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ACCESSION NUMBER: 0000950172-05-000823

CONFORMED SUBMISSION TYPE: 8-K

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CONFORMED PERIOD OF REPORT: 20050316

ITEM INFORMATION: Entry into a Material Definitive Agreement

ITEM INFORMATION: Results of Operations and Financial Condition

ITEM INFORMATION: Financial Statements and Exhibits

FILED AS OF DATE: 20050317

DATE AS OF CHANGE: 20050316

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME:

MCLEODUSA INC

CENTRAL INDEX KEY:

0000919943

STANDARD INDUSTRIAL CLASSIFICATION:

RADIO TELEPHONE COMMUNICATIO

IRS NUMBER:

421407240

STATE OF INCORPORATION:

DE

FISCAL YEAR END:

1231

FILING VALUES:

FORM TYPE: 8-K

SEC ACT: 1934 Act

SEC FILE NUMBER: 000-20763

FILM NUMBER: 05687016

BUSINESS ADDRESS:

STREET 1: 6400 C ST SW

STREET 2: PO BOX 3177

CITY: CEDAR RAPIDS

STATE: IA

ZIP: 52406

BUSINESS PHONE: 3193640000

MAIL ADDRESS:

STREET 1: 6400 C ST SW

STREET 2: PO BOX 3177

CITY: CEDAR RAPIDS

STATE: IA

ZIP: 52406

FORMER COMPANY:

FORMER CONFORMED NAME: MCLEOD INC

DATE OF NAME CHANGE: 19960403

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) March 16, 2005

MCLEODUSA INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

(State or Other Jurisdiction of Incorporation)

0-20763

42-1407240

(Commission File Number)

(IRS Employer Identification No.)

McLeodUSA Technology Park
4200 C. Street SW, P.O. Box 3177
Cedar Rapids, IA

52406-3177

(Address of Principal Executive Offices)

(Zip Code)

(319) 364-0000

(Registrant's Telephone Number, Including Area Code)-----
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to
simultaneously satisfy the filing obligation of the registrant under any of the
following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act
(17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17
CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the
Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the
Exchange Act (17 CFR 240.13e-4(c))

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ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

<http://www.sec.gov/Archives/edgar/data/919943/000095017205000823/0000950172-05-0...> 3/31/2005

On March 16, 2005, McLeodUSA Incorporated ("the Company") and certain of its subsidiaries ("Subsidiary Guarantors") entered into a Forbearance Agreement, among the Company, the Subsidiary Guarantors, the lenders thereto ("Lenders"), and JPMorgan Chase Bank, N.A. ("Agent"), as Administrative Agent (the "Forbearance Agreement"), which is hereby incorporated by reference and attached hereto as Exhibit 10.1. The Forbearance Agreement relates to (1) the Credit Agreement dated as of May 31, 2000, as amended, among the Company, the Lenders and the Agent (the "Credit Agreement"), (2) the Credit Agreement dated as of April 16, 2002, as amended, among the Company, the Lenders and the Agent (the "Exit Facility" and, collectively with the Credit Agreement, the "Credit Facilities") and (3) the Subsidiary Guarantee Agreement dated as of May 31, 2000, as amended and restated as of April 16, 2002, among the Subsidiary Guarantors and the Agent.

Pursuant to the Forbearance Agreement, the Lenders have agreed to forbear from exercising any remedies as a result of certain specified defaults under the Credit Facilities anticipated by the Company during the forbearance period, including, without limitation, the failure to make scheduled amortization payments under the Credit Facilities and interest payments under the Credit Agreement. The forbearance period, the purpose of which is to enable the parties to explore possible strategic transactions, runs through May 23, 2005. Theodore J. Forstmann, director and stockholder of the Company, and a General Partner in certain funds affiliated with Forstmann Little & Co. which collectively hold a controlling interest in the Company's voting securities, is a lender party to the Credit Agreement.

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On March 16, 2005, the Company announced, among other things, its financial and operating results for the quarter and total year ended December 31, 2004 in a press release, a copy of which is attached hereto as Exhibit 99.1.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

Exhibit No.	Description
-----	-----
10.1	Forbearance Agreement, dated as of March 16, 2005, among McLeodUSA Incorporated (the "Borrower"), each of the Subsidiaries of the Borrower listed on Schedule I thereto (the "Subsidiary Guarantors"), the financial institutions named on the signature pages thereto (together with their respective successors and assigns, the "Participant Lenders") and JPMorgan Chase Bank, N.A., as agent for the Lenders (the "Administrative Agent")
99.1	Press Release, dated March 16, 2005

<PAGE>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MCLEODUSA INCORPORATED

Dated: March 16, 2005

By: /s/ G. Kenneth Burckhardt

 Name: G. Kenneth Burckhardt
 Title: Executive Vice President and
 Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description
-----	-----
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99.1	Press Release, dated March 16, 2005
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Exhibit 10.1

FORBEARANCE AGREEMENT

FORBEARANCE AGREEMENT, dated as of March 16, 2005 (this "Agreement"), among (1) McLeodUSA Incorporated, a Delaware corporation (the "Borrower"), (2) each of the Subsidiaries of the Borrower listed on Schedule I hereto (the "Subsidiary Guarantors"), (3) the financial institutions named on the signature pages hereto (together with their respective successors and assigns, the "Participant Lenders") and (4) JPMorgan Chase Bank, N.A., as agent for the Lenders (the "Administrative Agent").

