

**UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

IN RE:)	Case No. 05-63230
)	(Jointly Administered)
MCLEODUSA INCORPORATED,)	Chapter 11
<u>et al.</u>)	
Debtors.)	Hon. John H. Squires
)	
)	Hearing Date: March 2, 2006
)	Hearing Time: 9:30 a.m. (CST)
)	Objection Deadline: Feb. 23, 2006
)	@ 4:00 p.m. (CST)

Notice of Application

Please take notice that on February 6, 2006, Skadden, Arps, Slate, Meagher & Flom LLP filed the **FIRST AND FINAL FEE APPLICATION OF SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP AS COUNSEL TO THE DEBTORS, SEEKING ALLOWANCE AND PAYMENT OF FINAL COMPENSATION AND REIMBURSEMENT OF EXPENSES UNDER §§ 330 AND 331 OF THE BANKRUPTCY CODE.**

Dated: Chicago, Illinois
February 6, 2006

/s/ Timothy R. Pohl

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UNDER §§ 330 AND 331 OF THE BANKRUPTCY CODE**

Name of Applicant:	Skadden, Arps, Slate, Meagher & Flom LLP
Authorized to Provide Professional Services to:	McLeodUSA Incorporated and its Affiliate Debtors ¹
Date of Retention Order:	October 31, 2005
Period for Which Compensation and Reimbursement Sought:	October 28, 2005 through and including January 6, 2006
Amount of Compensation Sought as Actual, Reasonable and Necessary:	\$1,114,376
Amount of Expense Reimbursement Sought as Actual, Reasonable and Necessary:	\$43,946
This is an/(a):	<input type="checkbox"/> Interim <input checked="" type="checkbox"/> Final Application
Aggregate Amounts of Fees and Expenses Paid to Date:	\$0

¹ Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Joint Prepackaged Plan of Reorganization of McLeodUSA Incorporated and its Affiliate Debtors.

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UNDER §§ 330 AND 331 OF THE BANKRUPTCY CODE**

Skadden, Arps, Slate, Meagher & Flom LLP and its affiliated law practice entities ("Skadden, Arps"), counsel for McLeodUSA Incorporated ("McLeodUSA") and its Affiliate Debtors (collectively, with McLeodUSA, the "Debtors" or the "Company") in the above-captioned cases (the "Reorganization Cases"), submit this first and final application (the "Final Application") seeking final allowance and payment of compensation and reimbursement of expenses under 11 U.S.C. §§ 330 and 331 for the period from October 28, 2005 through and including January 6, 2006 (the "Case Period"). Skadden, Arps submits this Final Application for (a) allowance of compensation for professional services rendered by Skadden, Arps to the Debtors and (b) reimbursement of actual and necessary charges and disbursements incurred by Skadden, Arps in rendering the required professional services on behalf of the Debtors. In support of this Final Application, Skadden, Arps represents as follows:

BACKGROUND

1. On October 28, 2005 (the "Petition Date"), the Debtors each 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"). The Debtors operated their businesses and managed their properties as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code until they emerged from chapter 11 on January 6, 2006.

2. On the Petition Date, the Debtors also filed the Joint Prepackaged Plan of Reorganization of McLeodUSA Incorporated and its Affiliate Debtors (the "Plan") and the Disclosure Statement with Respect to Joint Prepackaged Plan of Reorganization of McLeodUSA Incorporated and its Affiliate Debtors (the "Disclosure Statement"). The Debtors solicited votes on the Plan prior to the Petition Date and obtained acceptances from over 90% of each class of creditors entitled to vote on the Plan.

3. Also on the Petition Date, the Debtors filed a Motion Under 11 U.S.C. §§ 105, 1125, 1126 and 1129 and Fed. R. Bankr. P. 2002, 3017, 3018 and 3020 (I) for Order (A) Scheduling Combined Hearing on Disclosure Statement and Confirmation of Plan and Establishing Procedures for Objecting to Disclosure Statement and Plan, (B) Approving Form and Manner of Notice of Combined Hearing on Disclosure Statement and Confirmation of Plan and (C) Finding that the Debtors Not Required to Solicit Votes from Class 6, and (II) for Order (A) Approving Adequacy of the Disclosure Statement, (B) Approving the Solicitation Procedures and (C) Confirming the Plan of Reorganization. On October 31, 2005, the Court approved the form and manner of notice, found that the Debtors were not required to solicit votes from Holders of Claims in Class 6 and scheduled a hearing on December 15, 2005 to consider the adequacy of the Disclosure Statement and confirmation of the Plan.

4. On December 16, 2005, forty-nine days after the commencement of these cases, this Court entered an order confirming the Plan (the "Confirmation Order").

5. The Effective Date of the Plan occurred on January 6, 2006.

6. This Court has jurisdiction over this Application pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2). Venue of these cases in this district is proper pursuant to 28 U.S.C. §§ 1408 and 1409. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

7. The statutory predicates for the relief requested herein are §§ 330 and 331 of the Bankruptcy Code and rule 2016 of the Federal Rules of Bankruptcy Procedure.

RETENTION OF SKADDEN, ARPS

8. On the Petition Date, the Debtors applied to the Court for an order approving the retention of Skadden, Arps as their restructuring and bankruptcy counsel (the "Retention Application") to perform legal services under a general retainer that was necessary to enable the Debtors to faithfully execute their duties as debtors-in-possession including, among others, the following professional services to the Debtors:

(a) advise the Debtors with respect to their powers and duties as debtors and debtors-in-possession in the continued management and operation of their 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 chapter 11 cases, including all of the legal and administrative requirements of operating in chapter 11;

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

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

(e) appear before this Court, any appellate courts, and the United States Trustee, and protect the interests of the Debtors' estates before such courts and the United States Trustee;

(f) take any necessary action on behalf of the Debtors to obtain confirmation of the Debtors' plan of reorganization; and

(g) perform all other necessary legal services and provide all other necessary legal advice to the Debtors in connection with these chapter 11 cases.

