ORIGINAL

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October 12, 2000

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RECORDS AND REPORTING

VIA OVERNIGHT MAIL

Ms. Blanca S. Bayo
Director, Division of Public Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Application for Approval of Transfer of Control of CapRock Telecommunications Corp. to McLeodUSA Incorporated and Related Transactions

Dear Ms. Bayo:

McLeodUSA Incorporated ("McLeod"), McLeodUSA Telecommunications Services, Inc. ("MTS") and CapRock Telecommunications Corp. ("CTC") (McLeod, MTS and CTC collectively, hereafter, the "Applicants"), by undersigned counsel, respectfully request approval of a pair of related transactions whereby (1) McLeod will acquire control of CTC and (2) CTC's assets will be transferred to McLeod's subsidiary, MTS. CTC is a wholly owned subsidiary of CapRock Communications Corp. and is authorized to provide interexchange telecommunications service in the State of Florida, as detailed below. McLeod is one of the leading telecommunications companies in the United States and the holding company parent of a nondominant carrier that is authorized by this Commission to provide interexchange telecommunications service within the State of Florida. Neither McLeod nor any of its subsidiaries are currently affiliated with CTC.

As described below, McLeod will acquire control of CTC through a transaction whereby a new subsidiary of McLeod (formed specifically for purposes of accomplishing the acquisition) will merge with and into CTC's corporate parent, CapRock Communications Corp. ("CCC"), with CCC the survivor of the merger. As a result of the merger, CTC will be an indirect, wholly owned subsidiary of McLeod. Attached hereto as Exhibit A is an illustrative chart depicting the corporate structure of the Applicants prior to and immediately following consummation of the proposed transaction.

As soon as practicable following closing of the merger, McLeod will consolidate the operations of CTC with those of MTS by transferring CTC's assets to MTS. Following the transfer of CTC's assets, MTS will provide continuous and uninterrupted service to CTC customers, with no change in the rates or terms and conditions of service that these customers currently enjoy. CTC's Florida customers will be given written notice of the assumption of their service by MTS and assured that no charge or rate increase will be imposed as a result of these changes. The consolidation of CTC's operations with those of MTS will therefore be seamless and virtually transparent to CTC's Florida customers in terms of the services they receive.

Applicants respectfully request expedited treatment of this Application in order to permit them to consummate the proposed transfer of control as soon as possible, but no later than November 30, 2000.

An original and five (5) copies of this letter are enclosed. Please date-stamp the enclosed extra copy of this filing and return it in the attached self-addressed stamped envelope.

I. DESCRIPTION OF THE PARTIES

A. McLeodUSA Incorporated ("McLeod")

McLeod is a Delaware holding company that is publicly traded on the NASDAQ stock exchange under the stock symbol "MCLD." Headquartered in Cedar Rapids, Iowa, McLeod is one of the leading telecommunications companies in the United States, possessing the technical, managerial, and financial qualifications to acquire control of CTC.[1] McLeod is led by its founder, Clark McLeod, one of the most respected and influential leaders in the telecommunications industry, who has assembled an executive management team with extensive experience in the telecommunications industry.

B. McLeodUSA Telecommunications Services, Inc. ("MTS")

MTS is an Iowa corporation and a wholly owned subsidiary of McLeod. MTS is a

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[1] A facilities-based telecommunications provider, McLeod has over 360 ATM switches, 37 voice switches, nearly 824,000 local lines, and over 10,000 route miles of fiber optic network, and employs over 9,100 employees. The services of McLeod primarily include local and long distance telecommunications services, telecommunications network maintenance services and telephone equipment sales, service and installation, private line and data services, the sale of advertising space in telephone directories, the operation of an independent local exchange carrier, and telemarketing services. Information regarding the financial condition of McLeod is provided in Section II. B., below.

nondominant carrier that provides integrated telecommunications services to small- and medium-size business and residential customers and governmental entities. MTS offers integrated telecommunications services including local services in its 21-state footprint, primarily in the Midwest, Rocky Mountain and Pacific Northwest states; long distance and advanced data services are available in all states except Alaska and Hawaii. In Florida, MTS is authorized to provide interexchange telecommunications service pursuant to Commission Order No. PSC-97-0268-FOF-TI issued in Docket No. 961457-TI (issued Mar. 11, 1997, as amended, Mar. 24, 1997, effective Apr. 2, 1997). MTS also provides interstate and international telecommunications services as a nondominant carrier pursuant to authority of the Federal Communications Commission ("FCC").

