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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION OF IDAHO

IN RE: **PETITION OF MCLEODUSA TELECOMMUNICATIONS SERVICES, INC., FOR ENFORCEMENT OF INTERCONNECTION AGREEMENT WITH QWEST CORPORATION**	**Docket No. MTI-T-05-01** **RESPONSE OF QWEST CORPORATION TO MCLEODUSA TELECOMMUNICATIONS SERVICES, INC. MOTION FOR EMERGENCY RELIEF**

Qwest Corporation, ("Qwest"), by and through its undersigned counsel, responds to the McLeodUSA Telecommunication Services, Inc. ("McLeod") Motion for Emergency Relief ("Motion") pertaining to its Petition for Enforcement of Interconnection Agreement with Qwest Corporation ("Petition"). Both documents were filed with the Idaho Public Utilities Commission ("Commission") on March 30, 2005. Qwest responds that it is not necessary to hear McLeod's petition on an emergency basis, and that any action by the Commission with respect to this matter should be stayed or dismissed.

I. BACKGROUND

This Petition arises from McLeod's deteriorating financial condition, its refusal to provide adequate security, and its failure to live up to its financial obligations to Qwest. The genesis of the dispute arises from an unrelated issue between McLeod and Qwest Communications Corporation ("QCC"), regarding charges and payments pertaining to certain telecommunications traffic. In the course of that dispute, QCC exercised its lawful rights by withholding payments for charges it believes McLeod had incorrectly billed QCC. In retaliation, and even though Qwest was not involved in the McLeod-QCC dispute, McLeod refused to pay certain Qwest charges for Qwest's tariffed services in a current total amount of approximately $2.5 million. McLeod did not state any grounds for withholding such payments from Qwest and, indeed, had no basis for withholding payment for services provisioned by Qwest.

Because of the significant amount of money McLeod wrongfully withheld from Qwest and because of recent public statements McLeod made about its bleak financial situation, Qwest became very concerned about its financial exposure to McLeod in the event McLeod files for protection from its creditors in bankruptcy court. On March 21, 2005, Qwest sent a security deposit demand letter to McLeod pursuant to the parties' interconnection agreement ("ICA") in each state. The Idaho letter is included as Exhibit A to this Response.[1] The Qwest demand letter requested that McLeod provide the specified deposit by April 1 or Qwest would commence the process of pursuing its remedies provided for under the ICA and applicable Idaho law. The requested deposit

[1] QC also sent payment and security demand letters for QC services purchased under the tariff, and QCC also sent payment and security demand letters.

was equal to the estimated billings for two months of McLeod services ordered under the ICA in the state of Idaho.

The dispute between the parties' over payment and Qwest's right to demand a security deposit are the subject of litigation in Colorado and Iowa. On February 24, 2005, QCC filed a complaint against McLeod in Colorado state court concerning the dispute, which has since been removed to federal court. On February 25, 2005, McLeod sued Qwest and QCC in federal court in Iowa.

On March 22, 2005, McLeod filed for a temporary restraining order ("TRO") in federal district court in Iowa seeking to prevent Qwest from demanding security deposits and payments and from terminating services to McLeod throughout the Qwest 14-state region. The court granted McLeod's motion and the TRO, which is in effect until April 12, 2005, states in pertinent part that Qwest and QCC are "restrained from . . . terminating or threatening to terminate services to McLeodUSA or requiring security from McLeodUSA as a precondition to the start or continuation or any such services. . . ."

On March 30, 2005, McLeod filed the instant petition with this Commission requesting similar, if not identical relief to what the District Court previously granted in the TRO. McLeod seeks an order from this Commission that Qwest may not demand a security deposit, suspend order activity, or disconnect services, not just until April 1st, but until after ICA dispute resolution procedures have been completed. Further, McLeod requests this relief on an expedited basis. Qwest responds that McLeod is not entitled to the extraordinary relief that it has requested.

II. DISCUSSION

A. The Commission Does Not Have the Authority to Grant the Relief Requested.

As a threshold matter, it is not apparent that it is within the lawful authority of the Commission to grant the relief requested by McLeod. McLeod essentially seeks an order enjoining Qwest from enforcing a provision of the ICA. Idaho law does not permit the Commission to grant injunctive relief:

> The Utilities Commission cannot exercise a judicial power. The judicial power of this state is vested in the courts, and the legislature cannot vest judicial power in the public Utilities Commission.

Humbird Lumber Company v. Public Utilities Commission, 39 Idaho 505, 513, 228 P. 271, 273 (1924) (citations omitted).