9. On October 31, 2006, this Court entered the Order Pursuant to 11 U.S.C. §§ 327(a) and 329 Authorizing the Employment and Retention of Skadden, Arps, Slate, Meagher & Flom LLP and Affiliated Law Practice Entities as Attorneys for the Debtors-in-Possession (the "Retention Order")² authorizing the Debtors to employ Skadden, Arps as their counsel under the terms set forth in the Retention Application.

STANDING AT THE BAR AND EXPERIENCE

10. Skadden, Arps assembled a highly qualified team of attorneys to service the Debtors. The Skadden engagement was coordinated by Timothy R. Pohl, a partner in Skadden Arps' Corporate Restructuring group.

11. Mr. Pohl has extensive experience in reorganization cases, including representing debtors in chapter 11 cases, such as In re Orius Corp., In re National Steel, Corp., In

² A copy of the Retention Order, the Retention Application and the supporting declaration are attached hereto as Exhibits A through C, respectively. These materials include factual information regarding the experience and standing at the bar of the Skadden, Arps' senior attorneys. The Retention Order incorporated the terms of a retainer agreement dated March 1, 2005 (the "Engagement Agreement"), between Skadden, Arps and the Debtors, a copy of which is attached to the declaration supporting the Retention Application.

re Diamond Brands, Inc., In re Washington Group International, Inc., In re ICG Communications, Inc., In re The Singer Company N.V., In re Philip Services, Inc., In re Favorite Brands International Corporation, In re Montgomery Ward Holding Corporation and In re Trans World Airlines, Inc., among others.

FEE PROCEDURES AND MONTHLY FEE STATEMENTS

12. Due to the short duration of these cases, and pursuant to the Retention Order, Skadden, Arps did not submit an interim fee application during the Case Period. Instead, Skadden, Arps is submitting this single Final Application. Skadden, Arps now seeks final allowance of \$1,114,376 in fees calculated at the applicable guideline hourly billing rates of the firm's personnel who have worked on the Reorganization Cases and \$43,946 in charges and disbursements actually and necessarily incurred by Skadden, Arps while providing services to the Debtors during the Case Period.

13. On January 16, 2006, Skadden, Arps served its invoice for the Case Period (the "Invoice") in accordance with the Retention Order seeking payment of 90% of the \$1,095,775 in fees and 100% of the \$39,580 in expenses. The objection deadline has passed and no objections were received with respect to the Invoice. This Final Application also requests payment of an additional amount in fees and expenses relating to time posted to the Skadden, Arps accounting system after closing the bills for the Case Period. The additional amount of \$18,601 in fees and \$4,366 in expenses results in total fees of \$1,114,376 and \$43,946.

OVERVIEW OF THE REORGANIZATION CASES

14. Founded in 1992, the Company is one of the nation's largest independent competitive telecommunications services providers, offering integrated local, long distance, data, Internet and other advanced telecommunications services using Time Division Multiplexing and

Internet protocol to homes and businesses in 25 Midwest, Southwest, Northwest and Rocky Mountain states, including Illinois where the Company has its second largest customer base and substantial assets.

15. As of September 30, 2005 the Company had approximately 1,730 employees and derived approximately 70% of its total revenues from local and long distance services; 11% from access services; 15% from private line and data services; and 4% from other sources. Approximately 83% of McLeodUSA's competitive communications services revenues were derived from retail sales and 17% from wholesale sales.

16. In April 2002, McLeodUSA completed a prearranged chapter 11 case for the parent holding company only (the "Prior Restructuring"). The Company's revenues have been declining since 2002. Total revenue for the three months ended June 30, 2005 were \$159.7 million, a decrease of \$32.2 million, or approximately 17%, from \$191.9 million for the three months ended June 30, 2004. The decline in revenue was driven by several factors, including weakness in segments of the telecommunications industry, turnover of customers to competitors in excess of new customers acquired, reduction in access rates as mandated by the Federal Communications Commission and lower prices for some of its products. In addition, the balance sheet effectuated under the Prior Restructuring remained highly leveraged.

17. In light of the inability of the Company to increase revenue and ultimately generate enough cash flow to service the existing level of debt, the Company considered, with the assistance of its advisors, various strategic alternatives. The principal alternatives were (a) a sale of the Company (in one or more transactions) or (b) a stand-alone restructuring of the balance sheet coupled with certain operational changes intended to reduce debt-service requirements and to improve free cash-flow to support ongoing business operations and to service substantially lower post-restructuring debt.

18. In early 2005, an informal steering committee of Holders of Claims under the Senior Prepetition Credit Agreement and the Junior Prepetition Credit Agreement (collectively, the "Prepetition Lenders") was formed. On March 16, 2005, the Company entered into a forbearance agreement with holders of more than 50% in principal obligations outstanding under each of the Senior and Junior Prepetition Credit Agreements (the "Majority Prepetition Lenders") with respect to defaults arising out of, among other things, the Company's decision not to make scheduled principal and certain scheduled interest payments on its loans. Under the forbearance agreement, the lenders that executed the forbearance agreement agreed not to take any remedial action as a result of those defaults through May 23, 2005. Subsequent forbearance agreements were entered into on May 23, 2005, July 21, 2005, September 9, 2005 and September 30, 2005. The forbearance agreement that was entered into on September 30, 2005 was set to expire on October 31, 2005.

