MCLEODUSA INC
Form DEF 14A
August 09, 2002

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý
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Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
ý Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

McLeodUSA Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

MCLEODUSA INCORPORATED
MCLEODUSA TECHNOLOGY PARK
6400 C STREET SW, P.O. BOX 3177
CEDAR RAPIDS, IOWA 52406-3177
(319) 790-7800

August 7, 2002

Dear Stockholder:

On behalf of the Board of Directors of McLeodUSA Incorporated, it is my pleasure to invite you to the 2002 Annual Meeting of Stockholders. The Annual Meeting will be held on Friday, September 13, 2002 at 9:30 a.m., local time, at the St. Regis Hotel, Two East 55th Street at Fifth Avenue, New York, New York.

The Annual Meeting has been called for the following purposes:

To elect 5 directors to serve on the Board of Directors;

To ratify the Board of Directors' appointment of Deloitte & Touche LLP as our independent public accountants for the 2002 fiscal year;

To approve the McLeodUSA Incorporated 2002 Omnibus Equity Plan; and

To transact such other business as may properly come before the Annual Meeting or any adjournment thereof;

all as more fully described in the accompanying Proxy Statement.

The Board of Directors has approved the matters being submitted by McLeodUSA for stockholder approval at the Annual Meeting and recommends that stockholders vote "**FOR**" each of the proposals as set forth in the attached Proxy Statement. It is important that your views be represented at the Annual Meeting. Whether or not you plan to attend the Annual Meeting, please complete and mail the enclosed proxy card or vote by telephone or through the Internet as instructed on the proxy card.

Sincerely,

/s/ CHRIS A. DAVIS

Chris A. Davis
Chairman and Chief Executive Officer

McLeodUSA Incorporated
McLeodUSA Technology Park
6400 C Street SW, P.O. Box 3177
Cedar Rapids, Iowa 52406-3177
(319) 790-7800

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON SEPTEMBER 13, 2002

NOTICE IS HEREBY GIVEN that the 2002 Annual Meeting of Stockholders of McLeodUSA Incorporated, a Delaware corporation, will be held on Friday, September 13, 2002 at 9:30 a.m., local time, at the St. Regis Hotel, Two East 55th Street at Fifth Avenue, New York, New York, for the following purposes:

1. To elect five directors to serve on the Board of Directors in the class of directors whose term expires in 2005;

2. To ratify the Board of Directors' appointment of Deloitte & Touche LLP as our independent public accountants for the 2002 fiscal year;

3. To approve the McLeodUSA Incorporated 2002 Omnibus Equity Plan; and

4. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof;

all as more fully described in the accompanying Proxy Statement.

The foregoing items of business are more fully described in the Proxy Statement accompanying this notice.

Pursuant to our Bylaws, the Board of Directors has fixed August 2, 2002 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and at all adjournments thereof. Only stockholders of record at the close of business on that date and eligible to vote will be entitled to vote at the Annual Meeting and any adjournment thereof. A list of all stockholders entitled to vote at the Annual Meeting will be open for examination by any stockholder for any purpose germane to the Annual Meeting during ordinary business hours for a period of ten (10) days before the Annual Meeting at our offices located at 6400 C Street SW, Cedar Rapids, Iowa 52406.

By Order of the Board of Directors

/s/ CHRIS A. DAVIS

Chris A. Davis
Chairman and Chief Executive Officer

Cedar Rapids, Iowa
August 7, 2002

Whether or not you plan to attend the Annual Meeting, please complete and return the enclosed proxy card or vote by telephone or through the Internet as instructed on the proxy card. If you sign and return your proxy card without specifying a choice, your shares will be voted in accordance with the recommendations of the Board of Directors. You may, if you wish, revoke your proxy at any time before it is voted by filing with the Secretary of McLeodUSA a written revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. If you submitted your proxy by telephone or through the Internet, you may also revoke it by submitting a new proxy using the same procedures at a later date.

McLeodUSA Incorporated
McLeodUSA Technology Park
6400 C Street SW, P.O. Box 3177
Cedar Rapids, Iowa 52406-3177

(319) 790-7800

PROXY STATEMENT
2002 ANNUAL MEETING OF STOCKHOLDERS
SEPTEMBER 13, 2002

SOLICITATION, VOTING AND REVOCABILITY OF PROXIES

This Proxy Statement and the accompanying proxy card are furnished to stockholders of McLeodUSA Incorporated entitled to vote in connection with the solicitation by the Board of Directors of McLeodUSA (the "Board of Directors") of proxies to be used at the 2002 Annual Meeting of Stockholders to be held on Friday, September 13, 2002 at 9:30 a.m., local time, at the St. Regis Hotel, Two East 55th Street at Fifth Avenue, New York, New York, and at any adjournment thereof.

If the enclosed proxy card is properly executed by a holder of shares of Class A Common Stock, Class B Common Stock, Class C Common Stock, Series A Preferred Stock or Series B Preferred Stock and returned to McLeodUSA in time to be voted at the Annual Meeting, the shares represented thereby will be voted in accordance with instructions marked thereon. **EXECUTED BUT UNMARKED PROXIES WILL BE VOTED:**

"FOR" PROPOSAL 1 TO ELECT THE NOMINEES FOR DIRECTOR

"FOR" PROPOSAL 2 TO RATIFY THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT PUBLIC ACCOUNTANTS FOR THE 2002 FISCAL YEAR

"FOR" PROPOSAL 3 TO APPROVE THE McLEODUSA INCORPORATED 2002 OMNIBUS EQUITY PLAN

If any other matters properly come before the Annual Meeting, the persons named in the accompanying proxy will vote the shares represented by such proxies on such matters in accordance with their best judgment.

Instead of submitting a signed proxy card, stockholders may submit their proxies by telephone or through the Internet using the control number and instructions on the proxy card. Telephone and Internet proxies must be used in conjunction with, and will be subject to, the information and terms contained on the proxy card. These procedures may not be available to stockholders who hold their shares through a broker, nominee, fiduciary or other custodian.

The presence of a stockholder at the Annual Meeting will not automatically revoke such stockholder's proxy. Stockholders may, however, revoke a proxy at any time before its exercise by filing with the Secretary of McLeodUSA a written revocation or a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person. A stockholder who submits a proxy by telephone or through the Internet may also revoke it by submitting a new proxy using the same procedures at a later date.

The cost of solicitation of proxies will be borne by us. In addition to the solicitation of proxies by mail, our officers, directors or employees also may solicit proxies personally or by telephone or other means. These persons will not be specifically compensated for the solicitation activities. Arrangements also will be made with brokerage houses and other custodians, nominees and fiduciaries for forwarding

solicitation materials to the beneficial owners of shares held of record by these persons, and we will reimburse these persons for their reasonable expenses.

