

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

In re:) Case No. 05-63229
) through 05-63234
)
MCLEODUSA INCORPORATED,) Chapter 11
et al.,¹) Hon. John H. Squires
)
Debtors.) **Hearing Date:** October 28, 2005
) **Hearing Time:** 10:30 a.m.

NOTICE OF APPLICATION

PLEASE TAKE NOTICE THAT on October 28, 2005 the Debtors' filed this **APPLICATION FOR ORDER UNDER 11 U.S.C. §§ 105, 327(a), 329 AND 331 AUTHORIZING EMPLOYMENT AND RETENTION OF SKADDEN, ARPS, SLATE, MEAGHER AND FLOM LLP AND AFFILIATED LAW PRACTICE ENTITIES AS ATTORNEYS FOR DEBTORS-IN-POSSESSION AND APPROVING INTERIM COMPENSATION PROCEDURES.**

Dated: October 28, 2005

SKADDEN, ARPS, SLATE,
MEAGHER & FLOM LLP

/s/ Timothy R. Pohl

Timothy R. Pohl (ARDC No. 06208157)
Peter C. Krupp (ARDC No. 06193707)
Felicia Gerber Perlman (ARDC No. 06210753)
333 West Wacker Drive
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Attorneys for Debtors and
Debtors-in-Possession

¹ The Debtors consist of: McLeodUSA Incorporated (EIN: x7240); McLeodUSA Holdings, Inc. (EIN: x0714); McLeodUSA Information Services (EIN: x9757); McLeodUSA Network Services, Inc. (EIN: x7241); McLeodUSA Purchasing, L.L.C. (EIN: x1014); and McLeodUSA Telecommunications Services, Inc. (EIN: x7242)

IN THE UNITED STATES BANKRUPTCY COURT
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In re:) Case No. 05-63229
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MCLEODUSA INCORPORATED,) Chapter 11
et al.,¹) Hon. John H. Squires
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**APPLICATION FOR ORDER UNDER 11 U.S.C. §§ 105, 327(a), 329 AND 331
AUTHORIZING EMPLOYMENT AND RETENTION OF SKADDEN, ARPS,
SLATE, MEAGHER AND FLOM LLP AND AFFILIATED LAW PRACTICE
ENTITIES AS ATTORNEYS FOR DEBTORS-IN-POSSESSION AND
APPROVING INTERIM COMPENSATION PROCEDURES**

McLeodUSA Incorporated ("McLeodUSA") and certain of its subsidiaries (the "Subsidiary Debtors"), debtors and debtors-in-possession in the above-captioned cases (collectively, the "Debtors" or the "Company"), submit this application (the "Application") for an order under 11 U.S.C. §§ 105, 327(a), 329 and 330 authorizing the employment and retention of Skadden, Arps, Slate, Meagher and Flom LLP and its affiliated law practice entities (collectively, "Skadden" or the "Firm") as counsel for the Debtors and approving interim compensation procedures. In support of this Application, the Debtors rely on the Declaration of Stanford

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Springel in Support of Chapter 11 Petitions and First Day Orders (the "Springel Declaration") and the Declaration of Timothy R. Pohl Under Fed. R. Bank. P. 2014 and 2016 in Support of Application for Order Under 11 U.S.C. §§ 105, 327(a), 329 and 331, Authorizing Employment and Retention of Skadden, Arps, Slate, Meagher and Flom LLP and Affiliated Law Practice Entities as Attorneys for Debtors-In-Possession (the "Pohl Declaration"). In further support of this Motion, the Debtors submit as follows:

BACKGROUND

A. The Chapter 11 Filing

1. On the date hereof (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 continue to manage and operate their businesses as debtors-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. The Debtors have moved this Court for an order authorizing the joint administration of these chapter 11 cases.

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"). As discussed below, the Debtors solicited votes on the Plan prior to

the Petition Date and obtained overwhelming acceptances of the Plan from each class of creditors entitled to vote on the Plan.

3. No creditors' committee has yet been appointed in these cases by the United States Trustee. No trustee or examiner has been appointed in any of the Debtors' chapter 11 cases.

4. 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).

5. The statutory predicates for the relief requested herein are sections 105, 327(a), 329 and 331 of the Bankruptcy Code and Rules 2014 and 2016 of the Federal Rules of Bankruptcy Procedure.

B. Background and Current Business Operations

6. 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. As of September 30, 2005 the Company had approximately 1,730 employees.