19. Prior to the Petition Date, the Company explored the possibilities of selling all or pieces of the Company and solicited interest from potential acquirers. All indications of interest received were for a level of net sale proceeds below the amounts required to pay obligations under the Credit Facilities in full. Only one indication of interest for the entire Company was received, and that indication of interest was withdrawn at an early stage. As a result, the Majority Prepetition Lenders indicated that they did not support continuation of the sale process and desired to have the Company proceed with a stand-alone restructuring. After taking such views into account, the Company determined not to further pursue the sale process. Therefore, to enable the Company to maintain sufficient liquidity for operations, and to restructure the balance sheet to appropriate levels, the Company and the Majority Prepetition Lenders negotiated the terms of the stand-alone restructuring which is embodied in the Plan.

20. In connection with the Plan, the Debtors prepared the Disclosure Statement describing, among other things, the proposed reorganization and its effects on holders of claims against and interests in the Debtors. On October 19, 2005, the Debtors caused a copy of the Disclosure Statement, the Plan and the appropriate Ballots to be mailed to each known creditor that was entitled to vote on the Plan. The Debtors established October 28, 2005 as the deadline for receipt of votes to accept or reject the Plan.

21. The solicitation was an overwhelming success. With respect to Class 4 (Senior Prepetition Lender Claims), approximately 100% in amount and 100% in number voted to accept the Plan. With respect to Class 5 (Junior Prepetition Lender Claims), approximately 97.0% in amount and 97.3% in number voted to accept the Plan.

22. On the Petition Date, the Court set December 15, 2005 as the date for a hearing to (a) approve the Disclosure Statement as containing "adequate information" pursuant to section 1125 of the Bankruptcy Code, (b) approve the pre-filing solicitation under section 1126(b) of the Bankruptcy Code, and (c) confirm the Plan. On December 16, 2005, the Court entered an order approving the Disclosure Statement and confirming the Plan. On January 6, 2006, the effective date of the Plan occurred.

23. Skadden, Arps now seeks final allowance of \$1,114,376 in fees calculated at the applicable guideline hourly billing rates of the firm's personnel who have worked on the Reorganization Cases and \$43,946 in charges and disbursements actually and necessarily incurred by Skadden, Arps while providing services to the Debtors during the Case Period. The amounts requested by this Final Application compare favorably to fees, charges and disbursements incurred by other chapter 11 debtors in cases of similar size, complexity and duration.

SERVICES RENDERED BY SKADDEN, ARPS DURING THE CASE PERIOD

24. At the commencement of the Reorganization Cases, Skadden, Arps created different matter numbers or subject-matter categories (the "Matter Categories") to which its professionals assigned the time billed by them, all of which are related to the tasks performed by Skadden, Arps on behalf of the Debtors. All Skadden, Arps professionals kept a contemporaneous record of the time spent rendering such services and, consistent with guidelines of the Office of the United States Trustee, separated tasks in billing increments of one-tenth of an hour. All of the services performed by Skadden, Arps have been legal in nature and necessary for the proper administration of the Reorganization Cases.

25. Over 36% of the fees incurred by Skadden, Arps during the Case Period related to confirmation of the Plan and dealing with objections and potential objections to the Plan, and the work necessary to prepare to close the corporate transactions necessary to consummate the Plan and emerge from Chapter 11. Approximately 23% of the fees incurred by Skadden, Arps during the Case Period involved the negotiation and preparation for litigation necessitated by two third parties that either objected to the Plan and matters affecting "utilities" or threatened to do so—the SBC Entities and Qwest Communications Corporation ("QCC") and Qwest Corporation (together with QCC, the "Qwest Entities"). The SBC Entities raised objections to the assumption of their contracts and the Order Under 11 U.S.C. §§ 105 and 366 (I) Prohibiting Utilities from Altering, Refusing or Discontinuing Services on Account of Prepetition Invoices, (II) Providing That Payment of Undisputed Claims in the Ordinary Course of Business Shall Constitute "Adequate Assurance of Payment" Without the Need for Payment of Additional Deposits or Security; and (III) Establishing Procedures for Determining Requests for Additional Adequate Assurance (the "Utilities Order"). Qwest did not file any objections, but prepared to do so and the Debtors negotiated a complex settlement with Qwest that avoided litigation with Qwest.

26. Approximately 17% of the fees incurred by Skadden, Arps during the Case Period related to obtaining the necessary financing for the Chapter 11 Cases and for the Debtors upon emergence from Chapter 11. No other matters generated fees in excess of \$100,000 for the Case Period. Set forth below, in descending order based on the fees expended, are the areas in which Skadden, Arps rendered professional services.

A. Reorganization Plan

27. During the Case Period, Skadden, Arps devoted a substantial amount of time satisfying conditions precedent to confirmation and effectiveness of the Plan.

28. After the Petition Date, Skadden, Arps attorneys provided notice of the confirmation hearing to over 11,000 parties in interest pursuant to order of the Court.

29. Confirmation of the Plan was opposed by several parties and formal objections were filed by the Departments of Revenue for the states of Iowa and Illinois, Yellow Book USA., Inc. and the SBC Entities. The Objections of the Departments of Revenue for the states of Iowa and Illinois and Yellow Book USA, Inc. were consensually resolved. The SBC Entities' objection raised a number of issues. The SBC Entities objected on a number of grounds, including (a) the Plan failed to satisfy section 1129(a)(1) and 1129(a)(7) to the extent that the Plan did not reinstate any and all claims, rights or interests the SBC Entities may have against the Debtors without restriction, (b) the Plan failed to satisfy section 1129(a)(2) to the extent Plan conditions or otherwise impaired the SBC Entities contractual and legal rights in any fashion, (c) the Bankruptcy Court's retention of jurisdiction under the Plan was improper with respect to the various administrative proceedings involving the SBC Entities and the Debtors throughout the United States and (d) the Plan should be modified to add a global resolution of disputes between the Debtors and the SBC Entities as a condition to the Effective Date.

