

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

- - - - -X  
In re: : Chapter 11  
MCLEODUSA INCORPORATED, : Case No. 02-10288 (RB)  
Debtor. : Hrg. Date: 7/8/02 at 1:30 p.m.  
: Obj. Due: 6/17/02 at 4:00 p.m.  
- - - - -X

**NOTICE OF FINAL APPLICATION OF SKADDEN, ARPS, SLATE,  
MEAGHER & FLOM LLP & AFFILIATES FOR COMPENSATION FOR  
SERVICES RENDERED AND REIMBURSEMENT OF EXPENSES AS  
COUNSEL TO THE REORGANIZED DEBTOR FOR THE PERIOD  
FROM JANUARY 31, 2002 THROUGH APRIL 16, 2002**

PLEASE TAKE NOTICE that on May 16, 2002,  
Skadden, Arps, Slate, Meagher & Flom LLP and affiliated  
law offices (collectively, "Skadden, Arps"), counsel for  
McLeodUSA Incorporated, reorganized debtor in the above-  
captioned case ("McLeodUSA") filed the Final Application  
of Skadden, Arps, Slate, Meagher & Flom LLP & Affiliates  
for Compensation for Services Rendered and Reimbursement  
of Expenses as Counsel to the Reorganized Debtor for the  
Period from January 31, 2002 through April 16, 2002 (the  
"Final Application").

PLEASE TAKE FURTHER NOTICE that a copy of the Final Application is available for inspection and copying at the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") or may be obtained by contacting IKON Document Services, 901 Market Street, Wilmington, Delaware 19801 or by telephone at (302) 777-4500.

PLEASE TAKE FURTHER NOTICE that objections, if any, to the Final Application must be made in writing, filed with the United States Bankruptcy Court for the District of Delaware, 824 Market Street, Wilmington, Delaware 19801, and served so as to be received by 4:00 p.m. Eastern time on June 17, 2002 by the undersigned counsel for the Debtor.

PLEASE TAKE FURTHER NOTICE that if no objections to the Final Application are timely filed and served in accordance with the above procedures, the Bankruptcy Court may enter an order granting the relief requested in the Final Application without further notice or a hearing. If an objection is properly filed and served in accordance with the above procedures, a hearing will be held by the Bankruptcy Court on July 8, 2002 at 1:30 p.m. before the Honorable Ronald Barliant, United States Bankruptcy Judge, 824 Market Street, Wilmington,

Delaware 19801. Only those objections made in writing and timely filed and received will be considered by the Bankruptcy Court at such hearing.

Dated: Wilmington, Delaware  
May 16, 2002

Seth E. Jacobson  
SKADDEN, ARPS, SLATE, MEAGHER  
& FLOM (ILLINOIS)  
333 West Wacker Drive  
Chicago, Illinois 60606-1285  
(312) 407-0700

- and -



Gregg M. Galardi (I.D. No. 2991)  
Eric M. Davis (I.D. No. 3621)  
SKADDEN, ARPS, SLATE, MEAGHER  
& FLOM LLP  
One Rodney Square  
P.O. Box 636  
Wilmington, Delaware 19899-0636  
(302) 651-3000

Attorneys for McLeodUSA Incorporated

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LLP & AFFILIATES FOR COMPENSATION FOR SERVICES  
RENDERED AND REIMBURSEMENT OF EXPENSES AS  
COUNSEL TO THE REORGANIZED DEBTOR FOR THE PERIOD  
FROM JANUARY 31, 2002 THROUGH APRIL 16, 2002**

Name of Applicant: Skadden, Arps, Slate, Meagher & Flom LLP  
& Affiliated Law Offices

Authorized to provide professional services to: McLeodUSA Incorporated

Date of retention: effective January 31, 2002

Period for which compensation and  
reimbursement are sought: 01/31/02 - 04/16/02 (the "Entire  
Case Period")

Amount of compensation sought  
as actual, reasonable, and necessary: \$2,725,927.00  
Amount of expense reimbursement sought  
as actual, reasonable, and necessary: \$163,126.59

This is a:    monthly    interim   X   final application.

**TIME SUMMARY TO FINAL FEE APPLICATION OF  
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP  
(THROUGH APRIL 16, 2002)**

<u>NAME</u>	<u>RATE</u>	<u>HOURS</u>	<u>AMOUNT</u>
<b><u>PARTNERS</u></b>			
Eric M. Davis	\$480	47.90	\$22,992.00
John P. Furfaro	610	16.60	10,126.00
Joseph W. Halliday	695	6.60	4,587.00
Seth E. Jacobson	580	89.70	52,026.00
Richard R. Kalikow	675	20.10	13,567.50
Peter C. Krupp	650	244.80	159,120.00
David S. Kurtz	695	73.10	50,804.50
Warren G. Lavey	650	39.00	25,350.00
Maxwell M. Miller	610	19.50	11,895.00
Timothy A. Nelsen	675	366.50	247,387.50
Neal R. Stoll	675	5.00	3,375.00
L. Byron Vance III	495	119.80	59,301.00
Ronald J. Weiss	580	5.90	3,422.00
		<b>1,054.50</b>	<b>\$663,953.50</b>
<b><u>COUNSEL</u></b>			
Frances Kao	470	29.80	14,006.00
David F. Kolin	470	166.30	78,161.00
Suzanne E. Rothwell	470	8.50	3,995.00
Elaine D. Ziff	470	5.80	2,726.00
		<b>210.40</b>	<b>\$98,888.00</b>
<b><u>ASSOCIATES</u></b>			
Michael E. Allen	330	11.20	3,696.00
Robert L. Arrington Jr.	230	55.00	12,650.00
	265	69.60	18,444.00
Patrick S. Belville	415	240.30	99,724.50
Tiffany Tran Boydell	415	24.00	9,960.00