7. For the quarter ended June 30, 2005, the Company had revenue of \$159.7 million and for the year ended December 31, 2004, the Company had

revenue of \$716.2 million. The Company 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.

C. Prepetition Capital Structure

8. In April 2002, McLeodUSA completed a prearranged chapter 11 case for the parent holding company only (the "Prior Restructuring"). For the reasons set forth below, the Company's operating performance has not met the projections made at the time of the Prior Restructuring and the balance sheet effectuated under the Prior Restructuring remains highly leveraged.

9. The principal obligations for funded debt on McLeodUSA's balance sheet are (a) obligations outstanding under the Credit Agreement dated as of April 16, 2002, as amended, modified or supplemented among McLeodUSA, JPMorgan Chase Bank, N.A., as administrative agent and the lenders party thereto (the "Senior Prepetition Credit Agreement"), which are guaranteed by the Subsidiary Debtors and are secured by liens on substantially all of the Debtors' assets, and (b) obligations outstanding under the Credit Agreement dated as of May 31, 2000, as amended, modified or supplemented, among McLeodUSA, JPMorgan Chase Bank, N.A., as administrative agent and the lenders party thereto (the "Junior Prepetition Credit Agreement," and together with the Senior Prepetition Credit Agreement, the

"Credit Facilities"), which are guaranteed by the Subsidiary Debtors and are secured by liens on substantially all of the Debtors' assets. Under applicable security documents, the Debtors believe that obligations under the Senior Prepetition Credit Agreement are senior to those under the Junior Prepetition Credit Agreement. As of October 1, 2005, obligations outstanding under the Senior Prepetition Credit Agreement total approximately \$100 million plus \$4.2 million in unfunded letters of credit, and obligations under the Junior Prepetition Credit Agreement total approximately \$677.3 million plus accrued and unpaid interest.

10. McLeodUSA has two outstanding series of preferred stock. The Preferred Series A, with 10,000,000 shares authorized and 2,320,480 shares issued and outstanding as of June 30, 2005, and the Preferred Series B, with 10 shares authorized, issued and outstanding as of June 30, 2005.

11. McLeodUSA has three outstanding series of common stock, Class A Common Stock, Class B Common Stock and Class C Common Stock. As of March 1, 2005, there were 4,719 holders of record of the Class A Common Stock, two holders of record of the Class B Common Stock and one holder of record of the Class C Common Stock. As of June 30, 2005: 1,886,249,986 shares of Class A Common Stock were authorized and 201,685,063 were issued and outstanding; 78,203,135 shares of Class B Common Stock were authorized, issued and outstanding; and 35,546,879 shares of Class C Common Stock were authorized, issued and outstanding.

D. Events Leading to a Chapter 11 Filing

12. 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.

13. 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 available to the Company. The principal alternatives available to the Company 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.

14. In early 2005, an informal steering committee (the "Lender 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, any 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 expires on October 31, 2005.

15. 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 have negotiated the terms of a stand-alone restructuring, which is embodied in the Plan.

E. The Plan of Reorganization

16. The principal economic terms of the Plan, which will be implemented if the Plan is ultimately confirmed by this Court, provide for the Company's balance sheet to be restructured by:

- (a) converting the Senior Prepetition Lender Claims into New Term Loan Notes;²
- (b) converting the Junior Prepetition Lender Claims into 100% of the New Common Stock, subject to dilution by the Management Stock Plan Awards; and
- (c) canceling the Company's existing Preferred Stock and Common Stock.

Importantly, all other unsecured claims, except for the claims held by landlords of a designated group of leases of non-residential real property (the "Rejected Lease Claims") that the Debtors intend to reject, are unimpaired under the Plan. Under the Plan, holders of the Rejected Lease Claims will be paid 100% of the allowed amount of their claims as determined by section 502(b)(6) of the Bankruptcy Code.

17. Accordingly, under the Plan, there are three classes of Impaired Claims (Class 4 Senior Prepetition Lender Claims, Class 5 Junior Prepetition Lender

² Unless otherwise defined, capitalized terms used herein shall have the meanings ascribed to them in the Plan

Claims and Class 6 Lease Rejection Claims) and two classes of Impaired Interests (Class 8 Old Preferred Stock Interests and Subordinated Claims and Class 9 Old Common Stock Interests and Subordinated Claims). All other Claims and Interests are Unimpaired (Class 1 Non-Tax Priority Claims, Class 2 Other Secured Claims, Class 3 General Unsecured Claims and Class 7 Equity Interests in Debtors' Subsidiaries), which means that holders of such Claims and Interests will be unaffected by the Plan.

