

ORIGINAL



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MEMORANDUM

RECEIVED

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TO: Docket Control
FROM: Ernest G. Johnson
Director
Utilities Division
DATE: January 25, 2008

EA for EGJ

JAN 25 10 19 AM '08

RE: STAFF REPORT FOR THE APPLICATION OF ITC^DELTACOM COMMUNICATIONS, INC FOR APPROVAL OF A PROPOSED TRANSACTION WHEREBY ITC^ DELTACOM COMMUNICATIONS, INC WILL DELEVERAGE ITS BALANCE SHEETS AND ENHANCE ITS LIQUIDITY PROFILE THROUGH CERTAIN CREDIT FACILITIES (DOCKET NO T-03298A-07-0372)

Attached is the Staff Report for the application of ITC^DeltaCom Communications, Inc. ("ITCD") for approval of a proposed transaction whereby ITCD will de-leverage its balance sheets and enhance its liquidity profile through certain credit facilities. Staff recommends conditional approval of the requested authorization.

Any party to this procedure who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 9, 2008.

EGJ:GWB:red

Originator: Gerald W. Becker

Attachment: Original and fourteen copies

Arizona Corporation Commission
DOCKETED

JAN 25 2008

DOCKETED BY *nr*

Service List for: ITC^DeltaCom Communications, Inc.
Docket No. T-03298A-07-0372

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

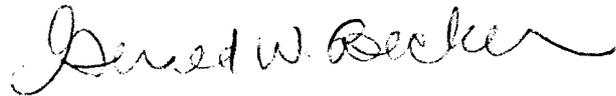
**ITC^DELTACOM COMMUNICATIONS, INC
DOCKET NO. T-03298A-07-0372**

**APPLICATION FOR APPROVAL
OF A PROPOSED TRANSACTION WHEREBY
ITCD WILL DELEVERAGE ITS BALANCE SHEETS
AND ENHANCE ITS LIQUIDITY PROFILE THROUGH
CERTAIN CREDIT FACILITIES.**

JANUARY 25, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for ITCD^DeltaCom Communications, Inc., Docket No. T-03298A-07-0372 is the responsibility of the Staff member listed below: Gerald W. Becker is responsible for the review and financial analysis of the Company's application.

A handwritten signature in cursive script that reads "Gerald W. Becker". The signature is written in black ink and is centered on the page.

GERALD W. BECKER
PUBLIC UTILITIES ANALYST V

EXECUTIVE SUMMARY
ITC^DELTACOM COMMUNICATIONS, INC.
DOCKET NO. T-03298A-07-0372

ITC^DeltaCom Communications, Inc. ("ITCD" or "Company") filed a notice of indebtedness with the Arizona Corporation Commission ("Commission") on June 18, 2007, informing the Commission of a financing transaction between Tennenbaum Capital Partners, LLC, Credit Suisse Securities, and certain of their affiliates and ITCD.

ITCD is a holding company with no certificates of authority. ITCD is the parent company of Interstate FiberNet, Inc. ("IFN"). IFN is a provider of wholesale fiber optic transmission or commonly known as a carrier's carrier. IFN does not hold a certificate in Arizona.

IFN is the parent company of DeltaCom, Inc. ("DeltaCom"). DeltaCom is incorporated under the laws of the state of Alabama and received its authority to provide long distance telecommunications services in Arizona under Docket No. T-03298A-96-0600 dated August 27, 1999.

ITCD is also the parent company of Business Telecom, Inc. d/b/a BTI ("BTI"). BTI is incorporated under the laws of the state of North Carolina and received its authority to provide long distance telecommunications services in Arizona under Docket Nos. U-2688-96-393 and T-02688A-96-393 dated August 26, 1998.

The purpose of the Company's application is to inform the Commission of a proposed transaction whereby ITCD would deleverage its balance sheet and enhance its liquidity position by reducing and refinancing ITCD's outstanding debt and the debt of its subsidiaries leaving ITCD \$305 million of first and second lien funded debt, a \$10 million revolver, approximately 81 million shares of common stock outstanding on a fully diluted basis, and cash on hand of approximately \$50 million. The loan will be secured by the assets of IFN, a wholly owned subsidiary of ITCD, and the guarantees of ITCD, DeltaCom and BTI. IFN will serve as the primary obligor of the debt while DeltaCom, BTI, and ITCD will serve as guarantors.