WITNESSETH:

A. WHEREAS, the Borrower, certain Participant Lenders, the Administrative Agent and certain other financial institutions are parties to a Credit Agreement dated as of May 31, 2000 (as amended, the "2000 Credit Agreement");

B. WHEREAS, the Borrower, certain Participant Lenders, the Administrative Agent and certain other financial institutions are parties to a Credit Agreement dated as of April 16, 2002 (as amended, the "2002 Credit Agreement," together with the 2000 Credit Agreement, the "Credit Agreements");

C. WHEREAS, the Subsidiary Guarantors and JPMorgan Chase Bank, N.A., as Collateral Agent for the Secured Parties, are parties to a Subsidiary Guarantee Agreement dated as of May 31, 2000, as amended and restated as of April 16, 2002 (the "Guarantee Agreement");

D. WHEREAS, the Borrower and the Subsidiary Guarantors have (i) advised the Participant Lenders they intend to retain as an officer of the Borrower a person reasonably acceptable to the Participant Lenders with the requisite expertise and scope of duties to validate and provide information regarding the Borrower and its Subsidiaries to the Lenders, prospective buyers and other parties, and to assist the Borrower in developing strategies relating to any restructuring or other strategic transactions (the "Restructuring Officer") and (ii) proposed a restructuring plan that is under discussion with the Participant Lenders (as such plan may be modified, the "Plan");

E. WHEREAS, the Borrower has advised the Administrative Agent and the Lenders that the Specified Defaults (as defined in section 1(b) below), including, without limitation, the failure to make scheduled amortization payments under the Credit Agreements and interest payments under the 2000 Credit Agreement, will be occurring during the Forbearance Period (as defined in section 1(a) below); and

F. WHEREAS, in order to permit completion of the negotiation of the Plan and exploration of other possible strategic transactions, the Borrower and the Subsidiary Guarantors have asked the Participant Lenders, and the Participant Lenders are willing, to forbear from exercising certain default-related remedies against the Borrower and the Subsidiary Guarantors on account of the Specified Defaults for a limited period of time and upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing, the covenants and conditions contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Defined Terms. Unless otherwise specifically defined herein, each term used herein which is defined in the Credit Agreements has the meaning assigned to such term in the Credit Agreements. As used in this Agreement, the following terms have the meanings specified below:

(a) "Forbearance Period" means the period beginning on the date hereof and ending on the earliest to occur of (any such occurrence being a "Termination Event"):

(i) May 23, 2005;

(ii) the occurrence of any Event of Default other than a Specified Default;

(iii) any holder of Indebtedness or other obligations of \$7 million or more of the Borrower or any of its Subsidiaries shall take any action to collect or enforce any claim or to create or enforce any lien against the Borrower or any of its Subsidiaries, excluding the making of a demand or the assertion of a claim by a vendor or customer that is disputed in good faith by the Borrower or such Subsidiary in the ordinary course of business and with respect to which such vendor or customer has not obtained a lien or otherwise obtained the ability to collect or enforce such claim; and

(iv) a breach of any term, condition or representation contained in this Agreement by the Borrower or the Subsidiary Guarantors.

(b) "Specified Defaults" means existing or anticipated Events of Default, as listed in Schedule II hereto.

Section 2. Acknowledgements and Undertakings.

(a) The Borrower and the Subsidiary Guarantors agree and acknowledge that the Specified Defaults will occur during the Forbearance Period and that certain of the Specified Defaults will constitute material Events of Default.

(b) In addition to the information required to be furnished under the Loan Documents to the Administrative Agent and the Lenders (and without prejudice to sections 5.01 or any other provision of the Credit Agreements), the Borrower shall, as promptly as practicable, provide to the Administrative Agent any information reasonably requested by the Administrative Agent or the Lenders. Without limiting the generality of the foregoing, the Borrower shall promptly provide to the Administrative Agent, in a form acceptable to the Administrative Agent,

(i) on Tuesday of each week, a detailed forecast of receipts and disbursements for the Borrower and the Subsidiary Guarantors providing, on a weekly basis, the Borrower's good faith estimate of projected receipts and disbursements for the 13 weeks commencing with the immediately following week, together with a reconciliation of such forecast against the forecast delivered the previous week and a reasonably detailed explanation of any variance between the current forecast and such previously delivered forecast;

(ii) not later than the tenth day following the end of each calendar month, an operational report, including management's good faith estimate of receipts and disbursements for such month, the cash balances of the Borrower and Subsidiary Guarantors as of the end of such calendar month, and an analysis of performance against projected performance as set forth in the phased business plan dated March 9, 2005 previously delivered to the Participant Lenders;

(iii) on request of the Administrative Agent, and in any event on Monday of each week, a written update addressed to the financial advisor of the Administrative Agent regarding the status of the Borrower's efforts to sell all or any portion of its business, including, without limitation, a list of all contacts made with potential purchasers (including the identities of those contacted and the dates of such contacts), copies (if in writing) or descriptions (if not in writing) of any proposals, offers or indications of interest received by the Borrower or its attorneys or financial advisors, and any responses thereto by the Borrower or any such attorney or financial advisor; and

(iv) direct access to the officers and employees, and books and records of the Borrower and its Subsidiaries (including the Restructuring Officer retained by the Borrower) to obtain such information as the Participant Lenders deem reasonably necessary to evaluate, negotiate and implement any restructuring plan and to verify and analyze to the reasonable satisfaction of the Participant Lenders the matters referred to in subparagraphs (i), (ii) and (iii) above.

(c) As promptly as possible, and, in any event, not later than March 31, 2005, the Borrower shall retain (and identify to the Administrative Agent) the Restructuring Officer. The scope of the Restructuring Officer's engagement shall be reasonably acceptable to the Participant Lenders. From and after such retention, the Restructuring Officer shall continue to be actively employed by the Borrower at all times during the Forbearance Period and shall have direct access to all information, personnel and other resources necessary to the performance of his or her duties.

(d) The Borrower shall make all scheduled interest payments under the 2002 Credit Agreement at the non-default contract rate.

(e) On or prior to the Forbearance Effective Date (as defined in section 12 below), the Borrower shall pay to the Administrative Agent an advance of \$1.5 million (the "Advance") on account of the Borrower's obligations to pay expenses and other amounts under sections 9.03 of the Credit Agreements. The Administrative Agent shall be entitled to pay such amounts as they come due, including, without limitation, (i) the reasonable fees and expenses of counsel and financial advisors provided for in such sections and (ii) travel and other incidental expenses of Lenders actively participating with the Administrative Agent in restructuring discussions with the Borrower. The Borrower shall from time to time make further advances to the Administrative Agent, upon demand (and in any event within three business days), to restore the balance of the Advance held by the Administrative Agent to \$1.5 million.

