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PUBLIC SERVICE COMMISSION

October 2, 2006

VIA OVERNIGHT DELIVERY

Thomas Dorman, Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40602-8294

Bingham McCutchen LLP  
Suite 300  
3000 K Street NW  
Washington, DC  
20007-5116

**Re: Talk America, Inc., The Other Phone Company and Network Telephone Corporation, Notice of Indirect Transfer of Control**

202.424.7500  
202.424.7647 fax

Dear Mr. Dorman:

Cavalier Telephone Corporation ("CTC"), a Delaware corporation and non-certificated holding company,<sup>1</sup> and Talk America Holdings, Inc. ("TA Holdings")<sup>2</sup>, with and on behalf of its Kentucky -certificated operating subsidiaries Talk America, Inc. ("Talk America"), The Other Phone Company, Inc. ("OPC") and Network Telephone Corporation ("NTC")(collectively, the "Parties"), hereby notify the Kentucky Public Service Commission ("Commission") of their intent of consummating a transaction whereby Holdings will acquire indirect control of Talk America, OPC and NTC, competitive carriers that hold authority from the Commission to provide telecommunications services in Kentucky (the "Transaction").

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Walnut Creek  
Washington

Upon a review of Kentucky statutes and Commission rules, the Parties understand that approval of the Transaction by the Commission is not required. Accordingly, the parties submit this filing as a courtesy and to ensure the continuing accuracy of the Commission's records.

**I. DESCRIPTION OF THE PARTIES**

CTC is a Delaware corporation whose business address is 2134 West Laburnum Avenue, Richmond, Virginia 23227. CTC is sole member of Holdings. In turn, Holdings' wholly-owned direct and indirect subsidiaries include: Cavalier Telephone LLC ("Cavalier"), Cavalier Telephone Mid-Atlantic, LLC ("CTMA"), Elantic Telecom, Inc. ("Elantic"), Cavalier Networks, LLC ("Networks") and Cavalier Acquisition Corp.

<sup>1</sup> CTC is the parent company of Cavtel Holdings, LLC, a Delaware limited liability company ("Holdings"), which itself is the non-certificated parent of all other entities in the "Cavalier family" of companies. As such, CTC is the direct parent of Holdings, and Holdings is the direct and indirect parent of, *inter alia*, the certificated operating subsidiaries described herein.

<sup>2</sup> TA Holdings, a Delaware corporation, is a non-certificated holding company whose direct and indirect subsidiaries include, *inter alia*, the operating companies described herein.

("Acquisition"), a Delaware corporation formed for the specific purpose of effecting the Transaction described herein. CTC's indirect operating subsidiaries employ over 1,000 people to bring a wide array of telephone and data service offerings, through more than 390,000 access lines, to more than 250,000 business and residential customers in the United States.

TA Holdings is a publicly-held Delaware corporation, headquartered in New Hope, Pennsylvania. TA Holdings is the parent of authorized local and long distance telecommunications carriers Talk America, OPC, NTC, LDMI Telecommunications, Inc. ("LDMI") and Talk America of Virginia, Inc., which collectively serve a nationwide customer base. TA Holdings' operating subsidiaries are authorized to provide local and long distance telecommunications on essentially a nationwide basis.<sup>3</sup>

## **II. DESCRIPTION OF THE TRANSACTION**

The proposed Transaction will be accomplished by a series of steps: (1) CTC's direct subsidiary Holdings borrowing from a syndication of lenders sufficient capital to effect the acquisition and related buybacks of preferred stock, common stock, and options, and to provide for anticipated post-Transaction working capital and other operations needs of and between the subject operating companies, as described herein; (2) CTC (indirectly through Holdings), acquiring all of the issued and outstanding shares of TA Holdings; and (3) TA Holdings being merged into Acquisition with TA Holdings surviving.

As a result of these steps, Holdings, and by extension CTC, will indirectly control Talk America, NTC, OPC, and LDMI. For the Commission's convenience, pre- and post-Transaction illustrative charts are provided as Exhibit A.