While the relief McLeod seeks is not labeled an injunction, McLeod's Motion for Emergency Relief, amounts to a restraining order. As the *Humbird* case demonstrates, the Idaho court will look to the effect of the relief, and not its label, in determining whether the scope of the Commission's powers has been exceeded:

> While it is not labeled an injunction, and is not in the language usually employed in a restraining order, it is nothing more nor less than a restraining order, an injunction. The power to issue a restraining order is judicial in character, and can only be exercised by the supreme court and the district courts.
>
> *Id.* 39 Idaho at 514, 228 P. at 274.

The Commission has only such powers as has been granted by the legislature,[2] and in this instance the grant of the authority by the legislature does not allow for the exercise of equitable relief. Nor does Idaho Code § 61-501, cited by McLeod, grant this

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2 *Washington Water Power v. Kootenai Environmental Alliance*, 99 Idaho 875, 879, 591 P.2d 122, 126 (1979).

Commission authority to enter injunctive relief. Section 61-501 instead provides a general grant of authority to the Commission to regulate public utilities.

B. No Expedited Relief Is Warranted.

Even if it were in within the authority of the Commission to order the relief requested by McLeod, such demand for expedited relief is premature and unnecessary. First, the TRO issued by the federal court in Iowa remains in effect until April 12, 2005 unless otherwise vacated by action of the court. Qwest has moved the Iowa court to have the Iowa proceeding transferred or stayed under the "first filed" doctrine. Qwest's "first filed" doctrine is essentially that because Qwest filed a claim in Colorado before McLeod filed its claim in Iowa, the proper forum to hear the dispute is the Colorado court. If the Court grants the "first filed" motion, by operation of law, the TRO would be dissolved. However, to protect against this result, the Court obtained assurances from Qwest counsel that if the stay or transfer were granted, the TRO issued by the Iowa Court on March 23, 2005 will remain in effect until modified, extended or rescinded by the District Court in Colorado. Exhibit B to this Response, *Report to Court Regarding Transfer of Action to United States District of Colorado.*

Qwest is bound by the TRO until it expires on April 12, 2005 (if the case is not transferred) or until the Colorado court acts on the TRO if the case is transferred to Colorado. Qwest has not and will not take any action to demand a security deposit or terminate service while the TRO is in place, as the TRO expressly prevents such actions. The TRO specifically prohibits Qwest from "terminating or threatening to terminate services to McLeodUSA" and "requiring security from McLeodUSA as a precondition to the start or continuation of any such service." Exhibit B to McLeod Petition, *Mem. &*

Opinion, at 1. McLeod asks this Commission "to rule that Qwest may not demand a security deposit from McLeod at this time," yet this request is fully covered by the TRO. In light of this, McLeod is protected by the TRO and McLeod has no basis for a claim that Qwest will disconnect service on April 1, 2005 and, therefore no basis for emergency relief. Indeed, based upon this status, McLeod withdrew its request for emergency relief filed with the Colorado Public Utilities Commission. Exhibit C to this Response, *McLeodUSA's Notice of Withdrawal of Its Motion for Emergency Relief.*

Second, even if Qwest were not restrained by the TRO, emergency action by this Commission is not necessary because Qwest fully intends to comply with the ICA and applicable law in enforcing the security deposit. The Idaho letter made this clear in stating that if the security deposit is not received "Qwest *will commence the process* of terminating the Interconnection Agreement, suspending order activity, disconnecting services, and/or any other remedy available to it under law or equity in the State of Idaho." Exhibit A to this Response, *Security Deposit Letter*, p. 1 (emphasis added). In Idaho, in accord with the ICA, Qwest could initiate the process in Section (A)3.13 regarding default, which would require another notice to McLeod, and thirty days for McLeod to cure the default, prior to Qwest seeking legal or equitable relief. It has never been, and is not now Qwest's intent to disconnect service to McLeod on April 1, 2005. Consequently, McLeod's claim that Qwest is going to disconnect services to end users on April 1, 2005 is completely unfounded.

The issue underlying McLeod's request that the Commission step into this dispute in an extraordinary manner is the same the issue that is the subject of the TRO, and which is squarely before the federal court. Furthermore, McLeod has failed to exhaust all of its normal contractual remedies. The Petition prematurely and unnecessarily seeks relief to which McLeod is not entitled.

C. Qwest Has Demanded A Security Deposit In Accord With The ICA.

Qwest does not believe that the Commission needs to rule on the merits of the security deposit demand, since there is no "emergency" to justify the extraordinary relief demanded by McLeod. Nevertheless, on the merits, McLeod is also incorrect. Qwest has unassailable grounds in the ICA to demand a deposit. The Idaho ICA states, "If McLeodUSA has not established satisfactory credit with Qwest or if McLeodUSA is repeatedly delinquent in making its payments, Qwest may require a deposit to be held as security for the payment of charges." ICA Section (A)3.4.3. The evaluation of McLeod's credit status is an ongoing process. As the ICA states, "Qwest will determine McLeodUSA's credit status on previous payment history with Qwest or credit reports such as Dun and Bradstreet." ICA Section (A)3.4.3. The ICA, on its face, provides Qwest the unconditioned right to request such a deposit if McLeod becomes a credit risk.

