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A LIMITED LIABILITY PARTNERSHIP

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February 15, 2001

VIA FEDERAL EXPRESS

Ms. Helen Helton
Executive Director
Commonwealth of Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, KY 40602

RECEIVED

FEB 16 2001

PUBLIC SERVICE
COMMISSION

05013200-0505
22250472-0570

Re: Notification of (1) Transfer of Ownership and Control of NewSouth Holdings, Inc. and its Utility Subsidiary, NewSouth Communications Corp., to an Existing Shareholder, NSHI Ventures LLC, through the Issuance of Additional Voting Stock, and (2) in connection therewith, issuance of Senior Notes by NewSouth Communications Corp.

Dear Ms. Helton:

Enclosed for filing with the Commonwealth of Kentucky Public Service Commission is an original and four (4) copies of a Notification of (1) Transfer of Ownership and Control of NewSouth Holdings, Inc. and its Utility Subsidiary, NewSouth Communications Corp., to an Existing Shareholder, NSHI Ventures LLC, through the Issuance of Additional Voting Stock, and (2) in connection therewith, issuance of Senior Notes by NewSouth Communications Corp. In addition, also enclosed is a duplicate of this filing and a self-addressed, stamped envelope. Please date-stamp the duplicate and return it in the envelope provided.

Ms. Helen Helton
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Please contact the undersigned with any questions concerning this matter.

Sincerely,

A handwritten signature in cursive script that reads "Denise N. Smith". The signature is written in black ink and is positioned above the printed name and title.

Denise N. Smith
Law Clerk

Enclosures

KELLEY DRYE & WARREN LLP

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Dear Ms. Helton:

NewSouth Communications Corp. ("NewSouth"), its parent, NewSouth Holdings, Inc. ("Holdings") and NSHI Ventures LLC ("Ventures") (together the "Parties"), by their attorneys, hereby respectfully notify the Commonwealth of Kentucky Public Service Commission ("Commission"), pursuant to Administrative Case No. 370, of their intent to transfer ownership and control of Holdings, and thus NewSouth, to Ventures, an existing approximately 23% shareholder of Holdings. This transfer of control will be carried out through the issuance to Ventures of additional voting preferred stock of Holdings and by changing the voting rights of the voting preferred shares of Holdings currently held by Ventures. Upon completion of this transaction, Ventures will hold approximately 61.5% of the voting power in Holdings. In addition to the transfer of control, this notification will advise the Commission that, in connection therewith, NewSouth is issuing 12% Redeemable Subordinated Senior Notes (the "Senior Notes") with an aggregate face value of \$50 million to essentially the same parties who

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are purchasing the new preferred stock. This notification is being made because NewSouth currently is authorized to provide local and interexchange service in Kentucky.¹

The Transfer of Control.

The Parties do not seek to transfer any operating authority. Upon completion of this transaction, NewSouth will continue to provide intrastate telecommunications service in Kentucky under its existing authorizations and tariffs. Accordingly, the contemplated transaction will be transparent to customers in Kentucky. It is the Parties' understanding that no formal approval by the Commission is required to complete the transaction described below.

The Parties. NewSouth, a Delaware corporation, is a wholly owned subsidiary of Holdings, a privately held Delaware corporation. NewSouth and Holdings are headquartered at Two North Main Street, Greenville, SC 29601. NewSouth is a non-dominant, rapidly growing communications services provider offering or preparing to offer local exchange and intrastate long distance services to end user customers. NewSouth operates, depending on the market and services offered, as a facilities-based or non-facilities-based carrier.

NewSouth markets its services primarily in the southern United States where it generally has both local and interexchange authority. NewSouth is authorized to provide intrastate toll in 44 states, including Kentucky, and is authorized to provide local exchange services in 10 states, including Kentucky. NewSouth's intrastate operations are expected to continue to grow, although they will not be concentrated in any particular state. Where NewSouth has only interexchange authority, its services are used primarily by persons placing calls using NewSouth's travel card. Another subsidiary of Holdings, UniversalCom, Inc., holds authority to provide telecommunications services in Florida, Alabama, Mississippi and Louisiana.²

Ventures is a Delaware limited liability company formed specifically to acquire shares of Holdings' Series D Convertible Participating Preferred Stock ("Series D Preferred Stock") issued by Holdings in July of 2000. Ventures has no other business interests. Ventures' address is c/o Kohlberg Kravis Roberts & Co. L.P., 9 West 57th Street, New York, N.Y. 10019.

