

STATE OF FLORIDA

Commissioners:
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LILA A. JABER



DIVISION OF RECORDS & REPORTING
BLANCA S. BAYÓ
DIRECTOR
(850) 413-6770

Public Service Commission

July 6, 2000

Vicki Gordon Kaufman, Attorney
McWhirter Law Firm
117 South Gadsden Street
Tallahassee, Florida 32301

Re: Docket No. 000802-TX

Dear Ms. Kaufman:

This will acknowledge receipt of a joint application for approval of transfer of control of BlueStar Networks, Inc. (Holder of ALEC Certificate No. 7033), subsidiary of BlueStar Communications Group, Inc., to Covad Communications Group, Inc., parent company of DIECA Communications, Inc. d/b/a Covad Communications Company (holder of ALEC Certificate No. 5719), which was filed in this office on June 30, 2000 and assigned the above-referenced docket number. Appropriate staff members will be advised.

Mediation may be available to resolve any dispute in this docket. If mediation is conducted, it does not affect a substantially interested person's right to an administrative hearing. For more information, contact the Office of General Counsel at (850) 413-6248 or FAX (850) 413-7180.

Division of Records and Reporting
Florida Public Service Commission

Jac. # 08065-00

ORIGINAL RECEIVED-PPSC

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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APPLICATION FOR APPROVAL)
OF AGREEMENT AND PLAN OF)
MERGER AND REORGANIZATION)
BY AND AMONG COVAD)
COMMUNICATIONS GROUP, INC.)
AND BLUESTAR COMMUNICATIONS)
GROUP, INC.)

RECORDS AND REPORTING
Docket No. 000802-7A
Filed: June 30, 2000

JOINT APPLICATION

Joint Applicants Covad Communications Group, Inc. ("Covad"), DIECA Communications, Inc. d/b/a Covad Communications Company ("DIECA"), BlueStar Communications Group, Inc. ("BlueStar") and BlueStar Networks, Inc. ("BlueStar Networks") (collectively, the "Joint Applicants"), pursuant to Florida Statutes and the Rules of the Florida Public Service Commission (the "Commission"), respectfully submit this Joint Application for Commission approval of the transfer of control of Networks.

As more fully set forth below, Covad has entered into an agreement to acquire BlueStar, a privately held Delaware corporation, and its affiliates, including BlueStar Networks. Both BlueStar Networks and Covad's affiliate, DIECA, have each received certificates as ALECs from the Commission to offer and provide telecommunications services in the State of Florida. The proposed transaction will effect a transfer of ownership and control of BlueStar, which in turn will effect a change in the ultimate control of BlueStar Networks.

The Joint Applicants also respectfully request that, due to certain deadlines and other business reasons, the Commission expedite its review and approval process for this Joint Application and issue an Order granting this Joint Application and approving the proposed transaction outlined herein

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sometime prior to August 10, 2000. Under Commission Rule 25-24.815, this Joint Application should be considered effective upon filing because both BlueStar's subsidiary, BlueStar Networks, and Covad's subsidiary, DIECA, are currently certificated by the Commission.

In support of this Joint Application, the Joint Applicants respectfully submit the following information:

I. APPLICANT INFORMATION.

The legal names of the Joint Applicants are Covad Communications Group, Inc., DIECA Communications, Inc. d/b/a Covad Communications Company, BlueStar Communications Group, Inc., and BlueStar Networks, Inc. Covad, BlueStar and BlueStar Networks currently maintain their respective corporate headquarters at the following addresses:

Covad Communications Group, Inc.
DIECA Communications, Inc. d/b/a Covad Communications Company
4250 Burton Drive
Santa Clara, California 95050
Tel: (408) 844-7500
Fax: (408) 987-1111

and

BlueStar Communications Group, Inc.
BlueStar Networks, Inc.
801 Crescent Centre
Corporate Centre Five, Suite 600
Franklin, Tennessee 37067
Tel.: (615) 778-6600
Fax: (615) 778-7322

Covad is a publicly-traded Delaware corporation, which serves as a holding company and does not provide any telecommunications services. Covad's wholly-owned subsidiary, DIECA, a Virginia corporation, has been certificated by the Commission as an ALEC (Certificate No. 5719)

to provide telecommunications services throughout Florida.

