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A LIMITED LIABILITY PARTNERSHIP

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MUMBAI, INDIA  
TOKYO, JAPAN

February 13, 2001

010237-TP

**BY FEDERAL EXPRESS**

Ms. Blanca Bayo  
Director  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

**Re: Notification of 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**

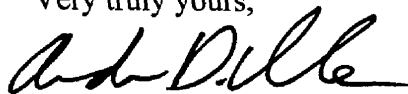
Dear Ms. Bayo:

Enclosed herewith for filing with the Florida Public Service Commission is an original and twelve (12) copies of a Notification of 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.

In addition, we enclose a duplicate of this filing and a self-addressed, stamped envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided.

Please contact the undersigned with any question concerning this matter.

Very truly yours,



Andrew M. Dunnaville\*

Enclosures

\* Admitted to the Maryland State bar, not admitted in the District of Columbia.

DC01/DUNNA/140083.1

DOCUMENT NUMBER-DATE

02130 FEB 15 01

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**Re: Notification of 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**

Dear Ms. Bayo:

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 Florida Public Service Commission ("Commission"), pursuant to Fla. Stat. § 364.33, 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. This notification is being made because NewSouth currently is authorized to provide local and interexchange service in Florida.<sup>1</sup>

<sup>1</sup> See Certificate No. 5754, Order No. PSC-98-1506-FOF-TX, Certificate of Public Convenience and Necessity to Provide Alternative Local Exchange Telecommunications Service, November 13, 1998; Certificate No. 577, Order No. PSC-98-1697-FOF-TI, Certificate to Provide Interexchange Telecommunications Service, December 15, 1998.

The Parties do not seek to transfer any operating authority. Upon completion of this transaction, NewSouth will continue to provide intrastate telecommunications service in Florida under its existing authorizations and tariffs. Accordingly, the contemplated transaction will be transparent to customers in Florida. 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 Florida, and is authorized to provide local exchange services in 10 states, including Florida. 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.<sup>2</sup>

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 57<sup>th</sup> Street, New York, N.Y. 10019.

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

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<sup>2</sup> Holdings has other subsidiaries which also will be affected by this change in ownership. UniversalCom is authorized to provide telecommunications services in Florida. See Order No. T-98-1504, November 13, 1998.

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.<sup>3</sup> 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](http://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”).<sup>4</sup> 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. These warrants will be issued in connection with the purchase by Ventures and the other shareholders of \$50 million in 12% Redeemable Senior Subordinated Notes (“Senior Notes”) to be issued by NewSouth and NewSouth Technologies, LLC<sup>5</sup> and guaranteed by Holdings. It is currently expected that Ventures will purchase \$29,671,000 aggregate principal amount of the Senior Notes and will receive warrants to purchase 29,671,000 shares of common stock.<sup>6</sup>

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.

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<sup>3</sup> 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.

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

<sup>5</sup> NewSouth Technologies, LLC is a wholly owned subsidiary of Holdings.

<sup>6</sup> The final allocation of shares, notes and warrants may differ somewhat, but any changes will not be material.

Currently, Ventures holds shares of Series D Preferred Stock having approximately 23% of the voting power in Holdings.<sup>7</sup> 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.<sup>8</sup>

**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.

**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 and operating authorities as at present. 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

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<sup>7</sup> 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.

<sup>8</sup> *Exhibit 3* is a corporate organizational chart of Holdings and its subsidiaries before and after the proposed transaction.


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 Florida and elsewhere, both through the maintenance of existing service and the introduction of new products and services. Over time, consumers in Florida 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.

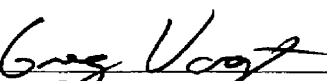
It is the Parties' understanding that prior Commission approval is not required to consummate the transaction described herein. If this understanding is incorrect, it is respectfully requested that the Commission notify the Parties as soon as possible.

Respectfully submitted,

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

**NSHI VENTURES LLC**

By:   
James J. Freeman, Esq.  
Andrew M. Dunnville, Esq.\*  
KELLEY DRYE & WARREN, LLP  
1200 19<sup>th</sup> Street, N.W.  
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By:   
Gregory J. Vogt, Esq.  
WILEY REIN & FIELDING  
1776 K STREET, N.W.  
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Its Attorneys

