GTE Mobilnet of South Texas Limited Partnership (the Mobilnet South Partnership). The principal activity of the Mobilnet South Partnership is providing cellular service in the Houston, Galveston, and Beaumont, Texas metropolitan areas. We also own 3.60% of Pittsburgh SMSA Limited Partnership (Pittsburgh SMSA), which provides cellular service in and around the Pittsburgh metropolitan area. Because of our limited influence over these partnerships, we use the cost method to account for both of these investments. It is not practicable to estimate fair value of these investments. We did not evaluate any of the investments for impairment as no factors indicating impairment existed

during the year. In 2012, 2011 and 2010, we received cash distributions from these partnerships totaling $14.1 million, $11.1 million and $11.7 million, respectively.

CoBank, ACB (CoBank) is a cooperative bank owned by its customers. Annually, CoBank distributes patronage in the form of cash and stock in the cooperative based on the Company s outstanding loan balance with CoBank, which has traditionally been a significant lender in the Company s credit facility. The investment in CoBank represents the accumulation of the equity patronage paid by CoBank to the Company.

Equity Method

We own 20.51% of GTE Mobilnet of Texas RSA #17 Limited Partnership (RSA #17), 16.6725% of Pennsylvania RSA 6(I) Limited Partnership (RSA 6(I)) and 23.67% of Pennsylvania RSA 6(II) Limited Partnership (RSA 6(II)). RSA #17 provides cellular service to a limited rural area in Texas. In December 2012, we purchased additional ownership interest in RSA #17 for $6.7 million which increased our ownership from 17.02% to 20.51%. RSA 6(I) and RSA 6(II) provide cellular service in and around our Pennsylvania service territory. Because we have significant influence over the operating and financial policies of these three entities, we account for the investments using the equity method. In 2012, 2011 and 2010, we received cash distributions from these partnerships totaling $15.0 million, $17.2 million and $15.6 million, respectively. The carrying value of the investments exceeds the

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underlying equity in net assets of the partnerships by $33.0 million. In 2011, we disposed of our 50% ownership interest in Boulevard Communications, LLP, a competitive access provider in western Pennsylvania and recognized a loss of $22 thousand.

We have a 13.61% interest in Central Valley Independent Network, LLC (CVIN), a joint enterprise comprised of affiliates of several independent telephone companies located in central and northern California. CVIN provides network services and oversees a broadband infrastructure project designed to expand and improve the availability of network services to counties in central California. We did not receive any distributions from this partnership in 2012.

The combined unaudited results of operations and financial position of our three equity investments in the cellular limited partnerships are summarized below:

(In thousands)	**2012**	**2011**	**2010**
Total revenues	$ 299,389	$ 305,965	$ 258,249
Income from operations	83,577	84,803	77,830
Net income before taxes	83,633	84,844	79,473
Net income	83,283	84,483	78,973
Current assets	$ 49,982	$ 44,739	$ 48,802
Non-current assets	79,529	79,432	78,262
Current liabilities	15,417	14,523	12,916
Non-current liabilities	1,351	1,096	874
Partnership equity	112,734	108,552	113,293

5. FAIR VALUE MEASUREMENTS

Financial Instruments

The Company s derivative instruments related to interest rate swap agreements are required to be measured at fair value on a recurring basis. The fair values of the interest rate swaps are determined using an internal valuation model which relies on the expected London Interbank Offered Rate (LIBOR) based yield curve and estimates of counterparty and Consolidated s non-performance risk as the most significant inputs. Because each of these inputs are directly observable or can be corroborated by observable market data, we have categorized these interest rate swaps as Level 2 within the fair value hierarchy. See Note 7 for further discussion regarding our interest rate swap agreements.

Our interest rate swap liabilities measured at fair value on a recurring basis and subject to disclosure requirements at December 31, 2012 and 2011 were as follows:

	As of December 31, 2012			
(In thousands)	**Total**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Current interest rate swap liabilities	$ (3,164)		$ (3,164)	
Long-term interest rate swap liabilities	(3,919)		(3,919)	
Totals	$ (7,083)	$	$ (7,083)	$

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		As of December 31, 2011		
(In thousands)	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Current interest rate swap liabilities	$ (3,580)		$ (3,580)	
Long-term interest rate swap liabilities	(12,401)		(12,401)	
Totals	$ (15,981)	$	$ (15,981)	$

The change in the fair value of the derivatives is primarily a result of a change in market expectations for future interest rates.

We have not elected the fair value option for any of our financial assets or liabilities. The carrying value of other financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities or variable-rate nature of the respective balances. The following table presents the other financial instruments that are not carried at fair value but which require fair value disclosure as of December 31, 2012 and 2011.

	As of December 31, 2012		As of December 31, 2011	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments, equity basis	$ 57,852	n/a	$ 48,282	n/a
Investments, at cost	$ 49,853	n/a	$ 47,809	n/a
Long-term debt	$ 1,213,000	$ 1,231,355	$ 880,000	$ 880,000

Cost & Equity Method Investments

The Company s investments at December 31, 2012 and 2011 accounted for under both the equity and cost methods consists primarily of minority positions in various cellular telephone limited partnerships and our investment in CoBank. These investments are recorded using either the equity or cost methods. It is impracticable to determine fair value of these investments.

Long-term Debt

The fair value of our long-term debt was estimated using a discounted cash flow analyses based on incremental borrowing rates for similar types of borrowing arrangements. We have categorized the long-term debt as Level 2 within the fair value hierarchy.

6. LONG-TERM DEBT

Long-term debt, presented net of unamortized discounts, consisted of the following:

(In thousands)	**2012**	**2011**
Senior secured credit facility:		
Term loan 1	$ -	$ 470,948
Term loan 2	404,961	409,052
Term loan 3, net of discount of $5,088	509,912	
Senior notes, net of discount of $1,873	298,127	
Capital leases	4,844	4,711
	1,217,844	884,711
Less: current portion of long-term debt and capital leases	(9,596)	(8,992)
Total long-term debt	$ 1,208,248	$ 875,719

Credit Agreement

The Company, through certain of its wholly owned subsidiaries, has an outstanding credit agreement with several financial institutions, which consists of a $50.0 million revolving credit facility and outstanding term loans of $914.9 million at December 31, 2012. The credit facility also includes an incremental term loan facility which provides the

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ability to borrow up to $300.0 million of incremental term loans. As of December 31, 2012 and 2011, no amounts were outstanding under the revolving credit facility. Borrowings under the senior secured credit facility are secured by substantially all of the assets of the Company, with the exception of Illinois Consolidated Telephone Company and our majority-owned subsidiary, East Texas Fiber Line Incorporated.

Our term loans under the credit facility, as amended, were issued in three separate tranches, resulting in different maturity dates and interest rate margins for each term loan. Prior to being refinanced in December 2012, the first term loan (Term 1) consisted of an original aggregate principal amount of $470.9 million maturing on December 31, 2014 and had an applicable margin (at our election) equal to either 2.50% for a LIBOR-based term loan or 1.50% for an alternative base rate loan. The Term 1 loan required quarterly principal payments of $1.2 million which began on March 31, 2012. The second term loan (Term 2) consists of an original aggregate principal amount $409.1 million, matures on December 31, 2017 and currently has an applicable margin (at our election) equal to either 4.00% for a LIBOR-based term loan or 3.00% for an alternative base rate term loan. The Term 2 loan also requires $1.0 million in quarterly principal payments which began on March 31, 2012.

In December 2012, we entered into a Second Amendment and Incremental Facility Agreement (the Second Amendment) to amend our credit agreement. Under the terms of the Second Amendment, we issued incremental term loans (Term 3) in the aggregate amount of $515.0 million, with a maturity date of December 31, 2018, and used the proceeds in part to repay the outstanding Term 1 loan debt of $467.4 that was due to mature December 31, 2014 and to repay the outstanding revolving loan in the amount of $35.0 million. The Term 3 loan requires quarterly principal payments of $1.3 million commencing March 31, 2013 and has an applicable margin (at our election) equal to either 4.00% for a LIBOR-based term loan or 3.00% for an alternative base rate term loan subject to a 1.25% LIBOR floor. The Term 3 loan contains an original issuance discount of $5.2 million, which will be amortized over the term of the loan. In connection with entering into the Second Amendment, fees of $4.2 million were capitalized as deferred debt issuance costs. We also incurred a loss on the extinguishment of debt of $4.5 million related to the repayment of our outstanding Term 1 loan during the year ended December 31, 2012.

Our revolving credit facility has a maturity date of June 8, 2016 and an applicable margin (at our election) of between 2.75% and 3.50% for LIBOR-based borrowings and between 1.75% and 2.50% for alternative base rate borrowings, depending on our leverage ratio. Based on our leverage ratio at December 31, 2012, the borrowing margin for the next three month period ending March 31, 2013 will be at a weighted-average margin of 3.25% for a LIBOR-based loan or 2.25% for an alternative base rate loan. The applicable borrowing margin for the revolving credit facility is adjusted quarterly to reflect the leverage ratio from the prior quarter-end. During the year ended December 31, 2012, we borrowed $35.0 million of the revolving credit facility in connection with the acquisition of SureWest as described in Note 3. As described above, the outstanding balance of the revolving credit facility was repaid with the proceeds from the issuance of the incremental Term 3 loan in December 2012. There were no borrowings or letters of credit outstanding under the revolving credit facility as of December 31, 2012 and 2011.

The weighted-average interest rate on outstanding borrowings under our credit agreement was 4.79% and 3.38% at December 31, 2012 and 2011, respectively. Interest is payable at least quarterly.

Net proceeds from asset sales exceeding certain thresholds, to the extent not reinvested, are required to be used to repay loans outstanding under the credit agreement.

Covenant Compliance

The credit agreement contains various provisions and covenants, including, among other items, restrictions on the ability to pay dividends, incur additional indebtedness, and issue capital stock. We have agreed to maintain certain financial ratios, including interest coverage, and total net leverage ratios, all as defined in the credit agreement. As of December 31, 2012, we were in compliance with the credit agreement covenants.

Effective February 17, 2012, we amended our credit facility to provide us with the ability to incur indebtedness necessary to finance the acquisition of SureWest, which enabled us to issue the Senior Notes described below. In connection with the amendment, fees of $3.5 million were recognized as financing and other transaction costs during the quarter ended March 31, 2012.

In general, our credit agreement restricts our ability to pay dividends to the amount of our available cash (as defined in our credit agreement) accumulated after October 1, 2005, plus $23.7 million and minus the aggregate amount of

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dividends paid after July 27, 2005. Based on the results of operations from October 1, 2005 through December 31, 2012, and after taking into consideration dividend payments (including the $15.4 million dividend declared in November 2012 and paid on February 1, 2013), we continue to have $192.8 million in dividend availability under the credit facility covenant.

Under our credit agreement, if our total net leverage ratio (as defined in the credit agreement), as of the end of any fiscal quarter, is greater than 5.10:1.00, we will be required to suspend dividends on our common stock unless otherwise permitted by an exception for dividends that may be paid from the portion of proceeds of any sale of equity not used to fund acquisitions, or make other investments. During any dividend suspension period, we will be required to repay debt in an amount equal to 50.0% of any increase in Available Cash, among other things. In addition, we will not be permitted to pay dividends if an event of default under the credit agreement has occurred and is continuing. Among other things, it will be an event of default if our interest coverage ratio as of the end of any fiscal quarter is below 2.25:1.00. As of December 31, 2012, our total net leverage ratio was 4.34:1.00, and our interest coverage ratio was 3.77:1.00.

Senior Notes

On May 30, 2012, we completed an offering of $300.0 million aggregate principal amount of 10.875% unsecured Senior Notes, due 2020 through our wholly-owned subsidiary, Consolidated Communications Finance Co. (Finance Co.) for the acquisition of SureWest. The Senior Notes will mature on June 1, 2020 and earn interest at a rate of 10.875% per year, payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2012. The Senior Notes were sold in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933 (the Securities Act) and outside the Unites States in compliance with Regulation S under the Securities Act. In addition, some of the Senior Notes were sold to certain accredited investors (as defined in Rule 501 under the Securities Act). The Senior Notes were sold to investors at a price equal to 99.345% of the principal amount thereof, for a yield to maturity of 11.00%. This discount will be amortized over the term of the Senior Notes. The proceeds of the sale of the Senior Notes were held in an escrow account prior to the closing of the SureWest transaction. Upon closing of the SureWest acquisition on July 2, 2012, Finance Co. merged with and into our wholly-owned subsidiary Consolidated Communications, Inc., which assumed the Senior Notes, and we and certain of our subsidiaries fully and unconditionally guaranteed the Senior Notes. On August 3, 2012, SureWest and its subsidiaries guaranteed the Senior Notes. Deferred debt issuance costs of $7.8 million incurred in connection with the issuance of the Senior Notes will be amortized using the effective interest method over the term of the Senior Notes through June 2020. The indenture governing the Senior Notes contains customary covenants for high yield notes, which limits Consolidated Communications, Inc. s and its restricted subsidiaries ability to:

- incur debt or issue certain preferred stock;
- pay dividends or make other distributions on capital stock or prepay subordinated indebtedness;
- purchase or redeem any equity interests;

- make investments;
- create liens;
- sell assets;
- enter into agreements that restrict dividends or other payments by restricted subsidiaries;
- consolidate, merger or transfer all or substantially all of its assets;
- engage in transactions with its affiliates; or
- enter into any sale and leaseback transactions.

