

Edgar Filing: McLeodUSA INC - Form 425

McLeodUSA INC
Form 425
September 17, 2007

Filed by PAETEC Holding Corp. Pursuant to Rule 425

Under the Securities Act of 1933

And Deemed Filed Pursuant to Rule 14a-12

Under the Securities Exchange Act of 1934

Commission File No.: 0-20763

Subject Company: McLeodUSA Incorporated

This filing relates to the proposed transaction pursuant to the terms of the Agreement and Plan of Merger, dated as of September 17, 2007, by and among PAETEC Holding Corp. (PAETEC), McLeodUSA Incorporated and PS Acquisition Corp., a wholly-owned subsidiary of PAETEC.

* * * *

PAETEC will file with the SEC a registration statement on Form S-4, which will contain a proxy statement/prospectus regarding the proposed merger transaction, as well as other relevant documents concerning the transaction. WE URGE INVESTORS AND SECURITY HOLDERS TO READ THE REGISTRATION STATEMENT AND PROXY STATEMENT/PROSPECTUS AND THESE OTHER DOCUMENTS WHEN THEY BECOME AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT PAETEC, MCLEODUSA INCORPORATED AND THE PROPOSED TRANSACTION. A definitive proxy statement/prospectus will be sent to PAETEC s stockholders seeking their approval of PAETEC s issuance of shares in the transaction and to security holders of McLeodUSA Incorporated. Investors and security holders may obtain a free copy of the registration statement and proxy statement/prospectus (when available) and other documents filed by PAETEC with the SEC at the SEC s web site at www.sec.gov. Free copies of PAETEC s SEC filings are available on PAETEC s web site at www.paetec.com and also may be obtained without charge by directing a request to PAETEC Holding Corp., One PAETEC Plaza, Fairport, New York 14450, Attn: Investor Relations.

PAETEC and its directors and executive officers may be deemed, under SEC rules, to be participants in the solicitation of proxies from PAETEC s stockholders with respect to the proposed transaction. Information regarding PAETEC s directors and executive officers is included in its annual report on Form 10-K filed with the SEC on April 2, 2007. More detailed information regarding the identity of potential participants and their direct or indirect interests in the transaction, by securities holdings or otherwise, will be set forth in the registration statement and proxy statement/prospectus and other documents to be filed with the SEC in connection with the proposed transaction.

Caring
Culture
|
Open
Communication
|
Unmatched

Service

|

Personalized

Solutions

PAETEC and McLeodUSA

The Emergence of the Nation's Premier

The Emergence of the Nation's Premier

Competitive Communications Provider

Competitive Communications Provider

Forward-Looking Statements

Except for statements that present historical facts, this presentation contains forward-looking statements within the meaning of

Section
27A
of
the
Securities
Act
of
1933
and
Section
21E
of
the

Securities Exchange Act of 1934. These statements include PAETEC's forecasts of the combined company's total revenue, adjusted EBITDA, merger-related synergies and other financial results. The forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the combined company's actual operating results, financial position, levels of activity or performance to be materially different from those expressed or implied by such forward-looking statements. Some of these risks, uncertainties and factors are discussed under the caption

Risk Factors
in PAETEC's 2006 Annual Report on Form 10-K and in PAETEC's subsequently filed
SEC reports.

PAETEC disclaims any obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Non-GAAP Financial Information

This
presentation
refers
to
Adjusted
EBITDA,

which
is
not
a
measurement
of
financial

performance prepared in accordance with GAAP and should not be considered as a substitute for the most comparable GAAP measures.

Adjusted EBITDA, as defined by PAETEC, represents net income before interest, provision for taxes, depreciation and amortization, change in fair value of Series A convertible redeemable preferred stock conversion rights, stock-based compensation, loss on extinguishment of debt, leveraged recapitalization costs and integration/restructuring costs.

Adjusted EBITDA, as defined by McLeodUSA, represents net loss before interest expense, depreciation, amortization, income from discontinued operations, gain on cancellation of debt, other

non-operating income or expense, restructuring charges and adjustments, reorganization items, impairment charge and non-cash compensation.

Information concerning management's reasons for including these measures and quantitative reconciliations

of
the
differences

between
historical
Adjusted
EBITDA

to
the
most
comparable
GAAP
measures

are
contained
in
PAETEC's
and
McLeodUSA's

SEC filings and other publicly
available information.