Under the circumstances described below, Qwest is taking a commonsense approach to protecting its interest in the event of a McLeod bankruptcy. Of primary concern to Qwest (and the triggering event for the security deposit demand) was McLeod's own 8-K filing on March 17, 2005 to the Securities & Exchange Commission wherein McLeod revealed that its revenues sharply declined in the fourth quarter of 2004; it had to seek forbearance from interest payments to its lenders; and it was seeking to sell the company. As the 8-K explained, McLeod's "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." Exhibit D to this Response, p. 3. A press release coincident with the 8-K filing confirmed Qwest's worst fears:

> There can be no assurance that we will be able to reach an agreement with our 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 we will be able to identify a suitable strategic partner or buyer . . . . In the event these alternatives are not available to the Company, it is *likely* that we will elect to forgo making future principal and interest payments to our lenders . . . or, alternatively, the *Company could be forced to seek protection from its creditors*."

Exhibit E to this Response, *McLeod Press Release*, p. 4 (Mar. 16, 2005) (emphasis added).

On the news of the 8-K filing, McLeod's common stock plunged by almost half in one day. In light of McLeod's own statements of its financial risk and the likelihood of insolvency, Qwest—one of McLeod's largest creditors—would have been foolish to not have taken action to protect its interests.

The credit risk posed by McLeod was exacerbated by the fact that McLeod wrongfully withheld nearly $2.5 million for Qwest tariffed services. McLeod argues that Qwest cannot base a security deposit demand under the ICA on the fact that McLeod had failed to pay its Qwest bills because the unpaid Qwest tariff charges were "invoiced separately" from services ordered under the ICA. McLeod Petition, at 6-7. The fact that the unpaid charges were contained in different McLeod accounts is of no consequence, however, since Qwest has the discretion under the ICA to consider McLeod's overall credit profile in determining the security deposit requirement. The non-payment or late payment of any Qwest invoice, not just the ICA accounts would be relevant to any credit profile. Indeed in all commercial relationships, non-payment or late payments to unrelated third party vendors are clearly relevant to a company's credit profile. Here, there is nothing more commercially relevant than McLeod's admitted non-payment of other Qwest bills. To Qwest, in the event of a McLeod insolvency, it will make no difference which invoice was not paid; it will all end up wrongfully depriving Qwest of monies for services that it rendered to McLeod.

For the foregoing reasons, McLeod's request for relief should be denied.

Respectfully submitted this 1st day of April, 2005.

Mary S Hobson

Mary S. Hobson
Stoel Rives LLP

Adam Sherr
Qwest

Attorneys for Qwest Corporation

CERTIFICATE OF SERVICE

I hereby certify that on this 1st day of April, 2005, I served the foregoing **RESPONSE OF QWEST CORPORATION TO MCLEODUSA TELECOMMUNICATIONS SERVICES, INC. MOTION FOR EMERGENCY RELIEF** upon all parties of record in this matter as follows:

Jean Jewell, Secretary Idaho Public Utilities Commission 472 West Washington Street P.O. Box 83720 Boise, Idaho 83720-0074 jjewell@puc.state.id.us	X 	Hand Delivery U. S. Mail Overnight Delivery Facsimile Email
Weldon Stutzman Idaho Public Utilities Commission 472 West Washington Street P.O. Box 83720 Boise, Idaho 83720-0074 wstutzm@puc.state.id.us	X 	Hand Delivery U. S. Mail Overnight Delivery Facsimile Email
William Courter McLeodUSA Telecommunications Services, Inc. 6400 C Street SW Cedar Rapids, IA 52406	 X 	Hand Delivery U. S. Mail Overnight Delivery Facsimile Email
Peter Richardson (ISB #3195) Richardson & O'Leary 515 North 28th Street Boise, ID 83702 Telephone: (208) 938-7901 Facsimile: (208) 938-7904 peter@richardsonandoleary.com *Attorney for McLeod*	 X X	Hand Delivery U. S. Mail Overnight Delivery Facsimile Email
Mark Trinchero (OSB #88322) Davis Wright Tremaine LLP 1300 SW Fifth Avenue – Suite 2300 Portland, OR 97201-5682 Telephone: (503) 241-2300 Facsimile: (503) 778-5299 marktrinchero@dwt.com *Attorney for McLeod*	 X X	Hand Delivery U. S. Mail Overnight Delivery Facsimile Email