## **III. THE TRANSACTION IS IN THE PUBLIC INTEREST**

The Parties submit that the Transaction will enable the CTC and TA Holdings operating subsidiaries to strengthen their competitive positions in Kentucky to the benefit of Kentucky consumers and the State's telecommunications marketplace. Further, the Transaction will be conducted in a manner that will be transparent to customers of Talk America, OPC and NTC. The transfer of control of Talk America, OPC and NTC will not result in a change of carrier for customers or any transfer of authorizations. Following consummation of the proposed Transaction, Talk America, OPC and NTC will

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<sup>3</sup> In Kentucky, Talk America is authorized to provide local exchange services pursuant to ID 5051890 and resold interexchange telecommunications services pursuant to Case No. 92-190 effective October 9, 1992. NTC is authorized to provide local exchange services and resold interexchange telecommunications services pursuant to ID 05007600. OPC is authorized to provide local exchange services and resold interexchange telecommunications services pursuant to ID 5010600 effective July 9, 1998 (toll) and October 19, 1998 (local).

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continue to provide high-quality communications services to their customers without interruption and without immediate change in rates, terms or conditions.

Moreover, the Transaction will bring together two successful carrier organizations that have proven themselves in a highly competitive marketplace. This Transaction will help create a stronger, more enduring competitor than either carrier could achieve on its own in a similar time frame. By bringing together each organization's respective strengths, product suites, and geographic footprints, the combined organization will realize substantial synergies and cost-savings. Finally, the Parties will be able to gain greater access to capital markets and consequently become better positioned to pursue a profitable growth strategy. For these reasons, the Parties submit that the Transaction is in the public interest.

#### IV. CONCLUSION

For the reasons stated above, the Parties respectfully submit that the Transaction will serve the public interest, convenience, and necessity. An original and ten (10) copies of this letter are enclosed for filing. Please date-stamp the enclosed extra copy of this letter and return it in the attached self-addressed, stamped envelope.

Please contact the undersigned if the Commission has any questions regarding this matter.

Respectfully submitted,



Catherine Wang  
Ulises R. Pin

✓Danielle Burt

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Email: catherine.wang@bingham.com