Additional Information

PAETEC

will
file
with
the
SEC

a
registration
statement
on
Form
S-4,
which
will
contain
a proxy
statement/prospectus regarding the proposed merger transaction, as well as other relevant
documents concerning the transaction. PAETEC URGES INVESTORS AND SECURITY
HOLDERS TO READ THE REGISTRATION STATEMENT AND PROXY
STATEMENT/PROSPECTUS AND THESE OTHER DOCUMENTS WHEN THEY BECOME
AVAILABLE,
BECAUSE
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WILL
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INFORMATION
ABOUT PAETEC,
MCLEODUSA AND THE PROPOSED TRANSACTION.
Investors and security holders may obtain a free copy of the registration statement and proxy
statement/
prospectus
(when
available)
and
other
documents
filed
by
PAETEC
with
the
SEC
at the
SEC's web site at www.sec.gov. Free copies of PAETEC's SEC filings are available on PAETEC's
web
site
at
www.paetec.com
and
also
may
be
obtained
without
charge

by
directing
a
request
to

PAETEC Holding Corp., One PAETEC Plaza, Fairport, New York 14450, Attn: Investor Relations. PAETEC and its directors and executive officers may be deemed, under SEC rules, to be participants in the solicitation of proxies from PAETEC's stockholders with respect to the proposed transaction. Information regarding the identity of potential participants and their direct or indirect interests, by securities holdings or otherwise, will be set forth in the registration statement and proxy statement/prospectus and other documents to be filed with the SEC in connection with the proposed transaction.

Brief Facts

Structure

PAETEC and McLeodUSA to combine in a 100% tax-free stock-for-stock merger

Exchange Ratio

McLeodUSA shareholders receive 1.30 PAETEC shares for every share of McLeod that they own

Listing / Ticker

NASDAQ / PAET

Company Name: PAETEC Holding Corp.

Ownership

75% owned by PAETEC shareholders, 25% owned by McLeodUSA Shareholders on a fully diluted basis

Headquarters

PAETEC: Fairport, NY

McLeodUSA: Cedar Rapids, IA

Board of Directors

9 Seats for PAETEC

1 Voting Seat and 1 Observer Seat for McLeodUSA

Management

Chairman & CEO:

Arunas A. Chesonis, Current PAETEC Chairman & CEO

Synergies

Transaction expected to generate \$30 million in run-rate synergies

Timing

Transaction expected to close 1st Quarter 2008

McLeodUSA at a Glance
Business Overview

Competitive communications provider targeting small and medium sized business in key verticals including:

Emergency services, medical, automotive,

construction, education, financial, government,
healthcare, hospitality, professional/legal, real
estate, retail and transportation

Emerged from bankruptcy in January 2006 with new
management team

Leadership: Royce Holland, CEO

LTM Revenue of \$514 million and LTM adjusted EBITDA
of \$48 million
(1)

Employees: approximately 1,500

Markets served: 26 out of top 100 MSAs

Access line equivalents in use: 701,800

Products: suite of data, voice, security and conferencing
services plus customer premise equipment

Headquartered in Cedar Rapids, IA with major
operations centers in Oklahoma and Texas

Operations in major metropolitan areas in 20 states

The McLeodUSA Name

McLeodUSA

was founded by an Iowa school teacher, Clark
McLeod, who entered into the long distance business.
The company has since grown into one of the largest
competitive local exchange carriers in the nation.

(1)

LTM

latest twelve month as of 6/30/07

PAETEC at a Glance
Business Overview

Competitive communications provider targeting medium
to large businesses in key verticals including:

Financial Services, Healthcare, Government,

Higher Education, Hospitality, Manufacturing,
Distribution, Professional Services & Retail

Merged with USLEC and became public in March 2007

Leadership: Arunas Chesonis, CEO

LTM Revenue of \$1.1 billion and adjusted pro forma
EBITDA of \$184 million
(1)

Employees: approximately 2,300

Markets Served: 56 out of top 100 MSAs
(2)

Access line equivalents in use: 2,651,352

Products: suite of data, voice, security and conferencing
services plus communications software and customer
premise equipment

Headquartered in Rochester, NY with major operations
centers in Charlotte, NC, Mt. Laurel, NJ and Irvine, CA

Operations: in major metropolitan areas in 24 states
Original employees proposed the unique name as an
acronym for the family members of the founder and still
current CEO:

Pam

Adam

Erik

Tessa

Emma

Chesonis

The PAETEC Name

(1)

LTM

latest twelve month as of 6/30/07, excludes \$6.5M of one-time costs associated with US LEC Merger