Brandi L. Gearhart

Brandi L. Gearhart, PLS
Legal Secretary to Mary S. Hobson
Stoel Rives LLP

EXHIBIT A

to Response of Qwest Corporation to McLeodUSA Telecommunications Services, Inc.'s Motion for Emergency Relief

Qwest
Spirit of Service

Qwest Communications
1801 California Street
Suite 2400
Denver, CO 80202
Telephone: 303-896-1250
Facsimile: 303-896-8887

Steven Q. Hansen
Vice President, Carrier Relations
Worldwide Wholesale Markets

March 21, 2005

Via Overnight Mail
James LeBlanc
Vendor Manager
McLeodUSA Telecom
First Place Tower
15 E. 5th St., Ste. 1500
Tulsa, Oklahoma 74103

Lauraine Harding
Sr. Manager, Interconnect Negotiation
McLeodUSA, Inc.
6400 C Street SW
P.O. Box 3177
Cedar Rapids, IA 52406-1377

RE: Notice of Demand for ID Interconnection Agreement Security Deposit

Dear Sir/Madam,

This letter is to notify you that Qwest Corporation ("Qwest") requires a security deposit to continue the provisioning of services ordered by McLeodUSA Telecommunications Services, Inc. and its CLEC affiliates (collectively, "McLeodUSA") under the Interconnection Agreement between the parties in the State of Idaho. After investigation and review of McLeod's unsatisfactory creditworthiness, recent public statements of McLeodUSA concerning its financial condition, history of late payments, and outstanding balances under the Interconnection Agreement and other agreements, tariffs, or accounts, Qwest demands a deposit, based on two months' average total billings under the Interconnection Agreement in the State of Idaho, to safeguard Qwest's financial interests.

The security deposit shall be in the form of a wire transfer of immediately available funds or an irrevocable letter of credit in the amount of $971,870.45. It must be received in ten (10) calendar days. If the security deposit is not received by 5:00 p.m. Mountain Standard Time on April 1, 2005, Qwest will commence the process of terminating the Interconnection Agreement, suspending order activity, disconnecting services, and/or any other remedy available to it under law or equity in the State of Idaho.

If payment is processed by wire, it should be directed to—
First National Bank of Omaha
c/o Qwest Corporation
Omaha NE 68197
ABA No. 104000016
Qwest Bank Acct. No. 36204689

The deposit will be held for a period of at least twelve (12) months and will be maintained in accordance with the terms of the Interconnection Agreement or applicable law. Additional security may be required, as necessary and allowable under the Interconnection Agreement or applicable law. Should disconnection occur, Qwest will require full payment of all outstanding charges and the posting of the security deposit, and late payment charges will apply in accordance with the Interconnection Agreement. Additionally other charges may apply to have the account re-established. If service order processing is interrupted, all outstanding charges and the posting of the security deposit, including any additional past due amounts are due prior to restoration.

Qwest reserves any and all rights and remedies it has under the Interconnection Agreement and applicable law, including any remedies it may have if McLeod fails to meet the terms set forth above. Qwest also reserves the right to request to increase the deposit or request additional deposits from McLeod under any other agreements between Qwest and McLeod as well as under any other tariffs.

Sincerely,

Steven Hansen /DH

Steven Hansen
Vice President, Carrier Relations

Cc: Ken Burkhardt, CFO

EXHIBIT B

to Response of Qwest Corporation to McLeodUSA Telecommunications Services, Inc.'s Motion for Emergency Relief

IN THE UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF IOWA
CEDAR RAPIDS DIVISION

MCLEOD USA TELECOMMUNICATIONS SERVICES, INC. Plaintiff, v. QWEST CORPORATION AND QWEST COMMUNICATIONS CORPORATION, Defendant.	CASE NO. 1:05-cv-00039-MWB **REPORT TO COURT REGARDING TRANSFER OF ACTION TO UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLORADO**

REPORT TO COURT REGARDING TRANSFER OF ACTION TO UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLORADO

As requested by this Court during the March 30, 2005 telephonic hearing on Defendant Qwest's Motion to Stay or Dismiss, Qwest submits the following Report on its position regarding transfer to the United States District Court for the District of Colorado:

1. Qwest and McLeod are currently subject to the terms of the temporary restraining order ("TRO") issued by this Court on March 23, 2005. This TRO is scheduled to expire on April 12, 2005.

2. Through its Motion to Stay or Dismiss filed with this Court on March 24, 2005, Qwest has requested that this action be dismissed or stayed pursuant to the ruling of the United States District Court for the District of Colorado in Qwest's first-filed parallel action, Civil Action No. 05-WM-506-OES.