Bridge Loan Facility

In connection with the acquisition of SureWest, on February 5, 2012 the Company received committed financing for a total of $350.0 million to fund the cash portion of the anticipated transaction, to refinance SureWest s debt and to pay for certain transaction costs. The financing package included a $350.0 million Senior Unsecured Bridge Loan Facility (Bridge Facility). As anticipated, permanent financing for the SureWest acquisition was funded by our Senior Note offering, as described above. As a result, the $4.2 million commitment fee incurred for the Bridge Facility was capitalized as deferred debt issuance costs and was amortized over the expected life of the Bridge Facility, which was four months.

Future Maturities of Debt

At December 31, 2012, the aggregate maturities of our long-term debt excluding capital leases were as follows:

(In thousands)	
2013	$ 9,240
2014	9,240
2015	9,240
2016	9,240
2017	393,751

Thereafter	789,250
Total maturities	1,219,961
Less: Unamortized discount	(6,961)
	$ 1,213,000

As of December 31, 2012, we had five capital leases with maturities ranging from 2015 to 2021. See Note 11 regarding the future maturities of our obligations for capital leases.

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7. DERIVATIVE FINANCIAL INSTRUMENTS

The following interest rate swaps were outstanding at December 31, 2012:

(In thousands)		Notional Amount	2012 Balance Sheet Location		Fair Value
Cash Flow Hedges:					
Fixed to 1-month floating LIBOR	$	200,000	Other long-term liabilities	$	(2,758)
Fixed to 1-month floating LIBOR		100,000	Current portion of derivative liability		(1,069)
Forward starting fixed to 1-month floating LIBOR		75,000	Other long-term liabilities		(1,161)
De-designated Hedges:					
Fixed to 3-month floating LIBOR		130,000	Current portion of derivative liability		(1,300)
3-month floating LIBOR minus spread to 1-month floating LIBOR		130,000	Current portion of derivative liability		(16)
Fixed to 1-month floating LIBOR		200,000	Current portion of derivative liability		(779)
Total Fair Values				$	(7,083)

The following interest rate swaps, all designated as cash flow hedges, were outstanding at December 31, 2011:

(In thousands)		Notional Amount	2011 Balance Sheet Location		Fair Value
Cash Flow Hedges:					
Fixed to 3-month floating LIBOR	$	100,000	Current portion of derivative liability	$	(3,401)
Fixed to 3-month floating LIBOR		130,000	Other long-term liabilities		(6,053)
3-month floating LIBOR minus spread to 1-month floating LIBOR		100,000	Current portion of derivative liability		(179)
3-month floating LIBOR minus spread to 1-month floating LIBOR		130,000	Other long-term liabilities		(269)
Fixed to 1-month floating LIBOR		300,000	Other long-term liabilities		(5,343)
Forward starting fixed to 1- month floating LIBOR		200,000	Other long-term liabilities		(736)
Total Fair Values				$	(15,981)

At December 31, 2012 and 2011, the interest rate on approximately 69% and 60%, respectively, of our outstanding debt under the term loan credit facility was fixed through the use of interest rate swaps.

The counterparties to our various swaps are six major U.S. and European banks. None of the swap agreements provide for either us or the counterparties to post collateral nor do the agreements include any covenants related to the financial condition of Consolidated or the counterparties. The swaps of any counterparty that is a Lender as defined in our credit facility are secured along with the other creditors under the credit facility. Each of the swap agreements provides that in the event of a bankruptcy filing by either Consolidated or the counterparty, any amounts owed between the two parties would be offset in order to determine the net amount due between parties. This provision allows us to partially mitigate the risk of non-performance by a counterparty.

At December 31, 2012 and 2011, the pretax deferred losses related to our interest rate swap agreements included in AOCI totaled $7.9 million and $15.9 million, respectively. The change in fair value of any ineffective portion of the hedging derivative is recognized immediately in earnings.

On December 4, 2012, $660,000 million notional interest rate swaps designated as a cash flow hedge were de-designated in connection with the amendment to our credit agreement as described in Note 6. Prior to the de-designation, the effective portion of the change in fair value of these interest rate swaps were recognized in AOCI. The balance of the unrealized loss included in AOCI as of the date the swaps were de-designated is being amortized to earnings over the remaining term of the swap agreements. On December 31, 2012, $200,000 million notional interest rate swap agreements expired and the remainder will expire on March 31, 2013. Subsequent to December 4, 2012, changes in fair value of the de-designated swaps are recognized in earnings. During the year ended December 31, 2012, again of $2.8 million was recognized as a reduction to interest expense for the change in fair value of the de-designated swaps.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

Information regarding our cash flow hedge transactions is as follows:

(In thousands)	**2012**	**2011**	**2010**
(Gain)/loss recognized in AOCI, pretax	$ (6,041)	$ (10,781)	$ 815
Gain arising from ineffectiveness reducing interest expense	$ (47)	$ (93)	$ (146)
Deferred losses reclassed from AOCI to interest expense	$ 1,992	$ 1,250	$ 4,742

	December 31,	
(In thousands, except months)	**2012**	**2011**
Aggregate notional value of current derivatives outstanding	$ 630,000	$ 530,000
Aggregate notional value of forward derivatives outstanding	$ 75,000	$ 200,000
Period through which derivative positions currently exist	March 2016	June 2015
Fair value of derivatives	$ 7,083	$ 15,981
Deferred losses included in AOCI (pretax)	$ 7,899	$ 15,932
Losses included in AOCI to be recognized in the next 12 months	$ 2,912	$ 65
Number of months over which loss in OCI is to be recognized	3	15

8. EQUITY

Share-Based Compensation

Our Board of Directors may grant share-based awards from our shareholder approved Amended and Restated Consolidated Communications Holdings, Inc. 2005 Long-term Incentive Plan (the Plan). The Plan permits the issuance of awards in the form of stock options, stock appreciation rights, stock grants, stock unit grants and other equity-based awards to eligible directors and employees at the discretion of the Compensation Committee of the Board of Directors. Under the Plan, approximately 1,650,000 shares of our common stock are authorized for issuance, provided that no more than 300,000 shares may be granted in the form of stock options or stock appreciation rights to any eligible employee or director in any calendar year. Unless terminated sooner, the Plan will continue in effect until May 5, 2019.

We measure the fair value of time-based RSAs based on the market price of the underlying common stock as of the date of the grant. RSAs are amortized over their respective vesting periods, generally from immediate vest up to a four year vesting period using the straight line method.

We implemented an ongoing performance-based incentive program under the Plan. The performance-based incentive program provides for annual grants of PSAs. PSAs are restricted stock that is issued, to the extent earned, at the end of each performance cycle. Under the performance-based incentive program, each participant is given a target award expressed as a number of shares, with a payout opportunity ranging from 0% to 120% of the target, depending on performance relative to predetermined goals. In accordance with the applicable accounting guidance, an accounting estimate of the number of these shares that are expected to vest is made, and these shares are then expensed utilizing the grant-date fair value of the shares from the grant date through the end of the vesting period.

The following table summarizes the grants of RSAs and PSAs under the Plan during the years ended December 31, 2012, 2011 and 2010:

	Years Ended December 31,					
	2012	Grant Date Fair Value	2011	Grant Date Fair Value	2010	Grant Date Fair Value
RSAs Granted	14,732	$ 19.30	127,377	$ 17.92	115,949	$ 18.65
PSAs Granted	68,540	$ 19.30	50,440	$ 17.92	98,002	$ 18.65
Total	83,272		177,817		213,951	

The total fair value of the RSAs and PSAs that vested during the years ended December 31, 2012, 2011 and 2010 was $2.4 million, $1.6 million and $1.8 million, respectively.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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The following table summarizes the RSA and PSA activity during the year ended December 31, 2012:

	RSAs		PSAs	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value

Share-Based Compensation Expense

The following table summarizes total compensation costs recognized for share-based payments during the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,		
(In millions)	**2012**	**2011**	**2010**
Restricted stock	$ 1.3	$ 1.3	$ 1.4
Performance shares	1.0	0.8	1.0
Total	$ 2.3	$ 2.1	$ 2.4

Income tax benefits related to stock-based compensation of approximately $0.4 million, $0.8 million and $0.5 million was recorded for the years ended December 31, 2012, 2011 and 2010, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in the accompanying statements of operations.

As of December 31, 2012, total unrecognized compensation costs related to nonvested RSAs and PSAs was $2.1 million and will be recognized over a weighted-average period of approximately 0.68 years.

Accumulated Other Comprehensive Loss

As of December 31, 2012 and 2011, accumulated other comprehensive loss, net of tax, consisted of the following:

(In thousands)	**2012**	**2011**
Fair value of cash flow hedges	$ (7,899)	$ (15,932)
Pension and post-retirement obligations	(65,190)	(44,102)
	(73,089)	(60,034)
Deferred taxes	27,305	22,201
Totals	$ (45,784)	$ (37,833)

9. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

Defined Benefit Plans

We sponsor a qualified defined benefit pension plan (Retirement Plan) that is non-contributory covering certain of our hourly employees who fulfill minimum age and service requirements. Certain salaried employees are also covered by the Retirement Plan, although these benefits have previously been frozen. In connection with the acquisition of SureWest, we assumed sponsorship in 2012 of a frozen non-contributory defined benefit pension plan (the SureWest Plan). The SureWest Plan covers certain eligible employees and benefits are based on years of service and the employee s average compensation during the five highest consecutive years of the last ten years of credited service. This plan has previously been frozen so that no person is eligible to become a new participant and all future benefit accruals for existing participants have ceased.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

The Company also has two non-qualified supplemental retirement plans (Supplemental Plans): the Restoration Plan, which we acquired as part of our North Pittsburgh Systems, Inc. (North Pittsburgh) and TXU Communications Venture Company (TXUCV) acquisitions, and a Supplemental Executive Retirement Plan (SERP), which we acquired as part of our acquisition of SureWest. The Supplemental Plans provide supplemental retirement benefits to certain former employees by providing for incremental pension payments to partially offset the reduction that would have been payable under the qualified defined benefit pension plans if it were not for limitations imposed by federal income tax regulations. Both plans have previously been frozen so that no person is eligible to become a new participant in the Supplemental Plans. These plans are unfunded and have no assets. The benefits paid under the Supplemental Plans are paid from the general operating funds of the Company.

The following tables summarize the change in benefit obligation, plan assets and funded status of the Retirement Plan, SureWest Plan and Supplemental Plans (collectively the Pension Plans) as of December 31, 2012 and 2011.

(In thousands)		**2012**		**2011**
Change in benefit obligation				
Benefit obligation at the beginning of the year	$	203,413	$	194,101
Service cost		1,184		1,277
Interest cost		13,620		10,960
Actuarial loss		32,274		9,583
Benefits paid		(16,529)		(12,508)
Acquisition of SureWest Plans		146,688		
Plan change		(1,122)		
Benefit obligation at the end of the year	$	379,528	$	203,413

(In thousands)		**2012**		**2011**
Change in plan assets				
Fair value of plan assets at the beginning of the year	$	142,736	$	146,965
Employer contributions		15,222		9,503
Actual return (loss) on plan assets		27,935		(1,224)
Benefits paid		(16,529)		(12,508)
Acquisition of SureWest Plans		93,414		
Fair value of plan assets at the end of the year	$	262,778	$	142,736
Funded status at year end	$	(116,750)	$	(60,677)

Amounts recognized in the consolidated balance sheets at December 31, 2012 and 2011 consisted of:

(In thousands)		**2012**		**2011**
Current liabilities	$	(254)	$	(52)
Long-term liabilities	$	(116,496)	$	(60,624)

Amounts recognized in accumulated other comprehensive loss for the years ended December 31, 2012 and 2011 consisted of:

(In thousands)		**2012**		**2011**
Unamortized prior service credit	$	(2,523)	$	(1,683)
Unamortized net actuarial loss		67,104		50,556
	$	64,581	$	48,873

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

The following table summarizes the components of net periodic pension cost recognized in the consolidated statements of income for the plans for the years ended December 31, 2012, 2011 and 2010:

(In thousands)	2012	2011	2010
Service cost	$ 1,184	$ 1,277	$ 1,900
Interest cost	13,620	10,960	11,255
Expected return on plan assets	(14,728)	(10,893)	(10,178)
Amortization of:			
Net actuarial loss	2,518	786	875
Prior service credit	(282)	(166)	(43)
Net periodic pension cost	$ 2,312	$ 1,964	$ 3,809

The following table summarizes other changes in plan assets and benefit obligations recognized in other comprehensive loss, before tax effects, during 2012 and 2011.

