

MCLEODUSA INC  
Form 10-Q  
August 14, 2002

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2002

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-20763

## McLEODUSA INCORPORATED

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of Incorporation)

**42-1407240**  
(IRS Employer Identification No.)

**McLeodUSA Technology Park**  
**6400 C Street SW**  
**P.O. Box 3177**  
**Cedar Rapids, Iowa**  
(Address of principal executive office)

**52406-3177**  
(Zip Code)

**319-364-0000**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

The number of shares outstanding of each class of the issuer's common stock as of August 8, 2002:

Common Stock Class A: (\$0.01 par value)	162,499,986 shares
Common Stock Class B: (\$0.01 par value)	78,203,135 shares
Common Stock Class C: (\$0.01 par value)	35,546,879 shares

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**MCLEODUSA INCORPORATED AND SUBSIDIARIES**

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## MCLEODUSA INCORPORATED AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)

	Reorganized McLeodUSA June 30, 2002	Predecessor McLeodUSA December 31, 2001
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 78.2	\$ 137.1
Investment in available-for-sale securities	0.3	4.5
Trade receivables, net	125.5	150.8
Inventory	3.3	4.4
Prepaid expense and other	29.1	25.2
Assets held for sale	444.1	760.1
	<u>680.5</u>	<u>1,082.1</u>
Property and equipment		
Land and buildings	73.3	59.5
Communications networks	710.7	1,645.8
Furniture, fixtures and equipment	169.4	366.5
Networks in progress	363.2	866.6
	<u>1,316.6</u>	<u>2,938.4</u>
Less accumulated depreciation	47.2	479.4
	<u>1,269.4</u>	<u>2,459.0</u>
Investments, intangibles and other assets		
Other investments	0.4	28.1
Goodwill	221.9	949.4
Other intangibles, net	250.5	158.5
Other	23.5	78.0
	<u>496.3</u>	<u>1,214.0</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,446.2</u>	<u>\$ 4,755.1</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.  
(Continued on the next page)

**MCLEODUSA INCORPORATED AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)**

(In millions, except per share data)

	Reorganized McLeodUSA June 30, 2002	Predecessor McLeodUSA December 31, 2001
	(Unaudited)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Current maturities of long-term debt	\$ 5.7	\$ 15.7
Long-term debt classified as current		2,978.8
Accounts payable	54.0	81.5
Accrued payroll and payroll related expenses	23.5	23.1
Other accrued liabilities	163.5	357.4
Deferred revenue, current portion	13.0	13.2
Customer deposits	2.7	3.0
Liabilities related to discontinued operations	69.3	130.3
	<u>331.7</u>	<u>3,603.0</u>
Total current liabilities	331.7	3,603.0
Long-term debt less current maturities	942.6	945.5
Deferred revenue, less current portion	14.9	16.4
Other long-term liabilities	53.4	7.1
	<u>1,342.6</u>	<u>4,572.0</u>
	1,342.6	4,572.0
<b>Redeemable convertible preferred stock</b>		
Reorganized McLeodUSA Preferred Series A, redeemable, convertible, \$0.01 par value; 10,000,000 authorized, issued and outstanding at June 30, 2002	169.3	
Predecessor McLeodUSA Preferred Series D, redeemable, convertible, \$0.01 par value; 275,000 authorized, issued and outstanding at December 31, 2001		110.4
Predecessor McLeodUSA Preferred Series E, redeemable, convertible \$0.01 par value; 125,000 authorized, issued and outstanding at December 31, 2001		45.7
	<u>169.3</u>	<u>156.1</u>
	169.3	156.1
<b>Stockholders' equity</b>		
Predecessor McLeodUSA Preferred Series A, \$0.01 par value; 1,149,375 authorized, issued and outstanding at December 31, 2001		
Predecessor McLeodUSA Common, Class A \$0.01 par value; 2,000,000,000 authorized, 627,739,907 issued and outstanding at December 31, 2001		6.3

