

BOSTON  
BRUSSELS  
CHICAGO  
FRANKFURT  
HAMBURG  
HONG KONG  
LONDON  
LOS ANGELES  
MILAN  
MOSCOW  
NEW JERSEY

# Latham & Watkins

ATTORNEYS AT LAW  
WWW.LW.COM

NEW YORK  
NORTHERN VIRGINIA  
ORANGE COUNTY  
PARIS  
SAN DIEGO  
SAN FRANCISCO  
SILICON VALLEY  
SINGAPORE  
TOKYO  
WASHINGTON, D.C.

July 29, 2002

## VIA FEDERAL EXPRESS

Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399

Re: Birch Telecom of the South, Notification of Corporate Reorganization at  
the Parent Company Level

020847-TP

Dear Madame or Sir:

Birch Telecom of the South, Inc. ("Birch South"), through counsel, hereby informs the Florida Public Service Commission ("Commission") that its parent company, Birch Telecom, Inc. ("Birch"), today commenced a chapter 11 case under the federal Bankruptcy Code in the U.S. Bankruptcy Court for the District of Delaware, as part of a major restructuring of its financial obligations and capital structure ("Reorganization Plan").<sup>1</sup> The Reorganization Plan ultimately is intended to transfer control of Birch and indirect control of Birch South from BTI Ventures, LLC (a wholly owned subsidiary of the investment firm Kohlberg, Kravis, Roberts & Co. ("KKR")), to a diffuse group of shareholders led by a number of large investment firms. A press release describing the proposed reorganization is attached at **Exhibit A**.

As Birch South does not currently provide telecommunications services in Florida, the Reorganization Plan will have no impact on customers in the state. Birch South plans no change to the company's name. The major outcome of the Reorganization Plan will be a significant improvement to the financial position of Birch South's parent company. A corporate organization chart, which will remain unchanged pre- and post-restructuring, is attached at **Exhibit B**. A chart depicting the ownership of Birch South's parent company pre- and post-restructuring is attached at **Exhibit C**.

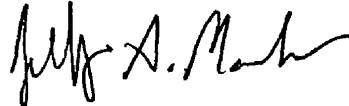
Because we have added the Florida Public Service Commission to the list of parties authorized to receive notice of the bankruptcy filing, you can expect a copy of formal notice of the filing of the chapter 11 cases under separate cover, as well as additional information directly from the federal bankruptcy court. (We understand that this distribution may take

<sup>1</sup> Birch and all of its subsidiaries filed for bankruptcy protection simultaneously.

several weeks.) Please contact us if you desire additional information or require any formal filings. In addition, if you would like to designate someone in particular from your agency to be a direct contact for this issue please let us know using the contact information below.

Thank you for your time and attention to this matter. Birch South appreciates your ongoing support of its continuing effort to bring affordable competitive telecommunications services into homes and businesses across the nation, and looks forward to a speedy resolution of this issue. Please stamp and return to me the additional copy provided for that purpose.

Very truly yours,



Richard R. Cameron

Jeffrey A. Marks

Wesley C. Holmes\*

of LATHAM AND WATKINS

555 Eleventh Street, N.W., Suite 1000

Washington, DC 20004-1304

Tel: (202) 637-2200

Fax: (202) 637-2201

Enclosures

\* Admitted to practice in Virginia and Massachusetts. Admission to the District of Columbia Bar pending.

**EXHIBIT A**

**PRESS RELEASE**



## **NEWS RELEASE**

Contacts:                      Trent Freeman                      Evan Blackwell  
   Birch Telecom                      Birch Telecom  
   (816) 300-3602                      (816) 300-5716

### **Birch Announces Agreement on Debt Restructuring**

***Company and lenders agree on terms of debt restructuring;  
pre-negotiated plan provides for no disruption to ongoing operations***

**KANSAS CITY, Missouri, Monday, July 29, 2002** – Birch Telecom announced today that it has filed a voluntary plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code. This is the concluding step in Birch's plan to reduce its institutional debt from \$310M to \$100M by exchanging it for equity in the company.