(f) The Borrower shall furnish to the Administrative Agent prompt written notice of the occurrence of a Termination Event.

(g) The Borrower and the Subsidiary Guarantors acknowledge and agree that, under the Credit Agreements, as amended, they are not currently entitled to request any new Loans or Letters of Credit.

Section 3. Forbearance.

(a) The Participant Lenders agree that until the expiration of the Forbearance Period, the Participant Lenders will temporarily forbear (subject to the terms hereof) from the exercise of their default-related remedies under the Credit Agreements, Loan Documents or otherwise, against the Borrower and the Subsidiary Guarantors solely to the extent the availability of such remedies arises exclusively from the Specified Defaults; provided that the Borrower and the Subsidiary Guarantors shall comply during the Forbearance Period with all provisions, limitations, restrictions or prohibitions that would otherwise be effective or applicable under any of the Loan Documents during the continuance of any Default or Event of Default; provided further that the agreement of the Participant Lenders temporarily to forbear shall not apply to nor preclude any remedy available to the Administrative Agent or the Lenders in connection with any proceeding commenced under any bankruptcy or insolvency law, including without limitation, to any relief in respect of adequate protection or relief from any stay imposed under such law.

(b) Upon a Termination Event, the agreement of the Participant Lenders hereunder to forbear from exercising their default-related remedies shall immediately terminate without the requirement of any demand, presentment, protest or notice of any kind, all of which the Borrower and the Subsidiary Guarantors hereby waive. The Borrower and the Subsidiary Guarantors agree that the Administrative Agent and the Lenders may at any time thereafter proceed to exercise any and all of their respective rights and remedies under any or all of the Loan Documents and/or applicable law, including, without limitation, their respective rights and remedies in connection with any or all of the Defaults and Events of Default, including, without limitation, the Specified Defaults.

(c) For the avoidance of doubt, nothing herein limits the right of the Administrative Agent or the Lenders, including during the Forbearance Period, to take any action to preserve or exercise rights or remedies against parties other than the Borrower and the Subsidiary Guarantors ("Third Party Rights"). For purposes of the foregoing, the Borrower and the Subsidiary Guarantors acknowledge and agree that execution and delivery of this Agreement shall constitute the making of any necessary demand or the giving of any

necessary notice for purposes of preserving and/or permitting the exercise of any such Third Party Rights of the Administrative Agent and the Lenders.

(d) Execution of this Agreement constitutes a direction by the Participant Lenders that the Administrative Agent act in accordance with its terms. Each Participant Lender agrees that, notwithstanding anything to the contrary in the Credit Agreements, the Administrative Agent shall not be required to act if directed against the Borrower or the Subsidiary Guarantors if such action is contrary to the terms of this Agreement.

(e) The Borrower and the Subsidiary Guarantors acknowledge and agree that the agreement of the Participant Lenders hereunder to forbear from exercising their default-related remedies with respect to the Specified Defaults shall not constitute a waiver of such Specified Defaults and that the Lenders expressly reserve all rights and remedies that the Administrative Agent and the Lenders now or may in the future have under any or all of the Loan Documents and/or applicable law in connection with all Defaults and Events of Default (including without limitation the Specified Defaults).

Section 4. Interest Rate During the Forbearance Period.

(a) The parties acknowledge that upon the occurrence of an Event of Default, the Lenders have the right to accelerate the due date of the Loans under the Credit Agreements. In consideration of the forbearance provided hereunder, and notwithstanding any failure to accelerate the due date of the Loans, from and after the occurrence of any Event of Default (including any Specified Defaults), principal of and interest on the Loans and all fees and other amounts payable by the Borrower shall bear interest at the default rate, as set forth in sections 2.13(c) of the Credit Agreements.

(b) Notwithstanding the foregoing, the Participant Lenders are hereby advised that, during the Forbearance Period (i) the Borrower does not intend to pay interest in cash on a current basis under the 2000 Credit Agreement, and (ii) the Borrower intends to pay interest in cash under the 2002 Credit Agreement only at the pre-default rate.

(c) Any interest accrued under the Credit Agreements that has not been paid in cash shall compound on each Interest Payment Date until paid.

Section 5. Reference to and Effect upon the Credit Agreements.

(a) Except as expressly set forth herein, all terms, conditions, covenants, representations and warranties contained in the Credit Agreements, and any other Loan Document, and all rights of the Administrative Agent and the Lenders and all obligations of the Borrower and the Subsidiary Guarantors thereunder, shall remain in full force and effect. The Borrower and the Subsidiary Guarantors hereby confirm that the Credit Agreements, and the other Loan Documents are in full force and effect.

(b) Except as expressly provided herein, nothing contained in this Agreement and no action by, or inaction on the part of, any Lender or the Administrative Agent shall, or shall be deemed to, directly or indirectly (i) constitute a consent to or waiver of any past, present or future violations of any provisions of the Credit Agreements, or any other Loan Document, (ii) amend, modify or operate as a waiver of any provision of the Credit Agreements, or any other Loan Document, except as expressly set forth herein, of any right, power or remedy of the Administrative Agent or any Lender thereunder or (iii) constitute a course of dealing or other basis for altering any obligations of the Borrower under the Loan Documents, or any other contract or instrument.

(c) This Agreement shall constitute a Loan Document.

Section 6. Representations and Warranties. To induce the Administrative Agent and the Participant Lenders to execute and deliver this Agreement, the Borrower and the Subsidiary Guarantors represent and warrant that:

(a) The execution, delivery and performance by the Borrower and the Subsidiary Guarantors of this Agreement have been duly authorized by all necessary corporate action. This Agreement constitutes the legal, valid and binding obligations of the Borrower and the Subsidiary Guarantors, enforceable against the Borrower and the Subsidiary Guarantors in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

(b) No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrower or the Subsidiary Guarantors of this Agreement.

(c) As of the Forbearance Effective Date (as defined in section 12 below), no Defaults or Events of Default exist, other than the Specified Defaults.

Section 7. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of New York.