Further information regarding MTS and McLeod was filed with MTS's certification application to provide telecommunications services in the State of Florida and is, therefore, already a matter of public record. Applicants respectfully request that the Commission take official notice of that information and incorporate it by reference herein.

C. CapRock Telecommunications Corp. ("CTC")

CTC is a Texas corporation, whose principal offices are located at 15601 Dallas Parkway Suite 700, Addison, Texas 75001. CTC is a provider of facilities-based integrated communications services, including local and long distance services, to businesses and carriers in states in the Southwestern U.S. In Florida, CTC is authorized to provide interexchange telecommunications service pursuant to Commission Order No. PSC-97-1247-FOF-TI, issued in Docket No. 970773-TI (issued Oct. 13, 1997, effective Nov. 4, 1997).[2/] CTC is a wholly owned subsidiary of CapRock Communications Corp. ("CCC").[3/]

Further information concerning the legal, technical, managerial and financial qualifications of CTC was filed with the Commission as part of its application for certification, as referenced above, and is, therefore, a matter of public record. Applicants respectfully request that the

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[2/] The Order grants certification to CapRock Communications Corp. This Commission approved the name change to CapRock Telecommunications Corp. in Docket No. 981352-TI, Order No. PSC-98-1488-FOF-TI, effective November 16, 1998.

[3/] CCC is a Texas holding company that is publicly traded on the NASDAQ stock exchange under the stock symbol "CPRK." Through its operating subsidiaries, CCC offers local, long-distance, Internet, data and private line services to business customers. CCC also provides switched and dedicated access, regional and international long-distance, private lines, dark fiber and bandwidth to carrier customers.

Commission take official notice of that information and incorporate it by reference herein.

C. Designated Contacts

Questions or correspondence concerning this letter should be directed to:

Grace R. Chiu
Heather A. Thomas
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
(202) 424-7500 (Tel)
(202) 424-7645 (Fax)

With a copy to:

David R. Conn
Vice President and Deputy General Counsel
McLeodUSA Incorporated
P.O. Box 3177
Cedar Rapids, IA 52406-3177

and:

Michael G. Donohoe
Vice President, Legal Counsel
CapRock Communications Corp.
15601 Dallas Parkway, Suite 700
Addison, TX 75001

II. REQUEST FOR APPROVAL OF TRANSFER OF CONTROL AND RELATED TRANSACTIONS

A. Description of the Transactions

McLeod and CCC, the corporate parent of CTC, have determined that they can realize significant economic and marketing efficiencies by merging McLeod and CCC and consolidating the operations of their telecommunications subsidiaries, MTS and CTC, respectively. To that end, McLeod and CCC have entered into an Agreement and Plan of Merger ("Agreement").

McLeod will acquire control of CTC through a transaction whereby a new subsidiary of McLeod (formed specifically for purposes of accomplishing the acquisition) will merge with and into CTC's corporate parent, CCC, with CCC the survivor of the merger. As a result of the merger, CTC will be an indirect, wholly owned subsidiary of McLeod. Attached hereto as Exhibit A is an illustrative chart depicting the corporate structure of the Applicants prior to and immediately following consummation of the proposed transaction.

As soon as practicable following closing of the merger, McLeod will consolidate the operations of CTC with those of MTS by transferring CTC's assets to MTS. Following the transfer of CTC's assets, MTS will provide continuous and uninterrupted service to CTC customers, with no change in the rates or terms and conditions of service that these customers currently enjoy. CTC's Florida customers will be given written notice of the assumption of their service by MTS and assured that no charge or rate increase will be imposed as a result of these changes. The consolidation of CTC's operations with those of MTS will therefore be seamless and virtually transparent to CTC's Florida customers in terms of the services they receive.

Applicants intend that following the consolidation of the operations of CTC and MTS in Florida, MTS will be led by a McLeod team of well-qualified telecommunications managers. Applicants expect that the substantial managerial, technical and financial expertise of the combined management team will enable MTS to continue providing high quality, uninterrupted service to the existing customers of CTC, as well as to expand MTS's service offerings and customer base.

