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COMMISSION

October 12, 2007

**VIA OVERNIGHT DELIVERY**

Beth A. O'Donnell  
Executive Director  
Public Service Commission of the  
Commonwealth of Kentucky  
211 Sower Boulevard  
Frankfort, Kentucky 40602-0615

**Re: Notice of Proposed Transfer of Indirect Control of  
McLeodUSA Telecommunications Services, Inc.**

Dear Ms. O'Donnell:

McLeodUSA Telecommunications Services, Inc. ("McLeodUSA") and PAETEC Holding Corp. ("PAETEC"), through the undersigned counsel, hereby notify the Commission of the proposed transfer of indirect control of McLeodUSA from McLeodUSA Incorporated ("McLeodUSA Parent," together with McLeodUSA and PAETEC, the "Parties") to PAETEC ("Transfer of Control"). The Parties expect the Transfer of Control to occur in the first quarter of 2008. Following the Transfer of Control, McLeodUSA will continue to operate in Kentucky pursuant to its authorization, without any change in the rates or terms and conditions of service that its customers currently receive (other than such changes as may occur from time to time during the ordinary course of business).

An original and four (4) copies of this notification letter are enclosed. Kindly date-stamp and return the extra copy of this filing in the self-addressed, postage-paid envelope provided.

Based on a review of Kentucky law, it is the Parties' understanding that Commission approval is not required to complete the transaction described herein. Accordingly, the Parties submit this letter for informational purposes only to ensure the continuing accuracy of the Commission's records. The Parties further state as follows:

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**I. Description of the Parties**

A. McLeodUSA Telecommunications Services, Inc.

McLeodUSA is an Iowa corporation with principal offices at One Martha's Way, Hiawatha, Iowa 52233. McLeodUSA is a wholly owned subsidiary of McLeodUSA Holdings, Inc. which, in turn, is a wholly owned subsidiary of McLeodUSA Parent. McLeodUSA provides integrated communications services, including local services, primarily in 20 Midwest, Southwest, Northwest, and Rocky Mountain states. In Kentucky, McLeodUSA is authorized to provide resold intrastate communications services and local exchange services pursuant to its tariffs accepted for filing by the Commission effective December 22, 1996, and April 21, 2001, respectively.

B. McLeodUSA Incorporated

McLeodUSA Parent is a privately held company headquartered in the Cedar Rapids, Iowa metropolitan area. McLeodUSA Parent currently owns and manages an extensive high-capacity fiber network that spans 20 Midwest, Southwest, Northwest, and Rocky Mountain states. Through its operating subsidiaries, McLeodUSA Parent provides managed IP-based communications services to small and medium-sized enterprises, and traditional circuit-switched telephony services to commercial customers in these states.

C. PAETEC Holding Corp.

PAETEC is a publicly traded Delaware corporation (NASDAQ GS: PAET) with headquarters located at 600 WillowBrook Office Park, Fairport, New York 14450. Through its operating subsidiaries,<sup>1</sup> PAETEC provides innovative communications solutions to medium-sized and large businesses and institutions through a comprehensive line of telecommunications and Internet services, enterprise communications management software, security solutions, and managed services. Formed in 1998, PAETEC today serves more than 45,000 core business customers in major metropolitan areas in 24 states. With more than 2.65 million access line equivalents in service as of June 30, 2007, and nearly a decade of operations as a competitive

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<sup>1</sup> PAETEC provides regulated services in Kentucky through its operating subsidiaries, PAETEC Communications, Inc. ("PCI") and US LEC Communications Inc. d/b/a PAETEC Business Services ("PBS"). PCI is authorized to provide resold intrastate interexchange telecommunications services pursuant to its tariff accepted for filing effective March 2, 1999. PBS is authorized to provide local exchange and switched access and intrastate interexchange telecommunications services pursuant to tariffs accepted for filing on June 7, 1999, and June 8, 1999, respectively.

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communications provider, PAETEC possesses the qualifications necessary to acquire control of McLeodUSA.

## **II. Description of the Proposed Transfer of Control**

PAETEC and McLeodUSA Parent recently entered into an Agreement and Plan of Merger ("Agreement") dated as of September 17, 2007, whereby a newly created subsidiary of PAETEC will merge with McLeodUSA Parent, with McLeodUSA Parent surviving. As a result of the merger, McLeodUSA Parent will become a direct, wholly owned subsidiary of PAETEC, and McLeodUSA will become an indirect, wholly owned subsidiary of PAETEC. Upon consummation of the merger, approximately 75% of PAETEC will be owned by PAETEC shareholders and approximately 25% of PAETEC will be owned by McLeodUSA Parent shareholders.

Although PAETEC's acquisition of McLeodUSA Parent will result in a change in the ultimate ownership and control of McLeodUSA, no transfer of Kentucky operating authority, assets or customers will occur as a result of the Transfer of Control. Immediately following consummation of the merger, McLeodUSA will continue to provide service to its Kentucky customers pursuant to its operating authority without any change in the rates or terms and conditions of service that its customers currently receive (other than such changes as may occur from time to time during the ordinary course of business).

## **III. Public Interest Considerations**

The proposed acquisition of McLeodUSA by PAETEC will serve the public interest by creating one of the largest nationwide competitive communications service providers focusing on business customers. The combined company will offer these customers a compelling alternative to legacy carriers through the combined footprint of the two companies, a comprehensive suite of business services, and an extensive switching and fiber network.<sup>2</sup>

The complementary strengths, product sets, and geographic footprints of the two companies should position PAETEC to realize substantial cost savings and achieve synergies that are expected to strengthen its ability to enhance service offerings and provide more

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<sup>2</sup> With this acquisition, PAETEC will add network assets including 17,000 fiber-route miles and increase its total number of switches to 116. PAETEC will add 18 states to its footprint, including such key markets as Cleveland, Dallas, Denver, Detroit, Houston, Phoenix, and Seattle. The combined company expects to have approximately 3.4 million access line equivalents in service and a local presence in 47 of the top 50 Metropolitan Statistical Areas (MSAs) in the country in 2008.

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advanced telecommunications services to a broader customer base. The strategic combination will, moreover, bring together two companies that share a commitment to building and maintaining solid relationships with their customers.

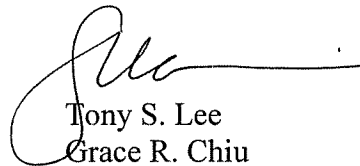
As noted above, following consummation of the merger, McLeodUSA will continue to provide service to its Kentucky customers without any change in the rates or terms and conditions of service as currently provided. The Transfer of Control therefore will be transparent to McLeodUSA's Kentucky customers in terms of the services they currently receive.

In sum, the combination of PAETEC and McLeodUSA Parent is expected to create substantial opportunities for customers of both companies and provide shareholders with significant value, which will ultimately enhance the quality and variety of telecommunications products and services offered to Kentucky consumers. The proposed Transfer of Control will therefore serve the public interest of the Commonwealth of Kentucky.

\* \* \*

Please contact us if there are any questions regarding this matter.

Respectfully submitted,



Tony S. Lee  
Grace R. Chiu

Counsel for PAETEC Holding Corp.

cc: JT Ambrosi (PAETEC)  
William A. Haas (McLeodUSA)  
Jean L. Kiddoo (Bingham)  
Brett C. Ferenchak (Bingham)