30. While Skadden, Arps quickly resolved some of the confirmation issues raised by the SBC Entities, until the eve of the confirmation hearing the SBC Entities refused to discuss any reasonable settlement terms for certain of the objections they had raised, necessitating that the Debtors prepare legal briefs and an evidentiary presentation for the confirmation hearing. Accordingly, Skadden, Arps spent significant time researching and analyzing the issues raised by the SBC Entities, preparing a responsive pleading and getting ready for a contested confirmation hearing.

31. In preparing the Debtors' case for the confirmation hearing, Skadden, Arps met with the Company's senior management, and prepared the Company's chief restructuring officer, Stanford Springel, for the direct testimony and cross examination that may have been necessary at the confirmation hearing. In addition, Skadden, Arps was in frequent contact with counsel to the Prepetition Agents leading up to the confirmation hearing.

32. In addition to preparation for the confirmation hearing, Skadden, Arps attorneys performed many other tasks associated with the Plan. Specifically, Skadden, Arps (a) worked to consummate certain Authorized Asset Sales contemplated by the Plan, including the review of sale agreements and related schedules, (b) fielded numerous telephone calls from many various creditors with questions regarding the Plan and (c) engaged in negotiations with objectors to resolve objections prior to the confirmation hearing.

33. At the confirmation hearing, Skadden, Arps attorneys presented the Debtors' case through, among other ways, the proffered direct testimony of the Company's chief restructuring officer, Stanford Springel, demonstrating the adequacy of the Disclosure Statement, feasibility of the Plan and proper classification of claims under the Plan.

34. After confirmation of the Plan, Skadden Arps attorneys drafted the required confirmation notice and coordinated the service of that notice on the entities required to be served

with notice pursuant to the Confirmation Order. In addition, Skadden, Arps attorneys coordinated the required publication of the confirmation notice.

35. Skadden, Arps attorneys also were instrumental in performing the corporate and restructuring work that enabled the effective date of the Plan (the "Effective Date") to occur on January 6, 2006. To that end, Skadden, Arps attorneys worked closely with counsel to the Prepetition Agents to ensure that all conditions to the Effective Date as set forth in Section 9.2 of the Plan were met.

36. In connection with the foregoing services, Skadden, Arps professionals expended 743.5 hours for which Skadden, Arps seeks compensation of \$404,187. An itemized breakdown of services rendered during the Case Period is attached as Exhibit D-1. A general breakdown of these services is as follows:

Name	Total Hours	Total Value
Seth E. Jacobson	4	\$3,020
Felicia G. Perlman	87.3	\$60,675
Timothy R. Pohl	131.0	\$98,907
Alecia Ranney-Marinelli	2.6	\$2,002
Brian P. Hanigan	5.3	\$1,988
Brian P. Karpuk	89.4	\$43,360
Peter E. Krebs	42.8	\$17,548
Heather A. Lohman	.3	\$146
Neil MacDonald	1.1	\$594
Matthew M. Murphy	205.4	\$99,620

Patrick J. Nash, Jr.	95.6	\$48,756
Alison M. Rhoten	5.8	\$2,552
Matthew A. Shebuski	21.5	\$11,610
Christie O. Tate	11.5	\$4,715
Paraprofessionals	39.9	\$8,694
Total	743.5	\$404,187.00

B. Utilities

37. During the Case Period, the SBC Entities filed both (i) the Motion of SBC Entities Pursuant to Rule 59(e) of the Federal Rules of Civil Procedure to Alter or Amend Order Under 11 U.S.C. §§ 105 and 366 (I) Prohibiting Utilities from Altering, Refusing or Discontinuing Services on Account of Prepetition Invoices, (II) Providing that Payment of Undisputed Claims in the Ordinary Course of Business Shall Constitute "Adequate Assurance of Payment" without the Need for Payment of Additional Deposits or Security and (III) Establishing Procedures for Determining Requests for Additional Adequate Assurance (the "Motion to Reconsider") and (ii) the Motion of the SBC Entities for Order (A) Directing Debtors to Pay Post-Petition Amounts Due to the SBC Entities, and (B) Requiring Debtors to Furnish Adequate Assurance of Payments Pursuant to 11 U.S.C. §366 (together with the "Motion to Reconsider," the "SBC Motions.")

38. The Debtors' efforts to settle the matters raised in the SBC Motions with the SBC Entities on reasonable terms prior to having to spend significant time to respond to the SBC Motions were rejected by the SBC Entities. As a result, Skadden, Arps' attorneys were required to spend significant time researching and analyzing issues related to the SBC Motions as well as drafting pleadings responsive to the SBC Motions.

39. As with their Plan objections, on the eve of the confirmation hearing the SBC Entities contacted the Debtors and proposed, for the first time, to resolve the SBC Motions on reasonable terms. Accordingly, Skadden, Arps negotiated a settlement, avoiding the final litigation of the issues raised by the SBC Motions.

40. Finally, the Qwest Entities contacted the Debtors early in the cases raising a number of potential objections. Unlike the SBC Entities, the Qwest Entities expressed a willingness to settle on reasonable terms early in the process, and Skadden, Arps assisted the Debtors in doing so, avoiding significant expense for the Debtors.