This Proxy Statement, the Notice of Annual Meeting of Stockholders and the proxy card were first mailed to stockholders entitled to vote on or about August 9, 2002.

The close of business on August 2, 2002 has been fixed by the Board of Directors as the Record Date for determination of stockholders entitled to vote at the Annual Meeting. As of the Record Date, our outstanding capital stock entitled to be voted at the Annual Meeting consisted of:

Class of Voting Securities	Number of Shares Outstanding	Number of Votes
Class A Common Stock, par value $0.01 per share	162,499,986 shares*	Each holder of Class A Common Stock is entitled to one vote per share with respect to all matters as to which a vote is taken at the Annual Meeting.
Class B Common Stock, par value $0.01 per share	78,203,135 shares	Each holder of Class B Common Stock is entitled to approximately 0.81454 votes per share with respect to all matters as to which a vote is taken at the Annual Meeting.**
Class C Common Stock, par value $0.01 per share	35,546,879 shares	The holder of Class C Common Stock is entitled to approximately 1.40800 votes per share with respect to all matters as to which a vote is taken at the Annual Meeting.**
2.5% Series A Convertible Preferred Stock, par value $0.01 per share (the "Series A Preferred Stock")	10,000,000 shares	Each holder of Series A Preferred Stock is entitled to four votes per share with respect to all matters as to which a vote is taken at the Annual Meeting.
Series B Preferred Stock, par value $0.01 per share	10 shares	The holder of Series B Preferred Stock is entitled to one vote per share with respect to all matters as to which a vote is taken at the Annual Meeting.

* Includes 18,000,000 shares of Class A Common Stock held in the disputed claims reserve pursuant to the Plan of Reorganization.

** In the aggregate, the holders of the Class B Common Stock and Class C Common Stock shall be entitled to one vote per share with respect to all matters as to which a vote is taken at the Annual Meeting.

Our Bylaws provide that the holders of a *majority* of the voting rights of the shares issued and outstanding and entitled to vote shall constitute a quorum at the Annual Meeting. Stockholders' votes will be tabulated by persons appointed by the Board of Directors to act as inspectors of election for the Annual Meeting.

Assuming the presence of a quorum at the Annual Meeting:

- a *plurality* of the voting rights represented and entitled to vote at the Annual Meeting is required for election of directors nominated at this annual meeting; and

- a *majority* of the voting rights represented and entitled to vote at the Annual Meeting is required to ratify the appointment of Deloitte & Touche LLP as our independent public accountants and to approve the McLeodUSA Incorporated 2002 Omnibus Equity Plan.

Unless otherwise required by applicable law or our Second Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") or Bylaws, the affirmative vote of a *majority* of the

voting rights represented and entitled to vote at the Annual Meeting is required to decide any other matter submitted to a stockholder vote. Our Certificate of Incorporation does not provide for cumulative voting in the election of directors.

Abstentions and broker non-votes will be treated as shares that are present, in person or by proxy, and entitled to vote for purposes of determining the presence of a quorum at the Annual Meeting. Broker non-votes will not be counted as present or entitled to vote on any matter presented at the Annual Meeting. As a result, broker non-votes will not have any effect on Proposal 1, 2 or 3. Abstentions will be counted as shares that are present and entitled to vote on matters presented at the Annual Meeting. As a result, abstentions will not have any effect on Proposal 1 but will have the same effect as a vote *against* Proposal 2 or Proposal 3.

McLeodUSA's Plan of Reorganization

On April 16, 2002 (the "Effective Date"), the First Amended Plan of Reorganization of McLeodUSA Incorporated (the "Plan of Reorganization") became effective and McLeodUSA emerged from Chapter 11 protection. The Plan of Reorganization, which resulted in a change of control of McLeodUSA, effected the following changes to McLeodUSA's capital structure:

- The elimination of the approximately $3 billion of indebtedness represented by the outstanding notes (including the $10\frac{1}{2}$% Senior Discount Notes, $9\frac{1}{4}$% Senior Notes, $8\frac{3}{8}$% Senior Notes, $9\frac{1}{2}$% Senior Notes, $8\frac{1}{8}$% Senior Notes, 12% Senior Notes, $11\frac{1}{2}$% Senior Notes and $11\frac{3}{8}$% Senior Notes (collectively, the "Notes"));

- In exchange for the cancellation of the Notes, the distribution to bondholders of their pro rata share of (i) $670 million in cash, (ii) 10,000,000 shares of Series A Preferred Stock and (iii) 5-year warrants to purchase 22,159,091 shares of Class A Common Stock for $30 million in the aggregate;

- The investment by two funds affiliated with Forstmann Little & Co. of $175 million in exchange for (i) 74,027,764 shares of Class A Common Stock, (ii) 5-year warrants to purchase 22,159,091 shares of Class A Common Stock for $30 million in the aggregate and (iii) 10 shares of Series B Preferred Stock;

- The conversion of old Series D Preferred Stock and old Series E Preferred Stock, held by three funds affiliated with Forstmann Little & Co., into 78,203,135 shares of Class B Common Stock and 35,546,879 shares of Class C Common Stock, respectively; and

- The conversion of old Series A preferred stock into 33,696,559 shares of Class A Common Stock.

The Plan of Reorganization also provided for the distribution of a portion of reorganized McLeodUSA's common stock to holders of old common stock. These holders were entitled to share, together with holders of certain securities claims, in the distribution of 54,775,663 shares of reorganized McLeodUSA Class A Common Stock.

Stock issued and outstanding: Under the Plan of Reorganization, the outstanding common stock and preferred stock and all of the Notes were cancelled on the Effective Date. On April 17, 2002, McLeodUSA distributed the cash, new Series A Preferred Stock and warrants to holders of the Notes and distributed the shares of reorganized McLeodUSA common stock to holders of the old preferred stock. No distribution of reorganized McLeodUSA common stock was made to holders of old common stock pending a determination of a disputed claims reserve with respect to any securities claims entitled to share in such distribution. On May 2, 2002, the Bankruptcy Court entered an order establishing a disputed claims reserve at 18,000,000 shares of reorganized McLeodUSA Class A Common Stock pending resolution of the securities claims associated with the putative securities class actions. McLeodUSA then commenced distribution of 36,775,663 shares of reorganized McLeodUSA Class A

Common Stock to record holders of old common stock as of April 5, 2002, the distribution record date under the Plan of Reorganization. Upon the final determination of the amount, if any, of allowed securities claims under the Plan of Reorganization, such holders of old common stock may be entitled to additional distributions of reorganized McLeodUSA Class A Common stock from the 18,000,000 shares held in the disputed claims reserve.