(In thousands)	2012	2011
Actuarial loss, net	$ 19,066	$ 21,701
Recognized actuarial loss	(2,518)	(786)
Prior service credit	(1,122)	
Recognized prior service credit	282	166
Total amount recognized in other comprehensive loss, before tax effects	$ 15,708	$ 21,081

The estimated net loss and net prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss in net periodic benefit cost in 2013 are $3.6 million, and $(0.3) million, respectively.

The weighted-average assumptions used to determine the projected benefit obligations and net periodic benefit cost for the years ended December 31, 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Discount rate - net periodic benefit cost	5.00%	5.86%	6.23%
Discount rate - benefit obligation	4.20%	5.35%	5.86%
Expected long-term rate of return on plan assets	7.70%	7.50%	7.50%
Rate of compensation/salary increase	1.50%	3.06%	3.06%

Other Non-qualified Deferred Compensation Agreements

We also are liable for deferred compensation agreements with former members of the board of directors and certain other former employees of a subsidiary of TXUCV, which was acquired in 2004. The benefits are payable for up to the life of the participant and may begin as early as age 65 or upon the death of the participant. Participants accrue no new benefits as these plans had previously been frozen by TXUCV s predecessor company prior to our acquisition of TXUCV. Payments related to the deferred compensation agreements totaled approximately $0.6 million for the years ended December 31, 2012 and 2011, respectively. The net present value of the remaining obligations was approximately $2.2 million and $2.5 million at December 31, 2012 and 2011, respectively, and is included in pension and post-retirement benefit obligations in the accompanying balance sheets.

We also maintain 37 life insurance policies on certain of the participating former directors and employees. We recognized $0.4 million and $0.6 million in life insurance proceeds as other non-operating income in 2012 and 2011, respectively. The excess of the cash surrender value of the remaining life insurance policies over the notes payable balances related to these policies is determined by an independent consultant, and totaled $2.0 million at December 31, 2012 and 2011, respectively. These amounts are included in investments in the accompanying balance sheets. Cash principal payments for the policies and any proceeds from the policies are classified as operating activities in the statements of cash flows. The aggregate death benefit payment payable under these policies totaled $7.5 million and $7.8 million as of December 31, 2012 and 2011, respectively.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

Post-retirement Benefit Obligations

We sponsor a healthcare and life insurance plan (Post-retirement Plan) that provides post-retirement medical benefits and life insurance to certain groups of retired employees. Retirees share in the cost of healthcare benefits, making contributions that are adjusted periodically either based upon collective bargaining agreements or because total costs of the program have changed. Covered expenses for retiree health benefits are paid as they are incurred. Post-retirement life insurance benefits are fully insured. The Post-retirement Plan is unfunded and has no assets, and benefits are paid from the general operating funds of the Company.

In connection with the acquisition of SureWest, we acquired its post-retirement benefit plan which provides life insurance benefits and a stated reimbursement for Medicare supplemental insurance to certain eligible retired participants. This plan has previously been frozen so that no person is eligible to become a new participant. Employer contributions for retiree medical benefits are separately designated within the SureWest Plan pension trust for the sole purpose of providing payments of retiree medical benefits. The nature of the assets used to provide payment of retiree medical benefits is the same as that of the SureWest Plan.

The following tables summarize the change in benefit obligation, plan assets and funded status of the post-retirement benefit obligations as of December 31, 2012 and 2011.

(In thousands)		2012		2011
Change in benefit obligation				
Benefit obligation at the beginning of the year	$	33,184	$	33,476
Service cost		811		749
Interest cost		1,756		1,690
Plan participant contributions		614		480
Actuarial loss		5,282		911
Benefits paid		(4,011)		(4,122)
Acquisition		6,270		-
Benefit obligation at the end of the year	$	43,906	$	33,184

(In thousands)		2012		2011
Change in plan assets				
Fair value of plan assets at the beginning of the year	$		$	
Employer contributions		3,189		3,643
Plan participant s contributions		614		479
Actual return on plan assets		197		
Benefits paid		(4,011)		(4,122)
Acquisition		3,421		
Fair value of plan assets at the end of the year	$	3,410	$	
Funded status at year end	$	(40,496)	$	(33,184)

Amounts recognized in the consolidated balance sheets at December 31, 2012 and 2011 consist of:

(In thousands)	**2012**	**2011**
Current liabilities	$ (2,467)	$ (2,527)
Long-term liabilities	$ (38,029)	$ (30,657)

Amounts recognized in accumulated other comprehensive loss for the years ended December 31, 2012 and 2011 consist of:

(In thousands)	**2012**	**2011**
Unamortized prior service credit	$ (1,446)	$ (1,635)
Unamortized net actuarial loss (gain)	2,055	(3,136)
	$ 609	$ (4,771)

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

The following table summarizes the components of the net periodic costs for post-retirement benefits for the years ended December 31, 2012 and 2011:

(In thousands)		**2012**		**2011**		**2010**
Service cost	$	811	$	749	$	668
Interest cost		1,756		1,690		1,835
Expected return on plan assets		(105)				
Amortization of:						
Net actuarial loss				(212)		(234)
Prior service credit		(189)		(189)		(447)
Net periodic postretirement benefit cost	$	2,273	$	2,038	$	1,822

The following table summarizes other changes in plan assets and benefit obligations recognized in other comprehensive loss, before tax effects, during 2012 and 2011:

(In thousands)		**2012**		**2011**
Actuarial loss , net	$	5,191	$	911
Recognized actuarial gain				213
Recognized prior service credit		189		189
Total amount recognized in other comprehensive loss, before tax effects	$	5,380	$	1,313

The estimated net prior service credit that will be amortized from accumulated other comprehensive loss in net periodic postretirement cost in 2013 is approximately $0.2 million. In 2013, there is not an expected unamortized net actuarial gain to reduce the net periodic postretirement cost.

The weighted-average discount rate assumptions utilized for the years ended December 31 were as follows:

	2012	**2011**	**2010**
Net periodic benefit cost	5.00%	5.58%	6.10%
Benefit obligation	3.90%	5.22%	5.58%

For purposes of determining the cost and obligation for pre-Medicare postretirement medical benefits, an 8% annual rate of increase in the per capita cost of covered benefits (i.e., healthcare trend rate) was assumed for the plan in 2013, declining to a rate of 5.00% in 2019. Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one percent change in the assumed healthcare cost trend rate would have had the following effects:

(In thousands)		**1% Increase**		**1% Decrease**
Effect on total of service and interest cost	$	267	$	(226)
Effect on postretirement benefit obligation	$	3,417	$	(2,953)

Plan Assets

Our investment strategy is designed to provide a stable environment to earn a rate of return over time to satisfy the benefit obligations and minimize the reliance on contributions as a source of benefit security. The objectives are based on a long-term (5 to 15 year) investment horizon, so that interim fluctuations should be viewed with appropriate perspective. The assets of the fund are to be invested to achieve the greatest return for the pension plans consistent with a prudent level of risk.

The asset return objective is to achieve, as a minimum over time, the passively managed return earned by managed index funds, weighted in the proportions outlined by the asset class exposures identified in the pension plan s strategic allocation. We update our long-term, strategic asset allocations every few years to ensure they are in line with our fund objectives. The target allocation of the Pension Plan assets is approximately 55% - 65% equities with the remainder in fixed income funds and cash equivalents. Fixed income funds include corporate and municipal bonds, U.S. Treasury and Government Agency securities, mutual funds and mortgage-backed securities. Currently, we believe that there are no significant concentrations of risk associated with the pension plan assets.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

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YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

The following is a description of the valuation methodologies for assets measured at fair value utilizing the fair value hierarchy discussed in Note 1, which prioritizes the inputs used in the valuation methodologies in measuring fair value. The fair value measurements used to value our plan assets as of December 31, 2012 were generated by using market transactions involving identical or comparable assets. There were no changes in the valuation techniques used during 2012.

Common and International Stocks: Includes domestic and international common and preferred stocks and are valued at the closing price as of the measurement date as reported on the active market on which the individual securities are traded multiplied by the number of shares owned.

Mutual Funds: Valued at the closing net asset value as of the measurement date as reported on the active market on which the funds are traded multiplied by the number of shares owned or the percentage of ownership in the fund.

Common Collective Trust: Valued as determined by the fund manager based on the underlying net asset values multiplied by the ownership percentage and supported by the value of the underlying securities as of the financial statement date.

Fixed Income Funds: Includes U.S. Treasury and Government Agency securities, corporate and municipal bonds, and mortgage-backed securities. U.S. Treasury and Government Agency securities are valued at the closing net asset value as of the measurement date as reported on the active market on which the funds are traded multiplied by the number of shares owned or the percentage of ownership in the fund. Corporate and municipal bonds and mortgage-backed securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

The fair values of our assets for our defined benefit pension plans at December 31, 2012 and 2011, by asset category were as follows:

		As of December 31, 2012		
(In thousands)	**Total**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents:				
Short-term investments(1)	$ 4,262	$ 1,036	$ 3,226	$
Equities:				
U.S. common stocks	36,620	36,620		

International stocks	9,589	9,589		
Mutual funds	62,818	62,818		
Common Collective Trust	55,152		55,152	
Fixed Income:				
U.S. treasury and government agency securities	22,937	22,937		
Corporate and municipal bonds	9,238		9,238	
Mortgage/asset-backed securities	10,669		10,669	
Mutual funds	51,493	51,493		
Total	$ 262,778	$ 184,493	$ 78,285	$

(1) Short-term investments includes cash and cash equivalents and an investment in a common collective trust which is principally comprised of certificates of deposit, commercial paper and U.S. Treasury bills with maturities less than one year.

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(In thousands)	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	As of December 31, 2011			
Cash equivalents:				
Short-term investments(1)	$ 2,991	$ 191	$ 2,800	$
Equities:				
U.S. common stocks	22,090	22,090		
International stocks	9,245	9,245		
Mutual funds	42,999	42,999		
Common Collective Trust	15,695		15,695	
Fixed Income:				
Mutual funds	49,716	49,716		
Total	$ 142,736	$ 124,241	$ 18,495	$

(1) Short-term investments includes cash and cash equivalents and an investment in a common collective trust which is principally comprised of certificates of deposit, commercial paper and U.S. Treasury bills with maturities less than one year.

The fair values of our assets for our post-retirement benefit plans at December 31, 2012 were as follows:

(In thousands)	Total	Quoted Prices (Level 1)	Significant (Level 2)	Significant (Level 3)
	As of December 31, 2012			
Cash equivalents:				
Short-term investments(1)	$ 30	$ 30	$	$
Equities:				
U.S. common stocks	545	545		
Mutual funds	289	289		
Common Collective Trust	1,097		1,097	
Fixed Income:				
U.S. treasury and government agency securities	776	776		
Corporate and municipal bonds	312		312	
Mortgage/asset-backed securities	361		361	

Total	$	3,410	$	1,640	$	1,770	$

(1) Short-term investments includes cash and cash equivalents and an investment in a common collective trust which is principally comprised of certificates of deposit, commercial paper and U.S. Treasury bills with maturities less than one year.

Cash Flows

Contributions

Our funding policy is to contribute annually an actuarially determined amount necessary to meet the minimum funding requirements as set forth in employee benefit and tax laws. In July of 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21), which includes pension funding stabilization provisions, was signed into law. These provisions establish an interest rate corridor that is designed to stabilize the segment rates used to determine minimum funding requirements from the effects of interest rate volatility, which is expected to reduce the

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

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Company s minimum required pension contributions in the near-term. We expect to contribute approximately $11.5 to our pension plans and $2.5 million to our other post-retirement plans in 2013.

Estimated Future Benefit Payments

As of December 31, 2012, benefit payments expected to be paid over the next ten years are outlined in the following table:

(In thousands)		Pension Plans		Other Post-retirement Plans
2013	$	21,628	$	3,579
2014		21,952		3,536
2015		22,345		3,607
2016		22,634		3,614
2017		22,819		2,842
2018 - 2022		116,146		14,211

Defined Contribution Plans

We offer defined contribution 401(k) plans to substantially all of our employees. Contributions made under the defined contribution plans include a match, at the Company s discretion, of employee contributions to the plans. We recognized expense with respect to these plans of $3.9 million in 2012, $2.5 million in 2011 and $2.4 million in 2010. The increase in 2012 is attributable to the acquisition of SureWest which accounted for $1.4 million of the total expense.