(2)

projected figures in 2008

Combined Network Footprint

The combined entity creates a coast-to-coast competitive communications provider with presence in 47 of the top 50 and 82 of the top 100 Metropolitan Statistical Areas

(1)

(1)

Projected figures in 2008

13,000+

Intercity Route Miles

4,000+

Metro Route Miles

77

Voice Switches

39

Soft Switches

53

Backbone Routers

650

ILEC Colocations

3.4 Million

Access Line

Equivalents

Key Combined Operating Data

Benefits for Customers

Nationwide Presence

PAETEC will have a nationwide footprint with a leading presence in 82 of the top 100 MSAs

(1)

Enhanced Infrastructure

A fiber based network spanning nearly
13,000 intercity fiber route miles and over
4,000 metro fiber route miles

Expanded Local Service

Approximately 3.4 million access lines
across 44 states

Broad Product Portfolio

A extensive suite of data, voice and IP
solutions nationally

(1)

Projected figures in 2008

Increased Coverage

Expands on-net access for customers
requiring nationwide IP based data, voice, and
security solutions

Business Continuity

Improves network resiliency and offers more
competitive solutions through an expanded
fiber backbone and last mile connectivity

One Stop Shop

Simplifies procurement & management of data,
local and long distance services from a single
nationwide communications provider

Personalized Solutions

Offers innovative business communications
solutions to address customer requirements

Our number one priority is to continue to maintain

Our number one priority is to continue to maintain
the highest level of customer satisfaction
the highest level of customer satisfaction

Financial Highlights

Largest Competitive Local Communications Provider for
Businesses in United States with \$1.6B as of June 30, 2007

Clear national alternative to AT&T, Verizon and Qwest

13,000 Intercity Fiber Route Miles; 4,000 Metro Fiber Route Miles

In 2008, combined company is expected to cover 82 of top 100
Metropolitan Statistical Areas in US

Publicly Traded on NASDAQ under
ticker symbol PAET

Adj. EBITDA : \$263M

(1)

(1)

LTM

latest twelve month as of 6/30/07, includes \$30M of run-rate synergies and excludes \$6.5M of one-time costs
associated with the US LEC merger

The Culture of PAETEC
PAETEC's culture is captured
PAETEC's culture is captured
in four corporate values:
in four corporate values:
Caring Culture
Caring Culture

Open Communication
Open Communication
Unmatched Service
Unmatched Service
Personalized Solutions
Personalized Solutions

Caring Culture

PAETEC is as passionate
about making an impact
on communities as business
success

Every employee's photo,
name and title are in CEO's

office to be memorized
Recipient of 2005
American Business
Ethics Award for
Mid-Sized Company

Weekly update conference call for all employees
Weekly update conference call for all employees
nationwide
nationwide
Annual employee surveys
Annual employee surveys
Customer Advisory Board meetings with Sr.

Customer Advisory Board meetings with Sr.
Executives in each city we serve
Executives in each city we serve
Open Communication

Goal to answer all calls to customer service within
Goal to answer all calls to customer service within
20 seconds by a live person
20 seconds by a live person
Research firm, Atlantic-ACM, recognized PAETEC
Research firm, Atlantic-ACM, recognized PAETEC
as CLEC Best-in-Class Service Partner Award

as CLEC Best-in-Class Service Partner Award

Selling Power magazine

Selling Power magazine

named PAETEC as 2006

named PAETEC as 2006

Telecommunications Sales

Telecommunications Sales

Organization of the Year

Organization of the Year

Training Magazine recognized

Training Magazine recognized

PAETEC as one of top 125

PAETEC as one of top 125

training organizations in

training organizations in

the world

the world

Unmatched Service

Precise, highly personalized solutions business-by-
Precise, highly personalized solutions business-by-
business

business

Frost & Sullivan honored PAETEC with Business

Frost & Sullivan honored PAETEC with Business

Development Strategy Award in 2006

Development Strategy Award in 2006

Profit Assistant

Profit Assistant

selling

selling

tool gives pricing power

tool gives pricing power

and decision making to

and decision making to

salespeople allowing

salespeople allowing

customized pricing and

customized pricing and

bundles

bundles

Personalized Solutions

Caring
Culture
|
Open
Communication
|
Unmatched

Service

|

Personalized

Solutions

PAETEC and McLeodUSA

The Emergence of the Nation's Premier

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Competitive Communications Provider

Competitive Communications Provider