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**LIST OF EXHIBITS**

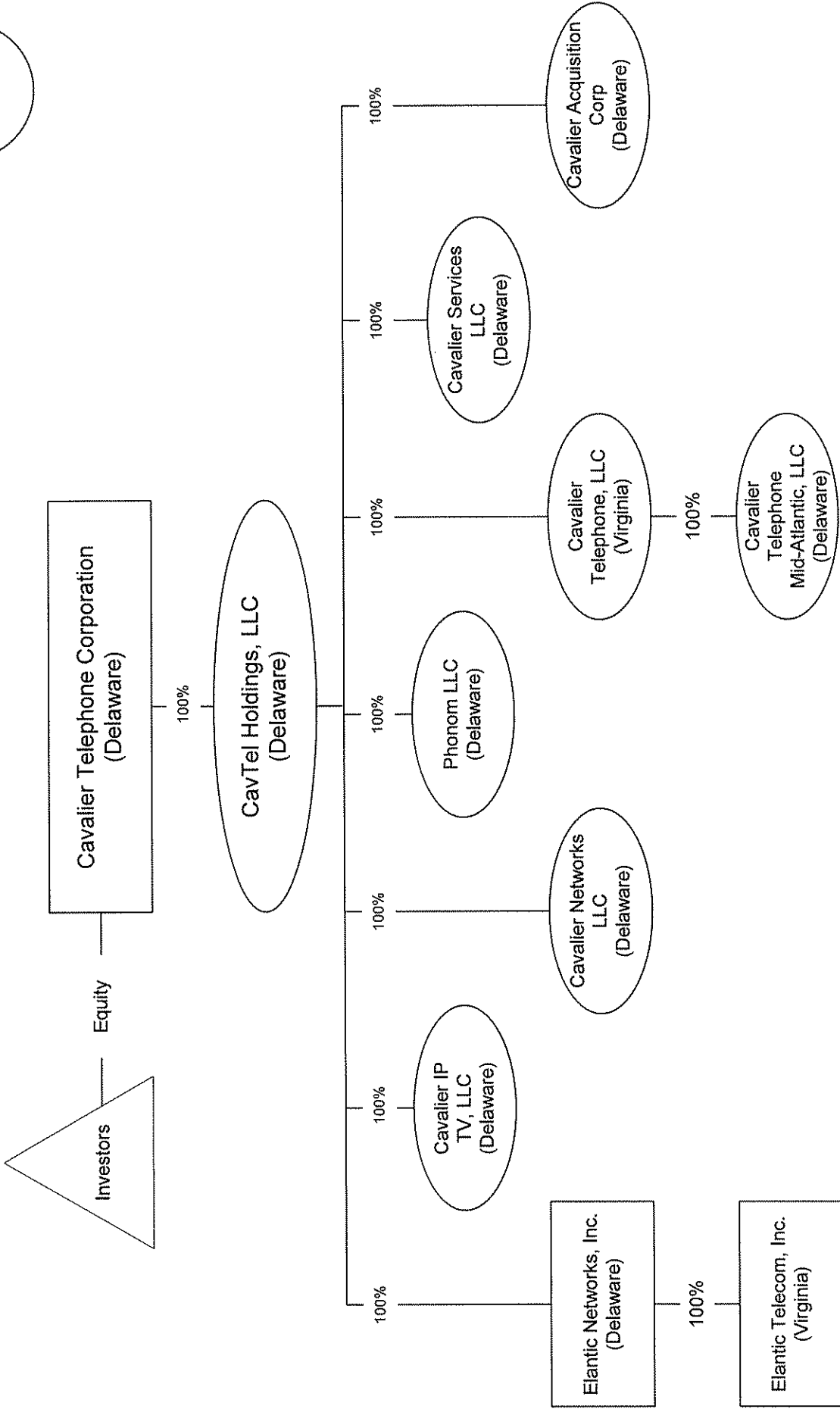
Exhibit A                      Pre- and Post-Transaction Illustrative Chart  
Verifications