3. In the March 30, 2005 telephonic hearing on Qwest's Motion to Stay or Dismiss, this Court requested Qwest's position on the following issue: whether, if this Court decides to

transfer this action to the District of Colorado, Qwest agrees to let the TRO issued by this Court on March 23, 2005 to remain in effect until the TRO is modified, extended, or rescinded by the Colorado court.

4. Through this Report, Qwest agrees that, if this Court stays this action or transfers this action to the District of Colorado, the TRO issued by this Court on March 23, 2005 will remain in effect until the TRO is modified, extended, or rescinded by the District of Colorado. Qwest also requests that, as a condition of this agreement, Plaintiff McLeodUSA be required to cooperate with Qwest and to use its best efforts to ensure that a hearing on the existing TRO is quickly and expeditiously scheduled in the Colorado court.

Respectfully submitted,

/s/ Amy L. Benson

Date: March 30, 2005

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Dennis W. Johnson (PK0002613)
Amy M. Omvig (PK0018363)
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Amy L. Benson (*admitted pro hac vice*)
Timothy R. Beyer (*admitted pro hac vice*)
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ATTORNEYS FOR DEFENDANTS

CERTIFICATE OF SERVICE

The undersigned certifies that on March 30, 2005, the foregoing instrument was electronically filed with the Court using the CM/ECF system and served upon all parties to the above case and/or to each of the attorneys of record herein at their respective addresses disclosed on the pleadings:

By: Electronic Service **AND/OR**
By: _X_ U.S. Mail _____ FAX
____ Hand Delivered _____ Overnight Courier
____ E-mail _____ Other _________

/S/ Amy M. Omvig

COPIES TO:

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ATTORNEYS FOR PLAINTIFF

EXHIBIT C

to Response of Qwest Corporation to McLeodUSA Telecommunications Services, Inc.'s Motion for Emergency Relief

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

Docket No.____________

IN THE MATTER OF THE COMPLAINT OF MCLEODUSA TELECOMMUNICATIONS SERVICES, INC., FOR ENFORCEMENT OF AN INTERCONNECTION AGREEMENT WITH QWEST CORPORATION

MCLEODUSA'S NOTICE OF WITHDRAWAL OF
ITS MOTION FOR EMERGENCY RELIEF

McLeodUSA Telecommunications Services, Inc. ("McLeodUSA"), through its undersigned counsel, hereby provides notice that it may now withdraw its Motion seeking emergency relief from this Commission in connection with its Complaint filed in this docket. However, McLeodUSA also provides notice through this pleading that it will be required to seek separate interim relief from this Commission, albeit on a somewhat less expedited basis.

1. On March 30, 2005, shortly after the Complaint was filed in this docket, a brief telephone conference/hearing was held, attended by the chief Administrative Law Judge, counsel for Qwest, and the undersigned counsel for McLeodUSA. During that telephone call, counsel for Qwest acknowledged that the Temporary Restraining Order issued by the United States District Court for the Northern District of Iowa ("Iowa TRO") prevented Qwest from taking the actions threatened in its March 21, 2005 letter, including the disconnection of Colorado subscribers served by McLeodUSA. Based upon this representation, and conditional upon receipt of written confirmation of these representations, McLeodUSA agreed to file this withdrawal.

2. On the morning of March 31, 2005, an additional telephonic hearing was held between the parties and the chief Administrative Law Judge. During that hearing, Qwest's

counsel reported that Qwest had made assurances to the U.S. District Court Judge presiding over the federal case in Iowa, the Hon. Mark W. Bennett, that Qwest would continue to honor the terms of the Iowa TRO should a decision issue to transfer the Iowa federal case to Colorado, at least until such time as the U.S. District Court in Colorado has an opportunity to rule on a motion for a new temporary restraining order filed by McLeodUSA. Qwest's counsel reiterated that a letter confirming his statements made at the previous afternoon's hearing, as well as this new information, would be forthcoming.

3. The undersigned received the letter from Qwest via fax just before noon today. A copy of that letter is attached hereto as Exhibit A. While the letter accurately reflects the commitments made by Qwest *to the Iowa Court* in connection with its request to transfer the federal case in Iowa to Colorado, it contains no mention of the commitments made orally *to this Commission* by Qwest counsel yesterday afternoon. Most notably, an oral commitment was made that Qwest acknowledged not only the existence of the Iowa TRO, but that the scope of the Iowa TRO prevented Qwest from taking any action to discontinue the taking of orders from McLeodUSA or disconnecting services under the parties' Colorado Interconnection Agreement ("Agreement"). The letter contains no mention of this key commitment.