10. INCOME TAXES

Income tax expense consists of the following components:

	For the Year Ended		
(In thousands)	**2012**	**2011**	**2010**
Current:			

Federal	$ 1,033	$ 5,657	$ 9,904
State	1,160	642	2,251
Total current expense (benefit)	2,193	6,299	12,155
Deferred:			
Federal	1,998	8,209	(1,796)
State	(2,755)	337	(1,368)
Total deferred expense (benefit)	(757)	8,546	(3,164)
Total income tax expense	$ 1,436	$ 14,845	$ 8,991

The following is a reconciliation of the federal statutory tax rate to the effective tax rate for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,		
(In percentages)	**2012**	**2011**	**2010**
Statutory federal income tax rate	35.0	35.0	35.0
State income taxes, net of federal benefit	(8.4)	0.8	(0.1)
Transaction costs	11.0		
Other permanent differences	(0.8)	(0.8)	(0.3)
Change in tax reserves		(0.6)	(10.9)
Change in deferred tax rate	(14.6)	0.9	(1.4)
Other	(3.3)	0.2	(1.0)
	18.9	35.5	21.3

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

Deferred Taxes

The components of the net deferred tax liability are as follows:

	Year Ended December 31,	
(In thousands)	**2012**	**2011**
Current deferred tax assets:		
Reserve for uncollectible accounts	$ 1,815	$ 964
Accrued vacation pay deducted when paid	1,727	1,153
Accrued expenses and deferred revenue	5,458	2,708
	9,000	4,825
Non-current deferred tax assets:		
Net operating loss carryforwards	31,763	2,216
Pension and postretirement obligations	60,252	34,303
Stock-based compensation	450	427
Derivative instruments	3,004	5,872
Financing costs	567	-
State tax credit carryforwards	2,437	2,216
Other	305	427
	98,778	45,461
Valuation allowance	(535)	
Net non-current deferred tax assets	98,243	45,461
Non-current deferred tax liabilities:		
Goodwill and other intangibles	(27,376)	(31,106)
Basis in investment	(120)	-
Partnership investments	(26,413)	(26,985)
Property, plant and equipment	(183,176)	(64,697)
	(237,085)	(122,788)
Net non-current deferred taxes	(138,842)	(77,327)
Net deferred income tax liabilities	$ (129,842)	$ (72,502)

Deferred income taxes are provided for the temporary differences between assets and liabilities recognized for financial reporting purposes and assets and liabilities recognized for tax purposes. The ultimate realization of deferred tax assets depends upon taxable income during the future periods in which those temporary differences become deductible. To determine whether deferred tax assets can be realized, management assesses whether it is more likely than not that some portion or all of the deferred tax assets will not be realized, taking into consideration the scheduled reversal of deferred tax liabilities, projected future taxable income and tax-planning strategies.

Based upon historical taxable income, tax planning strategies and projections for future taxable income over the periods that the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these temporary differences. However, management may reduce the amount of deferred tax assets it considers realizable in the near term if estimates of future taxable income

during the carryforward period are reduced. The amount of projected future taxable income is expected to allow for the full utilization of the net operating loss (NOL) carryforwards, as described below.

Consolidated and its wholly owned subsidiaries, which file a consolidated federal income tax return, estimates it has available federal NOL carryforwards at December 31, 2012, of $80.8 million and related deferred tax assets of $28.3 million. The federal NOL carryforwards expire from 2026 to 2032. Management believes that the future utilization of $1.5 million and related deferred tax asset of $0.5 million subject to Separate Return Limitation Year is uncertain and has placed a full valuation allowance on this amount of the available federal NOL carryforwards. The related NOL carryforward expires in 2026. The valuation allowance was recorded as a result of the acquisition of SureWest during 2012. If or when recognized, the tax benefits related to any reversal of the valuation allowance will be accounted for as a reduction of income tax expense.

ETFL, a nonconsolidated subsidiary for federal income tax return purposes, estimates it has available NOL carryforwards at December 31, 2012, of $2.5 million and related deferred tax assets of $0.8 million. ETFL s federal NOL carryforwards expire from 2020 to 2024.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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We estimate that we have available state NOL carryforwards at December 31, 2012, of $50.2 million and related deferred tax assets of $2.6 million. The state NOL carryforwards expire from 2016 to 2032.

We estimate that we have available state tax credit carryforwards at December 31, 2012, of $3.9 million and related deferred tax assets of $2.4 million. The state tax credit carryforward are limited annually and expire from 2016 to 2027.

Unrecognized Tax Benefits

We adopted the accounting guidance applicable to uncertainty in income taxes effective January 1, 2007 with no impact on our results of operations or financial condition, and have analyzed filing positions in all of the federal and state jurisdictions where we are required to file income tax returns as well as all open tax years in these jurisdictions. This accounting guidance clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements; prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return; and provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of December 31, 2012 and 2011, the amount of unrecognized tax benefits was $1.2 million. The net amount of unrecognized benefits that, if recognized, would result in an impact to the effective tax rate is $0.8 million.

Our practice is to recognize interest and penalties related to income tax matters in interest expense and general and administrative expense, respectively. We had no material interest or penalty expense in 2012 or 2011 and have no material remaining liability for interest or penalties.

The only periods subject to examination for our federal return are years 2009 through 2011. The periods subject to examination for our state returns are years 2005 through 2011. We are currently under examination by federal and state taxing authorities. We do not expect any settlement or payment that may result from the audit to have a material effect on our results of operations or cash flows.

We do not expect that the total unrecognized tax benefits and related accrued interest will significantly change due to the settlement of audits or the expiration of statute of limitations in the next twelve months. There were no material changes to these amounts during 2012 and there were no effects on the Company s effective tax rate.

The following is a reconciliation of the unrecognized tax benefits for the years ended December 31, 2012 and 2011:

(In thousands)	Liability for Unrecognized Tax Benefits 2012	2011
Balance at January 1	$ 1,224	$ 1,496
Additions for tax positions in the current year		
Additions for tax positions of prior years		
Settlements with taxing authorities		
Reduction for lapse of federal statute of limitations		(272)
Reduction for lapse of state statute of limitations		
Balance at December 31	$ 1,224	$ 1,224

11. COMMITMENTS AND CONTINGENCIES

We have certain other obligations for various contractual agreements to secure future rights to goods and services to be used in the normal course of our operations. These include purchase commitments for planned capital expenditures, agreements securing dedicated access and transport services, and service and support agreements. Additionally, we have procured transport resale arrangements with several interexchange carriers for our long distance services.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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As of December 31, 2012, future minimum contractual obligations, including capital and operating leases, and the estimated timing and effect the obligations will have on our liquidity and cash flows in future periods are as follows:

(in thousands)	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**	**Total**
Operating lease agreements	$ 2,375	$ 1,831	$ 1,412	$ 431	$ 399	$ 1,233	$ 7,681
Capital lease agreements	983	1,004	981	914	936	3,322	8,140
Capital expenditures (1)	7,223						7,223
Service and support agreements (2)	2,211	1,209	419				3,839
Transport and data connectivity	9,330	9,000	9,000	9,000	9,000		45,330
Total	$ 22,122	$ 13,044	$ 11,812	$ 10,345	$ 10,335	$ 4,555	$ 72,213

(1) We have binding commitments with numerous suppliers for future capital expenditures.

(2) We have entered into service and maintenance agreements to support various computer hardware and software applications and certain equipment. If we terminate any of the contracts prior to their expiration date, we would be liable for minimum commitment payments as defined in by the contractual terms of the contracts.

Leases

Operating

We have entered into various non-cancelable operating leases with terms greater than one year for certain facilities and equipment used in our operations. The facility leases generally require us to pay operating costs: including property taxes, insurance and maintenance, and certain of them contain scheduled rent increases and renewal options. Leasehold improvements are amortized over their estimated useful lives or lease period, whichever is shorter. We recognize rent expense on a straight-line basis over the term of each lease.

We incurred rent expense of $2.9 million, $2.1 million and $3.4 million for the years ended December 31, 2012, 2011, and 2010, respectively.

Capital Leases

As of December 31, 2012, we had five capital leases, of which four expire in 2021 and one will expire in 2015. As of December 31, 2012, the present value of the minimum remaining lease commitments was approximately $4.8 million, of which $0.4 million was due and payable within the next twelve months. The carrying amount of our capital lease obligations, net of imputed interest of $3.3 million, was $4.8 million as of December 31, 2012. See Note 12 for information regarding the capital leases we have entered into with related parties.

Litigation, Regulatory Proceedings and Other Contingencies

Prior to the completion of the SureWest Merger on July 2, 2012, six putative class action lawsuits were filed by alleged SureWest shareholders challenging the Company s proposed merger with SureWest in which the Company, WH Acquisition Corp. and WH Acquisition II Corp, SureWest and members of the SureWest board of directors have been named as defendants. Five shareholder actions were filed in the Superior Court of California, Placer County, and one shareholder action was filed in the United States District Court for the Eastern District of California. The actions are called Needles v. SureWest Communications, et al., filed February 17, 2012, Errecart v. Oldham, et al., filed February 24, 2012, Springer v. SureWest Communications, et al., filed March 9, 2012, Aievoli v. Oldham, et al., filed March 15, 2012, and Waterbury v. SureWest Communications, et al., filed March 26, 2012, and the federal action is called Broering v. Oldham, et al., filed April 18, 2012. The actions generally allege, among other things, that each member of the SureWest board of directors breached fiduciary duties to SureWest and its shareholders by authorizing the sale of SureWest to the Company for consideration that allegedly was unfair to the SureWest shareholders and agreed to terms that allegedly unduly restrict other bidders from making a competing offer. The complaints also allege that the Company and SureWest aided and abetted the breaches of fiduciary duties allegedly committed by the members of the SureWest board of directors. The Broering complaint also alleges, among other things, that the joint proxy statement/prospectus filed with the SEC on March 28, 2012 did not make sufficient disclosures regarding the merger, that SureWest s board should have appointed an independent committee to negotiate the transaction and that SureWest should have gone back to another bidder to create a competitive bid process. The lawsuits seek equitable relief, including an order to prevent the defendants from consummating the merger on the agreed-upon terms and/or an award of unspecified monetary damages. On March 14, 2012, the Placer County Superior Court entered an order consolidating the Needles, Errecart and Springer actions into a single action

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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under the caption In re SureWest Communications Shareholder Litigation. Under the terms of this order, all cases subsequently filed in the Superior Court for the State of California, County of Placer, that relate to the same subject matter and involve similar questions of law or fact were to be consolidated with these cases as well. This included the Aievoli and Waterbury cases. On April 10, 2012, the plaintiff in Waterbury filed a request for voluntary dismissal of her complaint without prejudice. On May 18, 2012, pursuant to the parties stipulation, the federal Court entered an order staying the Broering action for 90 days. The federal Court subsequently extended the stay of the Broering action until June 1, 2013. On June 1, 2012, the parties entered into a proposed settlement of all of the shareholder actions without any admission of liability by the Company or the other defendants. Pursuant to the proposed settlement, SureWest agreed to make, and subsequently made, certain additional disclosures in a Current Report on Form 8-K filed with the SEC in advance of the special meeting of SureWest shareholders held on June 12, 2012. The proposed settlement also provided that plaintiffs counsel collectively are to receive attorneys fees of $0.525 million, of which the Company is to pay $36.25 thousand, with the balance to be paid by SureWest and its insurer. The proposed settlement is subject to approval by the Placer County Superior Court. On December 20, 2012, the court issued a ruling preliminarily approving the proposed settlement. The court set a hearing for March 28, 2013 at which it will consider final approval of the proposed settlement. Upon final approval by the court, the consolidated state court actions and the federal action will be dismissed with prejudice.

On April 15, 2008, Salsgiver Inc., a Pennsylvania-based telecommunications company, and certain of its affiliates filed a lawsuit against us and our subsidiaries North Pittsburgh Telephone Company and North Pittsburgh Systems Inc. in the Court of Common Pleas of Allegheny County, Pennsylvania alleging that we have prevented Salsgiver from connecting their fiber optic cables to our utility poles. Salsgiver seeks compensatory and punitive damages as the result of alleged lost projected profits, damage to its business reputation, and other costs. Salsgiver originally claimed to have sustained losses of approximately $125 million and did not request a specific dollar amount in damages. We believe that these claims are without merit and that the alleged damages are completely unfounded. We intend to defend against these claims vigorously. Discovery concluded and Consolidated filed a motion for summary judgment on June 18, 2012 and the court heard oral arguments on August 30, 2012. On February 12, 2013, the court granted, in part, Consolidated s motion. The court ruled that Salsgiver could not recover prejudgment interest and could not use as a basis of liability any actions prior to April 14, 2006. We anticipate a status conference being held in late March 2013, at which time the court will set a briefing and trial schedule.