B. Qualifications of McLeod

Since its inception in 1991, McLeod has aggressively pursued its goal to be the leading provider of integrated telecommunications services in the market areas it targets. McLeod has grown rapidly over the last several years, expanding its existing networks, developing new networks, and increasing its service offerings. A facilities-based telecommunications provider, McLeod has over 360 ATM switches, 37 voice switches, nearly 824,000 local lines, and over 10,000 route miles of fiber optic network, and employs over 9,100 employees. McLeod recently expanded its marketplace for advanced data and Internet services to all 50 states through the acquisition of Splitrock Services, Inc., a facilities-based provider of data services. The Splitrock network, which is capable of transmitting integrated next-generation data, video and voice services, reaches 800 cities and 90 percent of the U.S. population.

McLeod's annual revenues have grown from in excess of $23 million for 1994 to more than $908 million for 1999. For the quarter ended June 30, 2000, total revenues were a record $331.8 million, compared to $222.7 million for the same period one year ago, an increase of 49 percent. The growth of McLeod has been funded, in part, through net proceeds of approximately $388 million from McLeod's 1996 initial and secondary public offerings of common stock, and private sales of equity securities yielding proceeds of $41 million. In September 1999, McLeod welcomed Forstmann Little & Co., a New York-based investment firm, as a long-term strategic partner. Forstmann Little provided a $1 billion infusion, purchasing a 12 percent stake in McLeod. In May of this year, McLeod secured a bank credit facility of $1.3 billion, funding its business plan at favorable rates. Attached hereto as Exhibit B is a copy of McLeod's financial statements, as filed with the Securities and Exchange Commission, containing information regarding the financial condition of McLeod.

McLeod is led by its founder, Clark McLeod, one of the most respected and influential leaders in the telecommunications industry. Mr. McLeod's previous business venture, Teleconnect was founded in 1980. As chairman and chief executive officer of Teleconnect and President of Telecom*USA, the successor of Teleconnect, Mr. McLeod was responsible for the transformation of this venture, by 1990, into the fourth largest U.S. long distance carrier. In August 1990, Telecom*USA was purchased by MCI for $1.25 billion.

Backed by its substantial financial resources, and supported by a management team with proven experience in the telecommunications industry, McLeod is well qualified to acquire control of CTC and effectuate a seamless consolidation of the operations of CTC and MTS.

III. PUBLIC INTEREST CONSIDERATIONS

Grant of this Application will serve the public interest, convenience, and necessity for several reasons. First, the proposed merger of McLeod and CCC will create a significantly larger entity committed to bringing competitive integrated telecommunications to consumers in small- and medium-size markets that are usually not targeted by other telecommunications providers. As a result, consumers in these markets will receive the many benefits of competition, including superior customer service and expanded service offerings.

Applicants also believe that the combination of the existing management and work force of the two companies will strengthen their collective ability to bring competitive telecommunications services to consumers in the State of Florida. Each company's executive management team possesses extensive telecommunications experience, from which the combined company will benefit. The proposed transactions will also allow Applicants to manage their telecommunications operations more efficiently, thereby permitting greater investment in facilities, customer services, and technological innovation. As such, Applicants anticipate that the contemplated business combination will result in a company better equipped to accelerate its growth as a competitive telecommunications service provider.

In addition, the combined resources of the new business structure will give these companies greater access to capital markets, ultimately enabling MTS to continue to improve and expand its competitive service offerings to the Florida public. The proposed transactions will therefore benefit the public interest by enhancing the financial viability of these companies as well as their operational flexibility and efficiency. In sum, the proposed transactions will ensure the continued provision of high quality and innovative telecommunications services to Florida customers and should promote competition in the Florida telecommunications service market.

IV. CONCLUSION

Wherefore, for the reasons stated herein, Applicants respectfully request that the Commission approve this Application to permit consummation of the proposed transfer of control as soon as possible but no later than November 30, 2000, and grant all other relief as necessary and appropriate to effectuate the transaction described herein.

Respectfully submitted,

McLeodUSA Incorporated,
McLeod Telecommunications Services, Inc.
CapRock Telecommunications Corp.