¹ See Computer ID No. 5013200, Authority to Provide Local Exchange and Interexchange Service, February 28, 1999.

² Holdings has other subsidiaries which also will be affected by this change in ownership. However, they do not hold telecommunications authorizations in this state.

The officers of Ventures are the following:

James H. Greene, Jr. - Chief Executive Officer
Alexander Navab - President
Adam Clammer - Vice President, Secretary and Assistant Treasurer
Thomas Uger - Vice President, Treasurer and Assistant Secretary
William J. Janetschek - Assistant Secretary

Ventures' managing member and 98% owner is KKR 1996 Fund L.P., a Delaware limited partnership ("Fund L.P."), located at the same address as Ventures. Each of two state retirement funds holds approximately a 13% limited partnership interest in Fund L.P. No other partner, general or limited, holds a 10% or greater interest in Fund L.P. The sole general partner of Fund L.P. is KKR Associates 1996 L.P., a Delaware limited partnership ("Associates L.P."). The sole general partner of Associates L.P. is KKR 1996 GP LLC, a Delaware limited liability company, whose managers are Henry R. Kravis and George R. Roberts.³ All of the above entities are affiliated with Kohlberg Kravis Roberts & Co. L.P. ("KKR"), a private investment firm that makes equity investments through various entities for itself and its investors. For additional information about KKR, please see its website at www.kkr.com. An organizational chart of Ventures is included as *Exhibit 1* hereto.

Description of the Transaction. Ventures and certain other existing shareholders of Holdings will make a further investment of approximately \$35 million for 35 million shares of Series E Convertible Participating Preferred Stock ("Series E Preferred Stock").⁴ These shares initially will be convertible into 35 million shares of common stock and holders of the Series E Preferred Stock will have the same number of votes as the number of common shares into which the preferred is convertible (35 million votes). It is currently expected that Ventures will purchase 22,485,000 shares of the Series E Preferred Stock. Ventures and these other existing shareholders also will receive five year warrants to purchase up to 50 million shares of Holdings' common stock at an exercise price of \$1 per share. It is currently expected that Ventures will receive warrants to purchase 29,671,000 shares of common stock.⁵ These warrants will be issued in connection with the purchase by Ventures and the other shareholders of the Senior Notes.

³ Entities affiliated with KKR also control a majority interest in Birch Telecom, Inc. a telecommunications company operating primarily in the Midwest. Birch Telecom, Inc. will continue to exist separately from NewSouth.

⁴ None of the existing shareholders of Holdings are selling any of their shares in connection with this transaction.

⁵ The final allocation of shares, notes and warrants may differ somewhat, but any changes will not be material.

In addition to issuing new Series E Preferred Stock and warrants to Ventures and other shareholders, Holdings will amend the terms of its outstanding Series A, B and D preferred stock. The terms for conversion of the Series D Preferred Stock into common shares will be changed from one share of common for each share of preferred stock to 14.25 shares of common stock for each share of preferred stock. Because the voting rights of the various series of preferred stock are based on the number of shares of common stock that the preferred can be converted into, this change will increase the numbers of votes held by the existing preferred shareholders, among whom is Ventures. *Exhibit 2* hereto identifies the changes in Ventures voting power and the current and proposed shareholdings in Holdings.

Currently, Ventures holds shares of Series D Preferred Stock having approximately 23% of the voting power in Holdings.⁶ Ventures also has the right to nominate 2 members of Holdings' Board of Directors. Ventures already has invested approximately \$125 million in Holdings and its subsidiaries through the purchase of the Series D Preferred Stock. With the enhancement of the voting rights in the existing Series D Preferred Stock held by Ventures and the acquisition of the Series E Preferred Stock, Ventures will hold approximately 61.5% of the total voting power in Holdings. In addition to acquiring majority voting control, from and after the closing of its acquisition of additional stock, Ventures will have the right to name five of the nine members of the Board of Directors of Holdings.⁷

Qualifications of NSHI Ventures LLC. Ventures is fully qualified to assume ultimate control of NewSouth. As noted previously, Ventures was formed specifically to hold an investment in Holdings. Ventures, therefore, has no operations, income or assets other than its interest in Holdings. As an affiliate of KKR, one of the country's leading and most experienced investment firms, Ventures has access to the funds necessary to make the additional investment contemplated by this transaction. As noted previously, the \$85 million investment in stock and notes will provide much-needed funds for NewSouth and assure its current financial stability. Ventures' management has many years of experience in the financial and investment industry and particularly in the emerging high tech and telecommunications industries. Ventures, however, is an investment entity and will not be involved in the day to day operations of NewSouth; rather, it will rely on NewSouth's management. Thus, it is not currently contemplated that there will be overall changes in NewSouth's current management structure as a result of this transaction.