41. In connection with the foregoing services, Skadden, Arps professionals expended 457.3 hours for which Skadden, Arps seeks compensation of \$255,047. An itemized breakdown of services rendered during the Case Period is attached as Exhibit D-2. A general breakdown of these services is as follows:

Name	Total Hours	Total Value
Felicia G. Perlman	68.5	\$47,608
Timothy R. Pohl	102.5	\$77,388
Arthur W. Bresnahan	11.6	\$6,496
Brian P. Karpuk	163.2	\$79,152
Peter E. Krebs	103.1	\$42,271
Marc Ettrick	8.0	\$2,040
Paraprofessionals	.4	\$92
Total	457.3	\$255,047

C. Debtor in Possession Financing and Exit Financing

42. Critical to the success of the Chapter 11 Cases was obtaining the Debtor-in-possession financing and financing for the Reorganized Debtors. During the Case Period, Skadden, Arps spent substantial time negotiating, documenting and implementing the Company's Debtor-in-possession financing and exit financing. Skadden Arps' attorneys worked closely with the Company and counsel to the Prepetition Agents with respect to both of these facilities.

43. In connection with the foregoing services, Skadden, Arps professionals expended 427.95 hours for which Skadden, Arps seeks compensation of \$189,502. An itemized breakdown of services rendered during the Case Period is attached as Exhibit D-3. A general breakdown of these services is as follows:

Name	Total Hours	Total Value
Thomas A. Hale	4	\$3,020
Seth E. Jacobson	2.5	\$1,888
Kayalyn A. Marafioti	.4	\$318
Lynn M. McGovern	15.2	\$11,476
Felicia G. Perlman	5.5	\$3,823
Joseph W. Halliday	2.5	\$2,088
David f. Kolin	42.5	\$23,800
Joy E. Maddox	11.3	\$6,893
Elaine D. Ziff	3.25	\$1,820
Jaime M. Esler	12.2	\$5,674
Robert P. Gal	102.8	\$47,804
Yuan-Ying Hsu	74.3	32,692

Matthew M. Murphy	6.0	2,910
Glen Strong	28.4	\$15,336
Andrew D. Woodard	21.0	\$9,240
Paraprofessionals	96.1	\$20,720
Total	427.95	\$189,502

D. Case Administration

44. Skadden, Arps devoted substantial resources to the efficient and expeditious administration of these Reorganization Cases during the Case Period. Work performed under this category may be grouped as follows: (a) general preparation for, and attendance at, court hearings; (b) communications with creditors and other parties in interest, (c) service and publication of notices and (d) general case administration.

45. In pursuing a prepackaged plan of reorganization, the Debtors' management placed a premium on exiting from chapter 11 as quickly as possible to maximize the business enterprise value of the Debtors' businesses. Skadden, Arps worked to assist the Debtors in meeting this objective.

46. Skadden, Arps prepared for, attended and represented the Debtors at the first day hearing at which time, among other matters, the Court approved (a) payment of general unsecured creditors in the ordinary course of business, (b) continuation of employee benefits and payment of any prepetition amounts owed to employees, (c) rejection of certain unexpired leases of nonresidential real property, (d) procedures for the assumption and assignment of executory contracts pursuant to certain Authorized Asset Sales, (e) the form and manner of notice of the combined hearing on the adequacy of the disclosure statement and confirmation of the Plan (the Court also set a date for such combined hearing), (f) that the Debtors were not required to solicit

votes from the Holders of Class 6 Lease Rejection Claims and (g) on an interim basis, the Debtors' debtor-in-possession financing.

47. Skadden, Arps paraprofessionals maintained on a daily basis various materials critical to enable Skadden, Arps and others to promptly address issues that arose during the Case Period. Skadden, Arps' paraprofessionals also docketed all pleadings and orders filed in the Reorganization Cases and worked with the Debtors' notice and claims agent to ensure that all entities entitled to notice were kept apprised of significant events in the Reorganization Cases. Given the necessity that the Debtors exit chapter 11 as quickly as possible, the efficient management of administrative matters was a significant task.

48. In connection with the foregoing services, Skadden, Arps professionals expended 214.1 hours for which Skadden, Arps seeks compensation of \$83,747. An itemized breakdown of services rendered during the Reorganization Cases is attached as Exhibit D-4. A general breakdown of these services is as follows:

Name	Total Hours	Total Value
Felicia G. Perlman	21.1	\$14,665
Timothy R. Pohl	12.5	\$9,438
Brian P. Karpuk	12.5	\$6,063
Peter E. Krebs	33.2	13,612
Matthew M. Murphy	37.9	\$18,382
Paraprofessionals	96.9	\$21,587
Total	214.1	\$83,747

E. Regulatory and SEC Matters

49. The Debtors could not have emerged from Chapter 11 without securing necessary regulatory approval from each state in which the Debtors conduct business as well as from the Federal Communications Commission. Thus, Skadden, Arps worked to obtain all authorizations, consents, certifications, approvals, rulings, no-action letters, opinions and other documents or action required by law, regulation or order required by the Federal Communications Commission and state communications regulatory agencies in order to implement the Plan. This included filing numerous state and federal applications to approve the Company's restructuring as well as attendance at certain hearings to secure the approval of such applications.

50. In addition, during the Case Period Skadden, Arps worked to abide by the rules and regulations set forth by the Securities and Exchange Commission, including preparation of documents for public filing, filing such documents and preparing drafts of the appropriate press releases.