BlueStar is a privately-held Delaware corporation, which serves as a holding company and does not provide any telecommunications services. BlueStar's wholly-owned subsidiary, BlueStar Networks, a Tennessee corporation, has been certificated by the Commission as an ALEC (Certificate No. 7033) to provide telecommunications services throughout Florida.

There are currently no unresolved complaints pending before the Commission against either DIECA or BlueStar Networks.

II. CONTACT INFORMATION.

All correspondence or communications pertaining to this Joint Application should be directed to:

Vicki Gordon Kaufman
McWhirter, Reeves, McGlothlin, Davidson,
Decker, Kaufman, Arnold & Steen, P.A.
1117 South Gadsden Street
Tallahassee, Florida 32301
Tel: (850) 222-2525
Fax: (850) 222-5606

with a copy to:

Catherine F. Boone
Covad Communications Group, Inc.
10 Glenlake Parkway, Suite 650
Atlanta, Georgia 30328-3473
Tel.: (678) 579-8388
Fax: (678) 320-9433

and

Norton Cutler
Michael B. Bressman
BlueStar Communications Group, Inc.
801 Crescent Centre
Corporate Centre Five, Suite 600
Franklin, Tennessee 37067
Tel.: (615) 778-6600
Fax: (615) 778-7322

III. DESCRIPTION OF PROPOSED TRANSACTION.

Covad has entered into an agreement (the "Merger Plan") to acquire BlueStar, including its wholly-owned subsidiary BlueStar Networks. The corporate structures of Covad and BlueStar before the proposed merger are depicted in the attached Exhibit A. Covad will acquire BlueStar by assuming BlueStar's existing indebtedness and issuing a portion of its authorized but unissued common stock to BlueStar's shareholders. Pursuant to the proposed Merger Plan, which will be accomplished as soon as is practicable (the "Effective Date"), a wholly-owned subsidiary of Covad, which has not yet been formed (the "New Covad Sub"), will merge with and into BlueStar. After consummation of the proposed transaction, BlueStar will survive as a wholly-owned subsidiary of Covad, and New Covad Sub will cease to exist. Thus, the acquisition will effect an indirect transfer of the ownership and control of BlueStar Networks (which will continue to operate as a wholly-owned subsidiary of BlueStar).

As of the Effective Date, each then-current shareholders of BlueStar common stock and preferred stock will receive the right to obtain a portion of 8 million shares of the common stock of Covad. In addition, up to 5 million shares of additional Covad common stock may be issued to BlueStar shareholders if certain performance targets are met by BlueStar during the 2001 fiscal year.

As of the date of this Joint Application, Covad has 150,771,298 shares of its common stock

issued and outstanding, and 39,222,702 shares of common stock that have been authorized but have not yet been issued. As of the date of this Joint Application, BlueStar has 13,173,525 shares of common stock and 22,687,646 shares of preferred stock issued and outstanding, and 46,826,475 shares of its common stock and 1,938 shares of its preferred stock that are authorized but have not yet been issued. In addition to the issuance of authorized but unissued common stock, Covad will also assume the existing indebtedness of BlueStar. The Merger as outlined above will be made for fair and equitable consideration to the stockholders of BlueStar.

As noted above, BlueStar will be the surviving corporation after the merger and will become a wholly-owned subsidiary of Covad. BlueStar Networks will remain a wholly-owned subsidiary of BlueStar. Neither DIECA's nor BlueStar Networks' CPCNs will be transferred. The corporate structure of Covad following the proposed transaction is depicted in the attached **Exhibit B**.

IV. PUBLIC INTEREST CONSIDERATIONS.

It is in the public interest for the Commission to approve the proposed transfer of control of BlueStar (and, ultimately, BlueStar Networks) to Covad. As the Commission has recognized, both DIECA (and Covad) and BlueStar Networks (and BlueStar) have sufficient technical, financial, and managerial resources and the ability to provide telecommunications services in the State of Florida. Covad's proposed acquisition of BlueStar will be transparent to the existing customers of both DIECA and BlueStar Networks in Florida. Upon approval by the Commission of this Joint Application and the closing of Covad's acquisition of BlueStar, (a) BlueStar Networks' personnel will still provide the same telecommunications services pursuant to its existing authority, (b) DIECA personnel will still provide the same telecommunications services pursuant to its existing authority, (c) the assets of Covad, DIECA, BlueStar and BlueStar Networks that are necessary to provide their

respective telecommunications services will be owned by Covad, but will continue to be used to serve BlueStar Networks' customers, and (d) the telecommunications services provided by DIECA and BlueStar Networks will continue to be provided without impairment of service to subscribers of those services.