Arthur W. Bresnahan	430	506.70	217,881.00
Wei Chen	230	134.80	31,004.00
Christopher S. Chow	295	368.70	108,766.50
Howard A. Cohen	295	30.60	9,027.00
Catherine Danz	265	8.10	2,146.50
Eric M. Davis	460	318.00	146,280.00
Jamie Edmonson	365	287.60	104,974.00
Robert P. Gal	230	175.90	40,457.00
	265	119.20	31,588.00
Brooks T. Giles	330	241.20	79,596.00
Jeffrey A. Greenblatt	380	153.30	58,254.00
Brian T. Henry	330	23.50	7,755.00
Anna M. Kaczmarek	380	428.00	162,640.00
Jason P. Ketchens	295	19.00	5,605.00
Jean Kim	295	15.00	4,425.00
John W. Lee	295	72.20	21,299.00
Dietrich A. Loos	365	199.50	72,817.50
Stephen J. Lubben	395	17.10	6,754.50
Neil MacDonald	365	404.10	147,496.50
Randi B. May	365	24.00	8,760.00
Lanelle K. Meidan	330	39.40	13,002.00
Steven J. Nagy	380	225.70	85,766.00
Timothy F. Nelson	395	61.80	24,411.00
Bryan L. Olson	230	32.30	7,429.00
	265	3.60	954.00
David S. Prohofsky	330	286.00	94,380.00
Matthew W. Scheflen	330	189.50	62,535.00
Christopher D. Sheaffer	230	66.70	15,341.00
William H. Sultemeier	395	5.20	2,054.00
Diane Vo-Verde	330	17.00	5,610.00
Karen E. Walther	230	47.90	11,017.00
	265	0.20	53.00
Richard C. Witzel, Jr.	365	401.10	146,401.50
		<b>5,323.00</b>	<b>\$1,880,954.50</b>

<b>CLIENT SPECIALISTS</b>			
Jaime Palafox	285	37.90	10,801.50
		<b>37.90</b>	<b>\$10,801.50</b>
<b>PARAPROFESSIONALS</b>			
Ellen L. Altan	135	11.60	1,566.00
Matthew E. Berglind	130	26.50	3,445.00
Marissa A. Bermudez	160	5.90	944.00
Lynn T. Buckley	150	24.30	3,645.00
Oscar J. Buitrago	160	14.70	2,352.00
Kimberley L. Degnan	160	10.30	1,648.00
Martha F. Ellerson	160	182.80	29,248.00
Julie M. Gilchrist	160	7.70	1,232.00
Jennifer Grace-Umoete	160	28.20	4,512.00
Christoper M. Heaney	150	117.60	17,640.00
David L. Hertzog	160	94.30	15,088.00
Wendy K. LaManna	160	5.80	928.00
Kierstin M. Lange	130	7.80	1,014.00
Peter M. Langland-Hassan	130	17.50	2,275.00
John A. Nowicki	160	7.10	1,136.00
Wiley Owens	80	5.70	456.00
Maira Rivera	80	9.40	752.00
Ruth Rosen	160	118.40	18,944.00
Samuel R. Rowley	110	5.20	572.00
Shelley R. Saindon	160	8.30	1,328.00
Mary M. Sherry	160	28.90	4,624.00
Venda A. Skinner	80	9.90	792.00
Cynthia M. Way	150	2.00	300.00
		<b>749.90</b>	<b>\$114,441.00</b>
	<b>TOTAL</b>	<b>7,375.70</b>	<b>\$2,769,038.50</b>

**BLENDING HOURLY RATE**

**\$375.43**



## COMPENSATION BY PROJECT CATEGORY

Project Category	Total Hours	Total Fees
General Corporate Advice	1285.00	\$507,384.50
Asset Disposition	1267.80	460,522.00
Automatic Stay (Relief Actions)	0.60	276.00
Business Operations	1.20	552.00
Case Administration	431.00	107,896.50
Claims Administration and Objections	9.00	4,158.50
Creditor Meeting/Committees	15.20	7,885.00
Disclosure Statement/Voting Issues	464.50	197,080.50
Employee Matters	134.40	50,330.50
Environmental Matters	37.90	10,801.50
Executory Contracts/Personalty	1.20	424.50
Financing	763.50	233,833.00
Insurance	9.90	6,122.00
Leases (Real Property)	50.10	15,170.00
Litigation (General)	285.30	128,035.00
Nonworking Travel Time	194.60	43,111.50
Press/Public Affairs	31.60	10,936.00
Real Estate (Owned)	456.20	178,354.00
Regulatory Matters	297.80	123,337.00
Reorganization Plan	298.10	120,041.50
Reports and Schedules	16.70	6,866.00
Retention/Fee Matters (SASM&F)	59.10	11,098.00