Section 8. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

Section 9. Severability. The invalidity, illegality or unenforceability of any provision in or obligation under this Agreement in any jurisdiction shall not affect or impair the validity, legality or enforceability of the remaining provisions or obligations under this Agreement or of such provision or obligation in any other jurisdiction.

Section 10. Further Assurances. The Borrower and the Subsidiary Guarantors agree to take all further actions and execute all further documents as the Administrative Agent may from time to time reasonably request to carry out the transactions contemplated by this Agreement.

Section 11. Notices. All notices, requests and demands to or upon the respective parties hereto shall be given in accordance with sections 9.01 of the Credit Agreements.

Section 12. Effectiveness. This Agreement shall become effective as of the date hereof on the date (the "Forbearance Effective Date") when the following conditions are satisfied:

(a) the Administrative Agent shall have received from the Borrower, the Subsidiary Guarantors, and the Required Lenders under each Credit Agreement a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Administrative Agent) that such party has signed a counterpart hereof;

(b) the Administrative Agent shall have received certificates of the chief financial officer of the Borrower and the Subsidiary Guarantors certifying that, to the best of his knowledge, the representations and warranties made by the Borrower and the Subsidiary Guarantors pursuant to section 6 of this Agreement are true and correct on and as of the date of this

Agreement; and

(c) the Borrower shall have paid to the Administrative Agent in full the Advance referred to in section 2(f) above.

Section 13. Waiver of Jury Trial. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 14. No Third Party Beneficiaries. This Agreement shall be binding upon and inure to the benefit of the Borrower, the Subsidiary Guarantors, the Administrative Agent and the Lenders and their respective successors and assigns; provided that the Lenders (other than the Participant Lenders and their respective successors and assigns) shall not be bound by the forbearance granted hereunder. No Person other than the parties hereto and any other Lender and their successors and assigns shall have any rights hereunder or be entitled to rely on this Agreement, and all third-party beneficiary rights (other than the rights of any other Lender and its successors and assigns) are hereby expressly disclaimed.

Section 15. Limitation on Assignments. In addition to, and without limiting the requirements set forth in sections 9.04 of the Credit Agreements, each Participant Lender agrees that it will not assign all, or any ratable part, of its Loans, Commitments or other rights or obligations under the Loan Documents to any Person (other than a Participant Lender) unless such Person shall have agreed to be bound by this Agreement (including the forbearance granted hereunder). Each Participant Lender agrees that, notwithstanding anything to the contrary in the Credit Agreements, the Administrative Agent shall be entitled to withhold its consent to, and shall not be required to give effect to, any purported assignment of such Participant Lender's Loans, Commitments or other rights or obligations under the Loan Documents if the conditions set forth in the previous sentence are not satisfied.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

MCLEODUSA INCORPORATED

By: /s/ G. Kenneth Burckhardt

 Name: G. Kenneth Burckhardt
 Title: Executive Vice President
 and Chief Financial Officer

<PAGE>

MCLEODUSA HOLDINGS, INC.

By: /s/ G. Kenneth Burckhardt

Name: G. Kenneth Burckhardt
Title: Executive Vice President and
Chief Financial Officer

<PAGE>

MCLEODUSA TELECOMMUNICATIONS SERVICES, INC.

By: /s/ G. Kenneth Burckhardt

Name: G. Kenneth Burckhardt
Title: Executive Vice President and
Chief Financial Officer

<PAGE>

MCLEODUSA NETWORK SERVICES, INC.

By: /s/ G. Kenneth Burckhardt

Name: G. Kenneth Burckhardt
Title: Executive Vice President and
Chief Financial Officer

<PAGE>

MCLEODUSA PURCHASING L.L.C.

By: /s/ G. Kenneth Burckhardt

Name: G. Kenneth Burckhardt
Title: Executive Vice President and
Chief Financial Officer

<PAGE>

MCLEODUSA INFORMATION SERVICES, INC.

By: /s/ G. Kenneth Burckhardt

Name: G. Kenneth Burckhardt
Title: Executive Vice President and
Chief Financial Officer

<PAGE>

JPMORGAN CHASE BANK, N.A., as Administrative

Agent

By: /s/ Susan E. Atkins

Name: Susan E. Atkins
Title: Managing Director

JPMorgan Chase Bank NA

Print Name of Lender

By: /s/ Susan E. Atkins

Name: Susan E. Atkins
Title: Managing Director

Credit Suisse First Boston

Print Name of Lender

By: /s/ Didier Siffer

Name: Didier Siffer
Title: Director

Credit Suisse First Boston

Print Name of Lender

By: /s/ Michael A. Criscito

Name: Michael A. Criscito
Title: Managing Director

Bayerische Hypo-und Vereinsbank AG

Print Name of Lender

By: /s/ Kimberly Sousa

Name: Kimberly Sousa
Title: Director

Bayerische Hypo-und Vereinsbank AG

Print Name of Lender

By: /s/ Salvatore Esposito

Name: Salvatore Esposito
Title: Managing Director

Banc of America Strategic Solutions, Inc.

Print Name of Lender

By: /s/ Thomas Biaggi

Name: Thomas Biaggi
Title: Senior Vice President

Commonwealth of Massachusetts Pension
Reserves Investment Managemetn Board

Pension Investment Committee of General
Motors for General Motors Employees
Domestic Group Penion Trust

Fidelity Management Trust Company, as
Investment Advisor

Print Name of Lender

By: /s/ Geoffrey Johnson

Name: Geoffrey Johnson
Title: Vice President

Fidelity Advisor Series I: Fidelity Advisor
Leveraged Company Stock Fund

Fidelity Securities Fund: Fidelity Leveraged
Company Stock Fund

Fidelity Advisor Series II: Fidelity Advisor
High Income Advantage Fund

Print Name of Lender

By: /s/ John H. Costello

Name: John H. Costello
Title: Assistant Treasurer

Jefferies & Co., Inc.

Print Name of Lender

By: /s/ Harrison A. Bubrosky

Name: Harrison A. Bubrosky
Title: Executive Vice President

Banc of America Securities

LLC as Agent for Bank of
America, N.A.