**EXHIBIT A**

Pre and Post Illustrative Chart

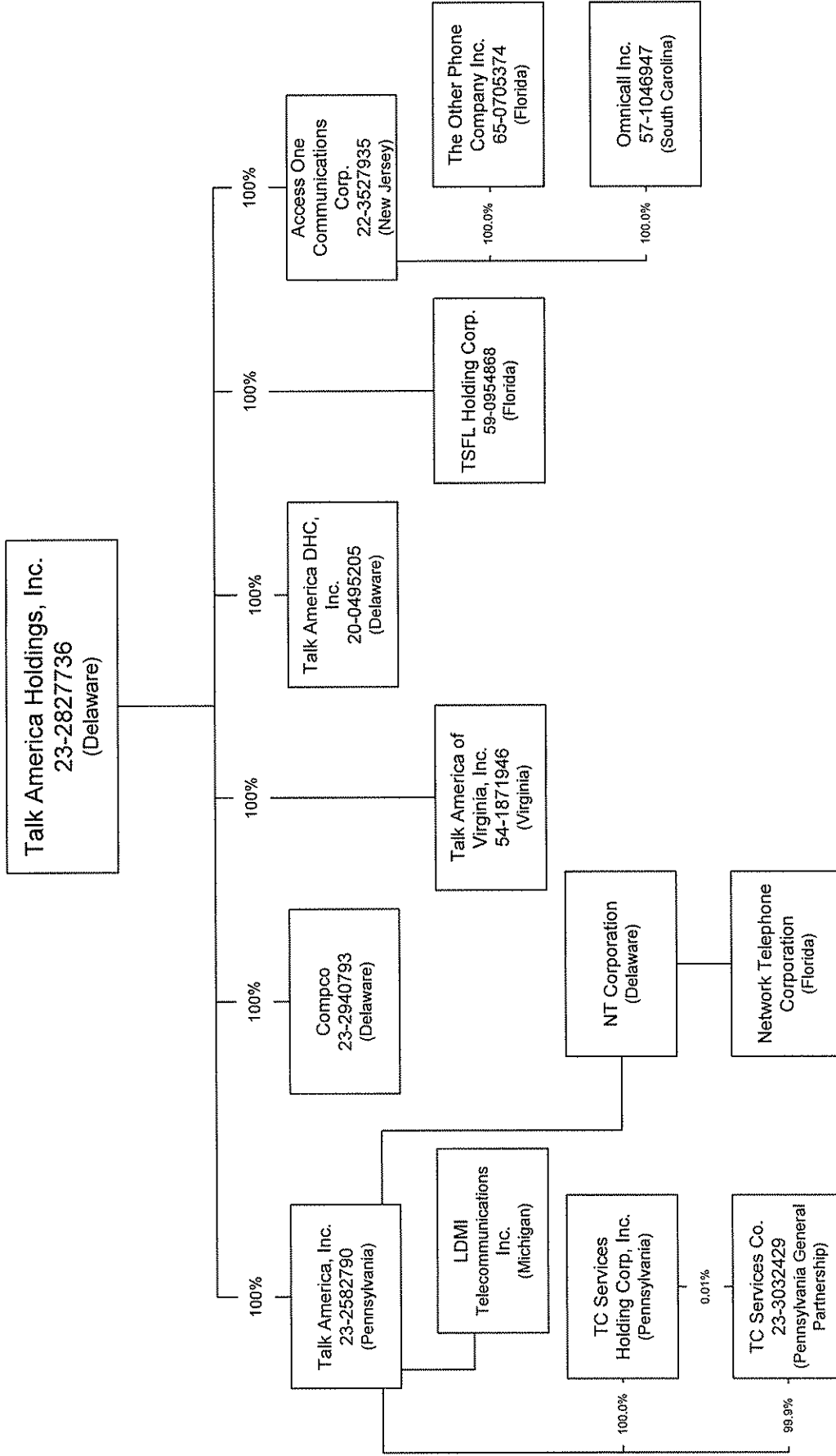
Cavalier Telephone Corporation

Corporate Structure  