<b>Project Category</b>	<b>Total Hours</b>	<b>Total Fees</b>
Retention/Fee Matter/Objections (Others)	38.90	12,701.50
Tax Matters	153.30	58,254.00
U.S. Trustee Matters	18.50	7,107.50
Utilities	53.50	17,467.00
Vendor Matters	1.00	295.00
Investigation	999.80	405,886.50
<b>TOTAL</b>	<b>7375.70</b>	<b>\$2,725,927.00</b>

## EXPENSE SUMMARY

Expense Category	Total Expenses
Computer Legal Research	\$14,909.51
Long Distance Telephone	\$4,260.66
Outside Telephone	\$313.78
In-House Reproduction (@\$.10 per page)	\$13,858.50
Outside Reproduction	\$39,961.46
Outside Research	\$3,817.28
Filing/Court Fees	\$3,780.00
Court Reporting	\$234.50
Out-Of-Town Travel	\$49,531.04
Courier & Express Carriers (e.g. Federal Express)	\$6,432.47
Postage	\$53.99
Professional Fees	\$763.10
Other	\$25,210.30
<b>TOTAL</b>	<b>\$163,126.59</b>

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SERVICES RENDERED AND REIMBURSEMENT OF EXPENSES AS  
COUNSEL TO THE REORGANIZED DEBTOR FOR THE PERIOD FROM  
JANUARY 31, 2002 THROUGH APRIL 16, 2002 UNDER  
11 U.S.C. §§ 330 AND 331 AND BANKRUPTCY RULE 2016**

Skadden, Arps, Slate, Meagher & Flom LLP and affiliated law offices (collectively, "Skadden, Arps"), counsel for McLeodUSA Incorporated, reorganized debtor in the above-captioned case ("McLeodUSA"), hereby applies for an order approving a final award of compensation for professional legal services rendered as counsel to McLeodUSA in the aggregate amount of \$2,725,927.00 together with reimbursement of actual and necessary expenses incurred in the amount of \$163,126.59 (the "Final Application") under 11 U.S.C. §§ 330 and 331 for the period from January 31, 2002 through April 16, 2002, and in support, represents as follows:

## INTRODUCTION

1. On April 17, 2002, McLeodUSA, one of the nation's largest independent competitive local exchange carriers, announced that its Amended Plan of Reorganization of McLeodUSA Incorporated (the "Plan") had become effective and that it had emerged from Chapter 11 protection. The Plan received overwhelming approval from all voting classes of McLeodUSA security holders and was confirmed by this Court on April 5, 2002. Importantly, the Plan went effective only 75 days after its filing.

2. The Plan facilitated a comprehensive recapitalization of McLeodUSA that eliminated \$3 billion of high yield debt and approximately \$325 million of associated interest expense. Key elements of the Plan included (i) the sale of McLeodUSA's directory publishing business; (ii) a new cash investment by Forstmann Little & Co. for new common stock and warrants; (iii) payment of cash and issuance of new Series A preferred stock and warrants to the existing holders of McLeodUSA's notes; (iv) conversion of the existing preferred stock into new common stock; (v) the conversion of existing common stock into new common stock; and (vi) certain repayments of term loans and a reduction in commitments under its senior secured credit agreement. McLeodUSA's new common

stock is presently trading on Nasdaq under the symbol "MCLDD."

3. Skadden, Arps, at the direction of McLeodUSA, facilitated the recapitalization with its involvement in almost every facet and phase of the restructuring. Skadden, Arps' professionals provided their legal skills to assist McLeodUSA and its subsidiaries with respect to numerous highly complex related matters, including, but not limited to, general bankruptcy case administration; the creation and solicitation of the Plan; asset sales; real estate and zoning matters; financing; general corporate advice; regulatory matters and inquiries; and taxes. All of this was done to ensure that the Plan would be confirmed and go quickly effective so that McLeodUSA could emerge from bankruptcy. Given that this was achieved in a mere seventy-five days, Skadden, Arps clearly succeeded in realizing this goal.

#### **BACKGROUND**

4. On January 31, 2002 (the "Petition Date"), McLeodUSA filed a voluntary petition in this Court for reorganization relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101-1330 (as amended, the "Bankruptcy Code"). McLeodUSA presently operates its businesses and manages its properties pursuant to the

terms of the Plan, which was confirmed by this Court on April 5, 2002.

5. On February 13, 2002, the United States Trustee appointed the Official Committee of General Unsecured Creditors (the "Committee"). No trustee or examiner has been appointed in this case.