For a more detailed discussion of the Plan of Reorganization, see "Business Recent Transactions" in McLeodUSA's Annual Report on Form 10-K/A. Also, see "STOCK OWNERSHIP BY MANAGEMENT AND MORE THAN 5% STOCKHOLDERS" in this Proxy Statement.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" APPROVAL OF THE PROPOSALS SET FORTH IN THIS PROXY STATEMENT.

ELECTION OF DIRECTORS
(Proposal 1)

The Board of Directors currently consists of fifteen directors, divided into three classes of directors serving staggered three-year terms. At the Annual Meeting, five directors will be elected to serve as Class I directors whose term expires in 2005.

The Board of Directors has nominated the following for director:

Thomas D. Bell, Jr., Edward D. Breen, Dale F. Frey, Stephen C. Gray and Jeong H. Kim, each for a three-year term.

Unless otherwise specified on the proxy card, it is the intention of the persons named in the proxy to vote the shares represented by each properly executed proxy for the election as directors of Messrs. Thomas D. Bell, Jr., Edward D. Breen, Dale F. Frey, Stephen C. Gray and Jeong H. Kim. The Board of Directors believes that such nominees will stand for election and will serve if elected. If any person nominated by the Board of Directors fails to stand for election or is unable to accept election, the proxies will be voted for the election of such other person or persons as the persons named in the accompanying proxy shall determine in accordance with their best judgment. Pursuant to our Certificate of Incorporation, directors are elected by plurality vote.

Our Bylaws provide that the Board of Directors shall consist of not fewer than seven directors nor more than fifteen directors and that the number of directors, within such limits, shall be determined by resolution of the Board of Directors. However, the Bylaws also provide that the Board of Directors will have as members at least (a) five "independent directors," (b) three officers of McLeodUSA selected by the Board of Directors; provided that each such officer shall hold one or more of the following titles: Chairperson; Chief Executive Officer; President; Chief Operating Officer or Chief Financial Officer, (c) the designee of the Series A Preferred Stock, if any (as discussed below), and (d) the designee(s) of the Series B Preferred Stock, if any (as discussed below).

Pursuant to the Amended and Restated Purchase Agreement, dated as of January 30, 2002, as amended (the "Purchase Agreement"), the funds affiliated with Forstmann Little & Co. which hold McLeodUSA stock agreed that during the period from the closing of the Purchase Agreement until the "Standstill Termination Date," such funds will be present, in person or by proxy, at all meetings of our stockholders so that all of their voting securities are counted for purposes of determining the presence of a quorum at such meetings. Such funds also agreed that, during such period, they will vote their McLeodUSA voting securities in all elections of directors such that the persons specified in clauses (a) and (b) above are elected as members to the Board of Directors. The "Standstill Termination Date" means the earlier of the close of business on the day preceding the third anniversary of the closing of the Purchase Agreement or the date Theodore J. Forstmann is removed, without his consent, as the Chairman of the Executive Committee of the Board of Directors.

Series A Preferred Stock Designee

The Certificate of Designation for the Series A Preferred Stock provides that for as long as 3,333,333 shares of Series A Preferred Stock remain outstanding, the holders of Series A Preferred Stock will have the right to designate one member of the Board of Directors.

Series B Preferred Stock Designee(s)

The Certificate of Designation for the Series B Preferred Stock and the Purchase Agreement provide certain funds affiliated with Forstmann Little & Co. (the "Forstmann Funds") with the right to designate members of the Board of Directors and/or non-voting observers to the Board of Directors as follows:

As long as the Forstmann Funds beneficially own at least 40% of the McLeodUSA common stock they received upon consummation of the Plan of Reorganization, the Forstmann Funds will have the right to designate two members of the Board of Directors.

As long as the Forstmann Funds beneficially own less than 40%, but more than 20%, of such shares, the Forstmann Funds will have the right to designate one member of the Board of Directors and one non-voting observer to the Board of Directors.

Once the Forstmann Funds beneficially own 20% or less of such shares, the Forstmann Funds will have no rights to designate members of the Board of Directors; but, as long as the Forstmann Funds beneficially own any of such shares, the Forstmann Funds will have the right to designate two non-voting observers to the Board of Directors.

The Purchase Agreement also provides the other Forstmann Little & Co. funds that beneficially own McLeodUSA securities with the right to designate observers to the Board of Directors as necessary to maintain the venture capital operating company status of their investment in McLeodUSA.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF THE NOMINEES FOR DIRECTORS.

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Information as to Nominees, Continuing Directors and Executive Officers

The following table sets forth information regarding the Board of Directors' five nominees for election as directors, those directors who will continue to serve as such after the Annual Meeting and the Executive Officers.

Nominees:	Age at August 5, 2002	Director Since	Term Expiring	Position(s) Held with the Company
Class I				
Thomas D. Bell, Jr. (2)	52	2001	2005	Director
Edward D. Breen (2)(3)	46	2001	2005	Director
Dale F. Frey (1)(3)	69	2001	2005	Director
Stephen C. Gray (3)	44	1993	2005	President and Director
Jeong H. Kim	41	2002	2005	Director
Continuing Directors:				
Class II				
G. Kenneth Burckhardt	47	2002	2003	Executive Vice President and Chief Financial Officer and Director
James E. Hoffman	49	2000	2003	Director
Farid Suleman (1)	50	2002	2003	Director
Peter V. Ueberroth (2)	64	2001	2003	Director
Juan Villalonga	49	2002	2003	Director
Class III				
Jeffrey D. Benjamin (4)	41	2002	2004	Director
Thomas M. Collins (1)	74	1993	2004	Director
Chris A. Davis (3)	51	2001	2004	Chairman of the Board of Directors and Chief Executive Officer
Theodore J. Forstmann (3)(5)	62	1999	2004	Director and Chairman of the Executive Committee of the Board of Directors
Thomas H. Lister (2)(3)(5)	38	2001	2004	Director

(1) Currently a member of the Audit Committee.

(2) Currently a member of the Compensation Committee.

(3) Currently a member of the Executive Committee.

(4) Selected as a director by the holders of Series A Preferred Stock.

(5) Selected as a director by the holders of Series B Preferred Stock.

The principal occupations for the past five years of each of the five nominees for director, the ten directors whose terms of office will continue after the Annual Meeting and the listed Executive Officers are set forth below.