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	Reorganized McLeodUSA June 30, 2002	Predecessor McLeodUSA December 31, 2001
Reorganized McLeodUSA Common, Class A \$0.01 par value; 1,886,249,986 authorized, 162,499,986 issued and outstanding at June 30, 2002	1.6	
Reorganized McLeodUSA Common, Class B \$0.01 par value; 78,203,135 authorized, issued and outstanding at June 30, 2002	0.8	
Reorganized McLeodUSA Common, Class C \$0.01 par value; 35,546,879 authorized, issued and outstanding at June 30, 2002	0.3	
Reorganized McLeodUSA Preferred Series B, \$0.01 par value; 10 authorized, issued and outstanding at June 30, 2002		
Reorganized McLeodUSA Warrants	22.6	
Additional paid-in capital	954.3	3,843.4
Accumulated deficit	(45.3)	(3,821.6)
Accumulated other comprehensive income		(1.1)
	934.3	27.0
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,446.2</b>	<b>\$ 4,755.1</b>

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

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**MCLEODUSA INCORPORATED AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)**

(In millions, except per share data)

	Reorganized McLeodUSA	Predecessor McLeodUSA	Predecessor McLeodUSA
	April 17, 2002 to June 30, 2002	April 1, 2002 to April 16, 2002	Three months ended June 30, 2001
Revenues:			
Competitive telecommunications	\$ 207.2	\$ 47.3	\$ 328.3
Other			3.6
<b>Total revenue</b>	<b>207.2</b>	<b>47.3</b>	<b>331.9</b>
Operating expenses:			
Cost of service (exclusive of depreciation shown separately below)	119.4	32.1	215.9
Selling, general and administrative	79.5	17.5	116.7
Depreciation and amortization	59.5	17.4	142.5
Reorganization charges, net		1,539.6	
Restructuring charge (adjustment)		(6.8)	28.2
<b>Total operating expenses</b>	<b>258.4</b>	<b>1,599.8</b>	<b>503.3</b>

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	Reorganized McLeodUSA	Predecessor McLeodUSA	Predecessor McLeodUSA
	_____	_____	_____
	_____	_____	_____
<b>Operating loss</b>	(51.2)	(1,552.5)	(171.4)
<b>Nonoperating income (expense):</b>			
Interest income	0.3		2.1
Interest expense, net of amounts capitalized	(8.5)	(1.8)	(57.5)
Other income (expense)	1.1	(1.0)	80.4
Gain on the cancellation of debt		2,372.8	
	_____	_____	_____
<b>Total nonoperating income (expense)</b>	(7.1)	2,370.0	25.0
	_____	_____	_____
<b>Income (loss) before discontinued operations</b>	(58.3)	817.5	(146.4)
Discontinued operations (Note 5):			
Income from discontinued operations (including gain on disposal of \$148.3 for the period April 1, 2002 to April 16, 2002)	13.0	152.6	14.7
	_____	_____	_____
<b>Net income (loss)</b>	(45.3)	970.1	(131.7)
	_____	_____	_____
Preferred stock dividend	(1.1)		(13.6)
	_____	_____	_____
<b>Net income (loss) applicable to common shares</b>	(46.4)	970.1	(145.3)
	_____	_____	_____
<b>Basic and diluted income (loss) per common share:</b>			
Income (loss) before discontinued operations	\$ (0.22)	\$ 1.30	\$ (0.26)
Discontinued operations	0.05	0.25	0.02
	_____	_____	_____
Income (loss) per common share	\$ (0.17)	\$ 1.55	\$ (0.24)
	_____	_____	_____
Weighted average common shares outstanding	276.3	627.7	617.2
	_____	_____	_____
<b>Other comprehensive income (loss), net of tax:</b>			
Unrealized holding losses arising during the period	\$	\$	\$ 4.9
Less: reclassification adjustment for gains included in net income			(6.5)
	_____	_____	_____
<b>Total other comprehensive loss</b>			(1.6)
	_____	_____	_____
<b>Comprehensive income (loss)</b>	\$ (45.3)	\$ 970.1	\$ (133.3)
	_____	_____	_____

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

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)**

(In millions, except per share data)