6. The Plan became effective on April 16, 2002 (the "Effective Date").

7. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

8. The statutory predicates for the relief requested herein are Bankruptcy Code sections 330 and 331.

#### **RELIEF REQUESTED**

9. By this Final Application, Skadden, Arps, counsel to McLeodUSA, requests entry of an order (a) approving a final award of compensation and reimbursement of expenses, under 11 U.S.C. §§ 330 and 331, in the amount of \$2,725,927.00 and \$163,126.59, respectively, incurred during the period from January 31, 2002 through and including April 16, 2002; (b) authorizing Skadden, Arps to apply its Initial Retainer, in the amount of \$508,000, to the fees and expenses requested herein; and

(c) authorizing and directing McLeodUSA to pay Skadden, Arps all amounts requested in this Final Application remaining unpaid after application of the Initial Retainer.

**BASIS FOR RELIEF**

10. Retention Of Skadden, Arps. On January 31, 2002, McLeodUSA applied to the Court for an order authorizing it to retain Skadden, Arps pursuant to an engagement agreement dated October 29, 2001 (the "Engagement Agreement"), as its bankruptcy counsel, effective as of the Petition Date, to provide the following professional services:

(a) advise McLeodUSA with respect to its powers and duties as debtor and debtor-in-possession in the continued management and operation of its businesses and properties;

(b) attend meetings and negotiate with representatives of creditors and other parties in interest and advise and consult on the conduct of the case, including all of the legal and administrative requirements of operating in Chapter 11;

(c) take all necessary action to protect and preserve McLeodUSA's estate, including the prosecution of actions on its behalf, the defense of any actions commenced against the estate, negotiations concerning all litigation in which McLeodUSA may be involved and objections to claims filed against the estate;

(d) prepare on behalf of McLeodUSA all motions, applications, answers, orders, reports and papers necessary to the administration of the estate;

(e) negotiate and prepare on McLeodUSA's behalf plan(s) of reorganization, disclosure statement(s) and all related agreements and/or documents and take



any necessary action on behalf of McLeodUSA to obtain confirmation of such plan(s);

(f) advise McLeodUSA in connection with any sale of assets;

(g) appear before this Court, any appellate courts, and the U.S. Trustee, and protect the interests of McLeodUSA's estate before such courts and the U.S. Trustee; and

(h) perform all other necessary legal services and provide all other necessary legal advice to McLeodUSA in connection with this Chapter 11 case.

11. On February 28, 2002, this Court entered an order (the "Retention Order") authorizing McLeodUSA to employ Skadden, Arps as its counsel effective as of the Petition Date pursuant to the terms of the Engagement Agreement. A copy of the Retention Order is attached hereto as Exhibit A.

12. On February 28, 2002, this Court entered an Administrative Order Pursuant to 11 U.S.C. §§ 105(a) and 331 Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Professionals (the "Administrative Order"). A copy of the Administrative Order is attached hereto as Exhibit B. Pursuant to the terms of the Administrative Order, professionals retained in the case could file Monthly Applications or Interim Applications for reimbursement.

13. During the course of this case, none of the professionals, Skadden, Arps included, filed a Monthly or Interim Application for Interim Compensation

and Reimbursement. Accordingly, this Final Application by Skadden, Arps includes a request for approval and payment of fees and expenses incurred during the entirety of the period extending from the Petition Date up to and including the Effective Date (the "Entire Case Period").

14. Before the commencement of this case, McLeodUSA provided Skadden, Arps with an Initial Retainer (the "Retainer") that, after a prepetition application to outstanding fees and expenses, totaled approximately \$508,000. Between the time of the application and the Petition Date, an additional \$25,900.14 in fees and expenses were incurred. Skadden, Arps has not applied the Retainer to the remaining outstanding prepetition fees and expenses. Moreover, pending the filing of and the Court's ruling on this Final Application, Skadden, Arps has not applied any portion of the Retainer to its postpetition fees and expenses. Skadden, Arps now requests that the Court authorize Skadden, Arps to apply the Retainer to the fees and expenses requested herein.

15. Summary of Compensation and Expense Reimbursement Sought. Skadden, Arps is seeking final approval and payment of compensation equal to \$2,725,927.00 in fees, for professional services rendered by Skadden, Arps during the Entire Case Period as counsel to McLeodUSA in this chapter 11 case. This amount is de-

rived solely from the applicable hourly billing rates of the firm's personnel who rendered such services to McLeodUSA.

16. Skadden, Arps also requests final approval and reimbursement of one hundred percent (100%) of the actual and necessary out-of-pocket disbursements made and charges incurred by Skadden, Arps during the Entire Case Period as counsel to McLeodUSA in this chapter 11 case, equal to \$163,126.59.

17. The fees and disbursements sought through the Entire Case Period reflect client accommodations and amounts written off by Skadden, Arps. In total, Skadden, Arps, in the exercise of its professional billing judgment, has written off \$98,406.14 as a client accommodation.<sup>1</sup>

18. Skadden, Arps has received no promise of payment for professional services rendered in this case other than in accordance with the provisions of the Bankruptcy Code.