"I want to assure existing and prospective customers that this is purely a financial transaction," stated Dave Scott, President and CEO. "Customers, suppliers and employees will be unaffected by adoption of this plan."

Birch has been working since early this year to reach agreement with its lenders on the specifics of the plan. According to Scott, banks and bondholders representing 95% of Birch's debt have endorsed the reorganization plan submitted with the Chapter 11 filing. "We are gratified by their vote of confidence in Birch's long-term success," said Scott.

While continuing to grow at an industry-leading pace, Birch has also been focused over the last year on improving its operational efficiency and reducing its cost structure. As a result of this effort, the Company has been able to generate a positive operating cash flow while serving more than 100,000 customers and adding 5,000 more each month.

With its strong improvement in operating cash flow, combined with a reduction in interest obligations via the debt exchange and the company's emphasis on the low-capital UNE-P service delivery platform, Birch expects to become financially self-sufficient upon completion of its reorganization plan.

Scott expects a relatively quick emergence from Chapter 11 status. "Given our solid cash flow performance, the support of our stakeholders for the restructuring plan, and the fact that no additional funding or debtor financing is needed for its completion, we are confident that the plan can be swiftly processed and approved by the Court."

In the meanwhile, Birch will continue to provide local, long distance and data services to business and residential customers across ten states without interruption. Birch will also continue to be aggressive in acquiring new customers, relying on its strong value proposition of reliable service, easy conversion, better prices, and a better way of doing business. "In fact," said Scott, "we recently launched a major marketing campaign featuring our irreverent but affable spokesdog, Buddy, in a series of billboards, print advertising, and local Humane Society events."

#### **About Birch**

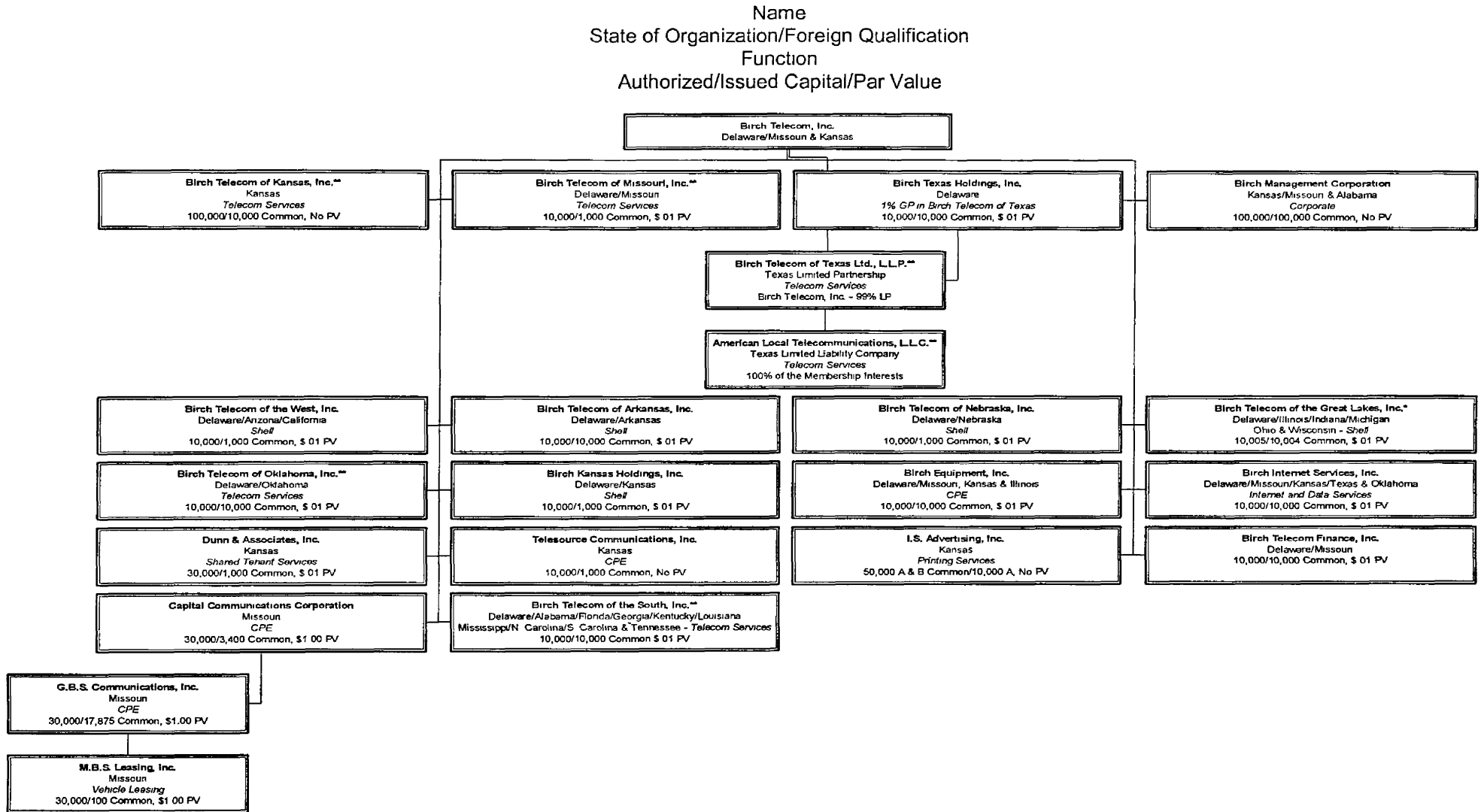
Serving small to mid-size businesses and residential customers, Birch Telecom offers a range of services on one bill — including local and long-distance — across more than 40 major metro markets in 10 states.