Chris A. Davis
Chairman of the Board of Directors and Chief Executive Officer

Ms. Davis has been Chairman and Chief Executive Officer since April 2002. She joined McLeodUSA in August 2001 as Chief Operating and Financial Officer, member of the Board of Directors, and member of the Board's Executive Committee. She previously served as Executive Vice President and Chief Financial and Administrative Officer of ONI Systems from May 2000 to August 2001. She was

Executive Vice President and Chief Financial Officer, and a member of the Board of Directors, for Gulfstream Aerospace Corporation from May 1993 to April 2000. Before joining Gulfstream in 1993, Ms. Davis spent 17 years at General Electric Company, where she held various managerial and executive positions. Ms. Davis also serves on the Board of Directors for Cytec Industries Inc., Rockwell Collins, Inc. and Wolverine Tube, Inc.

Stephen C. Gray
President and Director

Mr. Gray has been an officer and a director of McLeodUSA since 1993. Prior to joining McLeodUSA, Mr. Gray served from August 1990 to September 1992 as Vice President of Business Services at MCI, where he was responsible for MCI's local access strategy and for marketing and sales support of the Business Markets division. From February 1988 to August 1990, he served as Senior Vice President of National Accounts and Carrier Services for Telecom*USA, where his responsibilities included sales, marketing, key contract negotiations and strategic acquisitions and combinations. From September 1986 to February 1988 Mr. Gray held a variety of management positions with Williams Telecommunications Company.

G. Kenneth Burckhardt
Executive Vice President and Chief Financial Officer and Director

Mr. Burckhardt was named Executive Vice President and Chief Financial Officer, and also elected to the McLeodUSA Board of Directors, in April 2002. Prior to joining McLeodUSA, Mr. Burckhardt was interim CFO at ONI Systems, a leading optical networking company, from August 2001 to February 2002 and served as Vice President Finance from May 2000 to August 2001. From December 1994 to May 2000, he worked at Gulfstream Aerospace Corporation, most recently as Senior Vice President, Finance. From 1977 to 1994, he held various financial management positions at the General Electric Company.

Thomas D. Bell, Jr.
Director

Mr. Bell has served as a director of McLeodUSA since August 2001. Mr. Bell serves as President and CEO of Cousins Properties Incorporated. From January 2001 to July 2001, Mr. Bell was a Special Limited Partner of Forstmann Little & Co. Mr. Bell is the former Chairman and CEO of Young & Rubicam, a leading global marketing services firm. Earlier in his career, he was President and CEO of Burson-Marsteller, a leading public relations firm, Vice Chairman of Gulfstream Aerospace and Executive Vice President of Ball Corporation. He is a director on the boards of Lincoln Financial Group, Cousins Properties Inc., Regal Entertainment Group and Credit Suisse Group.

Jeffrey D. Benjamin
Director

Mr. Benjamin was named to the McLeodUSA Board of Directors in April 2002. He has been Managing Director of Libra Securities LLC, an investment banking firm, since January 2002. He has been employed by Libra Securities LLC and its predecessors since May 1998, serving in various capacities including Co-Chief Executive Officer. From May 1996 to May 1998, Mr. Benjamin was Managing Director at UBS Securities LLC, an investment banking firm. He is also a director of Chiquita Brands International, Inc. and EXCO Resources, Inc.

Edward D. Breen
Director

Mr. Breen has served as a director of McLeodUSA since August 2001. In July 2002, Mr. Breen was named Chairman and Chief Executive Officer of Tyco International Ltd. Until July 2002, Mr. Breen was President and Chief Operating Officer of Motorola, Inc. Prior to becoming President and Chief

Operating Officer, he had served as Executive Vice President and President of Motorola and President of its Networks Sector, and as President and Chief Executive Officer of General Instrument Corporation from 1997 until it was acquired by Motorola in 2000. Mr. Breen is a director of CommScope, Inc. and Tyco International Ltd.

Thomas M. Collins
Director

Mr. Collins has served as a director of McLeodUSA since April 1993. Mr. Collins is Of Counsel and Past Chairman of Shuttleworth & Ingersoll, P.C., a law firm in Cedar Rapids, Iowa, where he had practiced law since 1952. Mr. Collins was a director of Teleconnect and its successor, Telecom*USA, from 1985 to August 1990. He is also a director of APAC Customer Services, Inc., a provider of customer relationship management services.

Theodore J. Forstmann
Chairman of the Executive Committee of the Board of Directors

Mr. Forstmann was appointed Chairman of the Executive Committee of the McLeodUSA Board of Directors in August 2001. He has served as a director of McLeodUSA since September 1999. Mr. Forstmann is co-founder and senior partner of Forstmann Little & Co., a major New York private equity firm that has invested about $12 billion in 29 acquisitions in the past two decades. Forstmann Little's best-known acquisitions include Gulfstream Aerospace, General Instrument, Ziff-Davis Publishing, Community Health Systems, Yankee Candle, Dr. Pepper and Topps. Mr. Forstmann serves as a director of Community Health Systems, Yankee Candle Company and Citadel Communications.

Dale F. Frey
Director

Mr. Frey has served as a director of McLeodUSA since August 2001. Mr. Frey is retired from General Electric and General Electric Investment Corporation, were he served in various executive positions, including Chairman of the Board and President of GEI and Vice President and Treasurer of GE. In addition, he served in a number of managerial positions in Finance in the Aerospace and Defense, Aircraft Engine and Power Delivery businesses at GE. He also served as Staff Executive-International Finance Operation. Mr. Frey is a veteran of the U.S. Air Force. He is a member of the Boards of Directors of Yankee Candle Company, Aftermarket Technology Corp., Community Health Systems, Praxair, Inc., Roadway Express, Inc., Invemed Catalyst Fund and Vantis Equity Associates. He serves as a member of the Forstmann Little & Co. and Aurora Capital Advisory Committees. Mr. Frey is the Chairman of the Damon Runyon Cancer Research Foundation, a member of the Board of Overseers of New York University Leonard N. Stern School of Business and a trustee of Franklin and Marshall College.

James E. Hoffman
Director

Mr. Hoffman has served as a director of McLeodUSA since May 2000. Mr. Hoffman is Executive Vice President Business Development for Alliant Energy Corporation. Since April 1998, he has been President of Alliant Energy Resources, Inc., a wholly owned subsidiary of Alliant Energy Corporation. He previously served in a number of executive positions at Alliant Energy, including President of Alliant Energy Resources, Inc. Prior to joining Alliant Energy in 1995, Mr. Hoffman served as Chief Information Officer for MCI Communications. He also served as Executive Vice President of Telecom*USA.