Print Name of Lender

By: /s/ Toby Gilbert

Name: Toby Gilbert
Title: Associate

<PAGE>

Theodore J. Forstmann

Print Name of Lender

By: /s/ Theodore J. Forstmann

Name:
Title:

<PAGE>

SCHEDULE I

Subsidiary Guarantors

1. McLeodUSA Holdings, Inc.
2. McLeodUSA Telecommunications Services, Inc.
3. McLeodUSA Network Services, Inc.
4. McLeodUSA Purchasing L.L.C.
5. McLeodUSA Information Services, Inc.

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SCHEDULE II

SPECIFIED DEFAULTS

1. Section 2.05(j). Any Default or Event of Default occurring under either Credit Agreement as a result of the failure by the Borrower to deposit cash in an account with the Administrative Agent pursuant to Section 2.05(j) of such Credit Agreement.

2. Section 2.09. Any Default or Event of Default occurring under the 2000 Credit Agreement as a result of the failure by the Borrower to pay to the Administrative Agent for the account of each Lender when due the then unpaid principal amount of each Term Loan of such Lender as provided in Section 2.10 of the 2000 Credit Agreement.
3. Section 2.10. Any Default or Event of Default occurring under the 2000 Credit Agreement as a result of the failure by the Borrower to repay Term Loans on the dates set forth in Section 2.10 of the 2000 Credit Agreement.
4. Section 2.13. (a) Any Default or Event of Default occurring under the 2000 Credit Agreement as a result of the failure by the Borrower to pay accrued interest on the dates and/or in the amounts specified in Section 2.13 of the 2000 Credit Agreement.

(b) Any Default or Event of Default occurring under the 2002 Credit Agreement as a result of the failure by the Borrower to pay on a current cash pay basis that portion of the interest representing the default rate interest required by Section 2.13(c) of the 2002 Credit Agreement.
5. Section 5.01(a). Any Default or Event of Default occurring under either Credit Agreement as a result of the failure by the Borrower to furnish to the Administrative Agent and each Lender financial statements reported on by independent public accountants of nationally recognized standing without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of audit, as required by Section 5.01(a) of such Credit Agreement.
6. Section 5.01(d). Any Default or Event of Default occurring under either Credit Agreement as a result of the failure by the Borrower to furnish to the Administrative Agent and each Lender a certificate of accounting firm as required by Section 5.01(d) of such Credit Agreement.
7. Section 5.01(e). Any Default or Event of Default occurring under either Credit Agreement as a result of the failure by the Borrower to furnish to the Administrative Agent and each Lender a budget as required by Section 5.01(e) of such Credit Agreement.
8. Section 5.02(a). Any Default or Event of Default occurring under either Credit Agreement as a result of the failure by the Borrower to furnish to the Administrative Agent and each Lender prompt written notice of any Specified Default.
9. Section 5.02(c). Any Default or Event of Default occurring under either Credit Agreement as a result of the failure by the Borrower to furnish to the Administrative Agent and each Lender prompt written notice of any development occurring after the Forbearance Effective Date as a consequence of the public disclosure of this Forbearance Agreement or any of the Specified Defaults that results in, or could reasonably be expected to result in, a Material Adverse Effect.
10. Section 6.13. Any Default or Event of Default occurring after the Forbearance Effective Date under either Credit Agreement as a result of the failure by the Borrower to satisfy the requirements of Section 6.13 of such Credit Agreement.
11. Section 6.17. Any Default or Event of Default occurring after the

Forbearance Effective Date under either Credit Agreement as a result of the failure by the Borrower to satisfy the requirements of Section 6.17 of such Credit Agreement.

12. Article VII, clause (a). Any Default or Event of Default occurring under either Credit Agreement of the type described in clause (a) of Article VII of such Credit Agreement arising from the failure to make any payment when due after the Forbearance Effective Date.
13. Article VII, clause (b). (a) Any Default or Event of Default occurring under the 2000 Credit Agreement of the type described in clause (b) of Article VII of such Credit Agreement arising from the failure to pay interest when due after the Forbearance Effective Date.

(b) Any Default or Event of Default occurring under the 2002 Credit Agreement of the type described in clause (b) of Article VII of such Credit Agreement, but solely to the extent of the additional interest required to be paid hereunder and pursuant to Section 2.13(c) of the 2002 Credit Agreement.
14. (a) Any Default or Event of Default occurring under the 2000 Credit Agreement as a result of a Specified Default occurring under the 2002 Credit Agreement, or (b) any Default or Event of Default occurring under the 2002 Credit Agreement as a result of a Specified Default occurring under the 2000 Credit Agreement.
15. Any Default or Event of Default occurring under either Credit Agreement as a result of the failure by any Subsidiary Loan Party to make any required payments under the Subsidiary Guarantee Agreement during the Forbearance Period as a consequence of another Specified Default.

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Exhibit 99.1

[GRAPHIC OMITTED]

McLeodUSA Reports Fourth Quarter and
Total Year 2004 Results

- o Continued strong operational performance but revenue declines
- o Actively pursuing strategic partner or sale of the Company
- o Entered forbearance agreement with Lenders to maintain liquidity
- o Discussions for debt restructuring underway with Lender Committee where recovery for preferred or common stockholders is unlikely

CEDAR RAPIDS, Iowa - March 16, 2005 - McLeodUSA Incorporated (Nasdaq: MCLD),

<http://www.sec.gov/Archives/edgar/data/919943/000095017205000823/0000950172-05-0...> 3/31/2005

one of the nation's largest independent, competitive telecommunications services providers, today reported financial and operating results for the quarter and total year ended December 31, 2004.

Total revenues for the quarter ended December 31, 2004 were \$162.6 million compared to \$168.1 million in the third quarter of 2004 and \$209.5 million in the fourth quarter of 2003. Revenues were down from the third quarter of 2004 due to a reduction in total access lines as new retail sales did not offset existing customer turnover; as well as, lower IRU sales and the impact of normal fourth quarter seasonality on long distance volume.