Staff concludes that DeltaCom or BTI serving as guarantors in support of ITCD financings would not impair the availability of service to customers, since each provides competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, any authorization to serve as guarantors should provide customer protection for prepayments and deposits.

Staff recommends that the Commission authorize DeltaCom and BTI to serve as guarantors pursuant to the Credit Agreement subject to the condition that all Arizona customer deposits and prepayments, if any, be excluded from encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit which is not included in the pledged collateral.

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Introduction

On June 18, 2007, ITC^DeltaCom Communications, Inc. ("ITCD" or "Company") filed a notice of indebtedness with the Arizona Corporation Commission ("Commission"), informing the Commission of a proposed financing transaction between Tennenbaum Capital Partners, LLC, Credit Suisse Securities, and certain of their affiliates and ITCD.

Background

ITCD is a holding company and no certificates of its own. It is a Delaware corporation with principal offices located at 7037 Old Madison Pike, Huntsville, AL.

ITCD filed a notice of indebtedness with the Commission on June 18, 2007, informing the Commission of a financing transaction between Tennenbaum Capital Partners, LLC, Credit Suisse Securities, and certain of their affiliates and ITCD.

ITCD is the parent company of Interstate FiberNet, Inc. ("IFN"). IFN is a provider of wholesale fiber optical transmission or commonly known as a carrier's carrier. IFN does not hold a certificate in Arizona.

IFN is the parent company of DeltaCom, Inc. ("DeltaCom"). DeltaCom is incorporated under the laws of the state of Alabama and received its authority to provide long distance telecommunications services in Arizona under Docket No. T-03298A-96-0600 dated August 27, 1999.

ITCD is also the parent company of Business Telecom, Inc. d/b/a BTI ("BTI"). BTI is incorporated under the laws of the state of North Carolina and received its authority to provide long distance telecommunications services in Arizona under Docket Nos. U-2688-96-393 and T-02688A-96-393 dated August 26, 1998.

Purpose and Description of the Financing Transaction

The purpose of the Company's application is to inform the Commission of a proposed transaction whereby ITCD would deleverage its balance sheet and enhance its liquidity position by reducing and refinancing ITCD's outstanding debt and the debt of its subsidiaries, leaving ITCD \$305 million of first and second lien funded debt, a \$10 million revolver, approximately 81 million shares of common stock outstanding on a fully diluted basis, and cash on hand of approximately \$50 million. The loan will be secured by the assets of IFN, a wholly owned subsidiary of ITCD, and the guarantees of ITCD, Delta Com and BTI. IFN will serve as the primary obligor of the debt while DeltaCom, BTI, and ITCD will serve as guarantors.

Financial Analysis

Staff performed a review of the proposed transaction and determined that the transaction would not impair the financial status of DeltaCom or BTI, would not impair their ability to attract capital, nor would it impair their ability to provide safe, reasonable, and adequate service. This application is similar to previous requests to secure affiliate debt as previously approved by the Commission in order to assist the affiliated companies to operate effectively. DeltaCom and BTI customers have alternative service providers and would not experience significant harm in the even that ITCD and/or IFN have financial difficulties. However, DeltaCom and BTI customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Therefore, any authorization for encumbrances should provide customer protection for prepayments and deposits.

Conclusion and Recommendations

Staff concludes that DeltaCom or BTI serving as guarantors in support of ITCD financings would not impair the availability of service to customers since the Company provides competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, any authorization to serve as guarantors should provide customer protection for prepayments and deposits.

Staff recommends that the Commission authorize DeltaCom and BTI to serve as guarantors in the proposed transaction subject to the condition that all Arizona customer deposits and prepayments, if any, be excluded from encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit which is not included in the pledged collateral.

Staff further recommends authorizing DeltaCom and BTI to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that DeltaCom and BTI file with Docket Control within 60 days of the execution of any financing transaction authorized herein.