4. Notwithstanding this deficiency in the written confirmation provided by Qwest, McLeodUSA will nevertheless withdraw its Motion for Emergency Relief. Qwest counsel's verbal commitments were clear, and as he correctly pointed out, those commitments were made by a licensed attorney authorized to bind Qwest to those commitments. While the non-responsiveness of the letter is frustrating, it is inconceivable that Qwest would willfully violate the Iowa TRO and the commitments made to this Commission, and intentionally disconnect service to thousands of Colorado homes and businesses after assuring the Commission it would

not do so.

5. While the need for immediate Commission intervention has been averted, McLeodUSA will need to seek additional relief from this Commission, albeit on a less expedited basis, to ensure that any claim of default made by Qwest can be disputed and resolved under the terms of the agreement. McLeodUSA's concern is that Qwest may claim default relating back to its original security deposit demand, and attempt to circumvent the dispute resolution provisions of the Agreement and this Commission's jurisdiction to protect Colorado subscribers from disconnection without notice. Such a pleading will be filed as soon as practically possible.

Respectfully submitted,

MCLEODUSA TELECOMMUNICATIONS SERVICES, INC.

By:____________________________

Andrew R. Newell (#31121)
KRYS BOYLE, P.C.
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Suite 2700, South Tower
Denver, Colorado 80202
(720) 889-2237
(303) 893-2882
anewell@krysboyle.com

Counsel for McLeodUSA

CERTIFICATE OF SERVICE

I hereby certify that an original and 15 copies of the foregoing **MCLEODUSA'S NOTICE OF WITHDRAWAL OF ITS MOTION FOR EMERGENCY RELIEF** was hand delivered this 31st day of March, 2005, to the following addressee:

Mr. Doug Dean, Director
COLORADO PUBLIC UTILITIES COMMISSION
Logan Tower, Office Level 2
1580 Logan Street
Denver, CO 80203

and a copy of the foregoing was mailed by depositing same in the U.S. Mail, postage prepaid this 31st day of March, 2005, with additional electronic courtesy copies to the chief Administrative Law Judge, as well as to the following addressees:

David McGann, Esq.
Qwest Corporation
1005 17th St., Suite 200
Denver, CO 80202

James Greenwood, Director
Colorado Office of Consumer Counsel
1580 Logan Street, Office Level 7
Denver, CO 80203

Steven Southwick
G. Harris Adams
First Assistant Attorney General
1525 Sherman St.
Denver, CO 80203

Paul Gomez
Gary Witt
Assistant Attorneys General
1525 Sherman St.
Denver, CO 80203

Janet Keller

Exhibit A

Qwest.
Spirit of Service™

Qwest
1005 17th Street, Suite 200
Denver, Colorado 80202
Phone 303.896.3892
Facsimile 303.896.6095
David.McGann@qwest.com

David W. McGann
Corporate Counsel

March 31, 2004

Via Fax: 303-893-2882

Andrew R. Newell
Krys Boyle, PC
600 Seventeenth Street
Suite 2700, South Tower
Denver Colorado, 80202

Re: McLeodUSA v. Qwest

Dear Mr. Newell:

When I returned to the office after our conference call yesterday with Judge Isley, I learned some additional information not known to me at the time of our call.

As I stated on our March 30, 2005 conference call with Judge Isley, the Temporary Restraining Order ("TRO") was entered on March 23, 2005 by Chief Judge Mark W. Bennett of the United States District Court for the Northern District of Iowa in Docket Number C05-0039-MWB. By its terms, the TRO is effective up to and including April 12, 2005.

When we spoke I was not aware of the fact that yesterday afternoon the Court heard argument on a motion filed by Qwest to have the Iowa proceeding transferred or stayed under the "first filed" doctrine. Qwest's "first filed" argument is essentially that because Qwest filed a claim in Colorado before McLeodUSA filed its claim in Iowa, the proper forum to hear the dispute is the Colorado court. If the Court grants the "first filed" motion, by operation of law, the TRO would be dissolved.

To protect against this result, the Court obtained assurance from Qwest's counsel that if the stay or transfer to Colorado were granted, the TRO entered on March 23, 2005 would remain in effect until it is modified, extended, or rescinded by the District of Colorado. Qwest requested that, as a condition of the agreement, McLeodUSA be required to cooperate with Qwest and to use its best efforts to ensure that a hearing on the existing TRO is quickly and expeditiously scheduled in the Colorado court.

The Court indicated that it would rule by the end of the week on Qwest's "first filed" motion, and Qwest expects that if the motion is granted, the Court will set out each of these stipulated conditions in the order, or will make some other accommodation to its ruling to keep the TRO in place until the Colorado court has a hearing.