**EXHIBIT B**

**CORPORATE ORGANIZATION CHART  
(TO REMAIN UNCHANGED PRE- AND POST-RESTRUCTURING)**

# Birch Corporate Organization Chart

All Direct Wholly Owned Subsidiaries of Birch Telecom, Inc., Except for the Following Indirect Wholly Owned Subsidiaries:  
 Birch Telecom of Texas Ltd., L.L.P., American Local Telecommunications, L.L.C., G.B.S. Communications, Inc., and M.B.S. Leasing, Inc.



\* Entities that hold certificates of authority from by state public utility commissions to provide telecommunications service but that do not currently provide service.

\*\*Entities that hold certificates of authority from by state public utility commissions to provide telecommunications service and that are providing service.

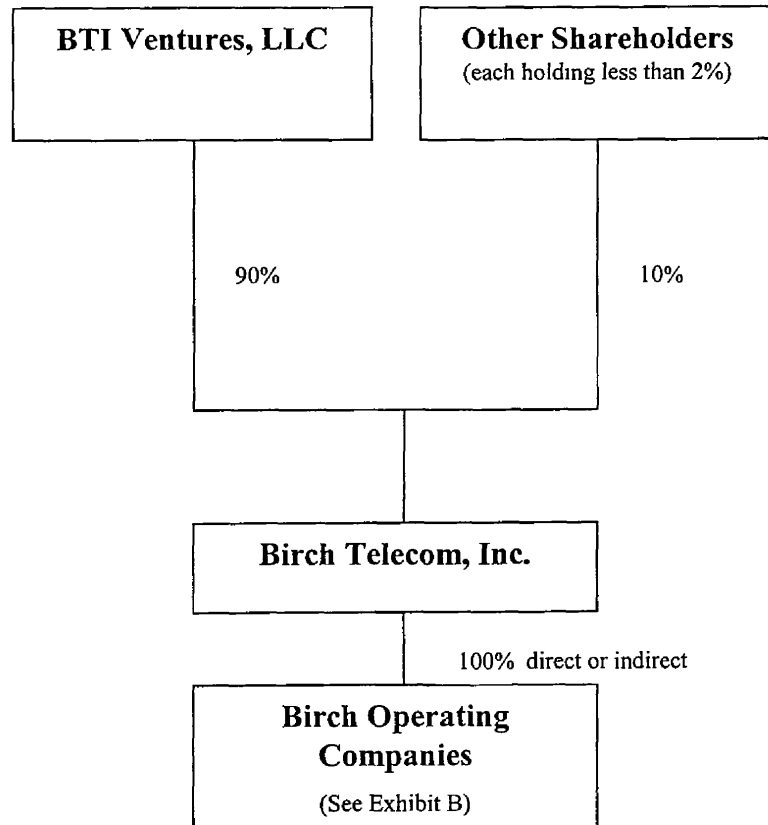
**EXHIBIT C**

**ILLUSTRATIVE CHART PRE- AND POST-RESTRUCTURING**

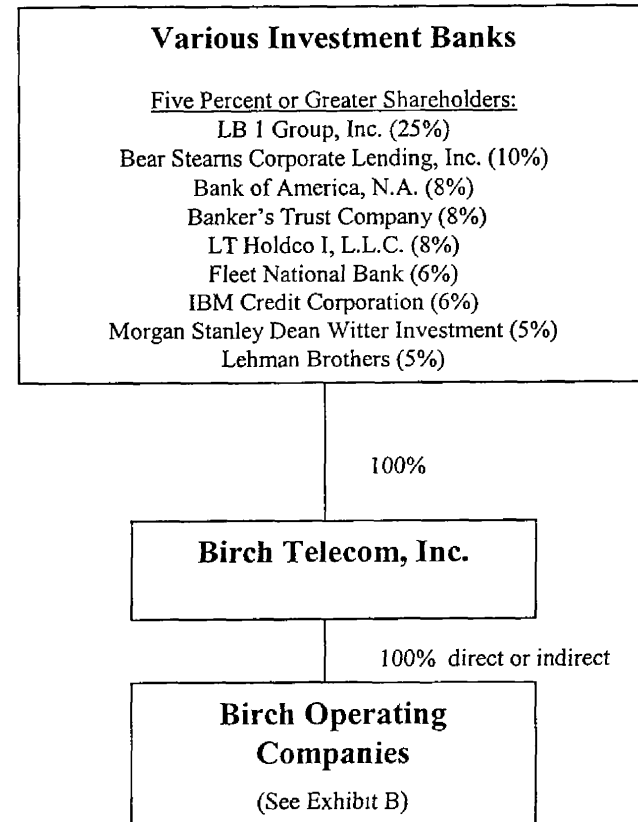
## ILLUSTRATIVE CHART PRE- AND POST-RESTRUCTURING

(Ownership Shares Rounded to the Nearest 1%)

### PRE-RESTRUCTURING



### POST-RESTRUCTURING



\*The ownership percentages stated herein assume that no shares of common stock will be issued to holders of Birch Telecom, Inc.'s ("Birch's") 14 percent Senior Notes due 2008 and preferred stock pursuant to the equity offer (the "Equity Offer") to be made to such holders pursuant to the Reorganization Plan and do not account for the issuance of any equity to Birch's management or employees pursuant to the Birch Telecom, Inc. 2002 Equity Incentive Plan to be adopted by Birch under the terms of the Reorganization Plan. Shares sold in the Equity Offer or 2002 Equity Incentive Plan, will dilute the percentage ownership of each investment bank in Birch, although certain banks may mitigate this dilution through participation in the Equity Offer. The possible issuance of new equity, however, will not affect ultimate control post-restructuring; control of Birch will vest in the shareholders generally, with no individual shareholder having *de jure* or *de facto* control.