In addition, we have asked the Federal Communications Commission (FCC) Enforcement Bureau to address Salsgiver s unauthorized pole attachments and safety violations on those attachments. We believe that these are violations of an FCC order regarding Salsgiver s complaint against us. We do not believe that these claims will have a material adverse impact on our financial results.

Two of our subsidiaries, Consolidated Communications of Pennsylvania Company LLC (CCPA) and Consolidated Communications Enterprise Services Inc. (CCES), received assessment notices from the Commonwealth of Pennsylvania Department of Revenue increasing the amounts owed for Pennsylvania Gross Receipt Taxes for the tax period ending December 31, 2009. These two assessments adjusted the subsidiaries combined total outstanding taxable gross receipts liability (with interest) to approximately $2.3 million. In addition, based upon recently completed audits of CCES for 2008, 2009 and 2010, we believe the Commonwealth of Pennsylvania may issue additional assessments totaling approximately $1.7 million for Gross Receipt Taxes allegedly owed. Our CCPA subsidiary has also been notified by the Commonwealth of Pennsylvania that they will conduct a gross receipts audit for the calendar year 2008. An appeal challenging the 2009 CCPA assessment was filed with the Department of Revenue s Board of Appeals on September 15, 2011, and we filed a similar appeal for CCES with the Board of Appeals on November 11, 2011 challenging the 2009 CCES assessment. The Board of Appeals denied CCPA and CCES s appeals. On November 13, 2012, CCPA and CCES filed appeals with the Commonwealth s Board of Finance and Revenue. These have been stayed pending the outcome of present litigation in the Commonwealth Court between Verizon Pennsylvania, Inc. and the Commonwealth of Pennsylvania (Verizon Pennsylvania, Inc. v. Commonwealth, Docket No. 266 F.R. 2008). The Gross Receipts Tax issues in the Verizon Pennsylvania case are substantially the same as those presently facing CCPA and CCES. In addition, there are numerous telecommunications carriers with Gross Receipts Tax matters dealing with the same issues that are in various stages of appeal before the Board of Finance and Revenue and the

Commonwealth Court. Those appeals by other similarly situated telecommunications carriers have been continued until resolution of the Verizon Pennsylvania case. We believe that these assessments and the positions taken by the Commonwealth of Pennsylvania are without substantial merit. We do not believe that the outcome of these claims will have a material

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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adverse impact on our financial results or cash flows.

We currently provide telephone service to inmates incarcerated at facilities operated by the Illinois Department of Corrections. On June 27, 2012, the Illinois Department of Central Management Services announced its intent to replace the Company as the provider of those services with a competitor, Securus Technologies, Inc. We have challenged Securus bid, and the State s decision to accept that bid, in a variety of different forums including: (i) protests with the Chief Procurement Officer of the Illinois Executive Ethics Commission, which were denied, (ii) a lawsuit filed in the Circuit Court of Sangamon County, Illinois that was dismissed, but is now under appeal in the Illinois Appellate Court Fourth District, (iii) a declaratory request ruling action filed with the Illinois Commerce Commission and (iv) a complaint filed with the Illinois Procurement Policy Board. In each of those challenges, we claimed either that Securus was not a responsible vendor, as defined by the State s bid solicitation document, and/or that rates for the services Securus proposes to provide are subject to regulatory limits below those Securus has proposed to charge. Although we will continue to pursue legal recourse to the State s decision, our business plans and projections assume that our contract with the State of Illinois will end during 2013.

On January 18, 2012, we filed a petition with the U.S. Court of Appeals for the District of Columbia Circuit to review the FCC s Order issued November 18, 2011 that reformed intercarrier compensation and core parts of the Universal Service Fund. We are appealing five core issues in the November 18, 2011 FCC order. The U.S. Court of Appeals for the tenth circuit will hear oral arguments on November 19, 2013.

We are from time to time involved in various other legal proceedings and regulatory actions arising out of our operations. We do not believe that any of these, individually or in the aggregate, will have a material adverse effect upon our business, operating results or financial condition.

12. RELATED PARTY TRANSACTIONS

Capital Leases

Richard A. Lumpkin, Chairman of the Board, together with his family, beneficially owned 41.3% of Agracel, Inc. (Agracel), a real estate investment company, at December 31, 2012 and 2011. Mr. Lumpkin also is a director of Agracel.

Agracel is the sole managing member and 50% owner of LATEL LLC (LATEL). Mr. Lumpkin and his immediate family had a 70.7% beneficial ownership of LATEL at December 31, 2012 and 2011. In December 2010, we entered into new lease agreements with LATEL for the occupancy of three previously leased buildings on a triple net lease basis. Prior to the new lease agreements, we leased five properties from LATEL which were used as office and warehouse space and were accounted for as operating leases. In 2010, we assigned one of the five leased buildings to the purchaser of our Marketing Response business upon closing. On June 30, 2011 we vacated one of the leased buildings at the end of the lease term. In accordance with the Company s related person transactions policy, the new leases were approved by our Audit Committee

and Board of Directors (BOD).

In accordance with Accounting Standards Codification (ASC) Topic 840, *Leases*, we have accounted for the three leases as capital leases, and have capitalized the lower of the present value of the future minimum lease payments or their fair value. The capital lease agreements require us to pay substantially all expenses associated with general maintenance and repair, utilities, insurance, and taxes. Each of the three lease agreements have a maturity date of May 31, 2021 and each have two five-year options to extend the terms of the lease after the initial expiration date. We are required to pay LATEL approximately $7.9 million over the terms of the lease agreements. The carrying value of the capital leases at December 31, 2012 and 2011 was approximately $3.8 million and $4.0 million, respectively. We recognized $0.5 million in interest expense in 2012 and 2011 and $0.4 million and $0.1 million in amortization expense in 2012 and 2011, respectively, related to the capitalized leases.

We recognized rent expense of $0.2 million and $1.2 million in 2011 and 2010, respectively, with regard to the operating leases.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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Banking Services

Mr. Lumpkin also has a minority ownership interest in First Mid-Illinois Bancshares, Inc. (First Mid-Illinois), which provides us with general banking services, including depository, disbursement, and payroll accounts and retirement plan administrative services. We provide telecommunication products and services to First Mid-Illinois at pricing which is similar to other strategic business customers. Following is a summary of the transactions between us and First Mid-Illinois for the years ended December 31:

(In thousands)		**2012**		**2011**		**2010**
Fees charged from First Mid-Illinois for:						
Banking services	$	16	$	4	$	8
401(k) plan administration		1		14		14
Interest income earned on deposits at First Mid-Illinois		3		8		8
Fees charged to First Mid-Illinois for telecommunication services		642		532		455

Long-Term Debt

A portion of the Senior Notes was sold to certain accredited investors consisting of the Company s Chairman of the BOD and certain other members of the BOD, including the Company s Chief Executive Officer (collectively related parties). The related parties purchased $10.8 million of the Senior Notes on same terms available to other investors, except that the related parties were not entitled to registration rights. During 2012, the Company paid $0.6 million in interest in the aggregate to the related parties for the Senior Notes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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13. BUSINESS SEGMENTS

The Company is viewed and managed as two separate, but highly integrated, reportable business segments: Telephone Operations and Other Operations . Telephone Operations consists of a wide range of telecommunications services, including local and long-distance service, high-speed broadband Internet access, video services, VOIP, custom calling features, private line services, carrier access services, network capacity services over a regional fiber optic network, mobile services and directory publishing. The financial results of SureWest are included in the Telephone Operations segment as of the date acquisition. The Company also operates two complementary non-core businesses that comprise Other Operations , including telephone services to correctional facilities and equipment sales. Management evaluates the performance of these business segments based upon net revenue and operating income.

(In thousands)		**2012**		**2011**		**2010**
Telephone operations	$	472,060	$	342,598	$	349,612
Other operations		31,397		31,665		33,754
Total net revenue		503,457		374,263		383,366
Operating expense - telephone operations		298,205		194,580		199,077
Operating expense - other operations		30,878		28,383		31,250
Total operating expense		329,083		222,963		230,327
Depreciation and amortization - telephone operations		120,152		87,907		86,270
Depreciation and amortization - other operations		824		838		872
Total depreciation expense		120,976		88,745		87,142
Operating income - telephone operations		53,703		60,111		64,265
Operating income - other operations		(305)		2,444		1,632
Total operating income		53,398		62,555		65,897
Interest expense, net of interest income		(72,604)		(49,394)		(50,740)
Loss on extinguishment of debt		(4,455)				
Investment income		30,667		27,843		27,744
Other, net		601		823		(758)
Income before taxes	$	7,607	$	41,827	$	42,143
Capital expenditures:						
Telephone operations	$	76,983	$	41,697	$	42,748
Other operations		112		216		169
Total	$	77,095	$	41,913	$	42,917
Goodwill:						
Telephone operations	$	604,988	$	519,542	$	519,542
Other operations		-		1,020		1,020
Total	$	604,988	$	520,562	$	520,562
Total assets:						

Telephone operations (1)	$ 1,792,585	$ 1,187,708	$ 1,201,545
Other operations	2,243	6,361	8,001
Total	$ 1,794,828	$ 1,194,069	$ 1,209,546

(1) Included within the telephone operations segment assets are our equity method investments totaling $57.9 million, $48.3 million and $49.6 million at December 31, 2012, December 31, 2011 and December 31, 2010, respectively.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Quarter Ended			
2012	**March 31**	**June 30**	**September 30**	**December 31**
	(In thousands, except per share amounts)			
Net revenues	$ 93,364	$ 93,005	$ 157,012	$ 160,076
Operating income	11,013	14,052	9,030	19,303
Net income (loss) attributable to common stockholders	1,759	2,786	(965)	2,060
Basic and diluted earnings (loss) per share	$ 0.06	$ 0.09	$ (0.02)	$ 0.05

	Quarter Ended			
2011	**March 31**	**June 30**	**September 30**	**December 31**
	(In thousands, except per share amounts)			
Net revenues	$ 95,441	$ 92,623	$ 92,548	$ 93,651
Operating income	16,900	14,682	15,217	15,756
Net income attributable to common stockholders	7,365	5,351	5,818	7,876
Basic and diluted earnings per share	$ 0.25	$ 0.18	$ 0.19	$ 0.26

As described in Note 3, during the third quarter of 2012, we acquired 100% of the outstanding shares of SureWest in a cash and stock transaction. SureWest results of operations have been included in our consolidated financial statements as of the acquisition date of July 2, 2012. During the quarter ended December 31, 2012, we adjusted the preliminary purchase price allocation and updated our valuation of the real and personal property and intangible assets acquired. These adjustments to the preliminary purchase price accounting have been recorded retrospectively as of the acquisition date. As a result of the retrospective adjustments, amounts previously reported for the quarter ended September 30, 2012 have been restated as reconciled in the following table:

	As Reported	**Adjustments**	**As Restated**
Net revenues	$ 157,012	$ -	$ 157,012
Operating income	10,078	(1,048)	9,030
Net loss attributable to common stockholders	(311)	(654)	(965)
Basic and diluted loss per share	$ (0.01)	$ (0.01)	$ (0.02)

15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Consolidated Communications, Inc. is the primary obligor under the unsecured Senior Notes it issued on May 30, 2012. We and the following of our subsidiaries: Consolidated Communications Enterprise Services, Inc., Consolidated Communications Services Company, Consolidated Communications of Fort Bend Company, Consolidated Communications of Texas Company, Consolidated Communications of Pennsylvania Company, LLC, SureWest Communications, Inc., SureWest Broadband, SureWest Communications, SureWest Long Distance, SureWest Telephone, SureWest TeleVideo, SureWest Kansas, Inc., SureWest Kansas Holdings, Inc., SureWest Fiber Ventures, LLC, SureWest Kansas

Connections, LLC, SureWest Kansas Licenses, LLC, SureWest Kansas Operations, LLC and SureWest Kansas Purchasing, LLC have jointly and severally guaranteed the Senior Notes. All of the subsidiary guarantors are 100% direct or indirect wholly owned subsidiaries of the parent, and all guarantees are full, unconditional and joint and several with respect to principal, interest and liquidated damages, if any. As such, we present condensed consolidating balance sheets as of December 31, 2012 and 2011, and condensed consolidating statements of operations and cash flows for the years ended December 31, 2012, 2011 and 2010 for each of Consolidated Communications Holdings, Inc. (Parent), Consolidated Communications, Inc. (Subsidiary Issuer), guarantor subsidiaries and other non-guarantor subsidiaries with any consolidating adjustments. See Note 6 for more information regarding our Senior Notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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Condensed Consolidating Balance Sheets

