

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

ORIGINAL

In re:
PSA, Inc., a Delaware corporation, and affiliates.
Debtors

Chapter 11
Case No. 00-3570
(Jointly Administered)
Case Nos. 00-3570(JCA)
through 00-3572(JCA)
and 00-3718(JCA)
through 00-3725(JCA))

0003570 40119 J4916A05 S#0017250
FLORIDA PUBLIC SERVICE COMMISSION
2540 SHUMARD OAK BLVD.
TALLAHASSEE FL 32399

Hearing Date: June 21, 2001 9:00 a.m.
Objection Deadline: June 15, 2001 4:00 p.m.

NOTICE OF HEARING, NOTICE OF AUCTION AND SOLICITATION FOR BIDS ON CERTAIN OF DEBTORS' BUSINESS ASSETS, AND TERMS AND CONDITIONS OF THE AUCTION

TO: ALL INTERESTED PARTIES

NOTICE IS HEREBY GIVEN that on June 21, 2001, Debtors shall seek authority to consummate sales of excess payphone inventory, certain non-core routes containing payphones and related equipment and contracts in accordance with similar procedures previously approved by the Court's order dated March 15, 2001 (Docket No. 1190) on Debtors' Motion for Order (I) Authorizing Scheduling of Auctions of Debtors' Business Assets Free and Clear of All Liens, Claims, Interests, and Encumbrances. (II) Approving the Terms and Conditions of Such Auctions. (III) Fixing the Manner and Extent of Marketing Relating to Such Auctions. (IV) Scheduling Hearings to Approve the Sale and the Assumption and Assignment or Rejection of Certain Executory Contracts and Unexpired Leases by Debtors, and (V) Approving Procedures for Miscellaneous Sales of Nominal Assets Pursuant to Sections 363(b), 363(f), 365(a), and 365(f) of the Bankruptcy Code (Docket No. 432) dated February 28, 2001 and served on all parties in interest in this case on March 7, 2001. PSA, Inc., ETS Payphones, Inc., and related entities, the above-captioned chapter 11 debtors and debtors in possession (collectively, "Debtors"), shall hold a public auction (the "Auction") on June 20, 2001 at 2:00 p.m. at the offices of Young Conaway Stargatt & Taylor LLP, 1100 N Market Street, 11th Floor, Wilmington, Delaware.

NOTICE IS FURTHER GIVEN that the Auction will be held with respect to certain of Debtors' business assets as set forth on the exhibit attached hereto (the "Business Assets"). All inquiries should be made in writing directly to Guy Longobardo, CEO, ETS Payphones, Inc., Suite G, 1490 Westfork Drive, Lithia Springs, Georgia 30122; email: glongobardo@etspayphones.com; facsimile: (770) 819-1682.

NOTICE IS FURTHER GIVEN that the Auction will be subject to the Terms and Conditions set forth below.

NOTICE IS FURTHER GIVEN that a hearing will be held before John C. Akard, United States Bankruptcy Judge, on June 21, 2001, at 9:00 a.m., or as soon thereafter as counsel may be heard (the "Hearing"), in the United States District Court, 844 King Street, Wilmington, Delaware 19801, at a courtroom to be designated on the day of the hearing at which time Debtors will seek the entry of an order or orders approving the sale(s) of the Business Assets to the successful bidder(s) and the assumption and assignment or rejection of any executory contracts or unexpired leases associated therewith.

TERMS AND CONDITIONS OF AUCTION

1. Debtors hereby solicit bids for the sale of their interests in the Business Assets attached hereto as Exhibit "A". Bids for the Business Assets may be received by private written bid prior to or at the Auction(s).
2. The Business Assets will be offered to the bidder(s) making the offer(s) that the Debtors deem to be, in their discretion, the highest or best offer. All sales are subject to approval of the Bankruptcy Court.
3. Interested persons may obtain financial and other information about the Business Assets by writing at the address listed above.
4. To become a qualified bidder, potential bidders must provide Debtors at or before the Auction statements or evidence of financial wherewithal, experience and other relevant considerations. In their discretion, require to determine the bidder is able to consummate a transaction as c

