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FINANCIAL ANA

April 4, 2006

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PUBLIC SERVICE
COMMISSION

VIA UPS

Ms. Stephanie Bell, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Re: *Informational Filing* of DIECA Communications, Inc. d/b/a Covad
Communications Company Regarding Its Intent to Provide Security in
Connection with New Financing

Dear Ms. O'Donnell:

DIECA Communications, Inc. d/b/a Covad Communications Company ("Covad" or the "Company"), by its attorneys, hereby respectfully advises the Kentucky Public Service Commission ("Commission") of its intent 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 submits this information with the Commission for informational purposes only pursuant to the Commission's Administrative Case No. 359 and No. 370 ("Administrative Cases"). Pursuant to the Administrative Cases, Covad understands that it is exempt from filing an application for prior approval of securing evidence of indebtedness. In support of this notification, Covad provides the following information:

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The Parties. 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 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 Kentucky, the Company is authorized to provide intrastate telecommunications services.¹ Covad is also authorized by the Federal Communications Commission to provide both interstate and international telecommunications services.

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.

¹ See ID #05021900, December 22, 1999.

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- 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 filing, 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.

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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.

Public Interest Considerations. The Financings will serve the public interest by enhancing the ability of Covad to grow and compete in the highly competitive markets for telecommunications services in Kentucky and nationwide. The Financings described herein are 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 Kentucky 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 Commission. 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 Kentucky 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 Kentucky, 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 Kentucky consumers.

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Covad submits that no prior Commission approval is required for the Financings described herein. Should the Commission believe that any action is required, Covad respectfully requests that the Commission notify the undersigned at its earliest convenience. Enclosed please find four (4) copies of this filing, a duplicate copy and a self-addressed, postage-paid envelope. Please date-stamp the duplicate and return it in the envelope provided. Should the Commission have any questions, please contact the undersigned at (202) 955-9667.

Respectfully submitted,

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

By: 

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Its Attorneys

VERIFICATION

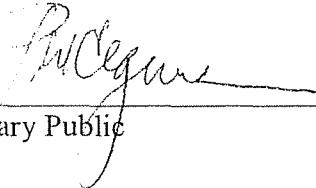
I, Douglas Carlen, am Vice President and Secretary of Covad Communications Group, Inc., and am authorized to represent it and its affiliates, and to make this verification on their behalf. The statements in the foregoing document relating to Covad Communications Group, Inc., and its affiliates, except 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