(amounts in thousands)

	December 31, 2012					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ 6,577	$ 8,530	$ 2,747	$ -	$ 17,854
Accounts receivable, net	19	457	50,108	7,998	-	58,582
Income taxes receivable	4,258	-	7,685	(124)	-	11,819
Deferred income taxes	(51)	(310)	8,985	376	-	9,000
Prepaid expenses and other current assets	-	-	10,855	414	-	11,269
Total current assets	4,226	6,724	86,163	11,411	-	108,524
Property, plant and equipment, net	-	-	855,722	52,514	-	908,236
Intangibles and other assets:						
Investments	1,459,656	372,735	109,735	15	(1,832,391)	109,750
Goodwill	-	-	538,807	66,181	-	604,988
Other intangible assets	-	-	40,443	9,087	-	49,530
Deferred debt issuance costs, net and other assets	-	12,788	1,012	-	-	13,800
Total assets	$ 1,463,882	$ 392,247	$ 1,631,882	$ 139,208	$ (1,832,391)	$ 1,794,828
LIABILITIES AND SHAREHOLDERS EQUITY						
Current liabilities:						
Accounts payable	$ 223	$ 430	$ 16,411	$ 2,098	$ -	$ 19,162
Advance billings and customer deposits	-	-	26,069	2,523	-	28,592
Dividends payable	15,463	-	-	-	-	15,463
Accrued compensation	36	-	19,919	2,013	-	21,968
Accrued expense	12	2,943	41,431	1,846	-	46,232
Current portion of long term debt and capital lease obligations	-	9,242	300	54	-	9,596
Current portion of derivative liability	-	3,164	-	-	-	3,164
Total current liabilities	15,734	15,779	104,130	8,534	-	144,177
Long-term debt and capital lease obligations	-	1,203,760	3,611	877	-	1,208,248
Advances due to/from affiliates, net	1,367,914	(1,760,026)	411,411	(19,299)	-	-
Deferred income taxes	(2,357)	(3,571)	135,891	8,879	-	138,842
Pension and postretirement benefit obligations	-	-	125,706	31,004	-	156,710
Other long-term liabilities	-	3,919	6,587	240	-	10,746
Total liabilities	1,381,291	(540,139)	787,336	30,235	-	1,658,723

Shareholders equity:						
Common Stock	399	-	568,960	30,000	(598,960)	399
Other shareholders equity	82,192	932,386	271,411	78,973	(1,233,431)	131,531
Total Consolidated Communications Holdings, Inc. shareholders equity	82,591	932,386	840,371	108,973	(1,832,391)	131,930
Noncontrolling interest	-	-	4,175	-	-	4,175
Total shareholders equity	82,591	932,386	844,546	108,973	(1,832,391)	136,105
Total liabilities and shareholders equity	$ 1,463,882	$ 392,247	$ 1,631,882	$ 139,208	$ (1,832,391)	$ 1,794,828

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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	December 31, 2011					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ -	$ 103,369	$ 80	$ 2,255	$ -	$ 105,704
Accounts receivable, net	19	457	27,014	8,002	-	35,492
Income taxes receivable	7,329	-	1,387	272	-	8,988
Deferred income taxes	(39)	18	4,315	531	-	4,825
Prepaid expenses and other current assets	-	-	6,481	460	-	6,941
Total current assets	7,309	103,844	39,277	11,520	-	161,950
Property, plant and equipment, net	-	-	281,633	56,793	-	338,426
Intangibles and other assets:						
Investments	917,208	362,957	98,054	15	(1,280,165)	98,069
Goodwill	-	-	454,381	66,181	-	520,562
Other intangible assets	-	-	58,178	11,980	-	70,158
Deferred debt issuance costs, net and other assets	-	4,833	71	-	-	4,904
Total assets	$ 924,517	$ 471,634	$ 931,594	$ 146,489	$ (1,280,165)	$ 1,194,069
LIABILITIES AND SHAREHOLDERS EQUITY						
Current liabilities:						
Accounts payable	$ -	$ -	$ 5,790	$ 861	$ -	$ 6,651
Advance billings and customer deposits	-	-	17,797	2,527	-	20,324
Dividends payable	11,571	-	-	-	-	11,571
Accrued compensation	38	-	10,734	2,042		12,814
Accrued expense	-	215	19,155	1,988	-	21,358
Current portion of long term debt and capital lease obligations	-	8,800	147	45	-	8,992
Current portion of derivative liability	-	3,580	-	-	-	3,580
Total current liabilities	11,609	12,595	53,623	7,463	-	85,290
Long-term debt and capital lease obligations	-	871,200	3,588	931	-	875,719
Advances due to/from affiliates, net	872,537	(1,335,897)	465,854	(2,494)	-	-
Deferred income taxes	(1,948)	(5,872)	74,697	10,450	-	77,327
Pension and postretirement benefit obligations	-	-	65,899	27,855	-	93,754
Other long-term liabilities	-	12,401	1,494	272		14,167
Total liabilities	882,198	(445,573)	665,155	44,477	-	1,146,257
Shareholders equity:						
Common Stock	299	-	18,163	30,000	(48,163)	299
Other shareholders equity	42,020	917,207	242,782	72,012	(1,232,002)	42,019
Total Consolidated Communications Holdings, Inc. shareholders equity	42,319	917,207	260,945	102,012	(1,280,165)	42,318
Noncontrolling interest	-	-	5,494	-	-	5,494

Total shareholders equity	42,319	917,207	266,439	102,012	(1,280,165)	47,812
Total liabilities and shareholders equity	$ 924,517	$ 471,634	$ 931,594	$ 146,489	$ (1,280,165)	$ 1,194,069

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

Condensed Consolidating Statements of Operations

(amounts in thousands)

	Year Ended December 31, 2012					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ -	$ (15)	$ 448,883	$ 68,774	$ (14,185)	$ 503,457
Operating expenses:						
Cost of services and products (exclusive of depreciation and amortization)	-	-	193,573	14,355	(14,185)	193,743
Selling, general and administrative expenses	13,800	385	80,848	16,584	-	111,617
Financing and other transaction costs	11,269	9,531	-	-	-	20,800
Impairment of intangible assets	-	-	2,923	-	-	2,923
Depreciation and amortization	-	-	107,708	13,268	-	120,976
Operating income (loss)	(25,069)	(9,931)	63,831	24,567	-	53,398
Other income (expense):						
Interest expense, net of interest income	(20)	(71,704)	(816)	(64)	-	(72,604)
Intercompany interest income (expense)	(50,126)	87,717	(37,509)	(82)		-
Loss on extinguishment of debt	-	(4,455)	-	-	-	(4,455)
Investment income	-	246	30,421	-	-	30,667
Other, net	-	1	617	(17)	-	601
Income (loss) before income taxes	(75,215)	1,874	56,544	24,404	-	7,607
Income tax expense (benefit)	(20,643)	1,204	12,014	8,861	-	1,436
Net income (loss)	(54,572)	670	44,530	15,543	-	6,171
Less: net income attributable to noncontrolling interest	-	-	531	-	-	531
Net income (loss) attributable to Consolidated Communications Holdings, Inc.	$ (54,572)	$ 670	$ 43,999	$ 15,543	$ -	$ 5,640
Total comprehensive income (loss) attributable to common shareholders	$ (54,572)	$ 5,648	$ 34,651	$ 11,962	$ -	$ (2,311)

	Year Ended December 31, 2011					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ -	$ 25	$ 316,760	$ 71,249	$ (13,771)	$ 374,263
Operating expenses:						
Cost of services and products (exclusive of depreciation and amortization)	-	-	138,303	14,732	(13,771)	139,264
Selling, general and administrative expenses	2,249	2,724	60,003	16,074	-	81,050
	-	-	2,649	-	-	2,649

Financing and other transaction costs						
Depreciation and amortization	-	-	73,654	15,091	-	88,745
Operating income (loss)	(2,249)	(2,699)	42,151	25,352	-	62,555
Other income (expense):						
Interest expense, net of interest income	-	(48,095)	(1,133)	(166)	-	(49,394)
Intercompany interest income (expense)	(40,283)	80,142	(39,407)	(452)		-
Investment income	-	246	27,597	-	-	27,843
Other, net	-	-	2,097	(1,274)	-	823
Income (loss) before income taxes	(42,532)	29,594	31,305	23,460	-	41,827
Income tax expense (benefit)	(15,725)	10,776	10,923	8,871	-	14,845
Net income (loss)	(26,807)	18,818	20,382	14,589	-	26,982
Less: net income attributable to noncontrolling interest	-	-	572	-	-	572
Net income (loss) attributable to Consolidated Communications Holdings, Inc.	$ (26,807)	$ 18,818	$ 19,810	$ 14,589	$ -	$ 26,410
Total comprehensive income (loss) attributable to common shareholders	$ (26,807)	$ 26,415	$ 10,288	$ 10,152	$ -	$ 20,048

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

	Year Ended December 31, 2010					
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ -	$ 4	$ 322,764	$ 74,531	$ (13,933)	$ 383,366
Operating expenses:						
Cost of services and products (exclusive of depreciation and amortization)	-	-	139,610	16,625	(13,933)	142,302
Selling, general and administrative expenses	2,699	119	65,289	19,918	-	88,025
Depreciation and amortization	-	-	71,522	15,620	-	87,142
Operating income (loss)	(2,699)	(115)	46,343	22,368	-	65,897
Other income (expense):						
Interest expense, net of interest income	973	(50,804)	(949)	40	-	(50,740)
Intercompany interest income (expense)	(39,878)	82,364	(41,074)	(1,412)		-
Investment income	-	246	27,498	-	-	27,744
Other, net	-	3	(974)	213	-	(758)
Income (loss) before income taxes	(41,604)	31,694	30,844	21,209	-	42,143
Income tax expense (benefit)	(20,814)	11,641	10,853	7,311	-	8,991
Net income (loss)	(20,790)	20,053	19,991	13,898	-	33,152
Less: net income attributable to noncontrolling interest	-	-	557	-	-	557
Net income (loss) attributable to Consolidated Communications Holdings, Inc.	$ (20,790)	$ 20,053	$ 19,434	$ 13,898	$ -	$ 32,595
Total comprehensive income (loss) attributable to common shareholders	$ (20,790)	$ 22,550	$ 20,919	$ 13,985	$ -	$ 36,664

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

Condensed Consolidating Statements of Cash Flows

(amounts in thousands)

	Year Ended December 31, 2012				
	Parent	**Subsidiary Issuer**	**Guarantors**	**Non-Guarantors**	**Consolidated**
Net cash provided by (used in) operating activates	$ (52,318)	$ 13,106	$ 140,869	$ 21,558	$ 123,215
Cash flows from investing activities:					
Business acquisition, net of cash acquired	(385,346)	-	-	-	(385,346)
Purchases of property, plant and equipment	-	-	(71,045)	(6,050)	(77,095)
Purchase of investments	-	-	(6,728)		(6,728)
Proceeds from sale of assets	-	-	882	42	924
Other	(314)	-	-		(314)
Net cash used in investing activities	(385,660)	-	(76,891)	(6,008)	(468,559)
Cash flows from financing activities:					
Proceeds from bond offering	-	298,035	-	-	298,035
Proceeds from issuance of long-term debt	-	544,850	-	-	544,850
Payment of capital lease obligation	-	-	(183)	(45)	(228)
Payment on long-term debt	-	(510,038)	-	-	(510,038)
Payment of financing costs	-	(18,616)	-	-	(18,616)
Distribution to noncontrolling interest	-	-	3,150	(5,000)	(1,850)
Repurchase and retirement of common stock	(559)	-	-	-	(559)
Dividends on common stock	(54,100)	-	-	-	(54,100)
Transactions with affiliates, net	492,637	(424,129)	(58,495)	(10,013)	-
Net cash provided by (used in) financing activities	437,978	(109,898)	(55,528)	(15,058)	257,494
(Decrease)/increase in cash and cash equivalents	-	(96,792)	8,450	492	(87,850)
Cash and cash equivalents at beginning of period	-	103,369	80	2,255	105,704
Cash and cash equivalents at end of period	$ -	$ 6,577	$ 8,530	$ 2,747	$ 17,854