(Pre Transaction)



Talk America Corporation

Corporate Structure  
(Pre Transaction)



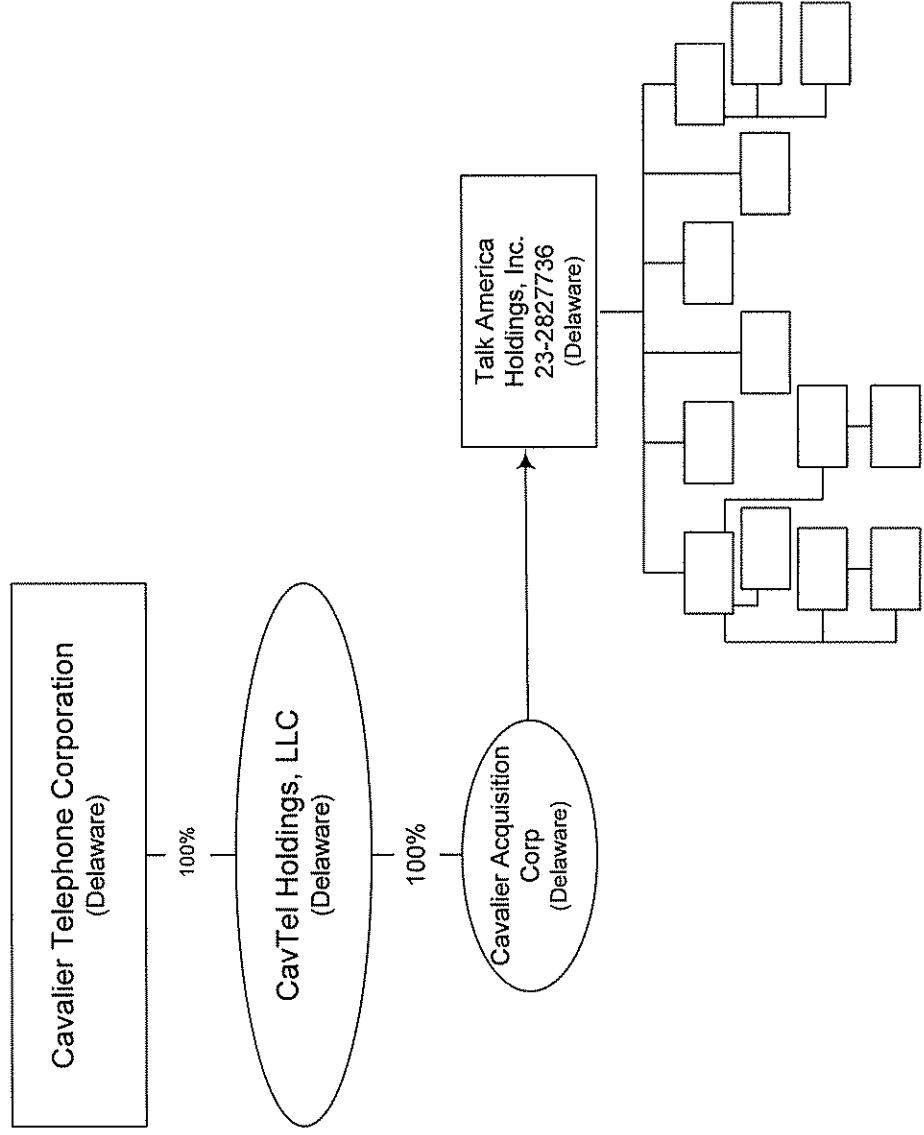
Talk America Holdings, Inc.