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5 In addition, at or before the Auction(s), to be qualified to bid upon assets exceeding \$500,000.00 in aggregate value, potential bidders must deliver to Debtors' counsel \$50,000.00 in good funds which amount shall be applied to a successful bid or returned upon written request to Debtors' counsel within two business days. At the option of an unsuccessful bidder, the funds may be left on deposit with Debtors' counsel to keep a bid in place as a backup. If a successful bidder on a sale approved by the Court shall fail to close by the "Closing Date," as defined below, the \$50,000 or the ten percent (10%) general deposit required (whichever is larger) shall be retained by Debtors as liquidated damages, and not a penalty, it being agreed by the parties participating in the Auction in advance that actual damages are impossible of precise determination.

6 All offers accepted by Debtors and, at the election of the bidder any offers which are not deemed at the Auction to be the highest or best offer, shall remain open and irrevocable until the Closing (as such term is defined herein).

7 To the extent a bid involves any contingency, delayed payment, or non-cash component, Debtors may, at their option, value such components at any amount, including zero, and the bidder shall have no rights of appeal whatsoever from such valuation.

8 Successful bidders must, at the conclusion of the Auction or within such extended period as Debtors may permit, deliver to Debtors good funds in an amount equal to ten percent (10%) of their bid, which will not be refunded, but will be retained as liquidated damages if the bidder fails to consummate the sale of the Business Assets within the time period required herein or as extended by agreement of Debtors. (A deposit to obtain qualified-bidder status shall be a credit toward the ten percent.)

9 At the close of the Auction, with consultation from the Committee, Debtors shall consider Auction results for the Business Assets. Debtors shall seek approval from the Court at the Post-Auction Hearing for the qualified bid or bids which they believe represent the highest or best offer or offers received for the Business Assets.

10 After consultation with the Committee, Debtors reserve the right (a) to determine in their discretion which competing qualified bids, if any, for the Business Assets is the highest or otherwise best qualified bid and (b) to reject any bid which Debtors after consultation with the Committee believe to be (i) inadequate or insufficient, (ii) not in conformity with the requirements of the Bankruptcy Code, the Bankruptcy Rules, the Local Bankruptcy Rules, or the terms of the sale order, or (iii) contrary to the best interests of Debtors and their estates.

11 Any bid that requires submission to the Department of Justice and the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvement Act of 1976 (the "HSR Act") shall, upon Debtors' request, be accompanied by the bidder's HSR Act application. Upon the request of a party submitting an HSR Act application, Debtors shall take reasonable steps to ensure the confidentiality of the information, subject to dissemination on a confidential basis to counsel for the Committee.

12. If a closing with a successful qualified bidder is not concluded by the Closing Date or within such other time as is further agreed by Debtors, after consultation with the Committee, Debtors may, without further Court approval or order, conclude the contemplated transactions with the next highest or best qualified bidder in accordance with the terms of the next highest or best qualified bidder's bid, providing such bid has been approved by the Court as a back-up bid.

13 The Business Assets shall be transferred on an "AS IS," "WHERE IS," and "WITH ALL FAULTS" basis. **DEBTORS EXPRESSLY DISCLAIM ALL EXPRESS AND IMPLIED WARRANTIES WITH RESPECT TO THE BUSINESS ASSETS, INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.**

14 All of Debtors' interests in the Business Assets sold shall be sold free and clear of any encumbrances, with all encumbrances, if any, attaching to the net proceeds of the sale with the same force and in the same priority as currently exists, subject to the order of the Court approving the sale.

15 After Debtors announce the first acceptable bid on a Business Asset at the Auction for the specific Business Assets, each subsequent bid must exceed the previous bid by not less than \$200,000 for Business Assets where the bid price exceeds \$2,000,000; by \$100,000 for Business Assets where the bid price is between \$1,000,000 and \$2,000,000; by \$50,000 for Business Assets where the bid price is between \$500,000 and \$1,000,000; and by \$10,000 for Business Assets where the bid price is between \$50,000 and \$500,000. When the bid price is less than \$50,000, Debtors will set minimum bids at the Auction(s). Debtors retain the right to lower any minimum incremental bids at the Auction(s) in Debtors' discretion.