Jeong H. Kim
Director

Jeong H. Kim, Ph.D. was elected a director of McLeodUSA in May 2002. He was most recently President of the Optical Networking Group at Lucent Technologies, which he joined in 1998 after Lucent acquired Yurie Systems for $1.1 billion. He founded Yurie Systems, a high-tech communications equipment company in 1992, and served as Chairman and CEO until its acquisition by Lucent. His early career encompassed computer design, satellite systems design and data communications, and included seven years as a Nuclear Submarine Officer in the U.S. Navy. He holds a Ph.D. in Reliability Engineering from the University of Maryland, and a Master's Degree in Technical Management from Johns Hopkins University. Among his service commitments, Kim served on an eight member Presidential Commission on Review of U.S. Intelligence. He currently serves on the boards of In-Q-Tel, Stanford University's Institute for International Studies, the Johns Hopkins University, the University of Maryland College Park Foundation and GIV Global Private Equity.

Thomas H. Lister
Director

Mr. Lister has served as a director of McLeodUSA since November 2001. Mr. Lister became a general partner of Forstmann Little & Co. in 1997, after joining the firm as an associate in 1993. Mr. Lister worked in the Mergers & Acquisitions Department at Morgan Stanley from 1986 to 1989 and again from 1991 to 1993. He is also a director of Community Health Systems.

Farid Suleman
Director

Farid Suleman was elected a director of McLeodUSA in May 2002. He has been the CEO of Citadel Communications and a Special Limited Partner of Forstmann Little & Co. since March 2002. Prior to joining Forstmann Little, he was President and CEO of Infinity Broadcasting Corp., one of the largest radio broadcasting and outdoor advertising companies in America. He was previously Executive Vice President, Chief Financial Officer, Treasurer and Director of Infinity Broadcasting Corp. and also Senior Vice President of CBS Station Group. Suleman is a Director of Westwood One and was also Westwood One's Executive Vice President and Chief Financial Officer.

Peter V. Ueberroth
Director

Mr. Ueberroth has served as a director of McLeodUSA since August 2001. Mr. Ueberroth is the Managing Director of Contrarian Group, Inc., an investment and management company, and is Owner and Co-Chairman of the Pebble Beach Company. He also serves as the Chairman of the Board of Ambassadors International. He previously served as the Commissioner of Major League Baseball and as President of the Los Angeles Olympic Organizing Committee, the private non-profit organization responsible for staging and operating the 1984 Los Angeles Olympic Games. In 1962, Mr. Ueberroth founded First Travel Company, which grew to become the second largest travel business in North America with over 300 wholly owned retail travel agencies when it was sold in 1980. He serves on the boards of Ambassadors International, Bank of America Corporation, The Coca-Cola Company, and Hilton Hotels Corporation.

Juan Villalonga
Director

Juan Villalonga was elected to the McLeodUSA Board of Directors in May 2002. He most recently served as Chairman and CEO of Telefónica Group from 1996 to 2000, and was instrumental in Telefónica's transformation into one of Europe's four largest telecommunications companies and the leading telecommunications company in Latin America. While at Telefónica, Villalonga also created the Internet portal Terra Networks, and led its $12.5 billion acquisition of U.S. portal Lycos. Previously, he headed the activities of Bankers Trust Company in Spain and Portugal, and was CEO of Credit Suisse

First Boston in Spain. Earlier in his career, he was a partner at the international consulting firm McKinsey & Co., where he worked for nine years throughout the United States, Portugal, Spain and Italy. He serves on the Boards of Univision and Banco Espirito Santo Group, and is a member of the Advisory Board of Ben Gurion University.

Corporate Governance and Related Matters

The Board of Directors conducts its business through meetings and through its committees. The Executive Committee of the Board of Directors acts as a nominating committee for selecting candidates to stand for election as directors. Pursuant to our Bylaws, other candidates also may be nominated by any stockholder, provided such other nomination(s), together with the identity of the nominator and the number of shares of McLeodUSA stock owned, directly and indirectly, by the nominator, are submitted in writing to the Secretary of McLeodUSA not less than 60 days and not more than 90 days prior to the anniversary date of the immediately preceding annual meeting of stockholders, provided, however, that in the event that the annual meeting is called for a date that is not within thirty days before or after such anniversary date, notice by the stockholder must be received not later than the close of business on the tenth day following the day on which the notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs. No such nominations have been received as of the date of this Proxy Statement in connection with the Annual Meeting.

The Board of Directors has established an Executive Committee, an Audit Committee and a Compensation Committee.

The Executive Committee. The Executive Committee was established in July 2000 and its current members are Ms. Davis and Messrs. Gray, Breen, Forstmann, Frey and Lister. The Executive Committee has and may exercise all of the powers and authority of the Board of Directors in the management of the business and affairs of McLeodUSA to the fullest extent permitted by applicable law. Mr. Forstmann serves as the Chairman of the Executive Committee.

The Audit Committee. The Audit Committee, among other things, recommends the firm to be appointed as independent public accountants to audit our financial statements, discusses the scope and results of the audit with the independent public accountants, reviews with management and the independent public accountants our interim and year-end operating results, considers the adequacy of our internal accounting controls and audit procedures and reviews the non-audit services to be performed by the independent public accountants. The current members of the Audit Committee are Messrs. Collins, Frey and Suleman. The Board of Directors amended and restated in December 2000 the written charter for the Audit Committee. In addition, the Board of Directors has determined that the members of the Audit Committee meet the independence requirements of the National Association of Securities Dealers. Mr. Frey serves as Chairman of the Audit Committee.

The Compensation Committee. The Compensation Committee reviews and recommends the compensation arrangements for management and administers McLeodUSA's stock option plan. The current members of the Compensation Committee are Messrs. Bell, Breen, Lister and Ueberroth. Mr. Breen serves as Chairman of the Compensation Committee.

During the fiscal year ended December 31, 2001, the Board of Directors met or acted by unanimous consent 12 times. During the same period, the Executive Committee met 9 times, the Audit Committee met 5 times and the Compensation Committee met 9 times. During the fiscal year ended December 31, 2001, no director attended fewer than 75% of the total of all meetings of the Board of Directors and any committee on which the director served.

Directors' Compensation

Our directors who are also employees receive no directors' fees. Non-employee directors receive directors' fees of $1,000 for each Board and committee meeting attended in person and $500 for each

Board and committee meeting attended by telephone. In addition, directors are reimbursed for reasonable out-of-pocket travel expenditures incurred in connection with their attendance at Board and committee meetings.