19. Summary of Services Rendered. It is not practical to describe every phone call made, meeting

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<sup>1</sup> The amount of \$98,406.14 includes \$25,900.14 in prepetition fees and expenses and \$72,506.00 in postpetition fees and expenses. In the event any objections to this Final Application are filed, Skadden, Arps reserves the right to seek payment for all or any part of the client accommodation.

attended, document generated, or other service provided, in McLeodUSA's case during the Entire Case Period. Thus, this Final Application highlights the most significant services performed by Skadden, Arps for McLeodUSA during the Entire Case Period and the time records attached hereto as Exhibit C contain the summary and detail of each task performed. The summary and detail for the disbursements and expenses incurred during the Entire Case Period are attached hereto as Exhibit D.

20. Sixty four days after Skadden, Arps filed McLeodUSA's chapter 11 petition on January 31, 2002, this Court confirmed McLeodUSA's Plan. During the Entire Case Period, Skadden, Arps devoted substantial time to negotiating the terms of the Plan, resolving objections and successfully obtaining acceptance of and consummating the Plan. All of this was done within an extremely expeditious time frame that allowed for little to no room for error.

21. In all, a mere two and one-half months elapsed between the Petition Date and the Effective Date of the Plan on April 16, 2002. During this time period, Skadden, Arps assisted McLeodUSA in completing a restructuring that reduced McLeodUSA's debt by \$3 billion and its annual interest expense by 87%. These extraordinary results are, in part, the result of the services de-

scribed in this Final Application, as well as the dedicated efforts of McLeodUSA's Board, officers and employees.

22. During the seventy-six days covered by this Application, Skadden, Arps:

- Prosecuted numerous "first day motions", filed on or shortly after the Petition Date, that enabled McLeodUSA, among other things, to meet its obligations to its customers, employees and suppliers and continue to operate in the ordinary course of business;
- Negotiated, documented and obtained court approval for a \$110 million exit financing facility with an option to increase the exit revolver to as much as \$160 million upon the completion of the recapitalization;
- Finalized the terms of, obtained Court approval for, and closed the sale of McLeodUSA's directory publishing company to United Kingdom-based Yell Group Ltd. for \$600 million;
- Advised McLeodUSA on the sale of McLeodUSA subsidiary CapRock Services Corporation, as well as provided additional advisory functions on potential future sales of assets;
- Sought and obtained approval of the change of control provisions necessitated by the restructuring from 20 state regulatory bodies and the FCC;
- Filed and obtained Court approval of the Disclosure Statement and the Plan less than a month after the Petition Date, and, with McLeodUSA's other professionals and agents, arranged for the design, printing and mailing of solicitation packages to approximately 8,000 creditors and holders

of claims and interests, with approximately 160,000 other forms of notice being sent to other additional parties;

- Obtained confirmation of McLeodUSA's Plan on April 5, 2002, less than two and one-half months after the Petition Date; and
- Assisted McLeodUSA in going effective on the Plan by April 16, 2002.

23. The foregoing is only a summary of some of the principal services that Skadden, Arps provided during the Entire Case Period to McLeodUSA and, at the direction of McLeodUSA, its subsidiaries and affiliates. It does not include the numerous matters litigated during the chapter 11 case, the advice that Skadden, Arps provided on a virtually daily basis to McLeodUSA's officers and directors on corporate, tax, business and bankruptcy-law issues, or the firm's equally frequent communications with the Committee, McLeodUSA's lenders, the indenture trustee, Forstmann Little, vendors and suppliers, and McLeodUSA's individual shareholders and interest holders.

24. Most importantly, Skadden, Arps devoted substantial time and resources to researching, drafting, analyzing, negotiating, and litigating numerous issues related to formulation, solicitation and acceptance and confirmation of McLeodUSA's Plan.

25. During the Entire Case Period, attorneys and paraprofessionals of Skadden, Arps devoted a total of 7,375.70 hours to representation of McLeodUSA in its

chapter 11 case. Of the aggregate time expended, 1,054.50 hours were spent by partners, 210.40 were spent by counsel, 5,323 hours were spent by associates and 787.80 hours were spent by paraprofessionals. Schedules showing the name and position of each such partner, counsel, associate, and paraprofessional, together with such person's hours worked during the Entire Case Period and hourly billing rate, are provided at the front of this Final Application. Schedules summarizing compensation by project category and a summary of expenses incurred during the Entire Case Period are also provided at the front of this Final Application.

26. Skadden, Arps' attorneys, legal assistants, and support staff billed their services in this case to numerous matters corresponding to particular activities in the case. As noted above, the daily time detail and summary for the several matters on which professionals of Skadden, Arps spent time during the Entire Case Period is contained in Exhibit C. Exhibit D provides a detail by matter of disbursements and expense charges incurred during the Entire Case Period. Exhibit E provides a detail by matter of the amount of time spent and corresponding fees billed to each matter by each Skadden, Arps professional and paraprofessional.

27. Skadden, Arps submits that the legal services and advice that it rendered to McLeodUSA in connection with its chapter 11 case during the Entire Case Period were necessary and beneficial to McLeodUSA, its creditors and its estate.

**Description Of Services Rendered**

28. The following description of Skadden, Arps' services is a summary of the matters that occupied substantial amounts of attorney time during the Entire Case Period.