Andrew D. Lipman
Grace R. Chiu

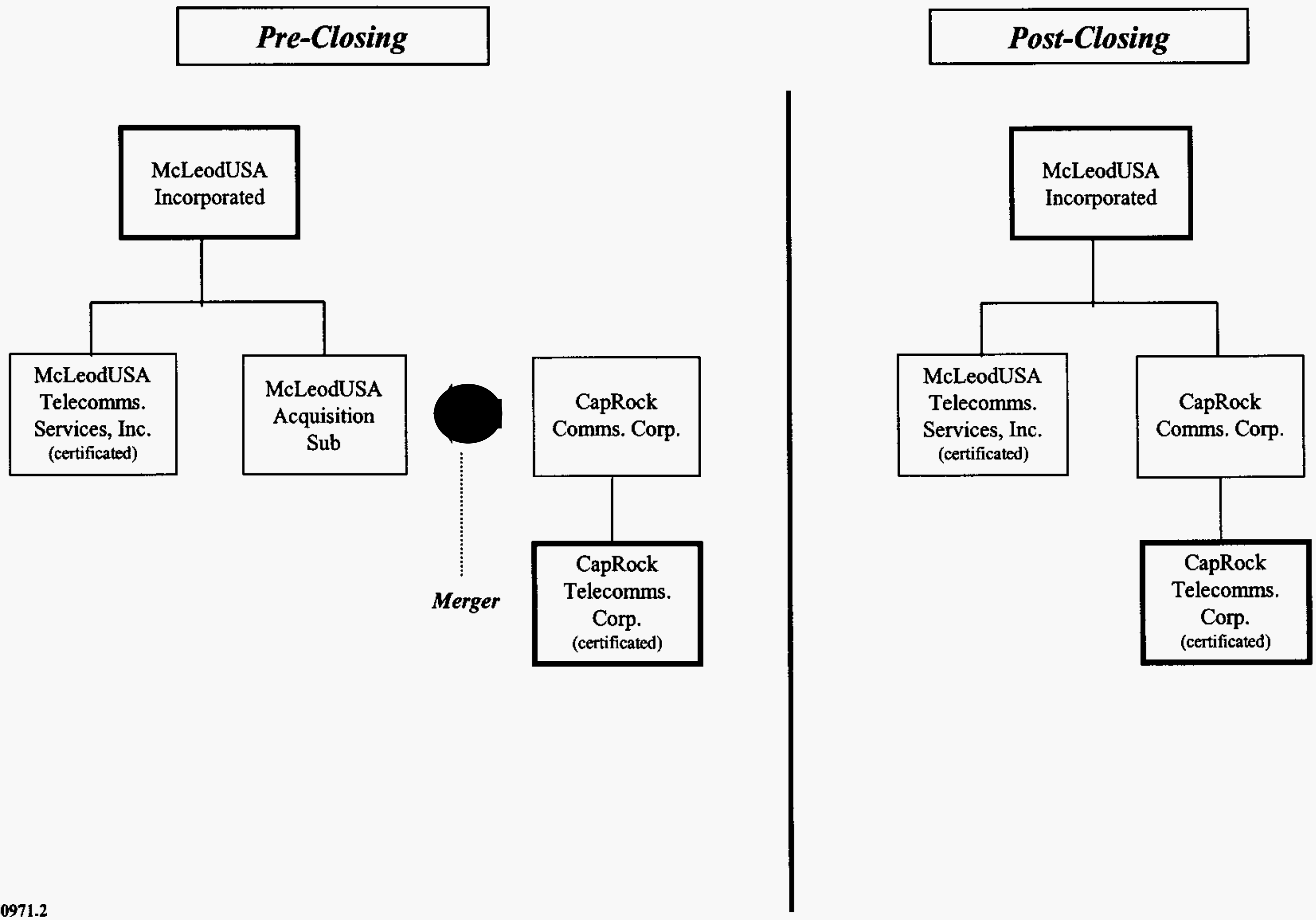
Their Counsel

Attachments

cc: David R. Conn (McLeod)
William A. Haas (McLeod)
Michael G. Donohoe (CCC)

INDEX OF EXHIBITS

Proposed Transfer of Control of CapRock Telecommunications Corp. to McLeodUSA Incorporated



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<u>EXHIBIT A</u>

ILLUSTRATIVE CHART

EXHIBIT B

FINANCIAL QUALIFICATIONS OF McLEODUSA INCORPORATED

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
McLeodUSA Incorporated:

We have audited the accompanying consolidated balance sheets of McLeodUSA Incorporated (a Delaware corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of McLeodUSA Incorporated's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of McLeodUSA Incorporated and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Chicago, Illinois
January 26, 2000
(except with respect to the matters discussed in
Note 16, as to which the date is February 29, 2000)

McLEODUSA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Millions, Except Shares)

