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UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF TEXAS  
DALLAS DIVISION

In re	§	CASE NO. 03-39496-HDH-11
	§	CASE NO. 03-39839-HDH-11
COMM SOUTH COMPANIES, INC.,	§	CASE NO. 03-39834-HDH-11
ALTAIR COMMUNICATIONS, INC.,	§	CASE NO. 03-39832-HDH-11
E-Z TEL, INC. and	§	
COMM SOUTH COMPANIES OF	§	Chapter 11
VIRGINIA, INC.,	§	
	§	(Jointly Administered Under
Debtors.	§	Case No. 03-039496)
	§	
	§	<u>Hearing</u>
	§	Date: April 25, 2005
	§	Time: 1:30 p.m.
	§	Place: Earl Cabell Building
	§	1100 Commerce Street
	§	Dallas, Texas 75242
	§	Judge: Hon. Harlin D. Hale

DISCLOSURE STATEMENT TO AMENDED PLAN OF REORGANIZATION

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THIS DISCLOSURE STATEMENT FOR DEBTORS' AMENDED PLAN OF REORGANIZATION ("DISCLOSURE STATEMENT") HAS BEEN APPROVED BY THE UNITED STATES BANKRUPTCY COURT FOR THE NORTHERN DISTRICT OF TEXAS AS CONTAINING ADEQUATE INFORMATION AS REQUIRED BY THE BANKRUPTCY CODE FOR SOLICITATION OF ACCEPTANCES OF THE PLAN OF REORGANIZATION DATED MARCH 21, 2005. DISTRIBUTION OF THIS DISCLOSURE STATEMENT TO CREDITORS, SHAREHOLDERS AND OTHER PARTIES IN INTEREST WAS AUTHORIZED BY UNITED STATES BANKRUPTCY COURT ON \_\_\_\_\_, 2005. THE COURT HAS MADE NO INDEPENDENT INVESTIGATION OR DETERMINATION OF ANY FACTUAL STATEMENT OR DOLLAR VALUE SET FORTH IN THE PLAN OR THE DISCLOSURE STATEMENT.

I.

INTRODUCTION

This Disclosure Statement has been prepared by Comm South Companies, Inc.; Altair Communications, Inc.; E-Z Tel, Inc.; and Comm South Companies of Virginia, Inc., and is being distributed to creditors, shareholders and other parties in interest for the purpose of soliciting acceptances of the Plan. The purpose of the Disclosure Statement is to provide holders of claims against and interests in Debtors with adequate information to enable them to make informed judgments about the Plan before exercising their right to vote to accept or reject it. Acceptance or rejection of the Plan must be in writing, and may only be made by completing the Ballot that accompanies the Plan and mailing it to Sheppard, Mullin, Richter & Hampton LLP, 4 Embarcadero Center, 17th Floor, San Francisco, California 94111 Attention: Judy Nakaso, in the enclosed envelope. For your vote to be counted, your completed Ballot must be received no later than \_\_\_\_\_, 2005, at 5:00 p.m. Pacific Time.

The Disclosure Statement describes the business background and operating history of Debtors before the filing of these Chapter 11 Cases. It also summarizes certain significant events that have taken place during the Chapter 11 Cases and describes the terms of the Plan, which divides creditor claims and the interests of shareholders into classes and provides for the satisfaction of allowed claims and interests.

The Plan calls for the wind down of the Debtors' business over time, the eventual liquidation of all Debtors' assets, and the orderly distribution of the proceeds to creditors as provided in the Plan. A detailed description of the Plan is set forth in Article V. of the Disclosure Statement.

On approval of the Plan by the Bankruptcy Court, it will be binding on all creditors and shareholders, regardless of whether an individual creditor or shareholder has voted in favor of it. DEBTORS THEREFORE URGE YOU TO READ THE DISCLOSURE STATEMENT AND THE PLAN CAREFULLY.

## II.

### DEFINITIONS AND RULES OF CONSTRUCTION

#### A. Definitions.

Attached as Exhibit 1 are the definitions for certain terms that are capitalized in the Plan and the Disclosure Statement. If a capitalized term is used, but has not been defined in Exhibit 1, it will have the meaning attributed to it in the Code and the Rules.

#### B. Generally.

The rules of construction in the Code and in the Rules will apply unless superseded by the Plan or the Confirmation Order.

C. Exhibits.

All Exhibits are incorporated into and are a part of the Disclosure Statement as if set forth in full.

D. Time Periods.

In computing any period of time described in the Disclosure Statement, Rule 9006(a) will apply.