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

	Year Ended December 31, 2011				
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Consolidated
Net cash provided by (used in) operating activates	$ (27,033)	$ 22,335	$ 103,966	$ 30,236	$ 129,504
Cash flows from investing activities:					
Purchases of property, plant and equipment	-	-	(35,331)	(6,582)	(41,913)
Proceeds from sale of assets	-	-	511	329	840
Other	-	-	272	-	272
Net cash used in investing activities	-	-	(34,548)	(6,253)	(40,801)
Cash flows from financing activities:					
Payment of capital lease obligation	-	-	(113)	(36)	(149)
Payment of financing costs	-	(3,471)	-	-	(3,471)
Repurchase and retirement of common stock	(726)	-	-	-	(726)
Dividends on common stock	(46,307)	-	-	-	(46,307)
Transactions with affiliates, net	74,066	19,107	(69,277)	(23,896)	-
Net cash provided by (used in) financing activities	27,033	15,636	(69,390)	(23,932)	(50,653)
Increase in cash and cash equivalents	-	37,971	28	51	38,050
Cash and cash equivalents at beginning of period	-	65,398	52	2,204	67,654
Cash and cash equivalents at end of period	$ -	$ 103,369	$ 80	$ 2,255	$ 105,704

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

	Year Ended December 31, 2010				
	Parent	Subsidiary Issuer	Guarantors	Non-Guarantors	Consolidated
Net cash provided by (used in) operating activates	$ (26,981)	$ 21,010	$ 90,955	$ 31,158	$ 116,142
Cash flows from investing activities:					
Purchases of property, plant and equipment	-	-	(36,078)	(6,839)	(42,917)
Proceeds from sale of assets	-	-	1,035	30	1,065
Proceeds from sale of investments	-	-	35	-	35
Net cash used in provided by investing activities	-	-	(35,008)	(6,809)	(41,817)
Cash flows from financing activities:					
Payment of capital lease obligation	-	-	(386)	(13)	(399)
Distribution to noncontrolling interest	-	-	3,150	(5,000)	(1,850)
Repurchase and retirement of common stock	(1,001)	-	-	-	(1,001)
Dividends on common stock	(46,179)	-	-	-	(46,179)
Transactions with affiliates, net	74,161	2,875	(58,893)	(18,143)	-
Net cash provided by (used in) financing activities	26,981	2,875	(56,129)	(23,156)	(49,429)
Increase in cash and cash equivalents	-	23,885	(182)	1,193	24,896
Cash and cash equivalents at beginning of period	-	41,513	234	1,011	42,758
Cash and cash equivalents at end of period	$ -	$ 65,398	$ 52	$ 2,204	$ 67,654

INDEPENDENT AUDITORS REPORT

To the Partners of Pennsylvania RSA No. 6 (II) Limited Partnership:

We have audited the accompanying financial statements of Pennsylvania RSA No. 6 (II) Limited Partnership (the "Partnership") which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, changes in partners capital, and cash flows for each of the three years in the period ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Partnership's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pennsylvania RSA No. 6 (II) Limited Partnership as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Atlanta, GA

March 12, 2013

Pennsylvania RSA No. 6 (II) Limited Partnership

Balance Sheets - As of December 31, 2012 and 2011

(Dollars in Thousands)

ASSETS	**2012**	**2011**
CURRENT ASSETS:		
Accounts receivable, net of allowance of $143 and $366	$ 14,750	$ 9,005
Unbilled revenue	890	1,091
Due from affiliate	7,374	6,117
Prepaid expenses and other current assets	-	22
Total current assets	23,014	16,235
PROPERTY, PLANT AND EQUIPMENT Net	12,412	11,448
OTHER ASSETS	27	54
TOTAL ASSETS	$ 35,453	$ 27,737
LIABILITIES AND PARTNERS CAPITAL		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 3,804	$ 3,326
Advance billings and customer deposits	3,648	3,382
Total current liabilities	7,452	6,708
LONG TERM LIABILITIES	411	355
Total liabilities	7,863	7,063
PARTNERS CAPITAL	27,590	20,674
TOTAL LIABILITIES AND PARTNERS CAPITAL	$ 35,453	$ 27,737

See notes to financial statements.

Pennsylvania RSA No. 6 (II) Limited Partnership

Statements of Operations - Years Ended December 31, 2012, 2011 and 2010

(Dollars in Thousands)

	2012	2011	2010
OPERATING REVENUE:			
Service revenue	$ 112,987	$ 112,822	$ 101,143
Equipment and other	22,699	22,758	18,986
Total operating revenue	135,686	135,580	120,129
OPERATING COSTS AND EXPENSES:			
Cost of service (exclusive of depreciation and amortization)	38,665	45,726	37,846
Cost of equipment	25,416	25,347	16,385
Selling, general and administrative	35,758	33,139	30,384
Depreciation and amortization	2,446	2,619	2,445
Total operating costs and expenses	102,285	106,831	87,060
OPERATING INCOME	33,401	28,749	33,069
INTEREST INCOME, NET	15	26	552
NET INCOME	$ 33,416	$ 28,775	$ 33,621
Allocation of Net Income:			
Limited Partners	$ 16,330	$ 14,062	$ 16,431
General Partner	$ 17,086	$ 14,713	$ 17,190

See notes to financial statements.

Pennsylvania RSA No. 6 (II) Limited Partnership

Statements of Changes in Partners Capital - Years Ended December 31, 2012, 2011 and 2010

(Dollars in Thousands)

	General Partner	Limited Partners			
	Cellco Partnership	Cellco Partnership	Consolidated Communications Enterprise Services, Inc.	Venus Cellular Telephone Company, Inc.	Total Partners Capital
BALANCE January 1, 2010	$ 13,436	$ 2,242	$ 6,220	$ 4,380	$ 26,278
Distributions	(17,384)	(2,900)	(8,048)	(5,668)	(34,000)
Net Income	17,190	2,868	7,958	5,605	33,621
BALANCE December 31, 2010	13,242	2,210	6,130	4,317	25,899
Distributions	(17,384)	(2,900)	(8,048)	(5,668)	(34,000)
Net Income	14,713	2,453	6,812	4,797	28,775
BALANCE December 31, 2011	10,571	1,763	4,894	3,446	20,674
Distributions	(13,549)	(2,260)	(6,273)	(4,418)	(26,500)
Net Income	17,086	2,850	7,909	5,571	33,416
BALANCE December 31, 2012	$ 14,108	$ 2,353	$ 6,530	$ 4,599	$ 27,590

See notes to financial statements.

Pennsylvania RSA No. 6 (II) Limited Partnership

Statements of Cash Flows - Years Ended December 31, 2012, 2011 and 2010

(Dollars in Thousands)

	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 33,416	$ 28,775	$ 33,621
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,446	2,619	2,445
Provision for losses on accounts receivable	270	722	584
Changes in certain assets and liabilities:			
Accounts receivable	(6,015)	(1,644)	(40)
Unbilled revenue	201	(53)	(165)
Prepaid expenses and other current assets	22	-	(2)
Accounts payable and accrued liabilities	85	564	386
Advance billings and customer deposits	266	263	610
Long term liabilities	56	81	71
Net cash provided by operating activities	30,747	31,327	37,510
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures, net	(2,990)	(2,151)	(2,310)
Change in due from affiliate, net	(1,257)	4,824	(1,200)
Net cash provided by (used in) investing activities	(4,247)	2,673	(3,510)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Distributions to partners	(26,500)	(34,000)	(34,000)
Net cash used in financing activities	(26,500)	(34,000)	(34,000)
CHANGE IN CASH	-	-	-
CASH Beginning of year	-	-	-
CASH End of year	$ -	$ -	$ -
NONCASH TRANSACTIONS FROM INVESTING ACTIVITIES:			
Accruals for Capital Expenditures	$ 400	$ 7	$ 25

See notes to financial statements.

Pennsylvania RSA No. 6 (II) Limited Partnership

Notes to Financial Statements

(Dollars in Thousands)

1. ORGANIZATION AND MANAGEMENT

Pennsylvania RSA No. 6 (II) Limited Partnership Pennsylvania RSA No. 6 (II) Limited Partnership (the Partnership) was formed in 1991. The principal activity of the Partnership is providing cellular service in the Pennsylvania 6 (II) rural service area. Under the terms of the partnership agreement, the partnership expires on January 1, 2091.

The partners and their respective ownership percentages as of December 31, 2012, 2011 and 2010 are as follows:

General Partner:	
Cellco Partnership* (General Partner)	51.13 %
Limited Partners:	
Cellco Partnership*	8.53 %
Consolidated Communications Enterprise Services, Inc. **	23.67 %
Venus Cellular Telephone Company, Inc.	16.67 %

*Cellco Partnership (Cellco) doing business as Verizon Wireless.

**Consolidated Communications Enterprise Services, Inc. (CCES) is a wholly-owned subsidiary of Consolidated Communications, Inc.

In accordance with the partnership agreement, Cellco is responsible for managing the operations of the partnership (See Note 5).

In 2012, management determined that Cellco Partnership s ownership percentage should have separately reflected the General and Limited Partnership interests, in accordance with the partnership agreement. Net income, distributions and capital should have reflected the same separation. The financial statements should have disclosed that Cellco Partnership had a 51.13% General Partnership interest and an 8.53% Limited Partnership interest. Accordingly, the Statements of Changes in Partners Capital for 2011 and 2010 have been revised to allocate Cellco s capital, net income and distributions between General Partner and Limited Partner interest. The net income for 2011 and 2010 presented below the Statements of Operations previously allocated $17,166 and $20,058, respectively, to the General Partner. The allocation should have been $14,713 and $17,190, respectively. Additionally, the net income for 2011 and 2010 previously allocated to the Limiter Partner was $11,609 and $13,563, respectively. The allocation should have been $14,062 and $16,431, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. Estimates are used for, but are not limited to, the accounting for: allocations, allowance for uncollectible accounts receivable, unbilled revenue, depreciation and amortization, useful lives and impairment of assets, accrued expenses, and contingencies.

Revenue Recognition The Partnership offers products and services to our customers through bundled arrangements. These arrangements involve multiple deliverables which may include products, services, or a combination of products and services.

On January 1, 2011, the Partnership prospectively adopted the accounting standard updates regarding revenue recognition for multiple deliverable arrangements, and arrangements that include software elements. These updates require a vendor to allocate revenue in an arrangement using its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists. The residual method of revenue allocation is no longer permissible. These accounting standard updates do not change our units of accounting for bundled arrangements, nor do they materially change how we allocate arrangement consideration to our various products and services. Accordingly, the adoption of these standard updates did not have a significant impact on the financial statements. Additionally, we do not currently foresee any changes to our products, services or pricing practices that will have a significant effect on the financial statements in periods after the initial adoption, although this could change.

The Partnership earns revenue by providing access to its network (access revenue) and usage of its network (usage revenue), which includes voice and data revenue. Customers are associated with the Partnership based upon mobile identification number. In general, access revenue is billed one month in advance and is recognized when earned; the unearned portion is classified in Advance billings in the balance sheet. Usage revenue is recognized when service is rendered and included in unbilled revenue until billed. Equipment sales revenue associated with the sale of wireless devices and related equipment costs are recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. Customer activation fees charged to customers are considered additional consideration and are recorded in Equipment and other revenue, generally, at the time of customer acceptance. For agreements involving the resale of third-party services in which the Partnership is considered the primary obligor in the arrangements, the Partnership records revenue gross at the time of sale. The roaming rates charged by the Partnership to Cellco do not necessarily reflect current market rates. The Partnership will continue to re-evaluate the rates on a periodic basis (See Note 5).

Wireless bundled service plans primarily consist of wireless voice and data services. The bundling of a voice plan with a text messaging plan (Talk & Text), for example, creates a multiple deliverable arrangement consisting of a voice component and a data

component in the form of text messaging. For these arrangements, revenue is allocated to each deliverable using a relative selling price method. Under this method, arrangement consideration is allocated to each separate deliverable based on our standalone selling price for each product or service, up to the amount that is not contingent upon providing additional services. For equipment sales, the Partnership currently subsidizes the cost of wireless devices. The amount of this subsidy is generally contingent on the arrangement and terms selected by the customer. The equipment revenue is recognized up to the amount collected when the wireless device is sold.

The Partnership reports taxes imposed by governmental authorities on revenue-producing transactions between us and our customers on a net basis.

Cellular service revenues resulting from a cellsite agreement with Cellco are recognized based upon a rate per minute of use (See Note 5).

Operating Costs and Expenses Operating expenses include expenses incurred directly by the Partnership, as well as an allocation of selling, general and administrative, and operating costs incurred by Cellco or its affiliates on behalf of the Partnership. Employees of Cellco provide services performed on behalf of the Partnership. These employees are not employees of the Partnership, therefore operating expenses include direct and allocated charges of salary and employee benefit costs for the services provided to the Partnership. Cellco believes such allocations, principally based on the Partnership s percentage of total customers, customer gross additions or minutes-of-use, are in accordance with the Partnership Agreement. The roaming rates charged to the Partnership by Cellco do not necessarily reflect current market rates. The Partnership will continue to re-evaluate the rates on a periodic basis (see Note 5).

