

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF)
MCLEODUSA TELECOMMUNICATIONS) DOCKET NO. 70023-TA-02-42
SERVICES, INC., FOR AN INDIRECT) &
TRANSFER OF CONTROL OF MCLEODUSA) DOCKET NO. 74214-TA-02-5
TELECOMMUNICATIONS SERVICES, INC. TO) (RECORD NO. 7290)
FORSTMANN LITTLE & CO.)

NOTICE AND ORDER
(Issued March 12, 2002)

This matter is before the Commission upon the application of McLeodUSA Telecommunications Services, Inc. (McLeodUSA or Applicant), for approval of an indirect transfer of control of McLeodUSA which will result from a proposed recapitalization of its ultimate parent company, McLeodUSA Incorporated (McLeodUSA Inc. or Parent), as more fully described below.

The Commission, having reviewed the application and attached exhibits, its files regarding McLeodUSA, applicable Wyoming telecommunications utility law and being otherwise fully advised in the premises, FINDS and CONCLUDES:

1. Applicant is a competitive local exchange telecommunications service provider with authority to operate within the State of Wyoming pursuant to certificate authority granted in Docket No. 70023-TA-97-1. Applicant is further authorized to provide intrastate interexchange telecommunications services in the State of Wyoming pursuant to registration authority granted by this Commission. Applicant is an Iowa Corporation with its principal offices located in Cedar Rapids, Iowa, engaged in the provision of integrated communications services, including local services, in twenty-five states. McLeodUSA is a wholly owned subsidiary of McLeodUSA Holdings, Inc., which, in turn, is a wholly owned subsidiary of McLeodUSA Inc. McLeodUSA Inc., is a publicly traded Delaware corporation.

2. Applicant states in its application, that its ultimate parent McLeodUSA Inc., has filed a pre-negotiated plan of reorganization (Reorganization Plan), with the United States Bankruptcy Court for the District of Delaware (Bankruptcy Court), as part of its chapter 11 bankruptcy proceeding. The Reorganization Plan provides that affiliate companies of Forstmann Little & Co., will convert existing Parent preferred stock into common stock, and will purchase for approximately \$175 million approximately 23 percent of the reorganized McLeodUSA Inc.'s common stock, and five year warrants to purchase an additional six percent of common stock for \$30 million. As a result of these transactions, Forstmann Little & Co., would own on a fully diluted basis, approximately 57 percent of the reorganized Parent's common stock. Applicant seeks Commission approval of this indirect transfer of control of McLeodUSA to Forstmann Little & Co., which will result under the Reorganization Plan. The Reorganization Plan must be confirmed by the Bankruptcy Court.

3. McLeodUSA states that neither it, nor any other subsidiary of the Parent, has filed for bankruptcy protection, and are not part of the bankruptcy proceeding. MCLeodUSA states that it expects to continue to operate its business without interruption and with no impact on its customers, employees or trade creditors, and with no interference from the Bankruptcy Court.

4. Applicant further states in its application that Forstmann Little & Co. is a long-standing acquirer and owner of businesses. During its twenty-three years of existence, Forstmann Little & Co. has invested over \$12 billion in twenty-nine acquisitions and investments. Forstmann Little & Co. has focused exclusively in acquiring high quality, high growth companies, and has invested large amounts of its own capital in providing for significant ongoing expansion.

5. Applicant avers that approval of the indirect transfer of control will not require any name change nor will it change the manner in which it currently operates and offers service in the State of Wyoming. McLeodUSA states that following the reorganization it will continue to offer the services it currently offers with no change in the rates or terms and conditions of service. Further, Applicant will continue to be led by the same experienced telecommunications management team. Finally, Applicant states that approval of the indirect transfer of control will serve the public interest by promoting competition among the various carriers, and will improve the financial position of the Parent, which will enhance Applicant's operational flexibility and efficiency and its long-term financial viability.

6. The Commission has specific authority over this proposed transaction pursuant to the provisions of W.S. § 37-1-104 and § 37-15-408. Pursuant to the provisions of W.S. § 37-1-104, the Commission shall approve a proposed reorganization, which is defined as any transaction which results in the change of ownership of a majority of the voting stock of a public utility, or a change in the ownership or control of any entity which owns or controls a majority of the voting capital stock of a public utility, unless, after public notice and opportunity for hearing it determines that the reorganization will adversely affect the utility's ability to serve the public.