E. Miscellaneous.

(a) Unless the context requires otherwise, the words "herein," "hereof," "hereunder," and other words of similar import refer to the Disclosure Statement as a whole, (b) whenever it appears appropriate from the context, terms stated in the singular or the plural include the singular and the plural, and pronouns include the masculine, feminine and the neuter, (c) the words "include" or "including" will not be words of limitation, but will be deemed to be followed by the phrase "without limitation," and (d) captions and headings to Articles and Sections of the Disclosure Statement are inserted for reference only and are not intended to be a part of or to affect its interpretation.

### III.

#### DEBTORS' BUSINESS AND OPERATIONS PRIOR TO SEPTEMBER 19, 2003

A. History of Debtors.

Debtors are public utilities regulated by the Federal Communications Commission and the respective state public utility commissions of the states in which they do business. Comm South Companies, Inc. ("CSC") is a Texas corporation that was founded in 1996 as a Competitive Local Exchange Carrier ("CLEC"), as provided for in the Telecommunications Action of 1996, and is headquartered in Dallas, Texas. CSC operates three (3) subsidiaries,

Altair Communications, Inc., E-Z Tel, Inc. and Comm South Companies of Virginia, Inc. CSC provides non-facilities based local, long distance and related telephone services. CSC's business plan was to provide prepaid services through a variety of different distribution channels. By 2001, CSC had approximately 200,000 customers.

In 2000, CSC was sold to a subsidiary of America Movil, S.A. de C.V., TracFone Wireless, Inc. TracFone Wireless, Inc. operated the company until 2001. During this time, CSC expanded its business aggressively through extensive television advertising. This placed a significant drain on capital. In 2001, TracFone Wireless, Inc. sold the company to Arbros Communications, Inc. ("Arbros"), a facilities based CLEC. Arbros provided CSC a working capital infusion in excess of \$39 million. These funds were used for trade payables, equipment and a new office support system.

During 2000-2001 CSC failed to meet its provisions requirements and as a result it lost significant market share to competitors and also lost a significant number of sales agents. These events dramatically reduced cash flow. Additionally, its costs increased due to its failure to process disconnection and change orders in a timely manner. In late 2001 its parent company, Arbros, ceased operations, which created a substantial burden on CSC, as it no longer had the resources to provide equitable settlements for its creditors. CSC was reorganized by its shareholders, under a parent holding company, Arcomm Holding Company, in June 2002.

B. Events Leading to the Filing of the Chapter 11 Cases.

In 2002-2003, a turnaround plan was adopted to bring expenses in line with revenue. While costs were brought in line, cash flow could not be sustained to offset the expenses that had been compiled over the past fiscal years and to continue to serve its customer base. While CSC had reached settlement agreements with advertisers that represented approximately \$4.1 million in past due invoices, it still lacked the ability to increase its cash flow through advertising as it no



longer had a credit facility. In July 2003, CSC lost a \$1.2 million arbitration that it could not satisfy. In September 2003 CSC was unable to meet its settlement obligations and run its day-to-day operations. Its customer base had dropped to approximately 20,000 customers. As a result, CSC filed for chapter 11 protection on September 19, 2003.

#### IV.

#### CHAPTER 11 EVENTS

##### A. Events Since the Chapter 11

At the outset of this case, CSC worked to contain its costs, improve operations and grow its revenue base via commercial accounts. In December 2003, it signed an agreement with Davel Communications that provided for a 100+ percent increase in the number of phone lines it serviced.

In December 2003 CSC management sought new financing in order to provide a plan that would bring the creditors more value than a liquidation of assets. After months of negotiations with several groups, Debtors entered into a Strategic Investment Agreement with Mobilepro Corporation in May 2004. That agreement provided equity contributions and assumption of certain debt, and provided for significantly more value for creditors than liquidation of CSC assets. Additionally, it provided CSC with working capital for marketing and advertising.

Based on this agreement, Debtors on August 9, 2004 filed their initial Plan of Reorganization and disclosure statement relating to the plan. However, Debtors subsequently discovered that they had incurred significant unpaid post-petition obligations to Bell South, which, although Debtors subsequently reached an agreement with Bell South regarding payment of this obligation, resulted in Mobilepro's invoking the material adverse change clause of the agreement. As a result, Debtors were unable to proceed to confirmation of their initial plan.

B. Administrative Orders.

On October 1, 2003, the Court entered its orders authorizing Debtors to maintain their existing bank accounts and cash management system, and to honor certain pre-petition priority obligations to employees; and on this same date, the Court entered an order designating these cases to be treated as complex chapter 11 bankruptcy cases pursuant to the local rules of the bankruptcy court.

On October 10, 2003, the Court entered its orders jointly administering Debtors' bankruptcy cases and limiting notice in those cases.