Retail Stores The daily operations of all retail stores owned by the Partnership are managed by Cellco. All fixed assets, liabilities, income and expenses related to these retail stores are recorded in the financial statements of the Partnership.

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

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

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

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

Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation or amortization are eliminated and any related gain or loss is reflected in the statements of operations. All property, plant and equipment purchases are made through an affiliate of Cellco. Transfers of property, plant and equipment between Cellco and affiliates are recorded at net book value.

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

Other Assets Other assets consist of a customer list acquired in 2008. The Partnership amortizes the customer list over its expected useful life of 6 years using a method consistent with historical customer turnover rates. As of December 31, 2012, the gross carrying value is $182 and the accumulated amortization is $155. As of December 31, 2012, the scheduled amortization of the customer list for 2013 is $27.

FCC Licenses The Federal Communications Commission (FCC) issues licenses that authorize cellular carriers to provide service in specific cellular geographic service areas. The FCC grants licenses for terms of up to ten years. In 1993 the FCC adopted specific standards to apply to cellular renewals, concluding it will award a license renewal to a cellular licensee that meets certain standards of past performance. Historically, the FCC has granted license renewals routinely and at nominal costs, which are expensed as incurred. All wireless licenses issued by the FCC that authorize the Partnership to provide cellular services are recorded on the books of Cellco. The current term of the Partnership s FCC license expires in October 2020. Cellco believes it will be able to meet all requirements necessary to secure renewal of the Partnership s cellular license.

Valuation of Assets Long-lived assets, including property, plant and equipment and intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Cellco re-evaluates the useful life determination for wireless licenses at least annually to determine whether events and circumstances continue to support an indefinite useful life. Moreover, Cellco has determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of the Partnership s wireless licenses.

Cellco tests its wireless licenses for potential impairment annually, and more frequently if indications of impairment exist. Cellco evaluates its licenses on an aggregate basis, using a direct value approach. This approach estimates fair value using a discounted cash flow analysis to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. If the fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the wireless licenses, an impairment is recognized. In addition, Cellco believes that under the Partnership agreement it has the right to allocate, based on a reasonable methodology, any impairment loss recognized by Cellco for all licenses included in Cellco s national footprint. Cellco does not charge the Partnership for the use of any FCC license recorded on its books (except for the annual cost of $317 related to the spectrum leases). Cellco evaluated its wireless licenses for potential impairment as of December 15, 2012 and December 15, 2011. These evaluations resulted in no impairment of wireless licenses.

Concentrations The Partnership maintains allowances for uncollectible accounts receivable for estimated losses resulting from the inability of customers to make required payments. Estimates are based on historical net write-off experience. No single customer receivable is large enough to present a significant financial risk to the partnership.

Cellco and the Partnership rely on local and long-distance telephone companies, some of which are related parties (See Note 5), and other companies to provide certain communication services. Although management believes alternative telecommunications facilities could be found in a timely manner, any disruption of these services could potentially have a material adverse impact on the Partnership s operating results.

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

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

Due from affiliate Due from affiliate principally represents the Partnership s cash position with Cellco. Cellco manages, on behalf of the Partnership, all cash, inventory, investing and financing activities of the Partnership. As such, the change in due from

affiliate is reflected as an investing activity or a financing activity in the statements of cash flows depending on whether it represents a net asset or net liability for the Partnership.

Additionally, administrative and operating costs incurred by Cellco on behalf of the Partnership, as well as property, plant and equipment transactions with affiliates, are charged to the Partnership through this account. Starting in 2011, interest income is based on the Applicable Federal Rate which was approximately .2% and .4% for the years ended December 31, 2012 and 2011, respectively. Interest expense is calculated by applying Cellco s average cost of borrowing from Verizon Communications, Inc, which was approximately 7.3% and 6.8% for the years ended December 31, 2012 and 2011, respectively. For 2010, interest income or interest expense was based on the average monthly outstanding balance in this account and was calculated by applying Cellco s average cost of borrowing from Verizon Communications, Inc., which was approximately 5.8% for the year ended December 31, 2010. Included in net interest income is interest income of $15, $31 and $556 for the years ended December 31, 2012, 2011 and 2010, respectively, related to due from affiliate.

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

***Recently Adopted Accounting Standards* -** During the first quarter of 2012, we adopted the accounting standard update regarding fair value measurement. This update was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. generally accepted accounting principles and International Financial Reporting Standards. This standard update also changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The adoption of this standard update did not have a significant impact on the financial statements.

During the first quarter of 2012, we adopted the accounting standard update regarding testing of goodwill for impairment. This standard update gives companies the option to perform a qualitative assessment to first assess whether the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The adoption of this standard did not have a significant impact on the financial statements.

Recent Accounting Standards - In July 2012, the accounting standard update regarding testing of intangible assets for impairment was issued. This standard update allows companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not the asset is impaired. We will adopt this standard update

during the first quarter of 2013.

The adoption of this standard is not expected to have a significant impact on the financial statements.

Subsequent Events Events subsequent to December 31, 2012 have been evaluated through March 12, 2013, the date the financial statements were issued.

3. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following as of December 31, 2012 and 2011:

	2012	2011
Buildings and improvements (15-40 years)	$ 7,807	$ 6,603
Wireless plant and equipment (3-15 years)	21,421	22,732
Furniture, fixtures and equipment (3-10 years)	509	554
Leasehold improvements (5 years)	1,138	1,501
	30,875	31,390
Less: accumulated depreciation	18,463	19,942
Property, plant and equipment, net	$ 12,412	$ 11,448
Depreciation expense	$ 2,419	$ 2,592

Capitalized network engineering costs of $224 and $89 were recorded during the years ended December 31, 2012 and 2011, respectively. Construction in progress included in certain classifications shown above, principally wireless plant and equipment, amounted to $556 and $828 as of December 31, 2012 and 2011, respectively.

4. CURRENT LIABILITIES

Accounts payable and accrued liabilities consist of the following as of December 31, 2012 and 2011:

	2012	2011
Accounts payable	$ 3,578	$ 3,103
Accrued liabilities	226	223
Accounts payable and accrued libilities	$ 3,804	$ 3,326

Advance billings and customer deposits consist of the following as of December 31, 2012 and 2011:

	2012	2011
Advance billings	$ 3,565	$ 3,300
Customer deposits	83	82
Advance billings and customer deposits	$ 3,648	$ 3,382

5. TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

In addition to fixed asset purchases (see Note 2), substantially all of service revenues, equipment and other revenues, cost of service, cost of equipment, and selling, general and administrative expenses represent transactions processed by affiliates (Cellco and its related parties) on behalf of the Partnership or represent transactions with affiliates. These transactions consist of revenues and expenses that pertain to the Partnership which are processed by Cellco and directly attributed to or directly charged to the Partnership. They also include certain revenues and expenses that are processed or incurred by Cellco which are allocated to the Partnership based on factors such as the Partnership s percentage of customers, gross customer additions, or minutes of use. These transactions do not necessarily represent arm s length transactions and may not represent all revenues and costs if the Partnership operated on a standalone basis.

Service revenues - Service revenues include monthly customer billings processed by Cellco on behalf of the Partnership and roaming revenues relating to customers of other affiliated markets that are specifically identified to the Partnership. Service revenue also includes long distance, data, and certain revenue reductions including revenue concessions that are processed by Cellco and allocated to the Partnership based on certain factors deemed appropriate by Cellco.

Equipment and other revenues - Equipment revenue includes equipment sales processed by Cellco and specifically identified to the Partnership, as well as certain handset and accessory revenues, contra-revenues including equipment concessions, and coupon rebates that are processed by Cellco and allocated to the Partnership based on certain factors deemed appropriate by Cellco. Other revenues include cell sharing revenue and other fees and surcharges charged to the customer that are specifically identified to the Partnership.

Cost of Service - Cost of service includes roaming costs relating to customers roaming in other affiliated markets, cell sharing costs and switch costs that are specifically identified to the Partnership. Cost of service also includes cost of telecom, long distance and application content that are incurred by Cellco and allocated to the Partnership based on certain factors deemed appropriate by Cellco. The Partnership has also entered into a lease agreement for the right to use additional spectrum owned by Cellco. See Note 6 for further information regarding this arrangement.

Cost of equipment - Cost of equipment includes the cost of inventory specifically identified and transferred to the Partnership (see Note 2). Cost of equipment also includes

certain costs related to handsets, accessories and other costs incurred by Cellco and allocated to the Partnership based on certain factors deemed appropriate by Cellco.

Selling, general and administrative - Selling, general and administrative expenses include commissions, customer billing, office telecom, customer care, salaries, sales and marketing and advertising expenses that are specifically identified to the Partnership as well as incurred by Cellco and allocated to the Partnership based on certain factors deemed appropriate by Cellco.

6. COMMITMENTS

Cellco, on behalf of the Partnership, and the Partnership itself have entered into operating leases for facilities, equipment and spectrum used in its operations. Lease contracts include renewal options that include rent expense adjustments based on the Consumer Price Index as well as annual and end-of-lease term adjustments. Rent expense is recorded on a straight-line basis. The noncancellable lease term used to calculate the amount of the straight-line rent expense is generally determined to be the initial lease term, including any optional renewal terms that are reasonably assured. Leasehold improvements related to these operating leases are amortized over the shorter of their estimated useful lives or the noncancellable lease term. For the years ended December 31, 2012, 2011 and 2010, the Partnership incurred a total of $1,604, $1,562 and $1,265, respectively, as rent expense related to these operating leases, which was included in cost of service and general and administrative expenses in the accompanying statements of operations. Aggregate future minimum rental commitments under noncancellable operating leases, excluding renewal options that are not reasonably assured, for the years shown are as follows:

Years	Amount	
2013	$	1,160
2014		1,013
2015		992
2016		947
2017		833
2018 and thereafter		5,767
Total minimum payments	$	10,712

On January 1, 2011, the Partnership entered into a 700 MHz upper band spectrum lease with Cellco. The lease includes an initial term extending through June 13, 2019 and a renewal option through June 13, 2029. The license, held by Cellco, is considered an indefinite-lived intangible as Cellco believes it will be able to meet all requirements necessary to secure renewal of this license. The Partnership accounts for this spectrum lease as an executory contract

which is similar to an operating lease.

Based on the terms of the spectrum license lease as of December 31, 2012, future spectrum lease obligations, including the renewal period, are expected to be as follows:

Years		Amount
2013	$	285
2014		285
2015		285
2016		285
2017		285
2018 and thereafter		3,256
Total minimum payments	$	4,681

The General Partner currently expects that the renewal option in the lease will be exercised.

From time to time Cellco enters into purchase commitments, primarily for network equipment, on behalf of the Partnership. These represent legal obligations of Cellco.

7. CONTINGENCIES

Cellco and the Partnership are subject to lawsuits and other claims including class actions, product liability, patent infringement, intellectual property, antitrust, partnership disputes, and claims involving relations with resellers and agents. Cellco is also currently defending lawsuits filed against it and other participants in the wireless industry alleging various adverse effects as a result of wireless phone usage. Various consumer class action lawsuits allege that Cellco violated certain state consumer protection laws and other statutes and defrauded customers through misleading billing practices or statements. These matters may involve indemnification obligations by third parties and/or affiliated parties covering all or part of any potential damage awards against Cellco and the Partnership and/or insurance coverage. All of the above matters are subject to many uncertainties, and the outcomes are not currently predictable.

The Partnership may be allocated a portion of the damages that may result upon adjudication of these matters if the claimants prevail in their actions. In none of the currently pending matters is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued to either Cellco or the Partnership with respect to these matters as of December 31, 2012 cannot be made at this time due to various factors typical in contested proceedings, including (1) uncertain damage theories and demands; (2) a less than complete factual record; (3) uncertainty concerning legal theories and their resolution by courts or regulators; and (4)

the unpredictable nature of the opposing party and its demands. We continuously monitor these proceedings as they develop and adjust any accrual or disclosure as needed. We do not expect that the ultimate resolution of any pending

regulatory or legal matter in future periods will have a material effect on the financial condition of the Partnership, but it could have a material effect on our results of operations for a given reporting period.

8. RECONCILIATION OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Balance at Beginning of the Year	Additions Charged to Operations	Write-offs Net of Recoveries	Balance at End of the Year
Accounts Receivable Allowances:				
2012	$ 366	$ 270	$ (493)	$ 143
2011	245	722	(601)	366
2010	184	584	(523)	245

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