Gross margin(1) for fourth quarter 2004 was \$75.8 million compared to \$74.0 million in the third quarter of 2004 and \$93.5 million in the fourth quarter of 2003. Gross margin in the fourth quarter included approximately \$6.2 million of rate settlements. Gross margin as a percent of revenue, including the impact of the rate settlements, was 46.6% versus 44.0% in the third quarter of 2004 and 44.6% in the fourth quarter of 2003.

SG&A expenses for the fourth quarter of 2004 were \$61.7 million compared to \$62.5 million in the third quarter of 2004 and \$77.0 million in the fourth quarter of 2003 as the Company continued to realize the benefit of its ongoing expense reduction programs. Adjusted EBITDA1 in the fourth quarter of 2004 was \$14.1 million, including the \$6.2 million of rate settlements, versus \$11.5 million in the third quarter of 2004 and \$16.5 million in the fourth quarter of 2003. Net loss from continuing operations for the quarter was \$(98.1) million, or a loss per common share of \$(0.32), versus \$(352.8) million in the third quarter of 2004, which included a non-cash charge of \$263.1 million related to the impairment of goodwill and intangible assets, and \$(56.6) million in the fourth quarter of 2003.

The Company's strong operational performance continued in the fourth quarter of 2004. The customer satisfaction rating was 93%, billing accuracy was 99.9% and the Company continued to consistently achieve 99.999% network reliability, all in line with Company goals.

Customer platform mix at the end of the fourth quarter 2004 was 71% UNE-L, 4% resale and 25% UNE-P versus 70%, 4% and 26%, respectively, at the end of the third quarter of 2004 and 65%, 5% and 30%, respectively, at the end of the fourth quarter 2003. The Company continued to migrate resale and UNE-P customers to UNE-L and add new customers to the more profitable UNE-L platform. In January 2005, the Company reached an agreement with Qwest Communications for the continued provisioning and service of its UNE-P lines.

Customer line turnover in the fourth quarter was 2.2% versus 2.4% in the third quarter of 2004 and 2.1% in the fourth quarter of 2003. Business customer line turnover was 2.0% in the fourth quarter of 2004 compared to 1.8% in the fourth quarter of 2003.

Total revenues for the year ended December 31, 2004, were \$716.2 million versus \$869.0 million for the year 2003 primarily driven by the federally mandated access rate reductions of \$43.3 million, lower long distance rates and volume of \$40.1 million, and the decline in price and volume of local services of \$48.0 million. Gross margin for the year ending December 31, 2004 was \$322.4 million versus \$370.1 million in 2003 driven by the decline in revenues offset by increased profitability associated with the migration of the business to UNE-L and the favorable impact of the Company's ongoing cost reduction initiatives. Gross margin as a percent of revenue for the year was 45.0% versus 42.6% in 2003. Total SG&A expenses for the year were \$268.4 million and \$312.2 million in 2004 and 2003, respectively, as the Company successfully executed its expense reduction and productivity improvement plans. Adjusted EBITDA was \$54.0 million for year 2004 versus \$57.9 million in 2003. Net loss for the year ended December 31, 2004 was \$(624.5) million

versus \$(295.7) million for the year ended December 31, 2003. Net loss for 2004 included a non-cash impairment charge of \$263.1 million to recognize full impairment of goodwill and a partial impairment of the McLeodUSA trade name.

The Company ended the year with \$50.0 million of cash on hand which included a planned \$20 million withdrawal from the exit credit facility in the fourth quarter. At December 31, 2004 the Company had withdrawn a total of \$100 million and had issued approximately \$8 million of letters of credit against the \$110 million funded exit credit facility. The Company was in compliance with all financial covenants at December 31, 2004. The Company's cash balance was approximately \$45 million as of March 15, 2005.

Pursuit of Strategic Alternatives

As an independent communications services provider, realizing the revenue growth benefits of operational excellence continues to be a challenge for the Company as it competes against large, financially strong competitors with well-known brands. Most recently, the FCC has finalized its unbundling rules and the communications industry consolidation has accelerated. With the recent merger announcements in the industry, the Company believes that the large telecommunications providers will likely become even more aggressive upon the closing of these transactions further challenging the Company's ability to grow revenue.

In response, the Company's Board of Directors has authorized the Company to pursue strategic alternatives. In support of these initiatives, the Company has hired Miller Buckfire Ying & Co., LLC and Gleacher Partners, LLC as its financial advisors. The Company is now actively pursuing a strategic partner or a sale of the Company while also taking steps to maintain future liquidity, including evaluating a capital restructuring to reduce the current debt level enabling the Company to achieve positive cash flow going forward.

The Company believes that its operational excellence combined with a highly trained workforce, state of the art product offerings and expansive network could provide strategic benefits to existing multi-state and regional telecom services providers. In addition, through the extensive cost reduction programs, which have been implemented over the past several years, the Company believes its wholesale product suite offers an attractive alternative to UNE-P providers for local access lines and competitive long distance services.

In the interim, the Company has entered a forbearance agreement with its Lenders with respect to scheduled principal and interest payments on its loans under which the Lenders have agreed not to take any action as a result of non-payment by the Company of approximately \$18.1 million of scheduled principal amortization and interest payments due on or before March 31, 2005 and any related events of default through May 23, 2005.

Financial Restructuring

In light of the revenue outlook and the Company's on-going cash requirements, the Company has also begun discussions related to a capital restructuring with its agent bank and a group of lenders acting as a steering committee for the lenders under its credit facilities. The Company and this committee are in negotiations related to terms of a capital restructuring which includes the conversion of a significant portion of the Company's current outstanding debt into equity. Under such a restructuring, the holders of the Company's current debt would become equity shareholders of the Company with the current holders of the preferred and common stock unlikely to receive any recovery.