16. By participating in the Auction(s), each qualified bidder shall be deemed to have reviewed the Business Assets and all pertinent documents before bidding and to rely solely on its review in making any offer.

17. If deemed to be the successful bidder for a Business Asset, immediately upon the conclusion of the Auction scheduled for that particular Business Asset (or by such time as Debtors may agree), such qualified bidder shall deliver good funds by certified, bank check, wire or other acceptable means ("Good Funds") to Debtors, in an amount equal to ten percent (10%) of the purchase price of such Business Asset (the "Purchase Price Deposit"). The amount deposited to become a qualified bidder shall be a credit against the ten percent (10%) deposit.

18. Debtors shall have no duties or obligations except those expressly set forth herein and shall not be required to invest the deposits in an interest earning account or to segregate each deposit, but may, in their sole discretion, do so. If there is a dispute between a qualified bidder and Debtors, Debtors shall have the right to retain the Purchase Price Deposit, and either party may apply to the Court

EXHIBIT A

ASSETS AVAILABLE FOR SALE

PUERTO RICO OPERATIONS

All of the assets used in the operation of the Debtors' business in Puerto Rico, including, but not limited to:

All installed payphones and site contracts related thereto;

All miscellaneous parts and inventory related to the maintenance and operation of the payphones, if any;

Current office space and lease(s) related thereto;

Current storage space and lease(s) related thereto;

All vehicles related to operation of the Debtors' business in Puerto Rico;

All executory contract(s) and unexpired lease(s) associated with the operations of the Puerto Rico office;

All other tangible and intangible assets related to the operations of the Puerto Rico office.

VIRGIN ISLANDS OPERATIONS

All of the assets used in the operation of the Debtors' business in the Virgin Islands, including, but not limited to:

All installed payphones and site contracts related thereto;

All miscellaneous parts and inventory related to the maintenance and operation of the payphones, if any;

Current office space and lease(s) related thereto;

Current storage space and lease(s) related thereto;

All vehicles related to operation of the Debtors' business in the Virgin Islands;

All executory contract(s) and unexpired lease(s) associated with the operations of the Virgin Islands office;

All other tangible and intangible assets related to the operations of the Virgin Islands office.

MISCELLANEOUS INVENTORY

Complete phones with boards

5,000 new and used phones including Elcotel, Protel and Intelicall

3,500 housings, including 500 new Spectrum cases, and new and used Quadrum and Western housings

2,000 new and used enclosures

2,500 new and used pedestals

Boards, including 250 used Elcotel-Western boards, and 700 used Protel boards (7,000, 2,000 and BB+)

Assorted parts: including backboards, ASD's, coin mechanisms, keypads and Medeco lower electronic locks

for a determination of the rights and obligations of the parties. The Court shall retain jurisdiction to resolve all disputes with respect to the Purchase Price Deposit.

19. The closing of the sale of Debtors' interests in the Business Asset (the "Closing") shall take place (i) within ten business days following approval by the Court of the sale and the entry of the order approving the assumption, assignment and sale of the leases to the successful bidder, or (ii) at such later time as may be agreed to by Debtors in their sole discretion, not to exceed an additional twenty days unless otherwise provided by the Court (the "Closing Date"). With respect to the Closing, time is of the essence against the bidder and to the benefit of the Debtors. In the event Debtors do not consummate the sale of the Business Assets for any reason (other than the successful bidders failure to consummate a sale of the Business Assets), Debtors' sole obligation shall be to refund the Purchase Price Deposit to the Offeror.

20. At closing, the successful bidder shall pay the balance of the purchase price in Good Funds.

21. All adjustments to be made in connection with the Closing shall be made as of midnight of the date preceding the Closing (the "Adjustment Date"). Any adjustments attributable to escalation or pass-through charges that would be billed after the Adjustment Date shall be made based upon the most recent billing received by Debtors for such charges. The bidder shall be liable for all obligations from the Adjustment Date forward and shall indemnify Debtors with respect thereto.