18. Based upon the valuation of the Company as set forth in the Disclosure Statement (and reinforced by the indications of interest from third parties in the process of exploring sale opportunities), the value of the Company is significantly less than the aggregate amount of the Claims held by the Prepetition Lenders, which Claims are secured by substantially all assets of the Company. Accordingly, the Plan essentially provides for the transfer of ownership of the Company to the Junior Prepetition Lenders.

F. Solicitation

19. 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 (the "Voting Deadline").

20. 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..

RELIEF REQUESTED

21. By this Application, the Debtors seek to employ and retain Skadden, as of the Petition Date, to represent the Debtors as their bankruptcy counsel in connection with the filing of their chapter 11 petitions and the prosecution of their chapter 11 cases and establish procedures for the compensation and reimbursement of Skadden on a monthly basis. Accordingly, the Debtors respectfully request entry of an order under sections 105, 327(a), 329 and 331 of the Bankruptcy Code, in substantially the form attached hereto, authorizing the Debtors (a) to employ and retain Skadden as their attorneys under a general retainer to perform the legal services that will be necessary during their chapter 11 cases, as summarized herein and more fully described in the Engagement Agreement, dated as of March 1, 2005, between Skadden and the Debtors (annexed to the Pohl Declaration as Exhibit A) (the "Engagement Agreement") and (b) to compensate and reimburse Skadden on a monthly basis pursuant to the procedures set forth herein.

BASIS FOR RELIEF

22. Continued representation of the Debtors by their restructuring and bankruptcy counsel, Skadden, is critical to the success of the Debtors' reorganization because Skadden is uniquely familiar with the Debtors' business and legal affairs.

23. Since October 2001, Skadden has performed extensive legal work for the Debtors in connection with certain corporate, financing, litigation, securities and other significant matters. Furthermore, Skadden assisted the Debtors in restructuring their debt in the Prior Restructuring.

24. Prior to commencement of these chapter 11 cases, the Debtors sought the services of Skadden with respect to, among other things, advice regarding restructuring matters in general and preparation for the potential commencement and prosecution of chapter 11 cases for the Debtors. In this regard, Skadden has performed extensive legal work for the Debtors in connection with their ongoing restructuring efforts including, but not limited to, financing and creditor issues. In addition, Skadden assisted the Debtors with formulating, drafting and soliciting votes on the Plan. As a result of representing the Debtors on such matters, Skadden has acquired extensive knowledge of the Debtors and their businesses and is uniquely familiar with the Debtors' capital structure, corporate structure, financing documents and other material agreements.

25. The Debtors believe that continued representation by their prepetition restructuring and bankruptcy counsel, Skadden, is critical to the Debtors' efforts to restructure their businesses because Skadden is extremely familiar with the Debtors' businesses and legal and financial affairs and, accordingly, is well suited to guide the Debtors through the chapter 11 process. Furthermore, Skadden has vast experience and knowledge in the field of debtors' and creditors' rights and business reorganizations under chapter 11 of the Bankruptcy Code. Finally, because Skadden maintains an office in the Northern District of Illinois, the Debtors will be able to minimize duplication of effort in these cases and avoid the expense of retaining local counsel.

26. The Debtors desire to employ Skadden under a general retainer because of the extensive legal services that will be required in connection with the businesses of the Debtors and their affiliates. As noted above, the Debtors believe Skadden is well qualified and uniquely able to act on the Debtors' behalf.

SERVICES TO BE RENDERED

27. The services of attorneys under a general retainer are necessary to enable the Debtors to execute faithfully their duties as debtors-in-possession. Subject to further order of this Court, Skadden will be required to render various services to the Debtors including, among others, the following:

- (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 U.S. Trustee, and protect the interests of the Debtors' estates before such courts and the U.S. 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.

28. It is necessary and essential that the Debtors, as debtors-in-possession, employ attorneys under a general retainer to render the foregoing professional services. Skadden has indicated a willingness to act on behalf of, and render such services to, the Debtors.

DISINTERESTEDNESS OF PROFESSIONALS

29. To the best of the Debtors' knowledge, the partners, counsel and associates of Skadden (a) do not have any connection with any of the Debtors, their affiliates, their creditors, the U.S. Trustee or any person employed in the office of the

U.S. Trustee, or any other party in interest, or their respective attorneys and accountants except as otherwise set forth herein and in the accompanying Pohl Declaration, (b) are "disinterested persons," as that term is defined in section 101(14) of the Bankruptcy Code, and (c) do not hold or represent any interest adverse to the estates.