C. Claims Bar Dates.

1. Pre-Petition Claims.

The deadline for filing claims arising before the Petition Date was (a) January 26, 2004, for all claims other than the claims of governmental units or claims arising from the rejection of an executory contract, and (b) March 18, 2004, for claims of governmental units. The bar dates for claims arising from the rejection of executory contracts or unexpired leases shall be thirty (30) days after the executory contract or unexpired lease is rejected pursuant to the Plan. The Debtors intend to reject a number of executory contracts or unexpired leases upon the Effective Date of the plan, and the bar dates for damages arising from those rejections will be thirty (30) days after the Effective Date.

2. Professional Fees and Costs.

Claims of attorneys, accountants and other professionals for fees and costs incurred after the Petition Date, but before the Effective Date, will be determined by order of the Court. Debtors have retained the following professionals during the Chapter 11 Cases pursuant to the following Court orders: (1) Sheppard, Mullin, Richter & Hampton LLP, as Debtors' lead bankruptcy counsel, pursuant to the Court's order dated October 1, 2003; (2) Munsch Hardt Kopf

& Harr, P.C., as Debtors' local bankruptcy counsel, pursuant to the Court's order dated November 6, 2003; (3) Vinson & Elkins, LLP, as Debtors' special tax counsel, pursuant to the Court's order dated April 5, 2004; (4) Shaw Pittman LLP, as Debtors' Special Counsel for regulatory matters, pursuant to Order of November 18, 2003; (5) Miller Enterprises, Inc. as consultant to the Debtors, pursuant to court order on October 31, 2003; (6) Goodwin & Goodwin, LLP as Debtors' Special Counsel, on December 4, 2004; and (7) Stewart & Irwin as Debtors' Special Regulatory Counsel in Indiana, on December 5, 2004.

D. Statements of Financial Affairs and Schedules of Assets and Liabilities.

On October 21, 2003, Debtors filed their respective Statements of Financial Affairs and Schedules of Assets and Liabilities. Those documents are on file with the clerk of the Court and are available for review during normal business hours. Those documents set forth the assets and liabilities, to the best of Debtors' information and belief, that existed as of the date of the filing of these chapter 11 cases.

E. Orders Deeming Utilities to be Adequately Assured of Payment.

Shortly after these cases were filed, Debtors filed a motion requesting that the Court find that certain utilities were provided adequate assurance of future performance under Debtors' contracts with in excess of 14 different providers of local exchange services to Debtors. In that regard, Debtors were able to negotiate settlements with many of these providers, all of which were approved by the Court. Other telecom providers failed to respond and orders were entered that provided for the orderly payment of the existing charges that were owing the providers after these cases were filed, and provided assurance that future charges would be timely made.

F. Extensions of Time to Have Exclusive Right to File Plan and Obtain Ballots From Parties in Interest.

The Bankruptcy Code provides that Debtors have the exclusive rights for 120 days after filing a bankruptcy case to file a plan, and an additional 60 days thereafter to obtain acceptance of the plan. These time limits may be extended (or reduced) by the Court on motion by a party in interest.

Debtors filed three motions requesting that these time limits be extended. Most recently, on July 16, 2004, the Bankruptcy Court signed an order extending the exclusive time within which Debtors could file a plan to August 17, 2004, and the time period during which the Debtors may solicit acceptances to October 15, 2004. As those time limits have expired, Debtors no longer have the exclusive right to file a plan. However, Debtors are not aware of any other plans filed by interested parties.

G. BellSouth Settlement.

As noted above, BellSouth was owed approximately \$1.1 million for post-petition services provided to the Debtors. To provide for the payment for these services and resolve other differences between the parties, in December 2004, Debtors and BellSouth entered into a stipulation, subsequently approved by the Bankruptcy Court, which provides, among other things, that Debtors will continue to make weekly payments of \$10,000 to be applied against the post-petition deficiency. These payments will continue to be made by the Debtor while it continues its business operations during the Plan. As part of the stipulation, the Debtors released BellSouth from any avoidance actions arising under Chapter 5 of the Bankruptcy Code.

H. Settlement of the Claim Asserted by Texas Comptroller.

At the time of the filing of these bankruptcy cases, Debtors believed that a relatively small pre-petition tax obligation was owed to the State of Texas. Although Debtors were aware

that Texas was conducting an audit of sales taxes owing going back to 1998 (a period prior to the time present management took over control of the Debtors), no significant amounts were believed owed.

However, in early 2004, Debtors were informed that Texas alleged that in excess of \$1 million dollars of pre-petition sales taxes remained owing. Further, in December of 2001, Texas had filed a lien related to sales taxes then owed. These taxes were promptly paid. However, the tax lien was never released and the State of Texas took the position that the lien attached to the sales taxes allegedly not paid for prior years that were discovered through the audit process.