Based upon our discussions, the representations in this letter and Judge Isley's instructions to you, I understand that you will make a written request to withdraw your motion for emergency relief.

Should you have any questions, do not hesitate to contact me.

Sincerely,

David W. McGann

David W. McGann

cc: Doug Hsiao
Paul McDaniel

EXHIBIT D

to Response of Qwest Corporation to McLeodUSA Telecommunications Services, Inc.'s Motion for Emergency Relief

-----BEGIN PRIVACY-ENHANCED MESSAGE-----
Proc-Type: 2001,MIC-CLEAR
Originator-Name: webmaster@www.sec.gov
Originator-Key-Asymmetric:
MFgwCgYEVQgBAQICAf8DSgAwRwJAW2sNKK9AVtBzYZmr6aGjlWyK3XmZv3dTINen
TWSM7vrzLADbmYQaionwg5sDW3P6oaM5D3tdezXMm7z1T+B+twIDAQAB
MIC-Info: RSA-MD5,RSA,
WP3boucHo3EUMC3345ONGUz9xwLFzyMndFJ1VMjbP9zivshQ3P5QK+xO4/iD7v2h
Zrf0j7I3g94oc3FTp+PwQw==

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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

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FORM TYPE: 8-K
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STREET 1: 6400 C ST SW
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STATE: IA
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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))

<PAGE>

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

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

<PAGE>

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

Pint 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

- Continued strong operational performance but revenue declines
- Actively pursuing strategic partner or sale of the Company
- Entered forbearance agreement with Lenders to maintain liquidity
- 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), 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>

	Thre	
(In millions)	Dec 31, 2004	Se
<S>	<C>	
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>
<CAPTION>

			Thre
(In millions)		Dec 31, 2004	Se
<S>	<C>		
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)

<TABLE>
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Thr

<S>	December 31, 2 <C>
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

</TABLE>

<PAGE>

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

<TABLE>
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<S>	December 31, 2 (unaudited) <C>
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

</TABLE>
<PAGE>

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

<TABLE>
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<S>	<C> December 31, 2004 (unaudited)
ASSETS	
Current Assets	
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

</TABLE>

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McLeodUSA Incorporated and Subsidiaries
Selected Telecommunications Statistical Data

<TABLE>
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<S>	12/31/03 <C>	9
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-----

EXHIBIT E

to Response of Qwest Corporation to McLeodUSA Telecommunications Services, Inc.'s Motion for Emergency Relief

McLeodUSA®

FOR IMMEDIATE RELEASE

McLeodUSA Reports Fourth Quarter and Total Year 2004 Results

- ***Continued strong operational performance but revenue declines***
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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:

- 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.

- On December 20, 2004, McLeodUSA announced that its Preferred Advantage® 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.

- 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.

(In millions)	Three months ended Dec 31, 2004	Three months ended Sept 30, 2004	Three months ended Dec 31, 2003
Reconciliation of Adjusted EBITDA:			
Net loss	$ (98.1)	$ (352.8)	$ (56.6)
Interest expense	13.6	11.9	9.8
Other nonoperating expense	9.2	0.5	(23.1)
Restructuring adjustment	-	-	(0.2)
Impairment charge	-	263.1	-
Depreciation and amortization	89.4	88.8	86.6
Adjusted EBITDA	**$ 14.1**	**$ 11.5**	**$ 16.5**

(In millions)	Year ended Dec 31, 2004	Year ended Dec 31, 2003
Reconciliation of Adjusted EBITDA:		
Net loss	$ (624.5)	$ (295.7)
Interest expense	48.2	35.8
Other nonoperating expense	10.6	(22.5)
Restructuring adjustment	(0.2)	(0.2)
Impairment charge	263.1	-
Depreciation and amortization	356.8	340.5
Adjusted EBITDA	**$ 54.0**	**$ 57.9**

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.

(In millions)	Three months ended Dec 31, 2004	Three months ended Sept 30, 2004	Three months ended Dec 31, 2003
Reconciliation of Gross Margin:			
Net loss	$ (98.1)	$ (352.8)	$ (56.6)
Interest expense	13.6	11.9	9.8
Other nonoperating expense	9.2	0.5	(23.1)
Restructuring adjustment	-	-	(0.2)
Impairment charge	-	263.1	-
Depreciation and amortization	89.4	88.8	86.6
Selling, general and administrative	61.7	62.5	77.0
Gross Margin	**$ 75.8**	**$ 74.0**	**$ 93.5**