There can be no assurance that the Company will be able to reach an agreement

with its lenders regarding a capital restructuring or continued forbearance and covenant relief prior to the end of the initial forbearance period on May 23, 2005. There also can be no assurance that the Company will be able to identify a suitable strategic partner or buyer or reach agreement with any such strategic partner or buyer on terms and conditions acceptable to the Company prior to the end of the initial forbearance period. In the event these alternatives are not available to the Company, it is likely that the Company will elect to forgo making future principal and interest payments to its lenders while it continues to seek an extended forbearance period or permanent capital restructuring from its lenders, or alternatively, the Company could be forced to seek protection from its creditors.

While the Company continues to explore a variety of options with a view toward maximizing value for all of its stakeholders, none of the options presented to date have suggested that there will be any meaningful recovery for the Company's current preferred stock or common stock holders. Accordingly, it is unlikely that holders of the Company's preferred stock or common stock will receive any recovery in a capital restructuring or other strategic transaction.

The Company believes that by not making principal and interest payments on the credit facilities, cash on hand together with cash flows from operations is sufficient to maintain operations in the ordinary course without disruption of services. The Company does not expect that the exploration of the alternatives described above will negatively impact its customers or vendors. The Company remains committed to continuing to provide the highest level of service to its customers and to maintaining its strong supplier relationships.

As a result of the activities described above the Company has delayed the filing of its Form 10-K with the SEC. The Company has completed its internal control review as required under Section 404 of the Sarbanes-Oxley Act and is prepared to issue its Management's Report on Internal Control Over Financial Reporting stating that based on management's assessment, management believes that as of December 31, 2004, the Company's internal control over financial reporting is effective. The Company expects that the Independent Registered Public Accounting Firm Report that will be issued in connection with the filing of Form 10-K will include comments with respect to the Company's ability to continue as a going concern.

Other recent highlights include:

- |X| On January 3, 2005, the Company announced a five-year extension to its contract with the State of Iowa for operation and maintenance of the Iowa Communications Network. McLeodUSA will continue to operate the network from its Operations Center near Des Moines, perform field services and conduct network locate services statewide. This contract extension, expiring December 9, 2009, will result in recurring revenue to McLeodUSA of approximately \$5 million annually.
- |X| On December 20, 2004, McLeodUSA announced that its Preferred Advantage(R) Dynamic Integrated Access, which utilizes the next generation Voice-over-Internet Protocol (VoIP) switching architecture, is now generally available for sale. The service has been initiated in 24 markets to date and the Company's efforts are on track to provide service in 37 markets by April 30, 2005. The McLeodUSA Integrated Access product uses a secure IP network to offer integrated voice and data communications services over a single T-1 facility to customer locations. Customers receive up to 1.544 Mbps Internet access, high quality voice service, 17 local calling features, the convenience of an easy-to-use web-based control panel, and the ability to add or change features and generate reports.

- [X] On December 16, 2004, the Company announced a three-year renewable wholesale agreement with MCI whereby McLeodUSA will enable MCI to provide local telephone services to its residential customers using McLeodUSA facilities. The agreement provides for MCI and McLeodUSA to migrate a minimum of 200,000 local lines onto the McLeodUSA UNE-L network by October 31, 2005.

About McLeodUSA

 McLeodUSA provides integrated communications services, including local services, in 25 Midwest, Southwest, Northwest and Rocky Mountain states. The Company is a facilities-based telecommunications provider with, as of December 31, 2004, 38 ATM switches, 39 voice switches, 699 collocations, 432 DSLAMs and 2,426 employees. As of April 16, 2002, Forstmann Little & Co. became a 58% shareholder in the Company. Visit the Company's Web site at www.mcleodusa.com

(1) Non-GAAP Financial Measures

 To provide further clarification, the Company has begun using the term Adjusted EBITDA as a replacement for EBITDA. Adjusted EBITDA is a non-GAAP financial measure used by management to evaluate the effectiveness of the Company's operating performance and to enhance the comparability between periods. EBITDA is an acronym for earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA, as defined by McLeodUSA, further removes the effects of other income and expense, restructuring adjustments and impairment charges. Management removes the effects of other income and expense, restructuring adjustments and impairment charges from Adjusted EBITDA because it does not believe that such items are representative of the core operating results of the Company's ongoing competitive telecommunications activities. For a facilities-based telecommunications services provider like McLeodUSA with high initial capital investments required in order to gain entry to the industry, management believes that omitting depreciation and amortization from Adjusted EBITDA provides a relevant and useful measure of the Company's core operating performance and enhances comparability between periods. Management believes that non-GAAP measures such as Adjusted EBITDA are commonly reported and used by analysts, investors and other interested parties in the telecommunications industry. Adjusted EBITDA is reconciled to net loss, the most comparable GAAP measure, within the table presented below. McLeodUSA's use of Adjusted EBITDA may not be comparable to similarly titled measures used by other companies in the telecommunications industry. The use of Adjusted EBITDA is not intended to replace measures of financial performance reported in accordance with accounting principles generally accepted in the United States.

<TABLE>
 <CAPTION>

(In millions)	----- Dec 31, 2004 -----	Thre ----- Se -----
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Reconciliation of Adjusted EBITDA:		
Net loss.....	\$	(98.1)
Interest expense.....		13.6
Other nonoperating expense.....		9.2
Restructuring adjustment.....		-

Impairment charge.....	-
Depreciation and amortization.....	89.4

Adjusted EBITDA.....	\$ 14.1
	=====

(In millions)

Dec 31, 2004

Reconciliation of Adjusted EBITDA:

Net loss.....	\$	(624)
Interest expense.....		48
Other nonoperating expense.....		10
Restructuring adjustment.....		(0)
Impairment charge.....		263
Depreciation and amortization.....		356

Adjusted EBITDA.....	\$	54
		=====

</TABLE>

Gross margin is another financial measure that management uses to evaluate operating performance. Gross margin, which is calculated as revenues less cost of service, excludes depreciation and amortization expenses. Cost of service includes expenses directly associated with providing telecommunications services to its customers. Costs classified as cost of service include, among other items, the cost of connecting customers to the McLeodUSA network via leased facilities, the costs paid to third party providers for interconnect access and transport services, the costs of leasing components of network facilities and the cost of fiber related to sales and leases of network facilities. Gross margin is reconciled to net loss, the most comparable GAAP measure, within the table presented below.