This set of circumstances created a potentially disastrous situation for the Debtors and other creditors of these estates. As a result, Debtors immediately engaged the law firm of Vinson & Elkins LLC ("Vinson"), certain of whose attorneys were skilled in negotiating resolutions of tax disputes with the Texas state authorities. As a result of Vinson's efforts, a compromise was reached with the State of Texas that provides for a substantial reduction in the amount of the Texas claim, and will allow Debtors to fund payments to other creditors as provided in their plan. The details of the Texas settlement are set forth in Article V.2.c, of this Disclosure Statement.

I. Davel Contract.

In December 2003, Comm South entered into a one-year agreement with Davel Communications, Inc. ("Davel") whereby Comm South agreed to provide local telephone services for a minimum of 10,500 payphones owned and operated by Davel. In December 2004, the number of Davel payphones had increased to in excess of 24,000 lines and the agreement was extended for an additional 60 days. At that time it was further agreed that Davel would pay all non-recurring costs, charges and taxes of Comm South relating to these pay phone lines, and

further provided for the payment of all of Comm South's carrier costs relating to these pay phones. The rates fixed in the extended contract also provide for payments to Comm South to cover its other costs and charges attributable to this business. On February 21, 2005, the Davel contract was extended until February 27, 2006.

The Davel contract, and Debtors' ability to continue its operations and orderly liquidation, is contingent upon Debtors' ability to access its ILEC's bundled network element platforms (UNE-P) at current rates. Recently, the FCC has held that CLEC's, such as these Debtors, shall continue to have access to these UNE-Ps until March 2006; and unless that date is extended by legislative, judicial or regulatory action, Debtors will cease business operations in March 2006.

J. Sale of Pre-Paid Customers to DialAfford.

In December 2004, Debtors entered into an Account Sale and Purchase Agreement whereby Debtors sold approximately 10,700 pre-paid local dial tone accounts to DialAfford, LLC ("Dial Afford") for, among other things, cash in the amount of \$355,410. During the transition of these customers from Debtors' telecommunications platform to those of the buyer, DialAfford entered into an operating agreement whereby it agreed to pay weekly amounts to Debtors sufficient in amount to cover Debtors' costs of servicing those customers for up to 90 days from closing. While the operating agreement contemplated a termination date of March 31, 2005, at the time of the drafting of this disclosure statement, the parties were discussing an extension to that date which would contain assurances that Debtors' costs were fully paid by DialAfford while Debtors' platform continues to service the accounts.

K. United States Trustee's Motion to Dismiss or Convert Case to Chapter 7.

In February 2005, the court heard a motion filed by the Office of the United States Trustee ("OUST") that sought conversion of this case from chapter 11 to chapter 7 liquidation or

dismissal. Debtors vigorously opposed that motion on the grounds that conversion to chapter 7 would result in no distribution to creditors other than a partial payment to the State of Texas which held a secured claim of in excess of \$1,100,000.

Debtors further argued that they could file a plan (as set forth herein) that would provide for payment in full of not only the Texas secured claim, but also all administrative and priority claims. Further, such a plan held out the possibility of paying a dividend to unsecured creditors. At the hearing on the OUST motion, the Bankruptcy Judge denied the motion to convert, but set strict time limits for the filing and confirmation of a plan of reorganization, and further ordered Debtors timely to file their monthly operating reports which in recent months had not been filed on time.

## V.

### PLAN OF REORGANIZATION

The Plan contemplates that Debtors will continue in business through February 2006, or longer should regulations allow them to continue UNE-P operations after that date. Debtors believe that during this Period they will accrue net operating profits each month to be used to fund payments to creditors as provided in the Plan. Following termination of business activities, or prior to that date if feasible, Debtors will liquidate their remaining assets for the benefit of creditors.

#### A. Classification, Impairment And Treatment Of Claims And Equity Interests.

All Claims and Equity Interests, except Administrative Claims, Fee Claims and Priority Tax Claims are placed in Classes as described herein.

1. Class 1 Claims (Priority Claims).

a. **Classification.** All Priority Claims against Debtors.

b. **Impairment and Voting.** Class 1 Claims are unimpaired.

Holders of Class 1 Claims are not entitled to vote on the Plan.

c. **Treatment** Unless it agrees to receive other, less favorable treatment, each holder of an Allowed Priority Claim will be paid 100% of the unpaid amount of the Allowed Priority Claim by Reorganized Debtors, in Cash. Payment will be made on or as soon as reasonably practicable after the later of (a) the Effective Date, and (b) the date the Priority Claim becomes an Allowed Priority Claim.