Their Attorneys

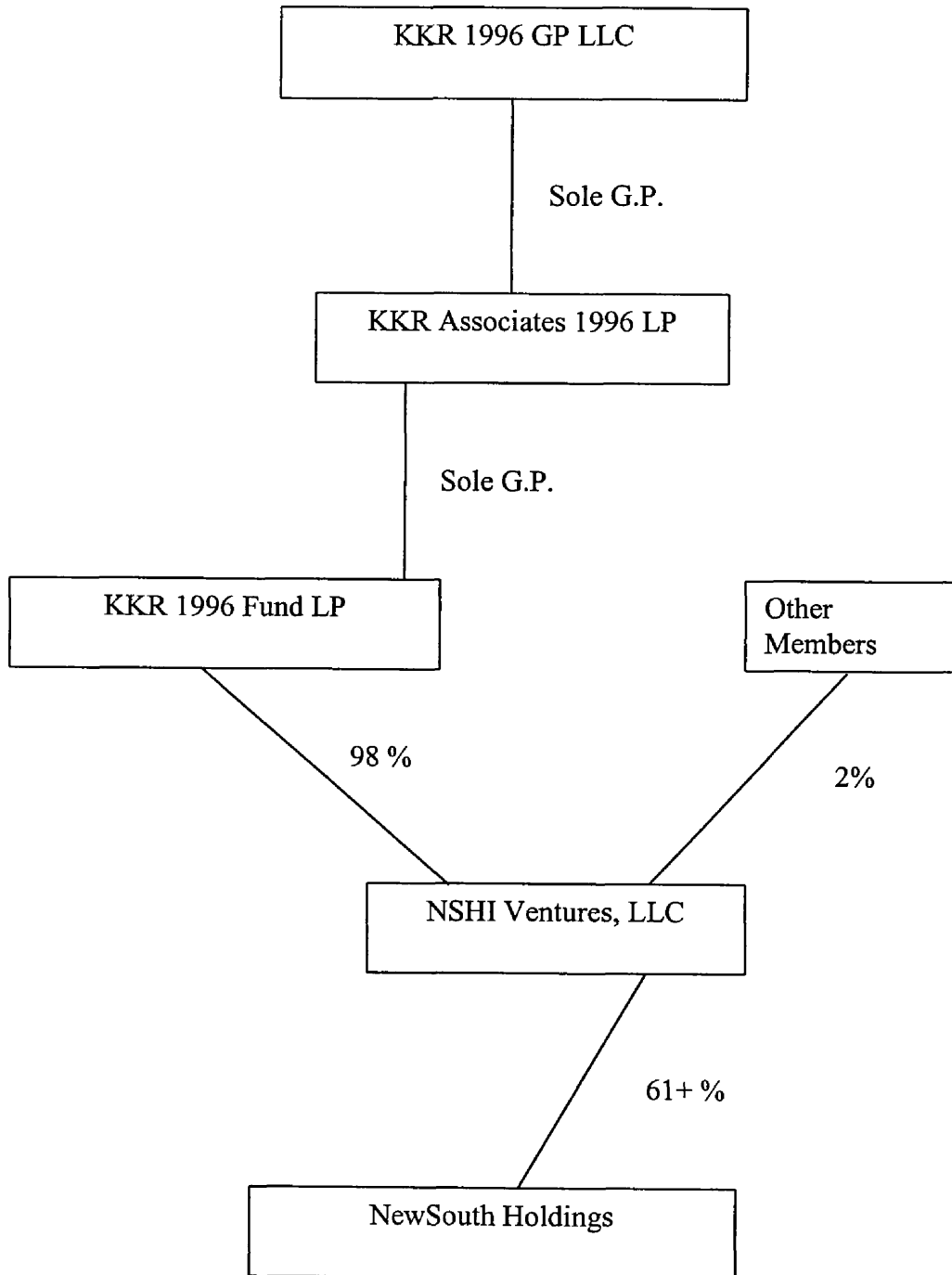
Dated: February 13, 2001

\* Admitted to the Maryland State Bar, not admitted in the District of Columbia.

# **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

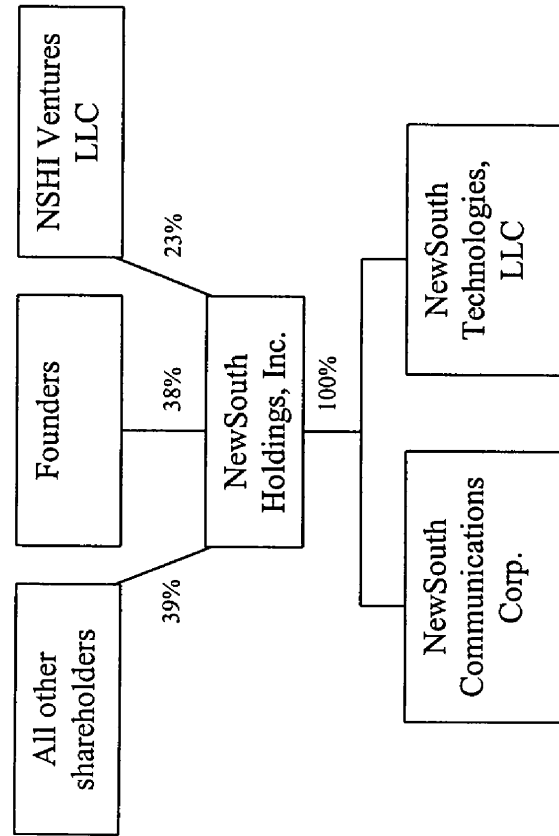
\* Shares held by the founders of the company.

# **EXHIBIT 3**

## **NEWSOUTH HOLDINGS, INC. ORGANIZATIONAL CHART**

# New South Organizational Chart

Before



After