51. In connection with the foregoing services, Skadden, Arps professionals expended 118.5 hours for which Skadden, Arps seeks compensation of \$60,168. An itemized breakdown of services rendered during the Reorganization Cases is attached as Exhibit D-5. A general breakdown of these services is as follows:

Name	Total Hours	Total Value
Warren G. Lavey	11.4	\$8,778
Arthur W. Bresnahan	69.3	\$38,808
Brian P. Hanigan	9.4	\$3,525
Peter E. Krebs	3.5	\$1,435
Matthew M. Murphy	3.4	\$1,650
Alison M. Rhoten	10.6	\$4,664

Paraprofessionals	10.9	\$1,248
Total:	118.5	\$60,168

F. Asset Dispositions

52. Skadden, Arps negotiated and drafted the appropriate documents for the potential sale of assets to a third party. This included drafting and negotiating an asset purchase agreement, preparing the appropriate schedules related thereto, researching issues related to franchise agreements and state statutes impacting the sale and identifying certain parcels of real estate to effectuate such sale. In the end, the potential sale of assets was not determined to be in the best interest of the Company.

53. In connection with the foregoing services, Skadden, Arps professionals expended 61.05 hours for which Skadden, Arps seeks compensation of \$32,639. An itemized breakdown of services rendered during the Reorganization Cases is attached as Exhibit D-6. A general breakdown of these services is as follows:

Name	Total Hours	Total Value
Arthur W. Bresnahan	36.4	\$20,384
Matthew M. Murphy	12.7	\$6,160
David S. Prohofsky	11.95	\$6,095
Total:	61.05	\$32,639

G. General Corporate Advice

54. During the Case Period, Skadden, Arps devoted time to advising the Debtors on general corporate governance issues. This included preparation for, and participation in,

meetings of the board of directors as well as preparation of certain public filings pursuant to rules and regulations set forth by the Securities and Exchange Commission.

55. In connection with the foregoing services, Skadden, Arps professionals expended 44.8 hours for which Skadden, Arps seeks compensation of \$23,198. An itemized breakdown of services rendered during the Reorganization Cases is attached as Exhibit D-7. A general breakdown of these services is as follows:

Name	Total Hours	Total Value
Peter C. Krupp	16.4	\$13,038
Matthew M. Murphy	4.8	\$2,329
Timothy F. Nelson	5.2	\$2,808
Alison M. Rhoten	3.1	\$1,364
Richard C. Witzel, Jr.	1.0	\$540
Paraprofessionals	14.3	\$3,119
Total:	44.8	\$23,198

H. Executory Contracts (Personalty)

56. During the Case Period, Skadden, Arps addressed a number of issues involving executory contracts, including taking the appropriate steps to assume and assign executory contracts pursuant to certain Authorized Asset Sales, researching issues related to the requirement to cure defaults under section 365 of the Bankruptcy Code and addressing issues related to the attempted termination of a contract by Yellow Book USA, Inc.

57. In connection with the foregoing services, Skadden, Arps professionals expended 44.7 hours for which Skadden, Arps seeks compensation of \$22,616. An itemized

breakdown of services rendered during the Reorganization Cases is attached as Exhibit D-8. A general breakdown of these services is as follows:

Name	Total Hours	Total Value
Felicia G. Perlman	2.8	\$2,294
Brian P. Karpuk	33.8	\$16,393
Matthew M. Murphy	8.1	\$3,929
Total:	44.7	\$22,616

I. Leases (Real Property)

58. During the Case Period, Skadden, Arps rejected certain leases that were no longer necessary for the Company's ongoing operations pursuant to section 365 of the Bankruptcy Code and provided the appropriate notice to the non-Debtor parties to such lease. After rejection of such leases, Skadden, Arps worked with the Company's financial advisors to negotiate a resolution of disputes with respect to amounts owed as a result of the rejection of such leases.

59. In connection with the foregoing services, Skadden, Arps professionals expended 32.9 hours for which Skadden, Arps seeks compensation of \$14,228. An itemized breakdown of services rendered during the Reorganization Cases is attached as Exhibit D-9. A general breakdown of these services is as follows:

Name	Total Hours	Total Value
Felicia G. Perlman	2.9	\$2,016
Brian P. Karpuk	19.7	\$9,555
Peter E. Krebs	2.4	\$984
Matthew M. Murphy	1.5	\$728

Paraprofessionals	6.4	\$945
Total:	32.9	\$14,228

J. Matters with Billed Amounts Under \$10,000

60. During the Case Period, Skadden, Arps also (a) worked on issues related to filing schedules of assets and liabilities and statements of financial affairs, (b) monitored claims filed against the Company, (c) prepared the requisite monthly operating reports and quarterly operating reports for the United States Trustee to be filed with the Court, (d) analyzed certain tax issues, (e) addressed a third party motion to lift the automatic stay and (f) worked on issues regarding third party fees and the fees of Skadden, Arps.

61. In connection with the foregoing services, Skadden, Arps professionals expended 66.7 hours, in the aggregate, for which Skadden, Arps seeks compensation of \$28,952.

A general breakdown of these services is as follows:

Name	Total Hours	Total Value
Reports/Schedules	19.3	\$7,696
Claims Administration	16	\$6,620
Tax Matters	9.5	\$6,119
US Trustee	11.8	\$4,996
Fee (Third Party)	5.9	\$1,711
Automatic Stay	3.1	\$1,451
Fee	1.1	\$451
Total:	66.7	\$29,044

62. An itemized breakdown of services rendered and expenses accrued during the Reorganization Cases with respect to the above categories is attached as Exhibits D-10 through D-16, respectively.³

RELIEF REQUESTED

63. By this Final Application, Skadden, Arps now seeks final allowance of \$1,114,376 in fees calculated at the applicable guideline hourly billing rates of the firm's personnel who have worked on the Reorganization Cases during the Case Period and \$43,946 in charges and disbursements actually and necessarily incurred by Skadden, Arps while providing services to the Debtors during the Case Period.