During fiscal year 2001, directors were also eligible to receive grants of stock options under the Directors Stock Option Plan (the "Directors' Plan") and the 1996 Employee Stock Option Plan, as amended. Under the Directors' Plan, an aggregate of 6,600,000 shares of Class A common stock, par value $0.01 per share (the "Old Class A common stock") were reserved for purchase pursuant to option grants to McLeodUSA directors who are not officers or employees. Options for 4,810,000 shares of Old Class A common stock had been granted under the Directors' Plan and options to purchase 2,613,750 shares of Old Class A common stock had been exercised as of December 31, 2001. Each eligible director who commenced service as a director was granted an initial option to purchase up to 120,000 shares of Old Class A common stock under the Directors' Plan. Each eligible director was also granted additional options to purchase up to 60,000 shares of Old Class A common stock after each subsequent annual meeting of stockholders under the Directors' Plan. In addition, eligible directors could be granted such discretionary options under the Directors' Plan, in addition to the foregoing options, as determined by the Board; provided that no more than an aggregate of 600,000 shares of Old Class A common stock could be granted as discretionary options. On April 16, 2002, the effective date of the Plan of Reorganization, all outstanding options under the Directors' Plan were cancelled and the Directors' Plan was replaced by the McLeodUSA Incorporated 2002 Omnibus Equity Plan (the "Omnibus Plan").

As of December 31, 2001, 1,770,000 options had been granted to non-employee directors under the McLeodUSA 1996 Employee Stock Option Plan, none of which had been exercised. On April 16, 2002, the effective date of the Plan of Reorganization, all outstanding options under the 1996 Employee Stock Option Plan were cancelled, and the 1996 Employee Stock Option Plan was replaced by the Omnibus Plan.

Other than the compensation described above, none of the directors received any compensation from McLeodUSA in 2001 in connection with their service as directors. Effective as of April 16, 2002 (the effective date of the Plan of Reorganization), directors became eligible to receive awards under the Omnibus Plan, which was adopted in accordance with the Plan of Reorganization. See "APPROVAL OF THE MCLEODUSA INCORPORATED 2002 OMNIBUS EQUITY PLAN (Proposal 3) Description of the McLeodUSA Incorporated 2002 Omnibus Equity Plan."

Pursuant to the Omnibus Plan, the Compensation Committee adopted on April 18, 2002 (and the Board of Directors ratified and confirmed on April 24, 2002) a general policy for granting stock options to directors. The policy provides that non-employee directors will be granted, on a one-time basis, options to acquire 300,000 shares, plus an additional 100,000 options for each committee on which a director serves, plus an additional 325,000 options for serving as chair of the Executive Committee, and upon resignation such directors will have one year to exercise any options which are vested at the time of resignation. The policy also provides that stock options for such directors serving at the time of establishment of the policy will vest 25% on the date of grant and 25% per year for the following three years and that stock options for such directors subsequently elected or appointed would vest one-third on each of the first three years following the date of grant and, in either case, the options would vest fully upon a change of control. The non-employee directors serving on April 18, 2002 were granted options in accordance with the policy, including Messrs. Hesse and Claudy who have each subsequently resigned. On April 18, 2002, Mr. McLeod and Mr. Wilkens were granted options to acquire 500,000 shares and 300,000 shares, respectively, which vested 25% upon date of grant and 25% per year for the following three years and which provided that such options would fully vest upon retirement and that such options could be exercised for a period of one-year following either retirement or the end of the term of their current employment agreement, whichever is later. Mr. McLeod and Mr. Wilkens have each subsequently retired.

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EXECUTIVE COMPENSATION AND OTHER INFORMATION

Executive Compensation

The following table sets forth a summary of the compensation paid during 2001, 2000 and 1999 for services rendered in all capacities to McLeodUSA and its subsidiaries by certain of our past and present executive officers (namely, "Named Executive Officers"):

		Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation**	**Underlying Options (1)**	**All Other Compensation (2)**
Clark E. McLeod(12)	2001	$ 400,000	$ 82,350(11)	$		$ 1,883,400(3)
Chairman, Director	2000	397,692	166,651		3,000,000(10)	1,883,400(3)
	1999	250,000	142,000			1,883,200(3)
Stephen C. Gray	2001	$ 400,000	$ 82,350(11)	8,954		3,400
President, Chief Executive	2000	397,692	166,651		6,000,000(10)	3,400

		Annual Compensation			Long-Term Compensation Awards Underlying Options (1)	
Officer and Director	1999	250,000	142,000		3,000,000	3,200
Chris A. Davis(4) Chairman and Chief Executive Officer and Director	2001 2000 1999	153,846	8,186,398	3,014	6,000,000	2,207,325(6)
Roy A. Wilkens(5) President and Chief Executive Officer Network Services and Director	2001 2000 1999	206,000 393,846	77,557(11) 117,736		 6,000,000(10) 180,000	
Arthur L. Christoffersen(13) President and Chief Executive Officer Publishing Services	2001 2000 1999	200,000 200,000 180,000	394,500(9) 90,000 110,000	3,900 4,050 20,035	50,000 390,000 450,000	3,400 3,400 3,200
Randall Rings(14) Group Vice President Law and Secretary	2001 2000 1999	170,000 160,000 116,538	284,376(9) 209,634 61,728		40,000 300,000 720,000	3,400 3,217 3,200
Blake O. Fisher, Jr.(15) Group Vice President Planning and Development	2001 2000 1999	180,000 179,999 175,000	302,214(9) 236,288 102,680		30,000 120,000 360,000	3,474(7) 3,400 342,690(8)

(1) On April 16, 2002, the effective date of the Plan of Reorganization, all outstanding options were cancelled.

(2) Unless otherwise indicated, all other compensation represents matching contributions made by McLeodUSA to the McLeodUSA Incorporated 401(k) Plan on behalf of the applicable individual.

(3) For 2000 and 1999, includes $1,880,000 of premiums paid on split dollar life insurance policies for the benefit of the McLeod Family 1998 Special Trust. In January 2002, McLeodUSA and the trustees of The McLeod Family 1998 Special Trust entered into a modification and restatement of the split dollar agreement pursuant to which the trustees made a payment to McLeodUSA in the amount of $2,700,000 in exchange for the release of McLeodUSA's collateral assignments on the existing policies and for the agreement of McLeodUSA to make a single further premium payment of $1,880,000 (the payment otherwise due in December 2001 under the split dollar agreement, as modified) to acquire additional insurance on the lives of Clark and Mary McLeod. As a result of this modification and restatement, McLeodUSA was fully released from its obligations to make future payments under such agreement. For additional information, see "Certain Relationships and Related Transactions."

(4) Ms. Davis joined McLeodUSA as Chief Operating and Financial Officer and Director in August 2001 and became Chairman and Chief Executive Officer on April 24, 2002.