	December 31, 1999	December 31, 1998
ASSETS		
Current Assets		
Cash and cash equivalents	$ 326.9	$ 455.1
Investment in available-for-sale securities	934.1	136.6
Trade receivables, net	183.8	116.4
Inventory	27.5	12.8
Deferred expenses	39.2	26.7
Prepaid expenses and other	58.0	45.6
Total current assets	1,569.5	793.2
Property and Equipment		
Land and building	85.1	60.3
Telecommunications networks	635.9	307.3
Furniture, fixtures and equipment	267.2	138.3
Networks in progress	453.2	185.5
Building in progress	1.2	12.6
	1,442.6	704.0
Less accumulated depreciation	172.6	74.3
	1,270.0	629.7
Investments, Intangibles and Other Assets		
Other investments	35.9	35.9
Goodwill, net	957.1	289.6
Other intangibles, net	290.2	112.4
Other	80.4	64.4
	1,363.6	502.3
	$4,203.1	$1,925.2
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	$ 14.4	$ 8.2
Contracts and notes payable	.1	4.5
Accounts payable	109.6	62.0
Accrued payroll and payroll related expenses	26.2	13.6
Other accrued liabilities	92.2	63.8
Deferred revenue, current portion	24.1	11.0
Customer deposits	30.1	16.8
Total current liabilities	296.7	179.9
Long-Term Debt, less current maturities	1,763.8	1,245.2
Deferred Revenue, less current portion	15.8	16.8
Other Long-term liabilities	18.3	20.5
	2,094.6	1,462.4
Redeemable convertible preferred stock		
Preferred, Series B, redeemable, convertible, $.01 par value, authorized, issued and Outstanding 1999 275,000; 1998 none	687.5	—
Preferred, Series C, redeemable, convertible, $.01 par value, authorized, issued and Outstanding 1999 125,000; 1998 none	312.5	—
	1,000.0	—
Stockholders' Equity		
Capital stock:		
Preferred, Series A, $.01 par value: authorized, issued and outstanding 1999 1,150,000 shares; 1998 none	—	—
Common, Class A, $.01 par value: authorized 250,000,000 shares; issued and outstanding 1999 157,587,012 shares and 1998 127,358,350 shares	1.6	1.3
Common, Class B, convertible, $.01 par value: authorized 22,000,000 shares; issued and outstanding 1999 none; 1998 none	—	—
Additional paid-in capital	1,523.5	716.5
Accumulated deficit	(491.3)	(253.3)
Accumulated other comprehensive income (loss)	74.7	(1.7)
	1,108.5	462.8
	$4,203.1	$1,925.2

The accompanying notes are an integral part of these consolidated financial statements.

McLEODUSA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In Millions, Except Per Share Data)

	Year Ended December 31,		
	1999	1998	1997
Revenue:			
Telecommunications:			
Local and long distance	$ 456.0	$ 271.2	$110.0
Local exchange services	78.4	67.8	16.1
Private line and data	80.1	40.1	17.2
Network maintenance and equipment	36.3	32.9	21.0
Other telecommunications	30.1	27.8	9.9
TOTAL TELECOMMUNICATIONS REVENUE	680.9	439.8	174.2
Directory	209.2	144.9	81.1
Telemarketing	18.7	19.4	12.6
TOTAL REVENUE	908.8	604.1	267.9
Operating expenses:			
Cost of service	457.1	323.2	151.2
Selling, general and administrative	392.7	260.9	148.2
Depreciation and amortization	190.7	89.1	33.3
Other	—	5.6	4.6
TOTAL OPERATING EXPENSES	1,040.5	678.8	337.3
OPERATING LOSS	(131.7)	(74.7)	(69.4)
Nonoperating income (expense):			
Interest income	42.6	26.0	22.7
Interest (expense)	(136.8)	(78.2)	(34.6)
Other income	5.6	2.0	1.4
TOTAL NONOPERATING INCOME (EXPENSE)	(88.6)	(50.2)	(10.5)
LOSS BEFORE INCOME TAXES	(220.3)	(124.9)	(79.9)
Income taxes	—	—	—
NET LOSS	(220.3)	(124.9)	(79.9)
Preferred stock dividend	(17.7)	—	—
NET LOSS APPLICABLE TO COMMON SHARES	$ (238.0)	$(124.9)	$ (79.9)
Basic and diluted loss per common share	$ (1.61)	$ (.99)	$ (.73)
Weighted average common shares outstanding	147.7	125.6	109.9
Other comprehensive income (loss):			
Unrealized gains on securities:			
Unrealized holding gains (losses) arising during the Period	83.4	3.0	(2.5)
Less: Reclassification adjustment for gains included in Net income	(7.0)	(2.2)	—
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	76.4	.8	(2.5)
COMPREHENSIVE LOSS	$ (161.6)	$(124.1)	$ (82.4)

The accompanying notes are an integral part of these consolidated financial statements.