and

Cavalier Acquisitions Corp.

3

The Reverse Triangular Merger

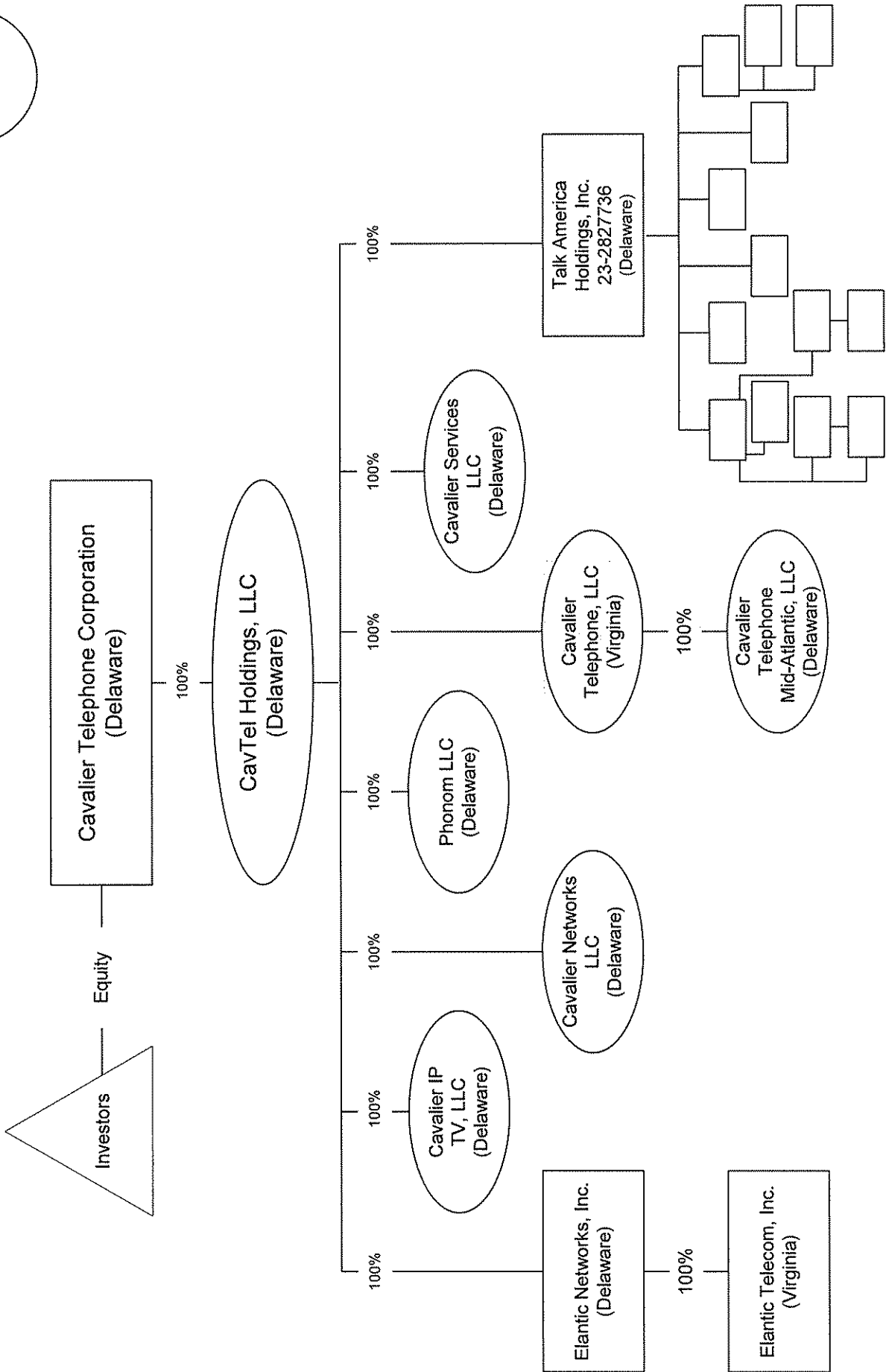




Cavalier Telephone Corporation

4a

Corporate Structure  
(Post Transaction)