30. Except as otherwise set forth in the Pohl Declaration:

- (a) Neither Skadden nor any attorney at the firm holds or represents an interest adverse to the Debtors' estates.
- (b) Neither Skadden nor any attorney at the firm is a creditor, an equity security holder or an insider of the Debtors, except that Skadden previously rendered legal services to the Debtors for which it was compensated as disclosed below.
- (c) Neither Skadden nor any attorney at the firm is or was, within two (2) years before the Petition Date, a director, officer or employee of the Debtors.
- (d) Skadden does not have an interest materially adverse to the interest of the estates or of any class of creditors or equity security holders, by reason of any direct or indirect relationship to, connection with or interest in the Debtors, or for any other reason.
- (e) No attorney at Skadden is related to any U.S. District Judge or U.S. Bankruptcy Judge for the Northern District of Illinois or to the U.S. Trustee for such district or to any known employee in the office thereof.

PROFESSIONAL COMPENSATION

31. Prepetition Payments: Pursuant to the Engagement Agreement, Skadden was to be paid a \$250,000 retainer for professional services and expenses. Because Skadden has been representing the Debtors for years on multiple matters, Skadden was already holding retainers aggregating \$415,000, which was simply

maintained as the retainer under the Engagement Agreement with the consent of the Debtors (the "Initial Retainer"). Prior to the filing of the Debtors' chapter 11 cases, Skadden submitted invoices to the Debtors on a periodic basis, for professional fees and expenses. The Debtors were invoiced for fees and expenses including estimated unposted professional fees and expenses through the Petition Date. With respect to these invoices, in the 90 days prior to the Petition Date, in the ordinary course of business, the Debtors paid in the aggregate the sum of approximately \$2,418,652 for services rendered and as reimbursement for charges and disbursements incurred, \$2,338,806 of which was attributable to legal services performed and charges and disbursements incurred in contemplation of or in connection with these cases.

32. In addition, prior to the Petition Date, Skadden drew the full amount of the Initial Retainer to pay for estimated fees and expenses incurred prior to and up to the Petition Date but that were unable to be billed specifically because such amounts had not yet been processed through Skadden's billing system. Skadden will promptly issue a final billing statement (the "Final Billing Statement") for actual fees, charges, and disbursements for the period prior to the Petition Date once all fees, charges, and disbursements accrued prior to the filing have been finally posted (the "Final Billed Amount"). To the extent that the amounts paid to Skadden (including via the draw on the Initial Retainer) exceed the Final Billed Amount, such excess payment shall be returned to the retainer account and held by Skadden (the "Final

Retainer") to pay any fees, charges and disbursements which remain unpaid at the end of the reorganization cases.

33. Terms of Retention and Proposed Postpetition Payment Procedures: Skadden's fees for professional services are based, in part, on its guideline hourly rates which are periodically adjusted. Skadden will be providing professional services to the Debtors under its bundled rate schedules and, therefore, Skadden will not be seeking to be separately compensated for certain staff and clerical personnel who also record time spent working on matters. As of September 1, 2005, the hourly rates under the bundled rate structure range from \$585 to \$835 for partners and of counsel, \$560 to \$640 for counsel and special counsel, \$295 to \$540 for associates, and \$90 to \$230 for legal assistants and support staff. The hourly rates set forth above are subject to the periodic increases in the normal course of the Firm's business, often due to the increased experience of a particular professional.

34. The hourly rates set forth above are the Firm's standard bundled hourly rates for work of this nature. These rates are set at a level designed to compensate Skadden fairly for the work of its attorneys and legal assistants and to cover the fixed and routine overhead expenses, including those items billed separately to other clients under the Firm's standard unbundled rate structure. Consistent with the Firm's policy with respect to its other clients, Skadden will continue to charge the Debtors for all other services provided and for other charges and disbursements incurred in the rendition of services. These charges and disbursement include, among others, costs of

telephone charges, photocopying (at a reduced rate of \$0.10 per page for black-and-white copies and a higher commensurate charge for color copies), travel, business meals (but no overtime meals), computerized research, messengers, couriers, postage, witness fees and other fees related to trials and hearings. Charges and disbursements are invoiced pursuant to Skadden's Policy Statement Concerning Charges and Disbursements. The "Policy Statement Concerning Charges and Disbursements" is attached to the Engagement Agreement. Certain charges are not separately charged for under the bundled rate structure as described in the Engagement Agreement.