7. The application is on file with the Commission at its offices located in Cheyenne, Wyoming, and may be inspected by any interested person during regular business hours.

8. The Commission finds and concludes that the above-described transaction will not adversely affect the public interest, as Applicant will continue to have the managerial, financial and technical ability and resources to continue to provide interexchange and local exchange telecommunications services to customers in Wyoming. Applicant will continue to operate, at this time, under its current price schedules and terms and conditions of service in its provision of telecommunications services within the State of Wyoming. This indirect transfer of control of McLeodUSA will be transparent to its Wyoming customers. The approval granted herein is authorized subject to notice, protest, possible hearing and further change as may be determined by the Commission.

9. Anyone desiring to file a statement, representation, protest or request a hearing in this matter must so file with the Commission on or before April 3, 2002, mentioning Docket Nos. 70023-TA-02-42 and 74214-TA-02-5.

10. The Commission directs that the public notice in this matter be in the following form:

PUBLIC NOTICE

McLeodUSA Telecommunications Services, Inc. (McLeodUSA or Applicant) has applied to the Wyoming Public Service Commission (PSC) for approval of a transfer of control of its parent company McLeodUSA Incorporated. The transfer of control of McLeodUSA Incorporated will result in an indirect transfer of control of Applicant.

McLeodUSA currently has authority from the PSC to provide intrastate interexchange long distance services and local exchange services within the State of Wyoming.

Applicant states in its application, that its ultimate parent McLeodUSA Incorporated has filed a pre-negotiated plan of reorganization (Reorganization Plan), with the United States Bankruptcy Court for the District of Delaware (Bankruptcy Court), as part of its chapter 11 bankruptcy proceeding. The Reorganization Plan provides that affiliate companies of Forstmann Little & Co., will convert existing Parent preferred stock into common stock, and will purchase for approximately \$175 million approximately 23 percent of the reorganized McLeodUSA Inc.'s common stock, and five year warrants to purchase an additional six percent of common stock for \$30 million. As a result of these transactions, Forstmann Little & Co., would own approximately 57 percent of the reorganized Parent's common stock. Applicant seeks Commission approval of this indirect transfer of control of McLeodUSA to Forstmann Little & Co., which will result under the Reorganization Plan. The Reorganization Plan must be confirmed by the Bankruptcy Court.

After the transfer, Applicant states that it will continue its provision of telecommunications services within the State of Wyoming under its current name and pursuant to its current rates and terms and conditions of service, as filed with the PSC. The transfer of control will be transparent to its Wyoming customers.

The application is on file with the Commission at its offices located in Cheyenne, Wyoming, and may be inspected by any interested person during regular business hours.

To intervene, request a hearing, file a statement, or protest this application you must file with the Commission, mentioning Docket Nos. 70023-TA-02-42 and 74214-TA-02-5, on or before April 3, 2002.

If you wish to participate and require reasonable accommodation for a disability, call the PSC at (307) 777-7427 or write the PSC at 2515 Warren Avenue, Suite 300, Cheyenne, Wyoming 82002. Communications impaired persons may contact the PSC through Wyoming Relay at 711. Please mention the docket number when you contact us.

Dated March 12, 2002.

IT IS THEREFORE ORDERED THAT:

1. Pursuant to open meeting action taken on March 7, 2002, the application of McLeodUSA Telecommunications Services, Inc., for approval of an indirect transfer of control of McLeodUSA which will result from a proposed recapitalization of its ultimate parent company, McLeodUSA Incorporated as described herein, be, and the same is, hereby approved, effective immediately, subject to notice, protest, opportunity for hearing and further order as the Commission may deem appropriate.

2. This Notice and Order is effective immediately.

MADE and ENTERED at Cheyenne, Wyoming this 12th day of March, 2002.

PUBLIC SERVICE COMMISSION OF WYOMING

STEVE ELLENBECKER, Chairman

STEVE FURTNEY, Deputy Chairman

KRISTIN H. LEE, Commissioner

(SEAL)

ATTEST:

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DAVID J. LUCERO, Assistant Secretary