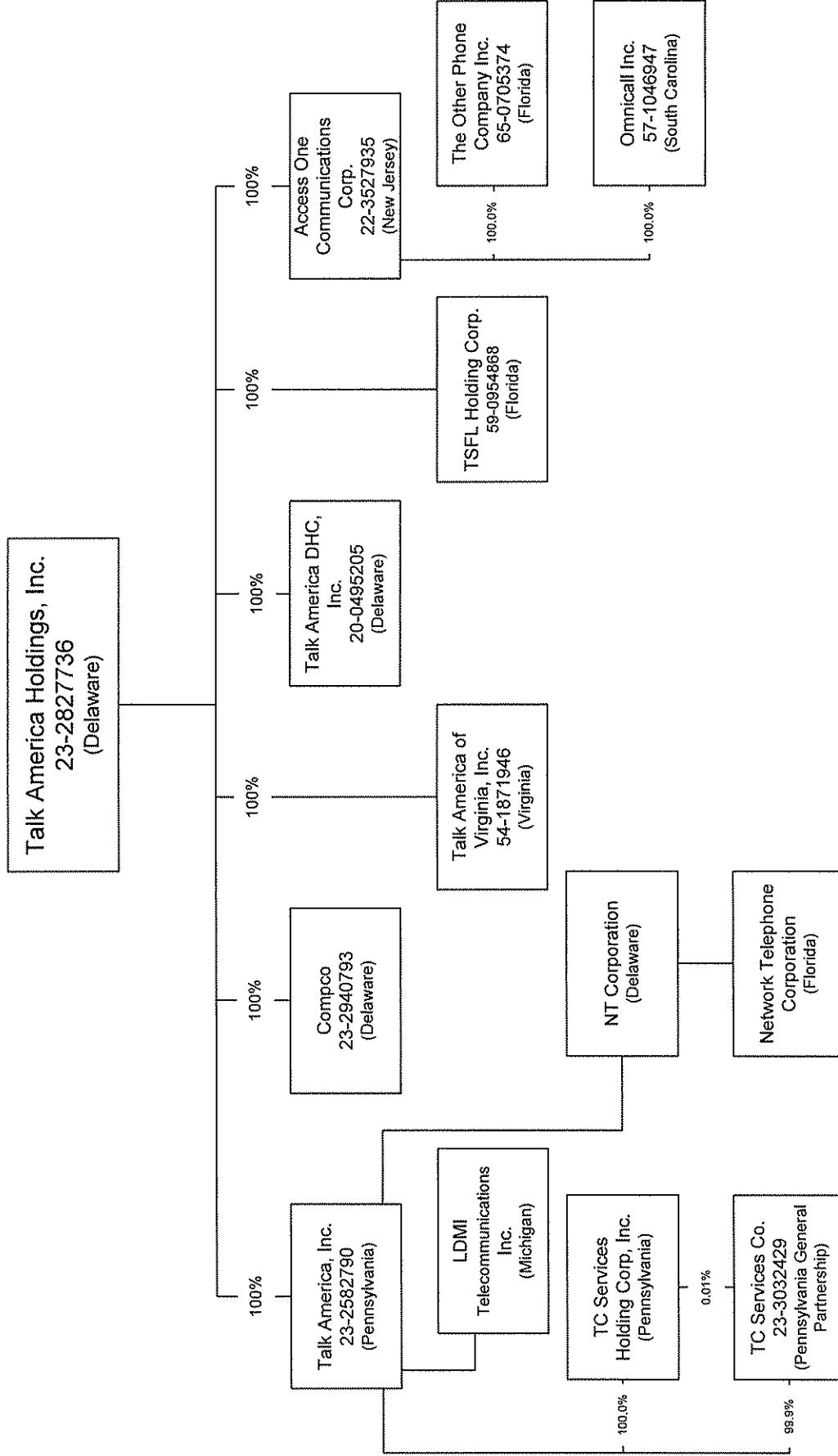


See Page 4b for the expanded view  
of Talk America Holdings, Inc.

Talk America Holdings, Inc.

(Post Transaction)

4b



## VERIFICATIONS

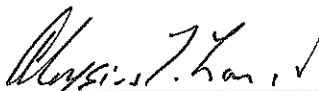
STATE OF PENNSYLVANIA

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§  
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COUNTY OF BUCKS

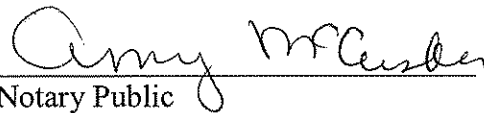
**VERIFICATION**

I, Aloysius T. Lawn, IV, state that I am the Executive Vice President, General Counsel and Secretary of Talk America Holdings, Inc., the parent of Talk America, Inc.; that I am authorized to make this Verification on behalf of the Talk America Holdings, Inc. and its operating entities; that the foregoing Notification was prepared under my direction and supervision; and that the contents are true and correct to the best of my knowledge, information, and belief.



\_\_\_\_\_  
Aloysius T. Lawn, IV  
Executive Vice President, General Counsel and  
Secretary  
Talk America Holdings, Inc.

SWORN TO AND SUBSCRIBED before me on the 29<sup>th</sup> day of Sept., 2006.

  
\_\_\_\_\_  
Notary Public

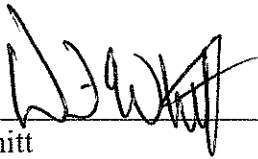
My commission expires: 5/20/08

COMMONWEALTH OF PENNSYLVANIA  
Notarial Seal  
Amy McCusker, Notary Public  
New Hope Boro, Bucks County  
My Commission Expires May 20, 2008  
Member, Pennsylvania Association Of Notaries

STATE OF Virginia §  
CITY OF Richmond §

**VERIFICATION**

I, David Whitt, state that I am CFO of Cavalier Telephone Corporation; that I am authorized to make this Verification on behalf of the Cavalier Telephone Corporation and its operating entities; that the foregoing Notification was prepared under my direction and supervision; and that the contents are true and correct to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
David Whitt  
CFO  
Cavalier Telephone Corporation

SWORN TO AND SUBSCRIBED before me on the 28 day of September, 2006.

  
\_\_\_\_\_  
Notary Public

My commission expires: 2-29-08