2. Class 2 Claim (Secured Tax Claims of the Texas Comptroller of Public Accounts):

a. **Classification.** The Secured Tax Claims of the Texas Comptroller of Public Accounts.

b. **Impairment and Voting.** The Class 2 Claim is impaired. The holder of the Class 2 Claim is entitled to vote on the Plan.

c. **Treatment.** The holder of the Class 2 Claim will receive from Reorganized Debtors the following: An Allowed Secured Claim in the principal amount of \$544,219, in accordance with the following payment schedule:

(1) A 24-month payout (beginning on the 15<sup>th</sup> day of the month following the Confirmation) with a balloon payment in the 25<sup>th</sup> month as follows:



(i) First 12 months, monthly payments of \$7,558;  
(ii) Next 12 months, monthly payments of \$11,338;  
(iii) Balloon payment in 25<sup>th</sup> month totaling \$317,467  
(the "Balloon").

(2) Payment terms of the Balloon shall be negotiated by the parties during the 25<sup>th</sup> month, or earlier, based on Reorganized Debtors' financial condition at that time. The Debtors reserve the right to pay the entire balance in full on or before the Effective Date. The Debtors anticipate that the Class 2 Claims will be paid in full no later than on Effective Date.

3. Class 3 Claims (Other Secured Claims):

**a. Classification.** All Other Secured Claims.

**b. Impairment and Voting.** Class 3 Claims are unimpaired.

Holders of Class 3 Claims are not entitled to vote on the Plan.

**c. Treatment.** Unless it agrees to receive other, less favorable treatment, each holder of an Allowed Other Secured Claim will receive one of the following treatments as soon as reasonably practical on or before the Effective Date:

- (1) Debtors will leave unaltered all of that holder's other legal, equitable, or contractual rights with respect to its Class 3 Claim, including the retention of the Liens securing the Claim;
- (2) Debtors will convey the Collateral that is subject to the holder's Class 3 Claim; or
- (3) Debtors will pay to the holder of a Class 3 Claim Cash in the amount of its Allowed Class 3 Claim.

Debtors, in their sole discretion, will select which of these treatments each holder of an Allowed Class 3 Claim will receive. However, Debtors believe there are no Class 3 creditors in this case.

4. Class 4 (LEC Cure Claims):

a. Classification.

- (1) Class 4A are the Cure Claims of Bell South Communications.
- (2) Class 4B are the Cure Claims of Qwest Communications.
- (3) Class 4C are the Cure Claims of SBC Communications.
- (4) Class 4D are the Cure Claims of Verizon-GTE.
- (5) Class 4E are the Cure Claims of Valor Communications.
- (6) Class 4F are the Cure Claims of TXU Communications.
- (7) Class 4G are the Cure Claims of Iowa TeleCom.
- (8) Class 4H are the Cure Claims of Citizens Communications.
- (9) Class 4I are the Cure Claims of Century Telecom.
- (10) Class 4J are the Cure Claims of Alltel.
- (11) Class 4K are the Cure Claims of Verizon East, West and North.

(12) Class 4L are the Cure Claims of Sprint Communications.

**b. Impairment and Voting.** All Class 4 claims are impaired and entitled to vote on the Plan, and each creditor in Class 4 shall be treated as a separate class for all purposes, including voting on the Plan.

**c. Treatment.** If the executory contracts of the claims in Classes 4A through 4L (or any of them) are assumed by the Debtors on or before the Effective Date, those claims shall be fully satisfied, discharged and released as of the Effective Date by the consensual modification and restatement of each such classes' respective interconnection and/or other executory contracts and agreements, as shall be evidenced by the execution and delivery of such modified agreements as to which the respective parties may agree which shall include terms for repayment of all pre-petition amounts owed to each such creditor. No other distribution shall be made on account of any Allowed Class 4 claim. If the executory contracts of one or more of these claims is not assumed, the contract will be deemed rejected pursuant to Sections 11.1 and 11.2 of the Plan and treated as provided therein.

5. Class 5 Claims (Unsecured Claims):

**a. Classification.** All Unsecured Claims.

**b. Impairment and Voting.** Class 5 Claims are impaired. Holders of Class 5 Claims are entitled to vote on the Plan.

**c. Treatment.** Each holder of an Allowed Unsecured Claim will receive its Pro Rata share of the proceeds of the Debtors' operations and liquidation of its assets, including the proceeds of any Avoidance Actions, after payment of Allowed Administrative Claims, Allowed Class 1 Claims, Allowed Class 2 Claims, Allowed Class 3 Claims, and

Allowed Class 5 Claims. The Comm South Trust will administer the payment of Class 5 Claims. The Comm South Trust will distribute any funds to Allowed Class 5 Claims as soon as is reasonably practical after the Effective Date, based on its review and determination of the Unsecured Claims and any necessary reserve for Disputed Claims.

The Debtors believe that the total amount of general unsecured claims will total approximately \$7.3 million.