64. Allowance of Professional Fees. During the Case Period, attorneys and paraprofessionals at Skadden, Arps billed an aggregate of 2,172.6 hours reflected in this Final Application working on matters concerning the Debtors' Reorganization Cases. Of the aggregate time spent, 673.55 hours were spent by partners and counsel, 1,219.65 hours were spent by associates and 279.4 hours were spent by paraprofessionals. The average billable rate for all attorneys and paraprofessionals that worked on the Reorganization Cases is \$487. A summary showing the name and position of each such partner, counsel, associate and paraprofessional, together with that person's date of admission to the bar (as applicable), net hours during the Case Period and hourly billing rate, is attached as Exhibit E hereto.

65. Reimbursement of Charges and Disbursements. As disclosed in the Retention Application that the Court approved, it is Skadden, Arps' standard policy to charge its clients in all areas of practice for certain charges and disbursements incurred in connection with such clients' cases. The charges and disbursements charged to clients include, among others,

³ Exhibit D-17 is limited to expenses related to the Secured Lender Matter Category.

charges for messenger services, photocopying, court fees, travel expenses, postage for large mailings, long distance telephone, computerized legal research, investigative searches, and other charges customarily billed by law firms. Certain charges and disbursements are not separately charged for under the bundled rate structure as described in the Engagement Agreement.

66. Skadden, Arps has attempted to minimize the charges and disbursements associated with the Debtors' Reorganization Cases, particularly for items such as reproduction and delivery.

67. During the Case Period, Skadden, Arps disbursed the following sums for actual and necessary charges and disbursements in the rendition of professional services in the Reorganization Cases, and requests that it be reimbursed therefor:

Charges and Disbursements Incurred

Category	Amount Owed
Reproduction	\$12,044
Filing/Court Fees	\$11,328
Computer Legal Research	\$11,195
Travel Expenses/Meals	\$3,122
Courier/Express/Postage	\$2,751
UCC Research	\$2,208
Outside Research Services	\$1,137
Telecommunications	\$161
Total:	\$43,946.00

68. Exhibit D attached hereto, in addition to providing detail with respect to the fees bill in each Matter Category, also provides documentation regarding charges and disbursements incurred during the Case Period. Furthermore, a brief description of each category is set forth below. The above charges and disbursements are reasonable and are consistent with those incurred by other bankruptcy practitioners in other large, complex chapter 11 reorganization cases in this and other districts.

69. Reproduction. As disclosed in the Engagement Agreement, Skadden, Arps charges 10 cents per page for photocopying performed in-house, while photocopying by outside vendors is billed to the Debtors at the actual invoice amount. During the Reorganization Cases, Skadden, Arps or its outside vendors photocopied a multitude of documents for the Debtors, such as, among other things, first day orders, notices related to the filing of the Chapter 11 Cases and the confirmation hearing, various pleadings in these cases, including the Confirmation Brief, and other documents in connection with the occurrence of the Effective Date under the Plan.

70. Filing/Court Fees. Skadden, Arps charges the Debtors for corporate filing fees, fees associated with filings required by the DIP Credit Agreement and Exit Facility Credit Agreement and court fees based on the actual vendors' invoice amount. These amounts included charges for filing amended certificates of incorporation for McLeodUSA and certain Affiliate Debtors as well as filing fees.

71. Computer Legal Research. Skadden, Arps charges for on-line computer research, such as Lexis-Nexis and Westlaw, at the actual vendors' invoice amounts, which amounts have been reduced by discounts Skadden, Arps receives from its vendors. With respect to on-line research, Skadden, Arps professionals spent time researching numerous issues in connection with the drafting of the Confirmation Brief and rebutting the objection of the SBC Entities' to the confirmation of the Plan.

72. Travel Expenses/Meals. Travel expenses during the Case Period consisted of out-of-town travel, two business meals related to receipt of regulatory approval out of state and local travel when time was of the essence. Breakfast, beverage and snack services at the Skadden, Arps' offices are not charged. Local and overtime meals are not charged separately to clients.

73. Courier/Express/Postage. Skadden, Arps charges the Debtors for outside messenger and express carrier services at the actual vendors' invoice amount which frequently involved discounts negotiated by Skadden, Arps. Postage is charged at actual U.S. mail rates. On certain occasions, internal staff may be required to act as messengers for whom the Debtors are charged a standard rate for their time. It was important that the Debtors emerge from the Chapter 11 Cases as quickly as possible, therefore it was necessary to provide notice to parties as quickly as possible. Therefore, during the Case Period, Skadden, Arps professionals incurred various charges for courier, express delivery and postage. Specifically, the vast majority of these time-sensitive documents were delivered to (a) this Court directly for filing and subsequent distribution by Skadden, Arps to parties in interest, (b) counsel to the Prepetition Agents and (c) certain other entities that, under the Plan, were required to receive certain notices and pleadings.

74. UCC Research. Skadden, Arps charges the Debtors for research involving lien searches and other searches stemming from the DIP Credit Agreement and the negotiation of the Exit Facility Credit Agreement based on the actual vendors' invoice amount

75. Outside Research Services. Skadden, Arps charges the Debtors for outside research services based on the actual vendors' invoice amount. These invoices relate to expenses incurred by Skadden, Arps in reviewing and accessing the pleadings filed in these cases through this Court's Pacer System.

76. Telecommunications. Skadden, Arps does not charge the Debtors for local telephone calls or facsimile services. Long distance telephone calls made from Skadden, Arps

offices are charged to the Debtors based on applicable phone rates and are allocated among the Matter Categories based on the hours worked by professionals on such Matter Categories.

REASONABLENESS OF FEES, CHARGES AND DISBURSEMENTS

77. Section 330 of the Bankruptcy Code governs compensation of professionals in a bankruptcy case and provides that, when determining the amount of reasonable compensation to award to a professional, the Court should consider the nature, extent and value of the services to the bankrupt estate and all other relevant factors. 11 U.S.C. § 330(a)(3).