McLEODUSA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(In Millions, Except Shares)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Class A	Class B				
Balance, December 31, 1996	$0.4	$ 0.2	$ 450.7	$ (47.8)	$ —	$ 403.5
Net loss	—	—	—	(79.9)	—	(79.9)
Issuance of 1,137,883 shares of Class A Common stock	—	—	0.9	—	—	0.9
Release of 56,177 shares of Class A common stock from escrow	—	—	1.3	—	—	1.3
Issuance of 84,430 shares of Class A common stock in connection with the acquisition of Digital Communications of Iowa, Inc	—	—	2.3	—	—	2.3
Issuance of 8,488,596 shares of Class A Common stock in connection with the Acquisition of CCI	—	—	223.6	—	—	223.6
Issuance of 55,500 shares of Class A common stock in connection with the acquisition of certain assets of OneTEL Corp	—	—	2.0	—	—	2.0
Issuance of 140,000 shares of Class A common stock in connection with the acquisition of ownership interests of Colorado Directory Company LLC	—	—	4.5	—	—	4.5
Issuance of 38,080 shares of Class A common stock to participants in the Employee Stock Purchase Plan	—	—	0.7	—	—	0.7
Conversion of 15,625,929 shares of Class B Common stock to 15,625,929 shares of Class A common stock	0.2	(0.2)	—	—	—	—
Amortization of compensation expense related to stock options	—	—	3.0	—	—	3.0
Other comprehensive income	—	—	—	—	(2.5)	(2.5)
Balance, December 31, 1997	0.6	—	689.0	(127.7)	(2.5)	559.4
Net loss	—	—	—	(124.9)	—	(124.9)
Issuance of 1,353,785 shares of Class A common stock	—	—	3.7	—	—	3.7
Issuance of 70,508 shares of Class A common stock in connection with the acquisition of NewCom Technologies, Inc. and NewCom OSP Services, Inc	—	—	3.2	—	—	3.2
Issuance of 151,019 shares of Class A Common stock in connection with the acquisition of certain assets of Communications Cable-Laying Company, Inc	—	—	6.0	—	—	6.0
Issuance of 70,672 shares of Class A common stock in connection with the acquisition of Inlet, Inc	—	—	2.4	—	—	2.4
Issuance of 82,602 shares of Class A common stock to participants in the 401(k) profit-sharing plans	—	—	2.6	—	—	2.6
Issuance of 132,893 shares of Class A common stock to participants in the Employee Stock Purchase Plan	—	—	3.7	—	—	3.7
Amortization of compensation expense related to stock options	—	—	5.9	—	—	5.9
Other comprehensive income	—	—	—	—	0.8	0.8
Balance, December 31, 1998	0.6	—	716.5	(252.6)	(1.7)	462.8
Two-for-one stock split (Note 8)	0.7	—	—	(0.7)	—	—
Net loss	—	—	—	(238.0)	—	(238.0)
Issuance of 4,174,274 shares of Class A common stock	—	—	20.7	—	—	20.7
Issuance of 25,397,456 shares of Class A common stock in connection with the acquisitions (Note 8)	0.3	—	487.7			488.0
Issuance of 222,762 shares of Class A common stock to participants in the 401(k) profit-sharing plans	—	—	4.9	—	—	4.9
Issuance of 313,909 shares of Class A common stock to participants in the Employee Stock Purchase Plan	—	—	4.4	—	—	4.4
Issuance of 1,150,000 shares of Series A preferred stock	—	—	277.3	—	—	277.3
Amortization of compensation expense related to stock options	—	—	6.9	—	—	6.9
Issuance of 120,261 shares of Class A common stock to Series A preferred stock shareholders	—	—	5.1	—	—	5.1
Other comprehensive income	—	—	—	—	76.4	76.4
Balance, December 31, 1999	$1.6	$—	$1,523.5	$(491.3)	$74.7	$1,108.5

The accompanying notes are an integral part of these consolidated financial statements.