22. All bidders with respect to the Business Assets shall provide the following information to Debtors (unless Debtors shall waive any aspect hereof) either (a) at the time of the bidder's written offer if made prior to the Auction, or (b) prior to the commencement of the Auction:

- a. the full name and identity of the proposed purchaser and the proposed operator of the Business Assets.
- b. a current financial statement and such other proof of financial condition of the proposed purchaser and operator or guarantor, if any, as Debtors may reasonably request;
- c. the names and addresses of the CEO, president and CFO;
- d. a written statement of the bidder's and/or purchaser's proposed use of any premises, if acquired;
- e. proof acceptable to Debtors of the ability of the proposed assignee to perform under the terms of any of the leases to be assumed for which the proposed purchaser has submitted a bid; and
- f. such other information relating to the financial ability of the proposed purchaser as Debtors may reasonably request.

23. Debtors, after consultation with the Committee, at or before the Auction may impose such other and additional terms and conditions or modify the terms and conditions hereof as Debtors determine to be in the best interest of the estates.

This 30th day of May 2001.

Guy Longobardo, CEO
ETS Payphones, Inc.
Suite G, 1490 Westfork Drive
Lithia Springs, Georgia 30122
Email: glongobardo@etspayphones.com
Facsimile: (770) 819-1682

Brendan Linehan Shannon
Young Conaway Stargatt & Taylor LLP
1100 N. Market Street, 11th Floor
P.O. Box 391
Wilmington, Delaware 19801
Facsimile: (302) 571-1253

E. Penn Nicholson
Shannon Lowry Nagle
Powell, Goldstein, Frazer & Murphy LLP
Sixteenth Floor
191 Peachtree Street, N.E.
Atlanta, Georgia 30303
Facsimile: (404) 572-6999

May 25, 2001

To All Creditors and Holders of Payphone
Leases With ETS Payphones, Inc.

**ETS Dedicated Line:
(212) 940-6777**

Re: Chapter 11 Bankruptcy Cases of
ETS Payphones, Inc. et al.

**ETS Dedicated e-mail:
etsc@rosenman.com**

Dear Sir or Madam:

This firm is counsel for the Official Committee of Unsecured Creditors (the "Committee") of ETS Payphones and its affiliated chapter 11 debtors (collectively, "ETS" or the "Debtors"). The Committee was appointed by the Office of the United States Trustee (a branch of the U.S. Justice Department) pursuant to section 1102 of the Bankruptcy Code. The Committee's function is to represent the interests of ETS' creditors and leaseholders as a whole (but not any single creditor or leaseholder in particular). The Committee serves as a "watchdog" over ETS during these bankruptcy cases in order to ensure that creditors' interests are protected and their recoveries maximized. Three of the Committee's current five members are leaseholders.

We are writing on behalf of the Committee to provide you with an update on the status of these cases, including the significant progress that has been made in stabilizing and rehabilitating the Debtors' business operations, and towards developing and implementing a plan to reorganize ETS. Of course, any plan of reorganization will be subject to acceptance by ETS' creditors and approval of the Bankruptcy Court. The procedural steps required to reach the goal of a successful reorganization are also described below.

Status of Operations

The turnaround of ETS is in progress, and the Committee is cautiously optimistic that it will be successful. As we previously reported, ETS' payphone operations were losing approximately \$1.8 million per month during the early stages of these cases. Following the Committee's action to replace management, Guy Longobardo was appointed as new CEO effective February 26, 2001. The Committee charged him with the tasks of determining whether and how, if possible, to make the company profitable and taking the steps required to obtain and maximize distributions to all creditors and leaseholders.

