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March 28, 2006

VIA UPS

Ms. Sharla Dillon, Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

06-00088

Re: Application of DIECA Communications, Inc. d/b/a Covad
Communications Company for Authority to Provide Security in
Connection with Financing; Expedited Action Requested

Dear Ms. Dillon:

Enclosed for filing with the Tennessee Regulatory Authority, please find an original, thirteen (13) copies and a duplicate copy of the above-referenced application. Please also find a check in the amount of \$50.00 to cover the filing fee and a self-addressed, postage-paid envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided. Should there be any questions with respect to this filing, please contact Melissa Conway at (202) 955-9667.

Respectfully submitted,

Melissa Conway /gmc

Melissa Conway

Enclosures

DC01/CONWM/245846 1

PAID T.R.A.	
Chk #	8386
Amount	50.00
Rcvd By	JP
Date	3-29-06

**Before the
Tennessee Regulatory Authority**

Petition of)
DIECA Communications, Inc. d/b/a)
Covad Communications Company)
)
For Authority to Provide Its Security)
in Connection with New Financing)

PETITION

DIECA Communications, Inc. d/b/a Covad Communications Company ("Covad" or the "Company"), by its attorneys, hereby respectfully requests approval from the Tennessee Regulatory Authority ("TRA") to provide its guarantee, serve as a co-borrower, or to otherwise provide security in connection with various financings of up to \$200 million being arranged for its parent company, Covad Communications Group, Inc. ("Covad Group") (Covad and Covad Group, collectively the "Borrowers"). Covad requests this authority pursuant to T.C.A. §65-4-109 and to the extent it may be necessary.¹ As discussed below, Covad asks that the TRA grant any authority required on or before May 15, 2006.

In support of this Petition, Covad provides the following information:

I. THE PETITIONER

Covad is a Virginia corporation that is a wholly-owned subsidiary of Covad Group, a Delaware corporation and a publicly-held company. The principal business office of

¹ Although Covad is seeking any necessary approval for its participation in this financing transaction, Covad is doing so without prejudice to its right to assert that this transaction is beyond the jurisdiction of the state commissions. *See, e.g., State ex rel. Utils. Comm'n v. S. Bell Tel. & Tel.*, 207 S.E.2d 772, *aff'd* 217 S.E.2d 543 (N.C. 1975). Further, based on Attorney General Opinion 99-119, issued May 14, 1999, the Company does not believe that the proposed multi-state financings require TRA approval. However, should the TRA believe that approval is required, it is hereby requested.

Covad Group and Covad is 110 Rio Robles, San Jose, CA 95134. Covad is a nationwide provider of integrated voice and data communications. The Company offers DSL, VOIP, web hosting, managed security, IP and dial-up, and bundled voice and data services directly through its network and through Internet service providers, value-added resellers, telecommunications carriers, and affinity groups to small- and medium-sized businesses and home users. To provide its services, Covad owns and operates a nationwide broadband network that serves customers in 44 states. In Tennessee, the Company is authorized to provide intrastate telecommunications services.² Covad is also authorized by the Federal Communications Commission to provide both interstate and international telecommunications services.

II. DESIGNATED CONTACTS

The designated contacts for questions concerning this Petition are:

Joan M. Griffin
Melissa S. Conway
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
Telephone: (202) 955-9600
Facsimile: (202) 955-9792
JGriffin@kelleydrye.com
MConway@kelleydrye.com

Copies of any correspondence should also be sent to the following designated representative of the Petitioner:

² See Docket No. 99-00823.

Anthony Hansel
Senior Counsel
Covad Communications Group, Inc.
600 14th Street, NW
Suite 750
Washington, D.C. 20005
Telephone: (202) 220-0410
Facsimile: (202) 220-0401
thansel@covad.com

III. DESCRIPTION OF THE TRANSACTION

Covad proposes that Covad Group and/or Covad obtain up to \$200 million through one or more financing arrangements with banks, other financial institutions and/or other types of investors (the "Financings"). Current proposed Financings include a \$50 million revolving line of credit from a commercial bank (the "Commercial Bank"), as well as a \$50 million investment from Earthlink in return for \$10 million of Covad Group common stock and a \$40 million senior secured convertible note. The Borrowers may obtain other Financings in the future.

The exact amounts and terms of each Financing, which may be completed in multiple tranches, will not be finalized until the specific arrangement(s) have been completed or shortly before funding of the various transactions, and will reflect the market conditions then existing. Some of the terms, such as interest rate, may fluctuate during the term of the Financing due to changes in market conditions and the financial condition and/or the performance of the Borrowers. The terms of each Financing is expected to be substantially as follows:

Funding Providers: The funding providers may be banks, financial institutions, private lending institutions, private individuals, and/or other institutions, either individually or a consortium. The funding group may change over the life of the Financing. As noted previously, it is expected at present that the Commercial Bank and Earthlink will provide Financings.