Debtors' former shareholder, Arbros, purports to hold a general unsecured claim, including interest, in an amount in excess of \$39 million. Debtors believe that this purported "debt" should be treated as an equity infusion and not be entitled to any distribution under the Plan. Alternatively, Debtors believe that valid grounds exist to have this claim treated as a subordinated claim, that is, it would not be paid unless and until other unsecured creditors were paid in full. Following the Effective Date, Debtors will provide information to the Comm South Trust for it to institute litigation against Arbros to deny it any recovery under the Plan. The estimate the amount of general unsecured creditors herein assumes that Debtors are successful in this litigation.

Payments to general unsecured creditors under the Plan will depend, in part, also upon the success of the Debtor in recovering any preference payments made within 90 days to general creditors and within one year to insiders. The Debtors have not conducted a formal analysis of the potential recoveries under the Avoidance Actions of the Bankruptcy Code. However, Debtors believe that many payments made to creditors and insiders during the applicable preference periods were made in the ordinary course of Debtors' businesses.

6. Class 6 Equity Interests (Equity Interests):

a. **Classification.** All equity interests in the Debtors.

b. **Impairment and Voting.** Class 6 Equity Interests are impaired and are deemed to have rejected the Plan. As a result, they will not vote on the Plan.

c. **Treatment.** Holders of Class 6 Equity Interests will receive no distribution of any kind under the Plan on account of their Equity Interests. On the Effective Date, all Equity Interests in Comm South will be deemed cancelled.

7. Acceptance by an Individual Creditor.

A Creditor will have accepted the Plan if it votes to accept by (a) so marking the Ballot for the Class in which its Claim is placed, and (b) timely returning the Ballot as instructed on its face.

8. Cramdown.

If a Class does not accept, or is deemed to reject, the Plan in accordance with Sections 1126 and 1129(a) of the Code, Debtors request that the Court confirm the Plan in accordance with Section 1129(b) of the Code as to any rejecting Class. Debtors reserve the right to modify the Plan to the extent, if any, that confirmation under Section 1129(b) of the Code requires modification.

B. Administrative Claims, Fee Claims And Priority Tax Claims.

1. Administrative Claims

Unless it agrees to receive other, less favorable treatment, each holder of an Allowed Administrative Claim will be paid 100% of the unpaid amount of its Allowed Administrative Claim in Cash. Payment will be made either (a) in the ordinary course of Debtors' business, or

(b) 10 Business Days after the date the Administrative Claim becomes an Allowed Administrative Claim, but no later than 30 days after the Effective Date. Notwithstanding the foregoing, Allowed Administrative Claims of the United States Trustee for fees under 28 U.S.C. § 1930(a)(6) will be paid in accordance with the applicable schedule for payment of those fees.

2. Fee Claims

Unless it agrees to receive other, less favorable treatment, each holder of a final Allowed Fee Claim will be paid 100% of the unpaid Allowed Fee Claim, in Cash. Payment will be made on or as soon as reasonably practicable: (a) 10 days after the Fee Claim becomes an Allowed Claim, or (b) on an interim basis as authorized by the Court in its Administrative Order Under 11 U.S.C. §§ 105(a) and 331, Establishing Procedures for Monthly & Interim Compensation & Reimbursement of Expenses for Professionals entered on November 26, 2003.

3. Priority Tax Claims.

Unless (a) otherwise provided for in the Plan, or (b) it agrees to receive other, less favorable treatment, each holder of an Allowed Priority Tax Claim will receive Cash, in the unpaid amount of its Allowed Priority Tax Claim, with payment being made on the later of (1) the Effective Date or (2) the date the Priority Tax Claim becomes an Allowed Priority Tax Claim; provided, however, that in no event will such Claims be paid unless and until all secured and administrative claims have been paid in full or otherwise provided for. Claims or demands for penalties relating to a Priority Tax Claim will be disallowed. The holders of Allowed Priority Tax Claims will not assess or attempt to collect a penalty from Debtors or their respective assigns.

4. Subordination Rights.

Subordination rights, if any, arising out of provisions under Sections 510(a) and (b) of the Code will be enforced as to each class of Claim herein.

## VI.

### IMPLEMENTATION OF THE PLAN

Following confirmation of the Plan, and for as long as Debtors are able to operate pursuant to their UNE-P agreements with their ILECs, Debtors will continue their business operations pursuant to their contracts with Davel and DialAfford as set forth herein in Article IV. However, if in any month NET EBITDA is a negative number, Debtors' business operations shall cease and the Effective Date of the Plan shall occur at the end of the month following the month in which NET EBITDA is negative.

Attached hereto as Exhibit 2 is an 11-month operating budget pursuant to which Debtors estimate that their business operations will net in excess of \$1 million dollars through February 2006 for the benefit of creditors of their estates.

## VII.

### PROCEDURES FOR RESOLVING AND TREATING DISPUTED CLAIMS

#### A. Prosecution of Disputed Claims

The Debtors will have responsibility for objecting to the allowance of any Claim other than Class 5 Unsecured Claims. The Debtors are empowered, but not required, to consensually resolve disputes regarding the allowance, classification or amount of any Claim other than Class 5 Unsecured Claims. Objections that are filed and prosecuted as provided in this Section will be litigated to Final Order or compromised and settled in accordance with Section 9.2.

