

# THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF KCS ENERGY, INC., AND ITS AFFILIATED DEBTORS

January 8, 2001

## TO ALL CREDITORS AND SHAREHOLDERS:

On January 30, 2001, the Bankruptcy Court will consider the confirmation of the *Debtors' Fourth Amended Joint Plan of Reorganization Under Chapter 11 of The Bankruptcy Code* (the "Consensual Plan").<sup>1</sup> The Consensual Plan is the result of extensive negotiations among the Debtors, the Official Committee of Unsecured Creditors of KCS Energy, Inc., (the "Committee") and Credit Suisse First Boston ("CSFB") and represents a consensus among the parties. The Committee has voted to support the Consensual Plan.

The Committee believes that the Consensual Plan maximizes the return to creditors and provides for the prompt emergence of KCS from bankruptcy as an ongoing, viable company. The Committee urges each impaired creditor and shareholder to cast its ballot in favor of the Consensual Plan and to do so even if the creditor has voted to accept or reject one or more of the other proposed plans. Please return your ballot voting to **ACCEPT** the Consensual Plan.

The Consensual Plan provides, in part:

- The existing bank loans will be paid in full from a portion of a new bank credit facility.
- All pre-petition trade claims and post-petition trade and other administrative expenses will be paid in full in accordance with their respective terms.

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1. In addition to the Consensual Plan, there are pending before the Bankruptcy Court three other proposed plans for the reorganization of KCS. By agreement of the plan proponents, the Bankruptcy Court will consider the Consensual Plan on January 30, 2001, and if the Consensual Plan is confirmed and becomes effective timely, the other plans will not be considered. If, for any reason, the Bankruptcy Court does not confirm the Consensual Plan on or before January 31, or if the Consensual Plan does not become effective on or before March 31, 2001, the Bankruptcy Court will consider the remaining plans on April 2, 2001.

- The holders of Senior Notes (“Sr. Notes”) will receive:

Payment of \$60 million in principal;

Unpaid interest to the date of payment on account of the \$60 million of Sr. Notes at the rate of 11% per annum, compounded semi-annually;

Unpaid interest at the rate of 11% per annum, compounded semi-annually to January 15, 2001, on account of the Sr. Notes which will remain outstanding;

Renewal of the maturity of remaining Sr. Notes; and

Protection in the form of the modification of the indenture to limit the right of KCS to redeem subordinated notes and to pay dividends while the Sr. Notes remain outstanding.

The \$60 million redemption of Sr. Notes will be funded, in part, with the proceeds of the sale of not less than \$25 million and not more than \$30 million of convertible preferred stock of KCS, and the remainder from the new secured bank credit facility.

- The holders of Senior Subordinated Notes (“Sr. Sub. Notes”) will receive:

Unpaid interest at the rate of 8-7/8% per annum, compounded semi-annually to January 15, 2001;

Acceleration of the maturity date from 2008 to 2006; and

Protection in the form of modifications to the Sr. Subordinated Note indenture to limit the right of KCS to pay dividends and redeem stock while the Sr. Sub Notes remain outstanding.

- The common stockholders of KCS will retain their interests in the reorganized KCS, subject to dilution from the conversion of the convertible preferred stock and the exercise of options to be issued under an employee and director incentive plan.

Please review carefully the enclosed Supplemental Disclosure Statement and Ballot, and return your Ballot timely as instructed. The Committee urges you to vote to accept the Consensual Plan.

/s/ Kathy Lee

Chairperson of the Official Committee of Unsecured Creditors of KCS Energy, Inc.