<TABLE>

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(In millions)

		Thre
	Dec 31, 2004	Se

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Reconciliation of Gross Margin:

Net loss.....	\$	(98.1)
Interest expense.....		13.6
Other nonoperating expense.....		9.2
Restructuring adjustment.....		-
Impairment charge		-
Depreciation and amortization.....		89.4
Selling, general and administrative.....		61.7

Gross Margin.....	\$	75.8
		=====

(In millions)

Dec 31, 2004

Reconciliation of Gross Margin:		
Net loss.....	\$	(624)
Interest expense.....		48
Other nonoperating expense.....		10
Restructuring adjustment.....		(0)
Impairment charge.....		263
Depreciation and amortization.....		356
Selling, general and administrative.....		268

Gross Margin.....	\$	322
		=====

</TABLE>

Some of the statements in this press release include statements about our future expectations. Statements that are not historical facts are "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act. Such statements may include projections of financial and operational results and goals, including revenue, EBITDA, Adjusted EBITDA, profitability, savings and cash. In some cases, you can identify these so-called "forward-looking statements" by our use of words such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "project," "intend" or "potential" or the negative of those words and other comparable words. These forward-looking statements are subject to known as well as unknown risks and uncertainties that may cause actual results to differ materially from our expectations. Our expectations are based on various factors and assumptions and reflect only our predictions. Factors that could cause actual results to differ materially from the forward-looking statement include technological, regulatory, public policy or other developments in our industry, availability and adequacy of capital resources, current and future economic conditions, the existence of strategic alliances, our ability to generate cash, our ability to implement process and network improvements, our ability to attract and retain customers, our ability to migrate traffic to appropriate platforms and changes in the competitive climate in which we operate. These and other risks are described in more detail in our most recent Annual Report on Form 10-K filed with the SEC. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise.

Contact:

McLeodUSA Incorporated, Cedar Rapids, IA
Investor Contact: Bryce Nemitz
Press Contact: Bruce Tiemann
Phone: (319) 790-7800

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McLeodUSA Incorporated and Subsidiaries
Condensed Consolidated Statements of Operations
(In millions, except per share data)
(UNAUDITED)

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December 31, 2

<u><S></u>	<u><C></u>
Revenue	\$ 162.6
Operating expenses:	
Cost of service (exclusive of depreciation and amortization shown separately below)	86.8
Selling, general and administrative	61.7
Depreciation and amortization	89.4
Restructuring adjustment	-
Total operating expenses	----- 237.9 -----
Operating loss	----- (75.3) -----
Nonoperating (expense) income:	
Interest expense, net of amounts capitalized	(13.6)
Other (expense) income	(9.2)
Total nonoperating (expense) income	----- (22.8) -----
Net loss	----- \$ (98.1) -----
Preferred stock dividend	----- (0.5) -----
Net loss applicable to common shares	----- \$ (98.6) =====
Basic and diluted loss per common share	\$ (0.32) =====
Weighted average common shares outstanding	304.9 =====

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McLeodUSA Incorporated and Subsidiaries
Condensed Consolidated Statements of Operations
(In millions, except per share data)

<TABLE>
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December 31, 2

(unaudited)

<u><S></u>	<u><C></u>
Revenue	\$ 716.2
Operating expenses:	

Cost of service (exclusive of depreciation and amortization shown separately below)	393.8
Selling, general and administrative	268.4
Depreciation and amortization	356.8
Impairment charge	263.1
Restructuring adjustment	(0.2)

Total operating expenses	1,281.9

Operating loss	(565.7)

Nonoperating expense:	
Interest expense, net of amounts capitalized	(48.2)
Other (expense) income	(10.6)

Total nonoperating expense	(58.8)

Net loss	\$ (624.5)

Preferred stock dividend	(2.9)

Net loss applicable to common shares	\$ (627.4)
	=====
Basic and diluted loss per common share	\$ (2.12)
	=====
Weighted average common shares outstanding	296.2
	=====

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McLeodUSA Incorporated and Subsidiaries
Condensed Consolidated Balance Sheets
(In millions)

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December 31, 2004

(unaudited)

ASSETS

Current Assets

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Cash and cash equivalents	\$ 50.0
Trade receivables, net	58.6
Prepaid expense and other	19.9
Assets held for sale	-

Total Current Assets	128.5

Non-current Assets

Property and equipment, net	728.7
Goodwill and other intangibles, net	144.9
Other non-current assets	23.7

Total Non-current Assets	897.3

Total Assets	\$ 1,025.8
	=====
LIABILITIES AND EQUITY	
Current Liabilities	
Current maturities of long-term debt	\$ 49.5
Accounts payable	39.6
Deferred revenue, current portion	6.8
Other current liabilities	95.1
Liabilities related to discontinued operations	-

Total Current Liabilities	191.0

Long-term Liabilities	
Long-term debt, excluding current maturities	727.8
Deferred revenue less current portion	17.0
Other long-term liabilities	61.4

Total Long-term Liabilities	806.2

Redeemable Convertible Preferred Stock	75.4
Stockholders' (Deficiency) Equity	(46.8)

Total Liabilities and Stockholders (Deficiency) Equity	\$ 1,025.8
	=====

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McLeodUSA Incorporated and Subsidiaries
Selected Telecommunications Statistical Data

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	12/31/03	9
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<S>	<C>	
Active central offices	1,724	
Collocations	663	
Switches owned		
CO / LD	44	
ATM / Frame Relay	38	
DSLAMs installed	435	

Total Competitive:			
Customers		395,641	
Access Units / Customer		2.8	
Revenue per Customer / Month			
Local	\$	111.18	\$
Long distance		31.53	
Private line & data		29.95	
		-----	-----
Total	\$	172.66	\$
		=====	=====
Platform Distribution			
Resale		5%	
UNE-M/P		30%	
UNE-L		65%	
		-----	-----
Total		100%	
		=====	=====

* Excluding impact of federally mandated access rate reduction local revenue per c

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-----END PRIVACY-ENHANCED MESSAGE-----