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September 28, 2006

By Overnight Mail

Chairman Sara Kyle
c/o Sharla Dillon, Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

06-00254

DOCKET ROOM

2006-10-2 10:30-40

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Re: Petition of McLeodUSA Telecommunications Services, Inc. For Approval to Participate in Certain Financing Arrangements

Dear Chairman Kyle:

On behalf of McLeodUSA Telecommunications Services, Inc. ("Petitioner"), enclosed for filing are an original and thirteen (13) copies of the above-referenced Petition. Also enclosed is a check in the amount of \$25.00 to cover the filing fee.

Petitioner requests confidential treatment of Exhibit 1. The financial information submitted as Exhibit 1 constitutes commercially sensitive and competitively significant information that is not otherwise released to the public. Unrestricted availability of this information would provide competitors with knowledge that would be otherwise unavailable and could place the Petitioner at a competitive disadvantage. Confidential and trade secret treatment is therefore required to avoid commercial and competitive injury.

Please date-stamp the enclosed extra copy of this filing and return it in the envelope provided. Should you have any questions, please do not hesitate to contact us.

Respectfully submitted,

Brett P Ferenchak

Jean L. Kiddoo
Brett P. Ferenchak

Counsel for Petitioner

ORIGINAL

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

)	
In the Matter of the Petition of)	
)	
McLeodUSA Telecommunications)	Docket No.
Services, Inc.)	
)	
for Approval to Participate in Certain)	
Financing Arrangements)	
)	

PETITION

I. INTRODUCTION

McLeodUSA Telecommunications Services, Inc. (“MTSI” or (“Petitioner”), by its undersigned counsel and pursuant to Tenn. Code. Ann. § 65-4-109, requests approval, to the extent that such is necessary, from the request Tennessee Regulatory Authority (“Authority”) to participate in certain financing arrangements described more fully in Section IV of this Petition. Specifically, MTSI seeks approval to pledge a security interest in its assets as security for senior second secured notes issued by its parent, McLeodUSA Incorporated (“McLeodUSA” or “Parent” or “Issuer”) in a private offering, and to participate in certain other financing activities as described below.¹

In support of this Petition, the Petitioner states as follows:

II. THE PARTIES

A. McLeodUSA Telecommunications Services, Inc. (“MTSI”)

MTSI is an Iowa corporation with principal offices located at One Martha’s Way, Hiawatha, Iowa 52233. MTSI provides integrated communications services, including local

services, primarily in 25 Midwest, Southwest, Northwest, and Rocky Mountain states. MTSI is a wholly owned subsidiary of McLeodUSA Holdings, Inc. which, in turn, is a wholly owned subsidiary of Parent.

In Tennessee, MTSI is authorized to provide operator services and resold telecommunications services pursuant to a Certificate of Convenience and Necessity granted by the Commission in Case No. 96-01632 on March 25, 1997 and facilities-based local exchange and interexchange telecommunications services pursuant to a Certificate of Convenience and Necessity transferred to MTSI by Order dated January 24, 2001 in Docket No. 00-00906.

Further information concerning MTSI's legal, technical, managerial and financial qualifications to provide service was submitted with its application for certification and subsequent filings with the Authority as noted above and is, therefore, a matter of public record. MTSI respectfully requests that the Authority take official notice of that information and incorporate it herein by reference. As required by Authority policy, a copy of the most recent audited financial statements of McLeodUSA are attached under seal as Exhibit 1. Please note that this document is **confidential and proprietary**. Petitioner respectfully requests that the financial statements be filed under seal and not released to the public. Petitioner, therefore, has provided Exhibit 1 in seal envelopes stamped confidential.

III. DESIGNATED CONTACTS

Inquiries or copies of any correspondence, orders, or other materials pertaining to this Petition should be directed to:

¹ To the extent required, MTSI also seeks approval for its guarantees of the senior second secured notes issued by Parent and other financing arrangements described herein.

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and

William A. Haas, Esq.
Vice President and Deputy General Counsel
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IV. REQUEST FOR APPROVAL TO PARTICIPATE IN CERTAIN FINANCING ARRANGEMENTS

On September 28, 2006, MTSI's parent, McLeodUSA, issued approximately \$120 million in 10 ½% Senior Second Secured Notes due 2011 in a private offering (the "Notes"). As is typical in these types of transactions, Parent has agreed that it will initiate an offer to exchange the Notes for substantially identical notes ("Exchange Notes") registered under federal securities laws within a set period of time, in this case 180 days.² Each of Parent's subsidiaries other than MTSI has guaranteed the Notes and pledged all of their assets (subject to certain exceptions) as security for its obligations under the guarantee, and have agreed to do likewise with respect to the Exchange Notes. The indenture governing the Notes and the Exchange Notes permit McLeodUSA and its subsidiaries to, subject to certain requirements, incur additional indebtedness ("Permitted Indebtedness") and grant additional liens ("Permitted Liens") on its

and its subsidiaries assets, including incurring up to \$26 million aggregate principal amount of indebtedness secured by liens that would be senior to the Notes and Exchange Notes.³