⁶ Ventures also holds an option to acquire 3,801,169 additional shares of Series D Preferred Stock at \$17.10 per share, each share of which is convertible into one share of common stock.

⁷ *Exhibit 3* is a corporate organizational chart of Holdings and its subsidiaries before and after the proposed transaction.

The Senior Notes.

As noted above, NewSouth will raise additional funds through the issuance of \$50 million in senior notes. The Senior Notes be will issued by NewSouth and NewSouth Technologies, LLC⁸ and guaranteed by Holdings. It is currently expected that Ventures will purchase \$29,671,000 aggregate principal amount of the Senior Notes.

The proceeds from the issuance of the Senior Notes are not earmarked for use in Kentucky but will be available for general corporate purposes. As a CLEC, NewSouth does not possess market power in Kentucky nor does it have carrier of last resort responsibilities which would impact the availability of service. Given these facts, it is our understanding that no approval of this Commission is required for the issuance of the Senior Notes and that this notification is sufficient.⁹

Public Interest Considerations. The proposed transfer of control of NewSouth to its existing shareholder, Ventures, is in the public interest. After the consummation of the transaction described herein, NewSouth will continue to operate under its same name, tariffs and operating authorities as at present. The transfer of control and issuance of the Senior Notes will not result in any change in NewSouth's rates or services. The contact for customer and Commission inquiries will remain the same for NewSouth after the transfer of control:

Lori Reese, Vice President for Governmental Affairs
Two North Main Street
Greenville, SC 29601
(Tel:) (864) 672-5000
(Fax:) (864) 672-5040
email: lreese@newsouth.com

Thus, the transfer of control of Holdings will be transparent to customers and will not have any adverse impact on them. The only change is in the ultimate ownership of NewSouth. The additional funding and financial stability that Ventures and the other investors will provide through this transaction will enhance NewSouth's ability to compete in the market for telecommunications services in Kentucky and elsewhere, both through the maintenance of existing service and the introduction of new products and services.¹⁰ Over time, consumers in Kentucky should benefit from a greater number of product and service options as well as competitive prices resulting from the enhanced competition NewSouth will be able to provide.

⁸ NewSouth Technologies, LLC is a wholly owned subsidiary of Holdings. It does not hold any federal or state telecommunications authorizations.

⁹ See Administrative Case No. 370.

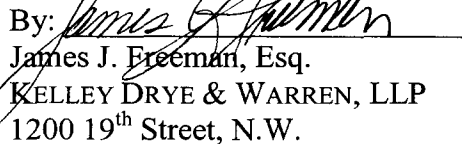
¹⁰ These same public interest considerations also support the issuance of the Senior Notes.

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It is the Parties' understanding that prior Commission approval is not required to consummate either the transfer of control or the issuance of the Senior Notes as described herein. If this understanding is incorrect, it is respectfully requested that the Commission notify the Parties as soon as possible. Otherwise, the Parties will proceed with their plans as contemplated.

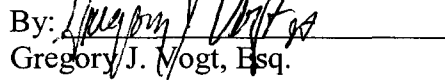
Respectfully submitted,

**NEWSOUTH COMMUNICATIONS CORP. AND
NEWSOUTH HOLDINGS, INC.**

By: 
James J. Freeman, Esq.
KELLEY DRYE & WARREN, LLP
1200 19th Street, N.W.
Suite 500
Washington, D. C. 20036

Its Attorneys

NSHI VENTURES LLC

By: 
Gregory J. Mogt, Esq.
WILEY REIN & FIELDING
1776 K STREET, N.W.
Washington, D.C. 20006