**A. Principal Reorganization Matters**

29. During the Entire Case Period, Skadden, Arps professionals devoted significant time to matters vital to the chapter 11 reorganization process. These matters are as follows:

- a) Disclosure Statement/Voting Issues  
(Amount Sought: \$197,080.50)

30. During the Entire Case Period, Skadden, Arps spent significant time addressing numerous issues related to the research, development and solicitation of the Plan and Disclosure Statement. This included the continuous consultation and negotiation with and responses to objections (either formal and informal) by the Committee, McLeodUSA's lenders, the indenture trustee, Forstmann Little, various regulatory agencies and other



interested parties and their counsel. Skadden, Arps resolved all objections prior to the Disclosure Statement hearing and successfully obtained Court approval of McLeodUSA's Disclosure Statement by February 28, 2002, within only a month of the Petition Date. At every stage of the preparation and distribution of the Disclosure Statement, Skadden, Arps worked closely with McLeodUSA's other professionals and agents to arrange and ensure the successful design, printing and mailing of full solicitation packages to approximately 8,000 creditors, shareholders and other interest holders, with approximately 160,000 other forms of notice sent to interested parties.

31. During the Entire Case Period, Skadden, Arps professionals devoted a total of 464.50 hours to Disclosure Statement issues for which compensation is sought, with a total time value of \$197,080.50.

b) Reorganization Plan  
(Amount Sought: \$120,041.50)

32. Because the Plan was filed on the Petition Date, Skadden, Arps from the very outset of the case spent significant time addressing issues related to the research, development and solicitation of the Plan. Throughout the development of the Plan, Skadden, Arps negotiated with and revised the Plan in response to comments and objections made by McLeodUSA's various constituencies. Skadden, Arps successfully resolved all

but one of the objections prior to the confirmation hearing, and the Court overruled that objection. Skadden, Arps professionals worked closely with McLeodUSA and its financial advisors to draft and present various declarations, proffers and affidavits in support of confirmation, as well as a brief in support of confirmation of the Plan, and on April 5, 2002, this Court confirmed McLeodUSA's Plan of Reorganization.

33. During the Entire Case Period, Skadden, Arps professionals devoted a total of 298.10 hours to Reorganization Plan matters for which compensation is sought, with a total time value of \$120,041.50.

c) Regulatory Matters  
(Amount Sought: \$123,337.00)

34. During the Entire Case Period, Skadden, Arps professionals spent considerable time reviewing and analyzing the various state and federal regulatory requirements that affect McLeodUSA's Plan. Specifically, Skadden, Arps consulted with twenty state regulatory bodies and the Federal Communications Commission regarding approval of a change of control of McLeodUSA in connection with the proposed sale to Forstmann Little of new common stock and warrants to purchase common stock. In sum total, Skadden, Arps successfully sought and obtained the regulatory approval or consent of twenty

states and the FCC to the proposed change of control associated with McLeodUSA's Plan of Reorganization.

35. Skadden, Arps also assisted McLeodUSA in responding to inquiries by the United States Department of Labor and other various federal, state and local taxing and regulatory agencies.

36. During the Entire Case Period, Skadden, Arps professionals devoted a total of 297.80 hours to Regulatory matters for which compensation is sought, with a total time value of \$123,337.00.

d) Litigation  
(Amount Sought: \$128,035.00)

37. Skadden, Arps worked with McLeodUSA to analyze and attempt to dismiss the various class action lawsuits filed against McLeodUSA. Within one week of successfully obtaining Court confirmation of McLeodUSA's Plan of Reorganization, Skadden, Arps prepared and filed a motion to establish a Disputed Claims Reserve to allow McLeodUSA to make an immediate distribution of new common stock to holders of its old common stock in accordance with McLeodUSA's Plan of Reorganization. In addition, Skadden, Arps began preparing an objection to certain proofs of claim filed by representatives of purported class action claimants. This objection was filed on April 22, 2002.

38. During the Entire Case Period, Skadden, Arps professionals devoted a total of 285.30 hours to Litigation issues for which compensation is sought, with a total time value of \$128,035.00.

e) Nonworking Travel Time  
(Amount Sought: \$43,111.50)

39. Skadden, Arps professionals spent significant amounts of time traveling to and from various hearings, meetings and closings scheduled in these cases, and to and from McLeodUSA's headquarters in Cedar Rapids, Iowa.

40. During the Entire Case Period, Skadden, Arps professionals spent a total of 194.60 hours in nonworking travel time for which compensation is sought, with a total time value of \$43,111.50.<sup>2</sup>

f) Case Administration  
(Amount Sought: \$107,896.50)

41. Skadden, Arps worked with McLeodUSA's management to ensure that McLeodUSA continued to conduct its affairs in accordance with the Bankruptcy Code and applicable non-bankruptcy law. Among the tasks completed during this period was the preparation of a comprehensive case plan, the initial filing of this case, the coordina-

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<sup>2</sup> The amount of \$43,111.50 being sought by Skadden, Arps as compensation for nonworking travel time represents a fifty percent write-down of the \$86,223.00 in fees actually incurred by Skadden, Arps professionals for this matter in this case.

tion of and attendance at various management and creditor meetings, and the preparation for and attendance at the hearings conducted in this case.