- Amount:* Up to \$200 million. Portions of the financed funds may be in the form of conventional credit facilities such as revolving credits (which can be reborrowed during the term of the commitment); letters of credit; the issuance of secured or unsecured notes or debentures (including notes convertible into common stock) to banks, other types of financial institutions or other investors; or term loans. As noted previously, at present, it is expected that the Commercial Bank will provide a revolving line of credit up to \$50 million. In addition, Earthlink will invest \$50 million in return for \$10 million of Covad Group common stock and a \$40 million senior secured convertible note that is convertible into Covad Group common stock.
- Maturity:* Any maturity date will be subject to negotiation and will depend on credit conditions. All maturity dates will be longer than one (1) year.
- Interest:* Any interest rate will likely be the market rate for similar Financings and will not be determined until such time as each Financing is finalized.
- Security:* Relevant to this Petition, some and perhaps all of the loans to Borrower(s) are expected to be secured by a first ranking security interest in specified assets of Covad, including a security interest in its receivables, tangible personal property, equipment, and intellectual property. In some cases, Covad may provide guarantees or be a co-borrower. The security documents will contain appropriate provisions indicating that the exercise of certain rights thereunder may be subject to obtaining prior regulatory approval. At present, it is expected that the Commercial Bank line of credit will be secured by Covad's assets. The Earthlink senior secured convertible note will be secured with a security interest in the telecommunications equipment (and any intellectual property embedded in that equipment) that Covad will purchase with the proceeds from the note.
- Use of Proceeds:* Some of the proceeds will be used to repay other loans, or for general corporate purposes, capital expenses, and working capital. Other proceeds will be used to fund the acquisition of other telecommunications companies and/or telecommunications assets. As noted previously, it is expected that the proceeds from the Earthlink note will be used to purchase telecommunications equipment and associated intellectual property.

To the extent specific approval would be required for provision of such commitments by Covad, such authority is hereby requested.

IV. PUBLIC INTEREST ANALYSIS

Approving this Petition will serve the public interest by enhancing the ability of Covad to grow and compete in the highly competitive markets for telecommunications services in Tennessee and nationwide. Approval of the financing transaction described herein is not expected directly to affect in any way the rates or services of Covad or its affiliates, or result in any change in control of Covad or its affiliates. The financing arrangement will provide Covad with the financial resources needed to further grow and expand its business and to compete in today's highly competitive telecommunications environment.

Covad competes in Tennessee and other markets with numerous other interexchange carriers and enhanced service providers as well as the incumbent local exchange carrier and other competitive local exchange carriers. Because Covad is a non-dominant carrier, it is not subject to rate of return regulation and its capital structure should not be a matter of concern to the TRA. In addition, because of the highly competitive environment in which it operates, the rates charged customers are subject to market discipline and the services offered generally are available from numerous other carriers. As a result, the source of funds and capital structure of Covad would have little effect on customers in Tennessee or elsewhere. In the unlikely event that the capital structure becomes too costly and rates rise, customers may simply migrate to other carriers with preferred rates. Thus, any adverse consequences from the financing decisions impact the shareholders, not the customers, and any favorable consequences benefit both its shareholders and consumers through higher profits, lower rates, and better services.

Moreover, because the public interest is best served by assuring the presence of numerous telecommunications competitors in Tennessee, it is important to provide such competitors with the flexibility to arrange financing in the manner they deem most appropriate to

carry on business so long as there is no adverse impact on the public. To deny such flexibility would discourage new competitors from entering the state and would encourage existing competitors in the state to seek a more favorable regulatory environment elsewhere, neither of which would enhance the public interest. Given the challenges facing competitive telecommunications carriers, the availability of funds to Covad in this manner would benefit Tennessee consumers.

V. REQUEST FOR EXPEDITED TREATMENT

Covad respectfully requests that the TRA grant any authority required on or before May 15, 2006. As shown herein, grant of this Petition will serve the public interest. Rapid grant of the authority requested in this Petition will eliminate any uncertainty regarding the proposed Financings and will allow Covad to realize the full benefits of the proposed Financings sooner.

WHEREFORE, Covad respectfully requests that the TRA approve on an expedited basis, to the extent necessary, its participation in the financing transactions described herein and further relief as the TRA may deem appropriate.

Respectfully submitted,

**DIECA COMMUNICATIONS, INC. D/B/A
COVAD COMMUNICATIONS COMPANY**

By: _____

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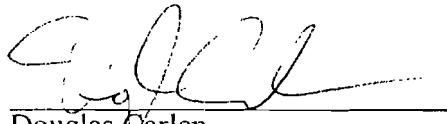
Its Attorneys

Date: March 28, 2006

VERIFICATION

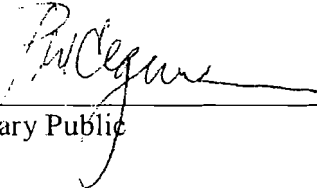
I, Douglas Carlen, am Vice President and Secretary of Covad Communications Group, Inc., and am authorized to represent it and its affiliates, and to make this verification on their behalf. The statements in the foregoing document relating to Covad Communications Group, Inc., and its affiliates, except as otherwise specifically attributed, are true and correct to the best of my knowledge and belief.

I declare under penalty of perjury that the foregoing is true and correct.



Douglas Carlen
Vice President and Secretary
Covad Communications Group, Inc.

Subscribed and sworn to before me this 15th day of MARCH 2006.



Notary Public

My Commission expires: 3/19/09