(5) Mr. Wilkens resigned as an officer in the fourth quarter of 2001 and as a director in May 2002.

(6)

Includes $2,207,325 paid by McLeodUSA to Ms. Davis for reimbursement of relocation expenses and a gross-up payment for associated taxes (including proceeds and gross-up related to the sale of Ms. Davis' home).

(7)
Includes $74 paid by McLeodUSA to Mr. Fisher for reimbursement of relocation expenses.

(8)
Includes $339,490 paid by McLeodUSA to Mr. Fisher for reimbursement of relocation expenses.

(9)
Includes the fair market value (utilizing the Black-Scholes valuation method) of stock options issued in lieu of a cash bonus on May 7, 2001 in the amount of $294,500 for Mr. Christoffersen, $250,325 for Mr. Rings and $265,050 for Mr. Fisher. These options were granted with an exercise price of $6.03, which was the closing price of the Old Class A common stock on the day prior to the grant. On the effective date of the Plan of Reorganization, all options granted during 2001 were cancelled.

(10)
These options were cancelled during 2001.

(11)
Amount paid in 2001 pursuant to bonus plan in effect for performance during 2000. No cash bonus was paid for performance during 2001.

(12)
Mr. McLeod retired from his position as Chairman and Director in April 2002.

(13)
In April 2002, upon the sale of the publishing business, Mr. Christoffersen ended his service as an officer of McLeodUSA.

(14)
Mr. Rings resigned as an officer effective July 20, 2002.

(15)
Mr. Fisher resigned as an officer effective May 15, 2002.

Stock Option Grants in the 2001 Fiscal Year

The following table sets forth information relating to stock options granted during the fiscal year ended December 31, 2001 to the Named Executive Officers. On April 16, 2002, the effective date of the Plan of Reorganization, all options granted during 2001 were cancelled.

						Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	**Number of Securities Underlying Options Granted (5)**	**Percent of Total Options Granted to Employees in Fiscal Year**	**Exercise Price**	**Grant Date**	**Expiration Date**	**5%**	**10%**
Clark E. McLeod(6)							
Stephen C. Gray							
Chris A. Davis	6,000,000(4)	24.78%	$ 1.12	August 29, 2001	August 29, 2011	$ 4,226,172	$ 10,709,949
Roy A. Wilkens(3)							
Arthur L.	50,000(1)	.21%	$ 6.03	May 7, 2001	May 7, 2011	$ 189,612	$ 480,513
Christoffersen(7)	50,000(2)	..21%	$ 6.03	May 7, 2001	May 7, 2011	$ 189,612	$ 480,513
Randall Rings(8)	40,000(1)	.17%	$ 6.03	May 7, 2001	May 7, 2011	$ 151,689	$ 384,411
	42,500(2)	..18%	$ 6.03	May 7, 2001	May 7, 2011	$ 161,170	$ 408,436
Blake O. Fisher, Jr.(9)	30,000(1)	.12%	$ 6.03	May 7, 2001	May 7, 2011	$ 113,767	$ 288,308
	45,000(2)	..19%	$ 6.03	May 7, 2001	May 7, 2011	$ 170,651	$ 432,462

(1)

These options vested according to the following schedule: 25% per year for four years commencing on January 2, 2002.

(2)
These options vested according to the following schedule: 25% on July 1, 2001, 25% on October 1, 2001 and 50% on January 1, 2002.

(3)
Mr. Wilkens resigned as an officer in the fourth quarter of 2001 and as a director in May 2002.

(4)
These options vested according to the following schedule: 25% immediately and 25% per year for the next three years.

(5)
On the effective date of the Plan of Reorganization, all options granted during 2001 were cancelled.

(6)
Mr. McLeod retired from his position as Chairman and Director in April 2002.

(7)
In April 2002, upon the sale of the publishing business, Mr. Christoffersen ended his service as an officer of McLeodUSA.

(8)
Mr. Rings resigned as an officer effective July 20, 2002.

(9)
Mr. Fisher resigned as an officer effective May 15, 2002.

Fiscal Year-end Option Values

The following table sets forth information for each Named Executive Officer concerning the exercise of options during fiscal year 2001, the number of securities underlying unexercised options at the 2001 year-end and the year-end value of all unexercised in-the-money options held by such individuals. On April 16, 2002, the effective date of the Plan of Reorganization, all outstanding options were cancelled.

			Number of Unexercised Options at Fiscal Year-end(4)		Value of Unexercised In-the-Money Options at Fiscal Year-End(1)	
Name	**Shares Acquired on Exercise**	**Value Realized**	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Clark E. McLeod (5)		$	956,002	331,998	$	$
Stephen C. Gray		$	2,454,762	3,246,750	$ 36,222	$
Chris A. Davis (2)		$	1,500,000	4,500,000	$	$
Roy A. Wilkens (3)		$	162,249	90,000	$	$
Arthur L. Christoffersen (6)		$	572,001	1,068,000	$	$
Randall Rings(7)		$	182,447	1,070,749	$	$
Blake O. Fisher, Jr.(8)		$	1,049,054	694,998	$	$

(1)
Represents the difference between the exercise price and the closing price of McLeodUSA Class A common stock on the NASDAQ National Market on December 31, 2001.

(2)
Ms. Davis did not join McLeodUSA or receive an option grant until August 2001.

(3)
Mr. Wilkens resigned as an officer in the fourth quarter of 2001 and as a director in May 2002.

(4)
On the effective date of the Plan of Reorganization, all outstanding options were cancelled.

(5) Mr. McLeod retired from his position as Chairman and Director in April 2002.

(6) In April 2002, upon the sale of the publishing business, Mr. Christoffersen ended his service as an officer of McLeodUSA.

(7) Mr. Rings resigned as an officer effective July 20, 2002.

(8) Mr. Fisher resigned as an officer effective May 15, 2002.