78. In addition, Bankruptcy Rule 2016 provides that "an entity seeking interim or final compensation for services or reimbursement of necessary expenses, from the estate shall file an application setting forth a detailed statement of (1) the services rendered, time expended and expenses incurred, and (2) the amounts requested." Fed. R. Bankr. P. 2016(a).

79. This Court has stated that "[i]n reviewing fee applications, the bankruptcy court must address three issues: were the services that are the subject of the application properly compensable; if so, were they actual and necessary; if so, how will they be valued?" In re Lifschultz Fast Freight, 140 B.R. 482, 485 (Bankr. N.D. Ill. 1992) citing In re Wildman, 72 Bankr. 700, 704 (Bankr. N.D. Ill. 1987).

80. In addition, with respect to expenses, this Court has required that an "[a]pplication should contain a detailed list of expenses including the date, the type and the amount." In re Convent Guardian Corp., 103 B.R. 937, 939 (Bankr. N.D. Ill. 1989). In determining whether an expense is necessary, this Court has stated that "an expense is necessary if it was incurred because it was reasonably needed to accomplish the proper representation of the client." Id.

81. This Final Application meets these requirements. First, Skadden, Arps' services are properly compensable. The Court entered the Retention Order pursuant to 11 U.S.C. §§ 327(a) and 329 authorizing the retention of Skadden, Arps as attorneys for the Debtors. Further, this Final Application is being properly filed pursuant to 11 U.S.C. § 330. Therefore, Skadden, Arps' services are properly compensable. See In re Lifschultz, 140 B.R. 482, 485 (Court found that where law firm was properly retained and law firm filed appropriate fee application, law firm's services were "properly compensable").

82. Second, compensation is proper for services that are actual and necessary. The Court found that "[s]ervices necessary under section 330 are those services that aid the professional's client in fulfilling its duties under the Code." Id. Further, "[n]ecessary services have always included services that aid in the administration of the case and help the client fulfill duties under bankruptcy law, whether or not those services result in a monetary benefit to the estate." Id. The services provided by Skadden, Arps were actual and necessary. As set forth in this Final Application, Skadden, Arps' services have assisted the Debtors in pursuing confirmation of a prepackaged plan of reorganization resulting in the Debtors' emergence from Chapter 11 within 70 days after the Petition Date. This Final Application contains a detailed description of the services provided and expenses incurred as well as the back-up supporting the charges related thereto.

83. Third, "[o]nce the court has determined that the services for which compensation is sought were properly compensable and actual and necessary, it must determine the value of those services." Id. at 488. That is, "the court must evaluate what the 'actual, necessary services' were worth to the client, based upon the five criteria listed in section 330(a)(1)." Id. at 488. In accordance with the factors enumerated in 11 U.S.C. § 330, the amount requested herein by Skadden, Arps is fair and reasonable, and fairly represents the value the

Debtors received from Skadden, Arps' services, given: (i) the nature of the bankruptcy cases, (ii) the novelty and complexity of the bankruptcy cases, (iii) the time and labor required to represent the Debtors effectively, (iv) the time limitations imposed by the bankruptcy cases, (v) the nature and extent of the services rendered, (vi) Skadden, Arps' experience, reputation and ability, (vii) the value of Skadden, Arps' services, and (viii) the cost of comparable services other than in a case under title 11 of the United States Code.

84. Nature, complexity and limited expediency of the case. To maximize the value of these estates, the Debtors and their professionals pursued confirmation via a prepackaged plan of reorganization resulting in the Debtors' emergence from Chapter 11 within 70 days of the Petition Date.

85. The highly aggressive timetable pursuant to which the Reorganization Cases proceeded required Skadden, Arps and the other professionals involved to use every effort to seek to work quickly and efficiently.

86. Experience of Skadden, Arps. The experience of Skadden, Arps' attorneys has also benefited the estates. Skadden, Arps is among the largest firms and has one of the largest restructuring groups in the country. As more fully set forth in the Retention Application, Skadden, Arps' restructuring attorneys and attorneys from other practice areas have extensive knowledge and experience in dealing with the multitude and fast-paced issues that arise in similar chapter 11 proceedings. Accordingly, Skadden, Arps' depth of experience in chapter 11 matters has insured that a number of pressing matters could be addressed promptly.

87. Comparable services. Skadden, Arps' rates are consistent with rates charged to other clients in non-bankruptcy matters. Moreover, its rate structure was disclosed clearly in its Retention Application, which the Court approved and as to which no constituents objected.

88. The amounts sought by Skadden, Arps are consistent with the fees, charges and disbursements incurred by other chapter 11 debtors in cases of similar size, complexity and duration. Accordingly, the cost of comparable services supports the Final Application, and the services performed during the Case Period more than warrant the allowance of compensation, particularly in view of the results achieved.

89. Compliance with Guidelines. Skadden, Arps believes that this Final Application, together with the attachments hereto, substantially complies in all material respects with the United States Trustee Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. §330 issued January 30, 1996. To the extent this Final Application does not comply in every respect with the requirements of such guidelines, Skadden, Arps respectfully requests a waiver for any such technical non-compliance.

WHEREFORE, Skadden, Arps respectfully requests that the Court (a) grant it final allowance of \$1,114,376 as compensation for professional services rendered as attorneys for the Debtors during the Case Period plus reimbursement of actual and necessary charges and disbursements incurred during the Case Period in the amount of \$43,946; and (b) grant it such other and further relief as is just.

Dated: Chicago, Illinois
February 6, 2006

/s/ Timothy R. Pohl

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