The Committee has worked closely with Mr. Longobardo and has monitored ETS' performance, and the Committee believes that Mr. Longobardo has taken prompt and significant steps to raise revenue and lower costs. For example, the Committee understands that:

- The number of inoperative payphones has been reduced from approximately 25 percent to approximately 10 percent;
- Thousands of unprofitable phones – i.e., those whose direct monthly expenses exceed their revenue, thereby costing ETS money each month -- have been disconnected from their locations and returned to warehouse;
- ETS' branch offices have been required to improve the quality and frequency of their reporting of operating results and to accept responsibility and accountability for results;
- Improved financial controls and better use of computer systems have enabled ETS' new management to monitor results and more quickly identify issues that require attention, and to provide projections that are inherently more reliable;
- The two sons of Charles Edwards, Jason and Rock Edwards, are no longer employed by ETS;
- Charles Edwards' successor, Mr. Jim Blyth, is no longer employed by ETS; and
- ETS has further been streamlined through the sale of its ATM machine business (which had been managed by Rock Edwards). This was a non-core business which diverted personnel away from supporting ETS' core payphone business.

ETS is now moving towards operating on a break-even basis. Based upon Mr. Longobardo's plans to continue to improve operations, the Committee expects that ETS' financial performance will also continue to improve. Moreover, a recent change in FCC regulations relating to the payment of so-called dial-around compensation (i.e., compensation to payphone operators arising from the use of toll-free calls such as 1-800-CALL-ATT) should also result in an increase in ETS' revenue.

Plan Development

In our last status report we identified several different paths these cases may take, including: (i) a sale of the entire business as a going concern, (ii) a third-party management arrangement or (iii) a "stand-alone" plan in which ETS' would continue to run its own business operations, presumably with some level of profit. Since that time, the Committee and ETS (by the new CEO) have discussed and evaluated which path would be most likely to succeed and would provide the greatest possible recovery to all leaseholders and creditors in the shortest possible timeframe.

We are pleased to report that ETS, under its new CEO, has concluded that it is in the best interest of all creditors and leaseholders to pursue a stand-alone plan. This conclusion and the steps currently underway to implement the plan have the enthusiastic support and endorsement of the Committee.

The plan will provide for ETS to emerge from bankruptcy as an operating and reorganized payphone company. Leaseholders will own 100% of the stock of the reorganized company, and dividends to the leaseholders will be payable from profits generated by the reorganized company rather than lease payments. Such dividends are conservatively projected to begin in the next calendar year, but earlier dividends are possible if, for example, actual operating results surpass projections (particularly with respect to the collection of dial-around compensation) or if the Committee obtains funds from Charles Edwards and others on account of the substantial claims against them. Trade and general unsecured creditors will receive payment of a portion of their claims, but they will not share in the equity of the reorganized company. Reorganized ETS will emerge from bankruptcy with no secured debt or other claims encumbering the payphones or its other assets, thereby maximizing the value of the equity to be owned by leaseholders.

The Committee believes that this plan is superior to all alternatives, especially any proposal of an immediate liquidation sale. It is the judgment of ETS' new management and the Committee that the value of the equity (i.e., the stock) of the reorganized company ultimately will provide greater recoveries than any immediate liquidation of the payphones and other assets.

Effectuating the Plan -- Sales of Non-Core Assets

There are several steps that must first be taken in order to achieve this plan. Because ETS did not have sufficient cash with which to pay certain of its post-bankruptcy administration obligations (including, but not limited to, commissions to site owners, certain taxes, etc.), and because the Bankruptcy Code requires that such obligations be paid in full as a condition to court approval of any plan, ETS will need to raise approximately \$8 million in the coming months. The Committee and ETS' new management have considered a variety of methods to raise these funds, including through a rights offering to existing leaseholders. Ultimately, the Committee and ETS jointly agreed that the best method of raising the required funds is through limited sales of specific assets.

The assets to be sold do not include "core" assets that will be necessary for the reorganized company's payphone operations. ETS intends to sell excess inventory (i.e., payphones that are stored in warehouses) and smaller routes in outlying areas that are viewed as having little potential for profitability or are outside of its core areas. It is important to note that such sales are not part of any liquidation of ETS, but instead they are necessary to achieve ETS' reorganization and emergence from chapter 11.