#### B. Claims Settlement Procedures

Notwithstanding any requirement that may be imposed by Rule 9019, from and after the Effective Date, all Claims may be compromised and settled, with approval of the Court, by the

Debtors pursuant to their authority under Section 9.1, or the Comm South Trust in the case of Class 5 Claims.

## VIII.

### DISTRIBUTIONS

#### A. Distributions after Allowance

Distributions to holders of a Disputed Claim, to the extent that the Claim ultimately becomes allowed, will be made by Reorganized Debtors according to the provisions of the Plan governing the Class of Claims to which the Creditor belongs.

#### B. Transmittal of Distributions and Notices

Any property or notice that a Person is or becomes entitled to receive under the Plan may be delivered by regular mail, postage prepaid, in an envelope addressed to that Person at the address indicated on any notice of appearance filed by the Person or its authorized agent before the Effective Date. If no notice of appearance has been filed, notice will be sent to the address indicated on a properly filed proof of claim or, absent a proof of claim, to the address in the relevant Schedule of Assets and Liabilities for the Person. Property distributed in accordance with this Section will be deemed delivered to a Person, regardless of whether it is actually received. Holders of a Claim or Equity Interest may designate a different address for notices and distributions by notifying Reorganized Debtors of that address in writing. To be effective, changes of address by a party entitled to receive distributions under the Plan will be by registered mail. Notification will be effective on receipt.

#### C. Disputed Payment

If a dispute arises as to the identity of a holder of an Allowed Claim who is to receive a distribution, Reorganized Debtors may, in lieu of making the distribution to that Person, make it



into an escrow account until the proper disposition has been determined by Court order or by a written agreement among the interested parties to the dispute.

D. Unclaimed Property

If a distribution remains unclaimed for a period of 30 days after it has been delivered (or attempted to be delivered) to the holder entitled to receive it under the Plan, the holder will forfeit the Unclaimed Property. Thereupon, all right, title and interest in and to the Unclaimed Property will immediately and irrevocably vest in the Reorganized Debtor. The holder of an Allowed Claim previously entitled to Unclaimed Property will thereafter cease to be entitled to it, and any such remaining Cash will revert to the Reorganized Debtors, and be paid to creditors as otherwise provided in the plan. Upon such reversion the claim of any creditor or its successor with respect to such property shall be discharged and forever barred notwithstanding any federal or state escheat laws to the contrary.

IX.

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

On the Effective Date, Debtors will reject all executory contracts and unexpired leases of the Estates under Sections 365 and 1123 of the Code, unless notice of Debtors' intention to assume an executory contract is given by the Debtors' to the other party to the contract on or before the Effective Date.

Bar Date for Rejection Damages. If the rejection of an executory contract or unexpired lease under the Plan gives rise to a Claim by the non-Debtor party to the contract or lease, the Claim, to the extent that it is timely filed and is an Allowed Claim, will be classified as a Class 5 Claim. However, the Claim arising from the rejection will be forever barred and will not be enforceable against Debtors, unless a proof of the Claim is filed with the Court and served on the

Debtors and the Comm South Trust within 30 days after the date the order of the Court rejecting the executory contract or unexpired lease is entered.

X.

LIQUIDATION ANALYSIS

Section 1129(a)(7)(A)(ii) of the Code permits the Court to confirm the Plan only if each member of an impaired class of claims or interests who has voted to reject the Plan receives or retains at least the amount or value that he or she would receive if the Debtors were liquidated in a case under Chapter 7 of the Code.

Attached hereto as Exhibit 3 is a liquidation analysis which assumes a scenario in which a Chapter 7 trustee would liquidate the assets of Debtors. This liquidation analysis is based on a number of estimates and assumptions that, although developed and considered reasonable by the Debtors, are inherently subject to significant economic and competitive uncertainties and contingencies beyond the control of Debtors. The liquidation analysis is also based on assumptions with regard to liquidation decisions that are subject to change. Accordingly, there can be no assurance that the values reflected would be realized if the Debtors were, in fact, to undergo such a liquidation.

However, the Debtors believe that in a Chapter 7 liquidation the proceeds of the sale of the assets on a distressed basis would result only in the payment of the Chapter 7 expenses of the trustee and his or her counsel and the remaining monies, if any, would go to the State of Texas on its secured claim. Thus, in a Chapter 7 case there would be no payment to any chapter 11 priority, administrative, or any general unsecured claim.