42. Skadden, Arps spent considerable time advising McLeodUSA with respect to its powers and duties as debtor and debtor-in-possession in the continued management and operation of its business and properties. Skadden, Arps also attended meetings and negotiated with representatives of creditors and other parties in interest and advised and consulted on the conduct of the case, including all of the legal and administrative requirements of operating in chapter 11 and the administration of its estate.

43. Skadden, Arps devoted considerable time during the Entire Case Period to numerous other matters of case administration, including conferring with McLeodUSA's management on a daily basis to keep management apprized of recent developments, carrying on negotiations regarding various matters, pursuing motions and objections pending before this Court, and formulating strategies for issues arising in the case.

44. During the Entire Case Period, Skadden, Arps professionals devoted a total of 431.00 hours to matters pertaining to Case Administration for which

compensation is sought, with a total time value of \$107,896.50.

**B. Principal Recapitalization Matters**

a) Financing  
(Amount Sought: \$233,833.00)

45. Skadden, Arps worked with McLeodUSA to obtain a cash collateral order as part of the First Day Orders, analyzed and advised McLeodUSA regarding various related UCC, intellectual property, and securities filing issues, lien releases, payroll and cash management issues, and cash flow analysis. Skadden, Arps also assisted McLeodUSA and its financial advisors in negotiating and working with McLeodUSA's institutional lenders to secure a credit agreement establishing a \$110 million exit financing facility, with an option to increase the exit revolver to as much as \$160 million upon the completion of McLeodUSA's recapitalization.

46. During the Entire Case Period, Skadden, Arps professionals devoted a total of 763.50 hours to Financing matters for which compensation is sought, with a total time value of \$233,833.00.

b) Tax Matters  
(Amount Sought: \$58,254.00)

47. Skadden, Arps spent significant time addressing general tax inquiries, tax issues in connection with the disposition of McLeodUSA's directory pub-

lishing business and CapRock Services Corp., as well as with respect to the Disclosure Statement and Plan.

48. During the Entire Case Period, Skadden, Arps professionals devoted a total of 153.30 hours to Tax matters for which compensation is sought, with a total time value of \$58,254.00.

c) Real Estate (Owned)  
(Amount Sought: \$178,354.00)

49. Skadden, Arps professionals spent considerable time reviewing and analyzing numerous issues, drafting various agreements and amending existing maintenance, security and title agreements related to McLeodUSA's corporate headquarters and McLeodUSA's directory publishing company. As part of the Plan, Skadden, Arps finalized the terms of and closed the sale of McLeodUSA's directory publishing company to United Kingdom-based Yell Group Ltd. for \$600 million.

50. During the Entire Case Period, Skadden, Arps professionals devoted a total of 456.20 hours to Real Estate matters for which compensation is sought, with a total time value of \$178,354.00.

d) Asset Disposition  
(Amount Sought: \$460,522.00)

51. During the Entire Case Period, Skadden, Arps spent considerable time assisting McLeodUSA in negotiating and closing on asset purchase agreements with

strategic purchasers for the purchase of its directory publishing business and CapRock Services Corp.

52. The sale of the directory publishing business to the Yell Group Ltd. was particularly complicated and integral to McLeodUSA's restructuring. Moreover, the transaction had to be quickly completed so as to avoid delay penalties that would have begun accruing on May 1, 2002. The funds from this sale were used to help fund the payment to McLeodUSA's noteholders under the Plan. Without this sale, the Plan could not have become effective.

53. During the Entire Case Period, Skadden, Arps professionals devoted a total of 1267.80 hours to matters pertaining to Asset Disposition for which compensation is sought, with a total time value of \$460,522.00.

e) Employee Matters  
(Amount Sought: \$50,330.50)

54. Skadden, Arps professionals spent significant amounts of time advising McLeodUSA on the impact of certain Bankruptcy Code provisions on employment related matters. This included working with McLeodUSA's human resource department to determine the effect of the Code on employee programs, examining the extent to which certain employment contracts were affected by the reorganization, advising McLeodUSA with respect to employees who were terminated during the course of the bankruptcy



case and responding to various inquiries by regulatory agencies like the United States Department of Labor and the Pension Benefit Guaranty Corporation.

55. During the Entire Case Period, Skadden, Arps professionals devoted a total of 134.40 hours to matters pertaining to Employee Matters for which compensation is sought, with a total time value of \$50,330.50.

f) Investigation  
(Amount Sought: \$405,886.50)

56. Due to the bankruptcy filing, McLeodUSA was informally asked by certain regulatory agencies to provide a wide assortment of information. Given the rapid progression of the case, the regulatory agencies requested that the information be provided on an expedited basis. Skadden, Arps, devoting substantial time and resources, therefore quickly analyzed and responded to these various informal inquiries from certain regulatory agencies for information. In this capacity, Skadden, Arps reviewed and produced thousands of relevant documents and participated in meetings and interviews with each applicable agency.