Effectuating the Plan -- Title to the Payphones

As part of the implementation of the overall plan, it is also necessary for ETS to be adjudged to have title to the payphones. This is required in order for ETS to conduct the sales needed to raise the funds necessary for the exit from chapter 11. In exchange for ETS being deemed to hold title to the payphones, as described above all leaseholders will be given

stock representing their ownership of the reorganized company as part of the plan rather than a claim to ownership of any specific payphone(s).

The Committee believes that it is in the best interest of all leaseholders to permit the conversion of leaseholders' ownership of individual payphone units into ownership of the reorganized company. First, this mechanism permits a reorganization to occur. The sale and leaseback structure that was employed prior to ETS's bankruptcy required ETS to make over \$5 million per month in lease payments. As a practical matter, unless the obligation to make these lease payments is eliminated, ETS' only option would be to immediately shut down operations, liquidate assets to the limited extent it could, and distribute little or nothing to even post-petition creditors. Clearly, this result is not in the leaseholders' interest.

Second, the conversion of leaseholders' ownership of payphone units into ownership of stock in reorganized ETS would provide an equitable result for all leaseholders. As we described in our last status report, the payphone units themselves have vastly different values, depending upon factors such as where they are located and their general condition. The Committee believes that it is unfair to "link" or "tie" the value that each leaseholder recovers in these bankruptcy cases to the value of such leaseholder's phone. The inevitable result of such a scheme would be that similarly situated leaseholders would recover property having widely differing values. By contrast, if leaseholders are permitted to exchange payphone ownership for stock ownership, leaseholders would share ratably in the value of the entire enterprise of reorganized ETS, without regard to the relative value of any particular phone.

Accordingly, even though ETS will be required to commence proceedings to implement the conversion of the leaseholders' ownership of phones, the Committee wishes to emphasize that these proceedings are part of the overall plan to reorganize ETS into a company to be owned by all leaseholders. The Committee hopes and requests that leaseholders view these steps as being positive, equitable, and in all leaseholders' interest.

Timing of the Plan

We expect that a proposed plan and a proposed disclosure statement (which describes the plan and is intended to provide all information reasonably necessary for parties to make informed judgments when they cast a vote with respect to the plan) will be filed before June 11, 2001. In order for the plan and disclosure statement to be effective, each must be approved by the Court. We anticipate that the disclosure statement will be presented for Court approval on or about July 17, 2001. Thereafter, the disclosure statement (including the proposed the plan itself) will be sent to all creditors and leaseholders with a form of ballot. The ensuing month will enable creditors and leaseholders to review the materials and decide whether to vote to accept or reject the plan. Subsequently, the Court will convene another hearing, possibly in late August or September, to consider whether the plan should be approved and confirmed. The plan will then become effective approximately 10 days later.

To All Creditors and Holders of
Payphone Leases with ETS Payphones, Inc.
May 25, 2001
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Claim Information

A specialized form of proof of claim has been prepared for use by all leaseholders. It is our hope that the special form will be somewhat easier for leaseholders to complete and for the Debtors to review, and will therefore reduce the time and effort that would otherwise be required for leaseholders' claims to be properly computed and checked for accuracy. Although certain technical difficulties delayed the distribution of the claim forms, we now expect that the forms will shortly be sent to all leaseholders. The deadline for filing the proofs of claim will be clearly indicated on the claim forms, but we expect that it will be at the end of July, 2001.

Further Communications

We will provide further updates as the need arises, and we will distribute a more complete and detailed letter to accompany the formal plan and disclosure statement. In the meantime, we will periodically update the recording on our ETS dedicated phone line at 212-940-6777. In addition, we welcome comments or suggestions sent by mail or by e-mail to our ETS dedicated e-mail address at etsc@rosenman.com. (Please note that although we will review all e-mail messages, the time constraints of this case may prevent us from replying individually to each message.)

We hope that this letter has provided you with a greater understanding of the status and direction of these cases. We will continue our work on behalf of the Committee to ensure that these cases are concluded in the best possible manner for all leaseholders and creditors.

Sincerely,

Rosenman & Colin LLP