McLEODUSA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

	Year ended December 31,		
	1999	1998	1997
Cash Flows from Operating Activities			
Net loss	$ (220.3)	$(124.9)	$(79.9)
Adjustments to reconcile net loss to net cash (used in) operating activities:			
Depreciation	105.6	53.3	17.6
Amortization	85.1	34.7	15.7
Accretion of interest on senior discount notes	38.9	35.1	26.7
Changes in assets and liabilities, net of effects of acquisitions:			
(Increase) in trade receivables	(20.7)	(6.4)	(15.9)
(Increase) in inventory	(12.7)	(8.2)	(0.8)
(Increase) decrease in deferred expenses	(4.0)	0.9	1.2
(Increase) decrease in prepaid expenses and other	10.2	(34.3)	(1.0)
(Increase) in deferred line installation costs	(27.2)	(13.6)	(9.7)
Increase (decrease) in accounts payable and accrued expenses	(16.9)	32.2	27.1
Increase in deferred revenue	10.5	4.6	7.2
Increase in customer deposits	9.3	4.1	3.0
NET CASH (USED IN) OPERATING ACTIVITIES	(42.2)	(22.5)	(8.8)
Cash Flows from Investing Activities			
Purchase of property and equipment	(599.7)	(289.9)	(151.3)
Available-for-sale securities:			
Purchases	(1,247.3)	(607.4)	(116.0)
Sales	144.3	264.4	102.4
Maturities	391.5	242.0	133.8
Business acquisitions	(230.8)	(27.8)	(181.9)
Deposits on PCS licenses	—	—	(28.0)
Other	(8.9)	(5.2)	(1.8)
NET CASH (USED IN) INVESTING ACTIVITIES	(1,550.9)	(423.9)	(242.8)
Cash Flows from Financing Activities			
Payments on contracts and notes payable	(26.2)	(11.1)	(19.0)
Proceeds from long-term debt	485.8	583.9	506.6
Payments on long-term debt	(279.2)	(10.9)	(2.2)
Net proceeds from issuance of common stock	18.0	7.7	1.6
Net proceeds from preferred stock—Series A	278.1	—	—
Net proceeds from preferred stock—Series B and C	998.7	—	—
Payments of preferred stock dividends	(10.3)	—	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,464.9	569.6	487.0
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(128.2)	123.2	235.4
Cash and cash equivalents:			
Beginning	455.1	331.9	96.5
Ending	$ 326.9	$ 455.1	$331.9
Supplemental Disclosure of Cash Flow Information			
Cash payment for interest, net of interest capitalized 1999 $23.0; 1998 $10.7; 1997 $4.4	$ 85.8	$ 27.0	$ 1.8
Supplemental Schedule of Noncash Investing and Financing Activities			
Release of 112,354 shares of Class A common stock from escrow	$ —	$ —	$ 1.3
Capital leases incurred for the acquisition of property and equipment	$ 10.3	$ 5.9	$ 3.4

The accompanying notes are an integral part of these consolidated financial statements.

VERIFICATION

STATE OF IOWA :
: ss.
COUNTY OF LINN :

I, William A. Haas, being first duly sworn, state that I am Vice President and Deputy General Counsel of McLeodUSA Incorporated, the Applicant in the foregoing Application; that I am authorized to make this Verification on behalf of Applicant; that I have read the foregoing Application and know the contents thereof; and that the same are true and correct to the best of my knowledge, information, and belief.

William A. Haas
____

Sworn and subscribed before me this 5th day of October, 2000.

Robin R. McVeigh
____
Notary Public

NOTARIAL SEAL IOWA
ROBIN R. McVEIGH
MY COMMISSION EXPIRES
April 2, 2001

My commission expires ______________________.

338120.1

VERIFICATION

STATE OF TEXAS :
: ss.
COUNTY OF DALLAS :

I, Michael G. Donohoe, being first duly sworn, state that I am Assistant Secretary of CapRock Telecommunications Corp., the Applicant in the foregoing Application; that I am authorized to make this Verification on behalf of Applicant; that I have read the foregoing Application and know the contents thereof; and that the same are true and correct to the best of my knowledge, information, and belief.

Michael G Donohoe

Sworn and subscribed before me this 29 th day of September, 2000.

NOTARY PUBLIC STATE OF TEXAS
Simone Orange-Baker
Notary Public, State of Texas
My Commission Expires
JAN. 25, 2003

Simone Orange-Baker
Notary Public

My commission expires January 25, 2003.