Bonus Plan and Other Benefit Programs

McLeodUSA has a contributory retirement plan (the "401(k) Plan") for its employees (including executive officers) age 21 and over with at least three months of service with McLeodUSA. The 401(k) Plan provides that each participant may contribute up to 50% (the limit was 15% for 2001 and prior years) of his or her salary (not to exceed the annual statutory limit). During 2001, McLeodUSA made matching contributions to each participant's account equal to 50% of the participant's contribution up to 2% of the participant's annual compensation. In addition, McLeodUSA may make a discretionary annual match of up to another 50% of the participant's contribution up to 2% of the participant's annual compensation. Thus, the total matching contribution can be up to 4% of the participant's annual compensation. Although McLeodUSA makes such matching contributions in McLeodUSA common stock, employees are otherwise prohibited from purchasing McLeodUSA common stock with their own contributions to the 401(k) Plan. No discretionary annual match was made for 2001. In addition, as of December 29, 2001, McLeodUSA ceased making the 50% matching contributions.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is composed entirely of outside directors. The current members of the Compensation Committee are Thomas D. Bell, Jr., Edward D. Breen, Thomas H. Lister and Peter V. Ueberroth. During 2000 and 2001, the Compensation Committee consisted of Paul D. Rhines (January 1, 2000 through July 31, 2001), Thomas M. Collins (January 1, 2000 through October 23, 2001), Lee Liu (January 1, 2000 through May 31, 2000) and Erskine Bowles (May 31, 2000 through October 4, 2001). Mr. Liu retired from the Board of Directors on May 31, 2000. Mr. Rhines resigned from the Board of Directors effective July 31, 2001. Mr. Bowles resigned from the Board of Directors effective October 4, 2001 to seek public office as a United States Senator representing North Carolina.

During 2001 and for the six months ended June 30, 2002, McLeodUSA paid 2060 Partnership, L.P. $349,517 and $209,443, respectively, for the rental of office and parking spaces in Cedar Rapids, Iowa. 2001 Development Company, an Iowa corporation, is the general partner and 80% owner of 2060 Partnership, L.P. Alliant Energy and McLeodUSA own 54.56% and 3.03%, respectively of the outstanding stock of 2001 Development Company. The directors and officers of 2001 Development Company include Mr. Collins and James E. Hoffman, directors of McLeodUSA, and Clark E. McLeod, a director and executive officer of McLeodUSA until his retirement in April 2002. Mr. Lee Liu, a former Compensation Committee member, was Chairman of Alliant Energy until April 2000. Mr. Hoffman, a director of McLeodUSA, is Executive Vice President of Alliant Energy.

Mr. Collins is also a director of APAC Customer Services, Inc. ("APAC"). In March 2000, McLeodUSA entered into an agreement with APAC under which APAC provides sales, marketing and customer care services to McLeodUSA. McLeodUSA paid $1,352,778 in 2001 and $3,366,773 for the six months ended June 30, 2002 to APAC under this agreement. APAC paid McLeodUSA $380,098 in 2001 and $226,472 for the six months ended June 30, 2002 for telecommunications services. Clark E. McLeod, an executive officer and director of McLeodUSA until his retirement in April 2002, is also a director of APAC.

During 2001 and for the six months ended June 30, 2002, McLeodUSA paid $127,698 and $33,812, respectively, to Shuttleworth & Ingersoll, P.C., a law firm in Cedar Rapids, Iowa, for legal services rendered. McLeodUSA provides local and long distance telephone service for Shuttleworth & Ingersoll, P.C., for which McLeodUSA was paid $40,050 in 2001 and $20,498 for the six months ended June 30, 2002. Thomas M. Collins is Of Counsel at Shuttleworth & Ingersoll, P.C.

For a description of certain other transactions, see "Certain Relationships and Related Transactions."

Employment, Confidentiality and Non-competition Contracts

McLeodUSA entered into executive employment agreements with Clark E. McLeod, Stephen C. Gray and Roy A. Wilkens on January 7, 2000 and with Chris A. Davis on August 1, 2001 (collectively, the "Executives"). These agreements set forth the terms and conditions for the respective employment of the Executives. The significant terms of the agreements are as follows:

Term. The term of each of the agreements with Messrs. McLeod, Gray and Wilkens runs until January 7, 2003. The term of the agreement with Ms. Davis runs until August 13, 2004.

Salary and Bonus Compensation. Each of the Executives received an initial base annual salary of $400,000, subject to a potential increase each year based on competitive survey data. In addition, each Executive is entitled to bonus opportunities set at not less than 50% of the base annual salary. However, by mutual agreement, Mr. Wilkens' salary was reduced during 2001 to $12,000 annually.

Equity Compensation. In connection with the agreements, Mr. McLeod was granted an option to purchase 3,000,000 shares of Old Class A common stock and each of Messrs. Gray and Wilkens were granted an option to purchase 6,000,000 shares of Old Class A common stock each with an exercise price of $17.5208 per share. Ms. Davis was granted an option to purchase 6,000,000 shares of Old Class A common stock with an exercise price of $1.12 per share. Each option has an option exercise price equal to the fair market value of the common stock on the date of the grant which is in accordance with the McLeodUSA 1996 Employee Stock Option Plan. Each of the options granted to Messrs. McLeod, Gray and Wilkens were voluntarily cancelled in 2001. On the effective date of the Plan of Reorganization, all outstanding options were cancelled.

Split Dollar Life Insurance. Pursuant to Mr. McLeod's agreement, McLeodUSA has paid a portion of the premiums on split dollar life insurance premiums for the benefit of The McLeod Family 1998 Special Trust. See "Certain Relationships and Related Transactions."

Other Benefits. Each Executive is eligible to participate in all McLeodUSA standard benefit plans.

Non-competition and Non-solicitation. The Executives are bound by non-competition and non-solicitation covenants for the term of the agreements, and for an additional year in certain circumstances.

Severance Benefits. If an Executive terminates his or her employment for good reason or if McLeodUSA terminates such Executive's employment in breach of the agreement, the Executive is entitled to: (1) full salary through the date of termination and amounts due under any applicable compensation plan; (2) a liquidated damages payment approximately equal to the number of years (including partial years) remaining in the term of the agreement, multiplied by the Executive's salary and bonus on the date of termination; (3) full vesting of stock options granted during the term of the agreement, with such options to remain exercisable for four years; (4) continued health and related benefits for the remainder of the term of the agreement; and (5) a gross-up payment to cover excise tax payments due on the Executive's severance benefits.

Additional Compensation and Relocation Expenses. Ms. Davis was paid a one-time signing bonus of $5,000,000 as compensation for loss of unvested option shares of ONI Systems Corp. ("ONI"). In addition, the agreement provided that to the extent that Ms. Davis exercises any of her vested options to purchase ONI common stock and on the earliest possible date that she can sell shares of ONI common stock, she sells any shares acquired upon such exercises and the gross sale price is less than $24 per share, McLeodUSA shall make an additional payment to her of the difference between the sale price and $24, for up to 162,500 shares. Ms. Davis sold the ONI common stock in accordance with her agreement and was paid $3,186,398 for the difference between the sale price for such stock and $24 for all 162,500 shares that she sold. Pursuant to the terms of her Agreement, McLeodUSA paid $4.3 million to Ms. Davis to purchase her home in Los Gatos, CA, approxi