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February 13, 2003

Ms. Stephanie Bell
Secretary of the Commission
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602-0615

REC-1157

FEB 14 2003

PUBLIC SERVICE
COMMISSION

Re: Informational Filing Concerning a Change in the Ownership of NewSouth Holdings, Inc., the Parent of NewSouth Communications Corp.
No Commission Approval Required.

Dear Secretary Bell:

We are writing on behalf of NewSouth Communications Corp. ("NewSouth") to provide the Kentucky Public Service Commission (the "Commission") with information concerning a change in the ownership of its parent, NewSouth Holdings, Inc. ("Holdings") through the issuance of additional voting stock as described below.¹ Upon completion of other action, no shareholder will have control of Holdings. This internal restructuring will occur at the parent-company level only and will have no effect on NewSouth. It is our understanding that prior Commission approval is not required for this proposed transaction and this matter, therefore, should not be docketed.

NewSouth is a wholly owned subsidiary of Holdings (collectively NewSouth and Holdings will be referred to as the "Company"). The Company is in the process of carrying out a proposed restructuring. Holdings is restructuring itself and obtaining \$62.5 million in additional funding from independent existing and new investors. As a result of this new investment, NSHI Ventures LLC ("Ventures"), which currently holds an approximate 60% voting interest in Holdings, will be reduced to an approximate 36% voting interest. Upon

¹ NewSouth is authorized to provide local and interexchange services in Kentucky. See, Computer ID No. 5013200, Authority to Provide Local Exchange and Interexchange Service, February 28, 1999.

completion of the restructuring, no single entity will control Holdings. Ventures will remain the single largest shareholder. Three other independent investment entities will acquire substantial, but less than 25%, interests in Holdings and no single Investor will therefore hold control of the Company.

In addition to Ventures' approximately 36% interest in Holdings, another existing shareholder, Wachovia Capital Partners 2003, LLC, and Wachovia Capital Partners, Inc. (together "Wachovia"), will hold approximately a 23% interest in Holdings. A new investor group, Quadrangle Capital Partners LP, Quadrangle Select Partners LP, and Quadrangle Capital Partners – A LP (together "Quadrangle") will hold an approximately 16% interest, and M/C Venture Partners V, L.P., M/C Venture Investors L.L.C., and Chestnut Venture Partners, L.P., (together "MC Partners"), another new investor group, will hold approximately 19% (together, existing and new investors will be referred to as the "Investors"). An organizational chart reflecting the ownership of Holdings before and after the proposed restructuring is attached hereto as *Exhibit 1*.

NewSouth also has \$80 million in outstanding bank loans under its existing credit agreement (the "Senior Secured Loan"). The restructuring contemplates a substantial reduction in the amount of the existing Senior Secured Loan. Proceeds from the new investments will be used to pay off \$30 million of the existing loan, \$25 million of the existing loan will be forgiven by the lenders and \$25 million will remain outstanding. The lenders under the existing bank debt will receive Common Stock of Holdings representing an aggregate of approximately 2% of Holdings' equity. The terms of the credit facility covering the remaining outstanding balance of the loan are being amended to reduce the amount of the loans and the applicable interest rate and the financial covenants are being relaxed.

In addition to the Investors' acquisition of a stock interest in Holdings, upon the closing of the transaction contemplated by the Agreement, Holdings Board of Directors will be expanded to twelve persons. Each of the four Investors will be able to designate two (2) persons to the Board. The remaining four seats will be held by the Chief Executive Officer of Holdings and three additional Directors to be designated by a majority of the Investors. Other than with respect to the election of the Board of Directors, there is no agreement between the Investors to vote their shares together, and no Investor will have the right or ability to unilaterally control the day-to-day operations of Holdings.

The Investors will not be directly involved in the day-to-day operations of NewSouth. It is thus not contemplated that there will be significant changes in NewSouth's current management occasioned by this investment or the restructuring, and the current senior management is expected to continue to oversee the day-to-day operations of the company relying on the Company's experienced professionals. Of course, over time there may be management changes as deemed appropriate by the Board of Directors.

Upon completion of the restructuring, NewSouth will continue to be 100% owned by Holdings. Because the change in ownership will take place at the parent level, the transaction does not involve the sale of the stock of the utility – NewSouth – or of its assets or the transfer of

the operating authority issued to it by this Commission. Thus, NewSouth will continue throughout the restructuring process, and after the consummation of the transactions described, to provide the same high quality services as it always has in an uninterrupted manner under its same name and pursuant to its existing authorizations and tariffs. The contacts for customer and Commission inquiries will remain the same for NewSouth after the transfer of control. Accordingly, the contemplated transaction will be transparent to customers in Kentucky.

The additional funding provided through this transaction, after paying off part of the secured indebtedness, will enhance the Company's financial stability and NewSouth's ability to compete in the market for telecommunications services in Kentucky and elsewhere. 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.

We are submitting an original and three copies of this letter for your files. An extra copy of the letter along with a stamped, self-addressed envelope also is enclosed. It would be appreciated if you would receipt stamp this copy and return it to us for our records. As noted above, it is the Parties' understanding that prior Commission approval is not required to consummate the restructuring described herein.

Respectfully submitted,

By: 

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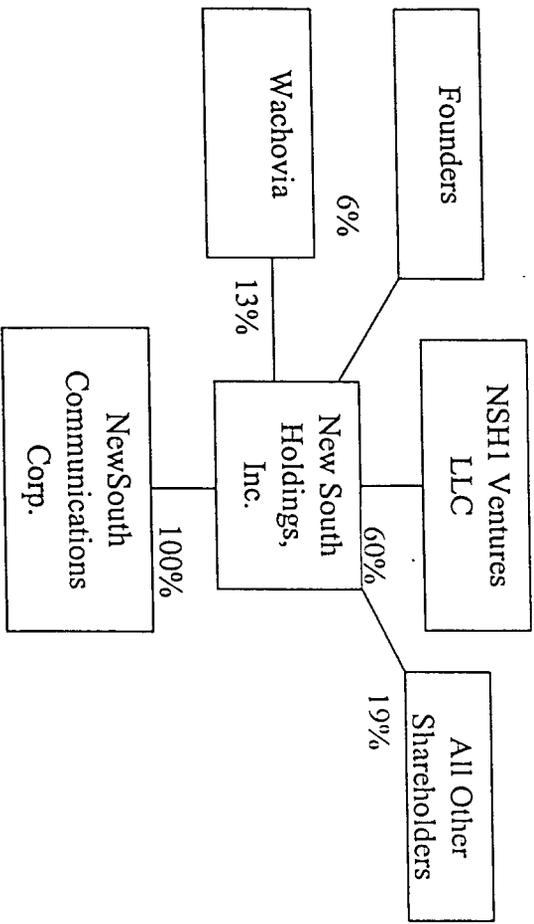
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EXHIBIT 1

New South Holdings, Inc. Organizational Chart

Before



After