Its Attorneys

Dated: February 15, 2001

EXHIBIT 1

NSHI VENTURES LLC ORGANIZATIONAL CHART

NSHI VENTURES LLC ORGANIZATIONAL CHART

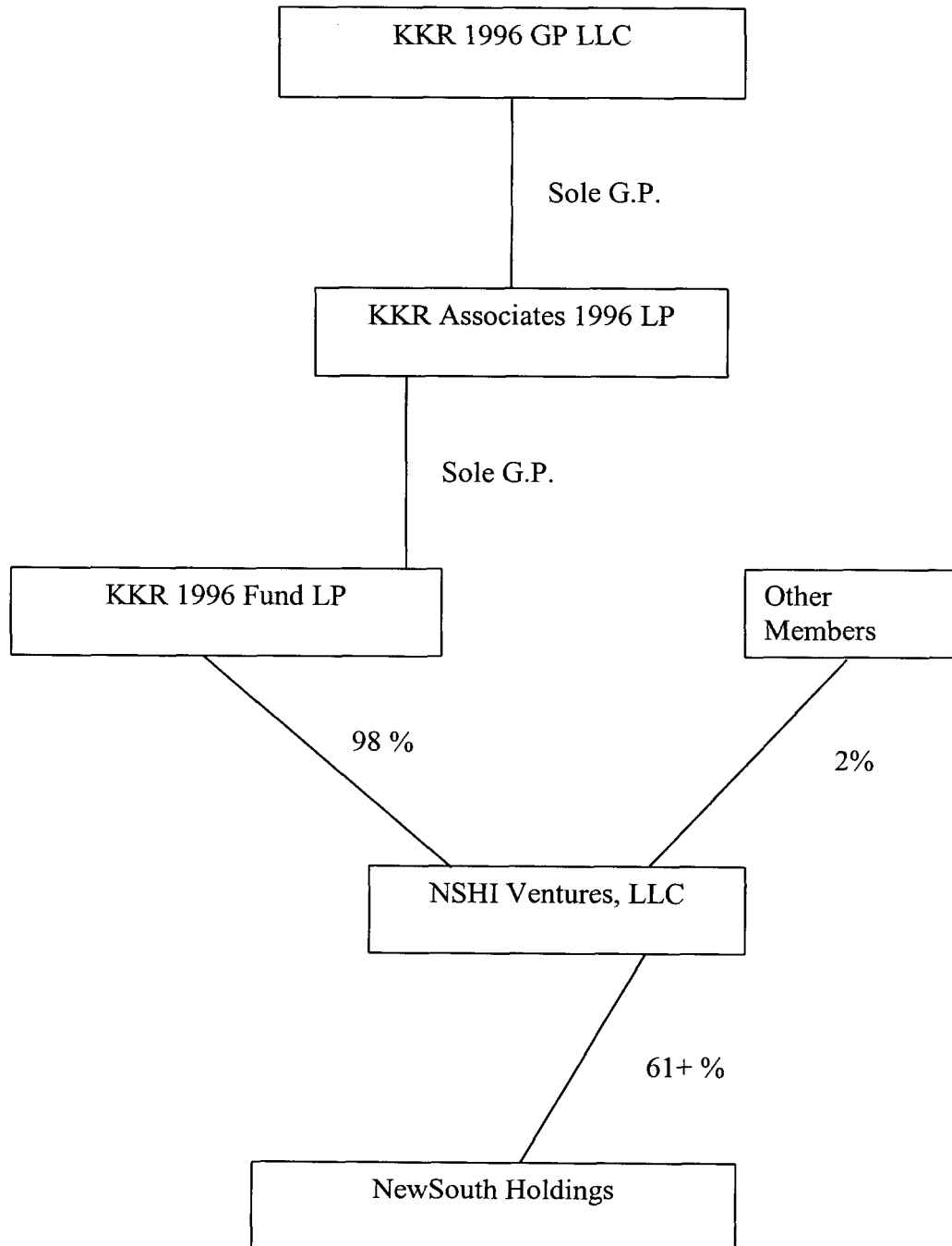


EXHIBIT 2

NEWSOUTH HOLDINGS, INC. SHARE OWNERSHIP

NEWSOUTH HOLDINGS, INC. SHARE OWNERSHIP

NEWSOUTH HOLDINGS, INC.

SHAREHOLDERS	TYPE OF SHARES (Conversion price, current and post- transaction)	CURRENT VOTES (Based on conversion into Common)	POST- TRANSACTION VOTES
Ventures			
	A	0	0
	B	0	0
	D (\$14.25/\$1.00)	9,091,475	129,553,524
	E (na/\$1.00)	n/a	22,485,000
	CM	0	0
All Other Shareholders			
	A (\$2.23/\$1.00)	6,716,413	14,999,989
	B (\$1.091/\$1.00)	1,833,332	1,999,554
	D (\$14.25/\$1.00)	3,271,836	46,623,651
	E (na/\$1.00)	n/a	12,515,000
	CM (Founders*)	15,225,000	15,225,000
	CM (Others)	3,831,835	3,831,835

* Shares held by the founders of the company.

EXHIBIT 3

NEWSOUTH HOLDINGS, INC. ORGANIZATIONAL CHART

New South Organizational Chart