57. During the Entire Case Period, Skadden, Arps professionals devoted a total of 999.80 hours to Investigation issues for which compensation is sought, with a total time value of \$405,886.50.

- g) General Corporate Advice  
(Amount Sought: \$507,384.50)

58. Skadden, Arps spent considerable time preparing new articles of incorporation, by-laws, certificates of designation and warrant agreements. Skadden, Arps also spent considerable time preparing the necessary paperwork to have reorganized McLeodUSA re-listed with NASDAQ. In addition, Skadden, Arps provided assistance with Form 8-K, Form 10-Q and Form 10-K filings with the SEC.

59. During the Entire Case Period, Skadden, Arps professionals devoted a total of 1285.00 hours to matters pertaining to the General Corporate Advice for which compensation is sought, with a total time value of \$507,384.50.

**C. Miscellaneous Matters Under \$20,000**

48. Skadden, Arps devoted time to numerous other matters for McLeodUSA, the time value of which is less than \$15,000 for each matter. These matters include, among other things, meetings with the Committee, environmental matters, insurance, real property leases, preparing press releases, U.S. Trustee matters, utilities provider issues, reports and schedules and the retention of professionals (including Skadden, Arps). Skadden,

Arps seeks compensation for these matters in the aggregate amount of \$106,154.50.

**D. De Minimis Matters**

49. Skadden, Arps devoted insignificant amounts of time to various other matters for McLeodUSA. The aggregate value of such time is less than \$5,000. These matters include, among other things, automatic stay (relief actions), business operations, executory contracts and vendor matters. Skadden, Arps seeks compensation for these matters in the aggregate amount of \$5,706.00.

**ALLOWANCE OF COMPENSATION**

50. Compensation Sought. Because of the benefits realized by McLeodUSA, the nature of this case, the standing at the bar of the attorneys who rendered services, the amount of work done, the time consumed, the skill required, and the contingent nature of the compensation, Skadden, Arps requests final approval at this time of compensation earned during the Entire Case Period for a total of \$2,725,927.00. Skadden, Arps reserves the right to return to this Court to seek reimbursement of such amounts for work performed or expenses incurred during the Entire Case Period but not yet reflected in the firm's time records or to amend the amounts listed herein to correct any bookkeeping errors. In the event

that a subsequent review reveals that additional professional services have been rendered or expenses have been incurred on behalf of McLeodUSA during the Entire Case Period, which were not processed by the firm's accounting system before the time of this Final Application, Skadden, Arps, reserves the right to seek such additional fees and expenses by subsequent application to the Court.

51. Skadden, Arps achieved cost efficiencies by employing a streamlined case management structure. Instead of assigning various attorneys to the myriad of tasks that arose during the case, Skadden, Arps designated a core group of counsel and associates who were assigned responsibility for specific matters and types of matters. This allowed some attorneys to work almost exclusively on discrete matters in McLeodUSA's case, permitted the case to be staffed with as little partner involvement as appropriate, and enabled Skadden, Arps to avoid performing duplicative or unnecessary work.

52. Reimbursement of Expenses. Skadden, Arps has disbursed, and requests reimbursement for \$163,126.59 which represents actual, necessary expenses incurred in the rendition of professional services in this case.

53. Other than between Skadden, Arps and its affiliated law practices and their members, no agreement

or understanding exists between Skadden, Arps and any other person or persons for the sharing of compensation received or to be received for professional services rendered in or in connection with this case, nor will any be made except as permitted under Bankruptcy Code section 504(b)(1).

**CERTIFICATE OF COMPLIANCE AND WAIVER**

54. The undersigned representative of Skadden, Arps certifies that he has reviewed the requirements of Del. Bankr. LR 2016-2 and that the Application substantially complies with that Local Rule. To the extent that the Final Application does not comply in all respects with the requirements of Del. Bankr. LR 2016-2, Skadden, Arps believes such deviations are not material and respectfully requests that any such requirement be waived.

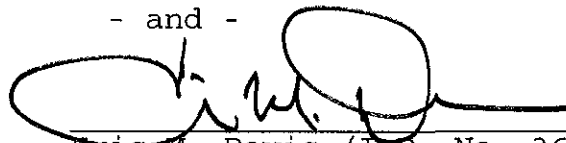
WHEREFORE Skadden, Arps respectfully requests that this Court enter an order granting (a) final approval and payment of compensation to Skadden, Arps for professional services rendered as attorneys for McLeodUSA in the sum of \$2,725,927.00 in fees incurred during the Entire Case Period; (b) reimbursement of actual and necessary expenses incurred during the Entire Case Period in the sum of \$163,126.59; (c) authorizing Skadden, Arps to apply its Retainer against allowed postpetition fees

and expenses; (d) authorizing and directing McLeodUSA to pay Skadden, Arps the full amount of its allowed postpetition fees and expenses, less the amount of Skadden, Arps' Retainer; and (f) granting such other and further relief as is just and proper.

Dated: Wilmington, Delaware  
May 16, 2002

Seth E. Jacobson  
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