

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application For Approval of the Indirect Transfer of Control of MCLEODUSA TELECOMMUNICATIONS SERVICES, INC.)))

DOCKET NO. 02-2249-01
REPORT AND ORDER

ISSUED: March 25, 2002

SYNOPSIS

The proposed transfer of control appearing to be in the public interest, the Commission approved the same.

By the Commission:

On February 11, 2002, McLeodUSA Telecommunications Services, Inc. ("McLeodUSA") filed an application requesting Commission approval, pursuant to § 54-4-28 and § 54-4-29 of the Utah Code, of the indirect transfer of control of McLeodUSA, an authorized competitive local exchange carrier in Utah, that will result from the pending recapitalization of its ultimate parent, McLeodUSA Incorporated ("Parent"). McLeodUSA became a competitive local exchange carrier in Utah on May 19, 1998 in Docket No. 98-2249-01.

Parent filed a prenegotiated plan of reorganization in Chapter 11 bankruptcy proceeding as a key step in positioning Parent for the future through a restructuring of its capital structure. The reorganization plan contemplates that affiliates of Forstmann Little & Co. ("FL") will convert McLeodUSA's existing Series D and E Preferred Stock into common stock, representing approximately 35 percent of the reorganized Parent's common stock, and purchase for approximately \$175 million approximately 23 percent of the common stock of Parent for \$30 million. After consummation of the plan of reorganization, on a fully diluted basis, FL would own a total of approximately 57 percent of the reorganized Parent's common stock. McLeodUSA seeks approval of the indirect transfer of control of McLeodUSA to FL that will result from the consummation of the plan of reorganization.

McLeodUSA asserts that the indirect transfer of control will serve the public interest by promoting competition among telecommunications carriers. Specifically, McLeodUSA asserts that the transfer of control that will result from FL's increased equity ownership of Parent will provide McLeodUSA with the opportunity to strengthen its competitive position through access to the improved capital structure of Parent. In addition, the improved financial position of Parent that will result from this increase in funding will enable Parent to implement its long-term growth plans and to significantly enhance McLeodUSA's operational flexibility and efficiency, as well as its long-term viability.

DISCUSSION

The applicant has provided detailed business plans and other documents to establish the pertinent facts of the matter. The Commission finds that this petition can reasonably be expected to be unopposed and that this matter may be adjudicated informally under Utah Admin. Code R746-110.

By strengthening McLeodUSA's ability to compete in the Utah local exchange market, the proposed transaction appears to offer the prospect of a positive step towards competition in Utah. Accordingly, the approval of the transfer of control appears to be in the public interest.

Good cause exists to shorten the 20-day period before which orders issued under Utah Admin. Code R746-110 become

effective and to make the Order effective on April 1, 2002 absent meritorious protest.

CONCLUSIONS OF LAW

The proposed indirect transfer of control of McLeodUSA should be approved.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. McLeodUSA's application be, and it is, approved the date of this Order;
2. Review or appeal of this Order may be obtained pursuant to the provisions of Utah Code 54-7-15, 63-46b-12 through 18 and the Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah, this 25th day of March, 2002.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Richard M. Campbell, Commissioner

Attest:

/s/ Julie Orchard

Commission Secretary

G#28763