(In millions)	Year ended Dec 31, 2004		Year ended Dec 31, 2003	
Reconciliation of Gross Margin:				
Net loss	$	(624.5)	$	(295.7)
Interest expense		48.2		35.8
Other nonoperating expense		10.6		(22.5)
Restructuring adjustment		(0.2)		(0.2)
Impairment charge		263.1		-
Depreciation and amortization		356.8		340.5
Selling, general and administrative		268.4		312.2
Gross Margin	**$**	**322.4**	**$**	**370.1**

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:

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

	Three months ended	
	December 31, 2004	**December 31, 2003**
Revenue	$ 162.6	$ 209.5
Operating expenses:		
Cost of service (exclusive of depreciation and amortization shown separately below)	86.8	116.0
Selling, general and administrative	61.7	77.0
Depreciation and amortization	89.4	86.6
Restructuring adjustment	-	(0.2)
Total operating expenses	237.9	279.4
Operating loss	(75.3)	(69.9)
Nonoperating (expense) income:		
Interest expense, net of amounts capitalized	(13.6)	(9.8)
Other (expense) income	(9.2)	23.1
Total nonoperating (expense) income	(22.8)	13.3
Net loss	$ (98.1)	$ (56.6)
Preferred stock dividend	(0.5)	(1.0)
Net loss applicable to common shares	$ (98.6)	$ (57.6)
Basic and diluted loss per common share	$ (0.32)	$ (0.20)
Weighted average common shares outstanding	304.9	287.7

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

	Year ended	
	December 31, 2004 (unaudited)	December 31, 2003
Revenue	$ 716.2	$ 869.0
Operating expenses:		
Cost of service (exclusive of depreciation and amortization shown separately below)	393.8	498.9
Selling, general and administrative	268.4	312.2
Depreciation and amortization	356.8	340.5
Impairment charge	263.1	-
Restructuring adjustment	(0.2)	(0.2)
Total operating expenses	1,281.9	1,151.4
Operating loss	(565.7)	(282.4)
Nonoperating expense:		
Interest expense, net of amounts capitalized	(48.2)	(35.8)
Other (expense) income	(10.6)	22.5
Total nonoperating expense	(58.8)	(13.3)
Net loss	$ (624.5)	$ (295.7)
Preferred stock dividend	(2.9)	(4.6)
Net loss applicable to common shares	$ (627.4)	$ (300.3)
Basic and diluted loss per common share	$ (2.12)	$ (1.07)
Weighted average common shares outstanding	296.2	280.4

McLeodUSA Incorporated and Subsidiaries

Condensed Consolidated Balance Sheets

(In millions)

	December 31, 2004 (unaudited)	December 31, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$ 50.0	$ 56.5
Trade receivables, net	58.6	65.6
Prepaid expense and other	19.9	22.4
Assets held for sale	-	2.0
Total Current Assets	128.5	146.5
Non-current Assets		
Property and equipment, net	728.7	1,007.7
Goodwill and other intangibles, net	144.9	446.9
Other non-current assets	23.7	29.5
Total Non-current Assets	897.3	1,484.1
Total Assets	$ 1,025.8	$ 1,630.6
LIABILITIES AND EQUITY		
Current Liabilities		
Current maturities of long-term debt	$ 49.5	$ 27.1
Accounts payable	39.6	30.5
Deferred revenue, current portion	6.8	6.9
Other current liabilities	95.1	121.5
Liabilities related to discontinued operations	-	1.1
Total Current Liabilities	191.0	187.1
Long-term Liabilities		
Long-term debt, excluding current maturities	727.8	717.3
Deferred revenue less current portion	17.0	15.1
Other long-term liabilities	61.4	58.3
Total Long-term Liabilities	806.2	790.7
Redeemable Convertible Preferred Stock	75.4	131.1
Stockholders' (Deficiency) Equity	(46.8)	521.7
Total Liabilities and Stockholders' (Deficiency) Equity	$ 1,025.8	$ 1,630.6

McLeodUSA Incorporated and Subsidiaries

Selected Telecommunications Statistical Data

	12/31/03	9/30/04	12/31/04
Active central offices	1,724	1,705	1,683
Collocations	663	696	699
Switches owned			
CO / LD	44	39	39
ATM / Frame Relay	38	38	38
DSLAMs installed	435	435	432
Total Competitive:			
Customers	395,641	356,938	348,258
Access Units / Customer	2.8	2.8	2.8
Revenue per Customer / Month			
Local	$ 111.18	$ 102.04*	$ 99.69
Long distance	31.53	29.80	31.84
Private line & data	29.95	31.70	33.01
Total	$ 172.66	$ 163.54	$ 164.54
Platform Distribution			
Resale	5%	4%	4%
UNE-M/P	30%	26%	25%
UNE-L	65%	70%	71%
Total	100%	100%	100%

* Excluding impact of federally mandated access rate reduction, local revenue per customer was $104.77