In addition, Covad's acquisition of BlueStar will provide both DIECA and BlueStar Networks with increased financial, technical, and managerial resources that each will use to enhance the quality and scope of the competitive telecommunications services that both companies offer to their respective existing customers and intend to offer to their prospective customers in the State of Florida and other states. Moreover, by combining their resources the companies will be able to benefit from increased efficiencies and will be able to expand their offerings to a broader group of consumers.

WHEREFORE, for the reasons stated herein, Joint Applicants respectfully request that the Commission approve the Merger and transfer of control and authorize consummation of the Merger as described above.

DATED this 30th day of June, 2000.

Respectfully submitted,


Vicki Gordon Kaufman

McWhirter, Reeves, McGlothlin, Davidson, Decker,
Kaufman, Arnold & Steen, P.A.
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Counsel for Joint Applicants Covad Communications
Group, Inc., BlueStar Communications Group, Inc.,
and BlueStar Networks, Inc.

EXHIBIT LIST

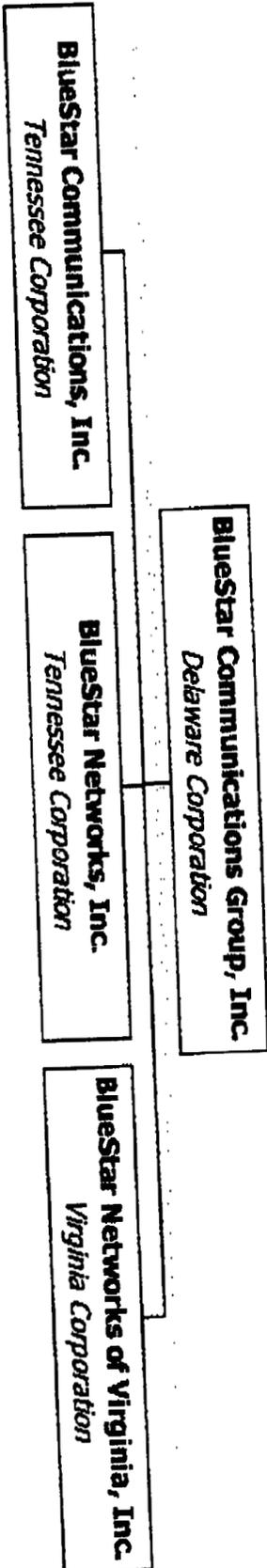
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|-----------|-------------------------------------|
| EXHIBIT A | Corporate Structure Prior to Merger |
| EXHIBIT B | Corporate Structure After Merger |

EXHIBIT A

Joint Applicants' Corporate Structure Prior to Merger



Bluestar Corporate Structure Pre-Merger



Covad Communications Group, Inc.

Corporate Structure Pre-Merger

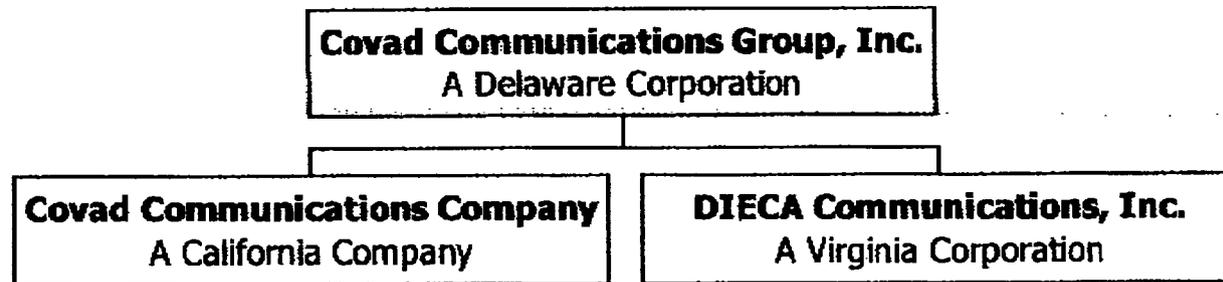


EXHIBIT B

Covad Communications Group, Inc. Corporate Structure After Merger

Covad Communications Group, Inc. Post-Merger Corporate Structure