As required by the indenture governing the Notes, MTSI seeks approval, to the extent necessary, from the Authority to pledge its assets as security for its obligations pursuant to its guarantees, the Notes, the Exchange Notes, and Permitted Indebtedness.⁴ McLeodUSA also requests authority to grant Permitted Liens to the extent authorized by the terms of the indenture governing the Notes and the Exchange Notes, as applicable. In general, MTSI expects to pledge as security all of its existing and future acquired assets. Subject to customary qualifications and exceptions negotiated as part of the financing arrangements, the categories of assets that MTSI will pledge would include the following: accounts; chattel paper; deposit accounts; documents; equipment; general intangibles; instruments; inventory; investment property; books and records (including customer lists, credit files, computer programs, printouts and other computer materials and records); and other personal property. MTSI, however does not have any physical assets located in Tennessee that are used to provide regulated services.

The proceeds of the Notes have been used to pay off all amounts outstanding under the exit financing that was entered in the context of Petitioner's Chapter 11 proceedings and approved by the Authority in Docket No. 05-00292, by Authority Order issued on December 20, 2005, to cash collateralize existing letters of credit issued on behalf of McLeodUSA and its

² In certain exceptional circumstances applicable to certain potential noteholders, the exchange notes may not in fact be registered. As used in this Petition, the term "Exchange Notes" refers to all exchange notes whether or not registered under federal securities laws.

³ Issuers of notes such as the Notes often have first priority senior indebtedness (such as revolving credit facilities) outstanding at the time the notes are issued. In McLeodUSA's case, the proceeds of the Notes are being used in part to eliminate McLeodUSA's existing senior secured credit facility. Therefore the indenture governing the Notes allows McLeodUSA to enter into a new facility (or facilities) in the future to which the Notes will be contractually subordinated (obligations under such facilities being defined as "First Lien Obligations" in the indenture governing the Notes).

subsidiaries (including MTSI), and to pay fees and expenses associated with the offering. The remainder of the proceeds will be used for general corporate purposes. Petitioner emphasizes that participation in the financing arrangements will not result in a change in MTSI's management or in its day-to-day operations in Tennessee; nor will it adversely affect Petitioner's current or proposed operations in Tennessee. Accordingly, and to the extent required, Petitioner respectfully requests that the Authority approve the participation of MTSI in the financial arrangements described herein.

V. PUBLIC INTEREST CONSIDERATIONS

Approval of the proposed financial arrangement described herein will serve the public interest in promoting competition among telecommunications carriers by providing MTSI with the opportunity to strengthen its competitive position through access to greater financial resources. Furthermore, by increasing the breadth and scope of telecommunications services made available through an increased ability to support existing operations and expand MTSI's operations, greater access to capital will also strengthen Petitioner's ability to bring competitive telecommunications services to consumers in the State of Tennessee. This financing transaction will be transparent to consumers and consumers will benefit from the continued receipt of quality telecommunications services that are priced competitively.

⁴ To the extent required, MTSI also seeks approval to issue guarantees for the Notes, the Exchange Notes, and Permitted Indebtedness.

VI. CONCLUSION

For the reasons stated above, Petitioner submits that the public interest, convenience and necessity will be furthered by expeditious Authority approval of McLeodUSA Telecommunications Services, Inc.'s participation in the financing arrangements described herein.

Respectfully submitted,



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Counsel for McLeodUSA Telecommunications
Services, Inc.

Date: September 28, 2006

LIST OF EXHIBITS

Exhibit 1	Financial Statements [CONFIDENTIAL – SUBMITTED UNDER SEAL]
Verification	

EXHIBIT 1

Financial Statements

[CONFIDENTIAL – SUBMITTED UNDER SEAL]

McLeodUSA requests that the financial documents provided under seal as Exhibit 1 be given confidential treatment by the Tennessee Regulatory Authority.

VERIFICATION

STATE OF IOWA

§

§

COUNTY OF LINN

§

I, William A. Haas, state that I am Vice President and Deputy General Counsel of McLeodUSA Incorporated, the parent company of McLeodUSA Telecommunications Services, Inc.; that I am authorized to make this Verification on behalf of McLeodUSA Telecommunications Services, Inc.; that the foregoing Petition was prepared under my direction and supervision; and that the statements in the foregoing Petition are true and correct to the best of my knowledge, information, and belief.

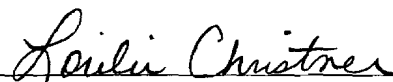


Name: Williams A. Haas

Title: Vice President and Deputy General Counsel
McLeodUSA Incorporated

SWORN TO AND SUBSCRIBED before me on the 25th day of September, 2006.




Notary Public

My commission expires: Sept 28, 2008