## XI.

### CONFIRMATION

#### A. Voting.

To confirm the Plan, two-thirds in monetary amount and a majority of the number of allowed claims of the creditors in each impaired class of creditors who vote on the Plan must vote in favor of it. Only allowed claims will be counted unless the Court orders otherwise. The holders of interests in Class 6 will receive and retain nothing under the Plan and, therefore, are deemed to have rejected it.

If a class that is impaired under the Plan does not vote in favor of it, Debtors must seek confirmation under section 1129(b) of the Code. The requirements for confirmation under Code section 1129(b) are discussed below.

Acceptance or rejection of the Plan may be voted by completing and signing the Ballot that accompanies the Plan and mailing it to Sheppard, Mullin, Richter & Hampton, LLP, Attn: Peter Stone, 4 Embarcadero, 17th Floor, San Francisco, California 94111 in an envelope marked "BALLOT" in the lower left hand corner. Only the Ballot should be mailed and all Ballots must be received by \_\_\_\_\_, 2005, at 5:00 p.m., Pacific Time.

BALLOTS RECEIVED THAT ARE SIGNED BUT DO NOT DESIGNATE  
ACCEPTANCE OR REJECTION OF THE PLAN WILL BE DEEMED ACCEPTANCES.  
UNSIGNED BALLOTS WILL NOT BE COUNTED.

B. Confirmation Standards.

For the Plan to be confirmed and to be binding on all creditors and interest holders, the Court must determine that the requirements of Code Section 1129(a) have been satisfied, including that at least one Class of Claims that is impaired under the Plan has accepted it.

C. Classification of Claims and Interests.

The Code requires that a plan of reorganization place each Claim and interest in a Class with other Claims or interests that are "substantially similar." The dollar amount of a Claim is usually not a basis on which to distinguish it from other Claims. Debtors believe that the classification system in the Plan meets the Code standard.

D. Modification of the Plan.

Debtors may modify the Plan at any time before the Confirmation Date. If the Plan is modified, Debtors may be required to provide additional disclosure to Creditors and other parties in interest with respect to the Plan, as modified. Any holder of a Claim that has accepted or rejected the Plan will be deemed to have accepted or rejected, as the case may be, the Plan as modified, unless, within the time fixed by the Court, the holder changes his previous acceptance or rejection.

E. Confirmation Without Acceptance by All Impaired Classes.

Section 1129(b) of the Code enables Debtors to confirm the Plan without the acceptance of one or more classes of Claims. If any impaired Class fails to accept the Plan by the statutory majorities described above, Debtors will seek confirmation under Section 1129(b) of the Code.

To be confirmed over the objection of a Class of unsecured Allowed Claims, the Plan must provide either that (1) each holder of an Allowed Claim in the Class receive property of a value, on the Effective Date, equal to the Allowed Claim, or (2) no junior Claim or Equity

Interest receive anything. The Court must also find that no senior Class will receive more than 100% on account of its Allowed Claims.

F. Effect of Confirmation.

If the Plan is confirmed, its terms will be binding on all creditors and interest holders. Debtors will be discharged from all liability for Claims arising before the Confirmation Date and the discharge will be effective as to each Claim regardless of whether the holder of a particular Claim filed a Proof of Claim, whether the Claim is allowed by the Court, or whether the holder of the Claim voted to accept the Plan.

XI.

CONCLUSION

The Disclosure Statement has been presented for the purpose of enabling creditors to make an informed judgment to accept or reject the Plan. Creditors are urged to read the Plan in full and consult with their counsel if questions arise. Debtors believe that acceptance of the Plan by Creditors is in the best interests of all parties in interest and that Confirmation of the Plan will provide the best recovery for Creditors.

Dated: March 21, 2005

COMM SOUTH COMPANIES, INC.

By: /s/ John E. McClure  
John E. McClure

Dated: March 21, 2005

ALTAIR COMMUNICATIONS

By: /s/ John E. McClure  
John E. McClure

Dated: March 21, 2005

COMM SOUTH COMPANIES OF VIRGINIA, INC.

By: /s/ John E. McClure  
John E. McClure

Dated: March 21, 2005

E-Z TEL, INC.

By: /s/ John E. McClure  
John E. McClure

Dated: March 21, 2005

By: /s/ Craig Stuppi  
Craig Stuppi

Michael H. Ahrens, California Bar No. 44766

Craig Stuppi, California Bar No. 51663

Sarah M. Stuppi, Cal. Bar No. 103041

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Local Counsel for the Debtors and Debtors-in-Possession

**EXHIBIT 1**  
**DEFINITIONS**



**EXHIBIT 2**

**COMM SOUTH COMPANIES, INC.  
DRAFT 11-MONTH PRO FORMA  
AS OF MARCH 1, 2005**

**EXHIBIT 3**

**COMM SOUTH COMPANIES, INC.  
LIQUIDATION ANALYSIS  
AS OF MARCH 15, 2005**