	Reorganized McLeodUSA	Predecessor McLeodUSA	Predecessor McLeodUSA
	April 17, 2002 to June 30, 2002	January 1, 2002 to April 16, 2002	Six months ended June 30, 2001
<b>Revenues:</b>			
Competitive telecommunications	\$ 207.2	\$ 311.4	\$ 629.1
Other			6.7
<b>Total revenue</b>	207.2	311.4	635.8
<b>Operating expenses:</b>			
Cost of service (exclusive of depreciation shown separately below)	119.4	211.2	406.9
Selling, general and administrative	79.5	108.9	230.8
Depreciation and amortization	59.5	126.3	264.3
Reorganization charges, net		1,596.8	
Restructuring charge (adjustment)		(6.8)	28.2
<b>Total operating expenses</b>	258.4	2,036.4	930.2
<b>Operating loss</b>	(51.2)	(1,725.0)	(294.4)
<b>Nonoperating income (expense):</b>			
Interest income	0.3	0.4	8.7
Interest expense, net of amounts capitalized	(8.5)	(33.6)	(113.6)
Other income	1.1	2.0	77.1
Gain on the cancellation of debt		2,372.8	
<b>Total nonoperating income (expense)</b>	(7.1)	2,341.6	(27.8)
<b>Income (loss) before discontinued operations</b>	(58.3)	616.6	(322.2)
<b>Discontinued operations (Note 5):</b>			
Income from discontinued operations (including a net gain on disposal of \$145.4 for the period January 1, 2002 to April 16, 2002)	13.0	167.1	17.4
<b>Net income (loss)</b>	(45.3)	783.7	(304.8)
Preferred stock dividend	(1.1)	(4.8)	(27.2)
<b>Net income (loss) applicable to common shares</b>	(46.4)	778.9	(332.0)
<b>Basic and diluted income (loss) per common share:</b>			
Income (loss) before discontinued operations	\$ (0.22)	\$ 0.97	\$ (0.57)
Discontinued operations	0.05	0.27	0.03

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	<u>Reorganized McLeodUSA</u>	<u>Predecessor McLeodUSA</u>	<u>Predecessor McLeodUSA</u>
Income (loss) per common share	\$ (0.17)	\$ 1.24	\$ (0.54)
Weighted average common shares outstanding	276.3	627.7	613.8
Other comprehensive income (loss), net of tax:			
Unrealized holding gains arising during the period	\$	\$ (2.1)	\$ (8.5)
Less: reclassification adjustment for gains (losses) included in net income		3.2	(6.5)
<b>Total other comprehensive income (loss)</b>		1.1	(15.0)
<b>Comprehensive income (loss)</b>	\$ (45.3)	\$ 784.8	\$ (319.8)

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

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**MCLEODUSA INCORPORATED AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

	<u>Reorganized McLeodUSA</u>	<u>Predecessor McLeodUSA</u>	<u>Predecessor McLeodUSA</u>
	<u>April 17, 2002 to June 30, 2002</u>	<u>January 1, 2002 to April 16, 2002</u>	<u>Six months ended June 30, 2001</u>
<b>Cash Flows from Operating Activities</b>			
Net income (loss) before discontinued operations	\$ (58.3)	\$ 616.6	\$ (322.2)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation	47.5	108.6	150.9
Amortization	12.0	17.7	113.4
Accretion of interest		4.1	23.8
Gain on sale of assets	1.2	(6.4)	(78.6)
Non cash reorganization items		1,538.4	
Gain on the cancellation of debt		(2,372.8)	
Restructuring charge (adjustment)		(6.8)	23.6
Changes in assets and liabilities, net of acquisitions and dispositions:			
Trade receivables	10.3	14.3	(36.0)
Inventory	0.1	0.9	(3.3)
Deferred expenses	(0.5)		3.8
Prepaid expenses and other	(12.5)	9.3	(1.9)
Accounts payable and accrued expenses	(26.7)	(43.4)	(163.6)
Deferred revenue	(4.8)	1.1	6.4
Customer deposits	0.5	0.1	(15.6)



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	Reorganized McLeodUSA	Predecessor McLeodUSA	Predecessor McLeodUSA
	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Net cash used in operating activities</b>	(31.2)	(118.3)	(299.3)
<b>Cash Flows from Investing Activities</b>			
Purchases of property and equipment			