35. Skadden intends to apply to the Court for allowance of compensation for professional services rendered and reimbursement of charges and disbursements incurred in these chapter 11 cases in accordance with applicable provisions of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, the Local Bankruptcy Rules and orders of this Court. Skadden will seek compensation for the services of each attorney and paraprofessional acting on behalf of the Debtors in these cases at the then-current standard bundled rate charged for such services on a non-bankruptcy matter.

36. Skadden has agreed to accept compensation of such sums as may be allowed by the Court on the basis of the professional time spent, the rates charged for such services, the necessity of such services to the administration of the estates, the reasonableness of the time within which the services were performed in relation to

the results achieved and the complexity, importance and nature of the problems, issues or tasks addressed in these cases.

37. Other than as set forth above, no arrangement is proposed between the Debtors and Skadden for compensation to be paid in these cases.

38. Except for sharing arrangements among Skadden, Arps, Slate, Meagher and Flom LLP, its affiliated law practice entities, and their respective members, Skadden has no agreement with any other entity to share any compensation received, nor will any be made, except as permitted under section 504(b)(1) of the Bankruptcy Code.

39. The Debtors propose that during the course of these cases, Skadden invoice the Debtors on or before the last day of the month following the month for which compensation is sought (the "Monthly Statement Date") for services rendered and charges and disbursements incurred (the "Monthly Statement"). The Debtors propose that Skadden serve such Monthly Statement on (i) McLeodUSA Incorporated, 6400 C Street SW, P.O. Box 3177, Cedar Rapids, IA, 52406 (Attn: James E. Thomopson, Esq.), (ii) the United State Trustee, 227 West Monroe Street, Suite 3350, Chicago, Illinois, 60606 and (iii) counsel to the Agent for the Prepetition Lenders, Davis, Polk & Wardwell, 450 Lexington Avenue, New York, New York 10017 (Attn: Donald S. Bernstein, Esq.).

40. The Debtors propose that the Debtors, the United States Trustee and counsel to the Prepetition Lenders shall have twenty (20) days after the Monthly

Statement Date to review the statement. The Debtors propose that at the expiration of the twenty (20) day period, the Debtors promptly pay ninety percent (90%) of the fees and one hundred percent (100%) of the disbursements requested in the Monthly Statement, except such fees or disbursements as to which an objection has been served. In the event that the Debtors, the United States Trustee or counsel to the Prepetition Lenders has an objection to the compensation or reimbursement sought in a particular Monthly Statement, such party shall, within twenty (20) days of the Monthly Statement Date, serve upon Skadden and the other persons designated to receive the Monthly Statements, a written "Notice of Objection to Fee Statement" setting forth the precise nature and the amount at issue. Thereafter, the objecting party and Skadden shall attempt to reach an agreement regarding the correct payment to be made. If the parties are unable to reach an agreement on the objection within twenty (20) days after receipt of such objection, the objecting party may file its objection with the Court and such objection will be resolved at the Final Fee Application Hearing (defined below).³

³ Section 331 of the Bankruptcy Code provides, in relevant part that "[a] trustee, an examiner, a debtor's attorney, or any professional person employed under section 327 or 1103 of this title may apply to the Court not more than once every 120 days after an order for relief in a case under this title, or more often if the Court permits, for such compensation for services rendered before the date of such an application or reimbursement for expenses incurred before such date as is provided under section 330 of this title. . . ." Section 105(a) of the Bankruptcy Code provides, in relevant part, that "[t]he court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title. No provision of this title ... shall be construed to preclude the Court from, sua sponte, taking any action or making any determination necessary or appropriate to enforce or implement court orders or rules. . . ." Similar procedures for compensating and reimbursing court-approved professionals have been established in other chapter 11 cases in this district. See, e.g., Kmart Corp., et al., Case No. 02-02474 (SPS) (Bankr. N.D.Ill. January 25, 2002); Comdisco, Inc., et (continued...)

41. Pursuant to section 5.10 of the Plan, within thirty (30) days of the Effective Date, Skadden shall file a final application for compensation and reimbursement for services rendered in connection with the chapter 11 cases and set such matter for hearing before the Court (the "Final Fee Application Hearing").

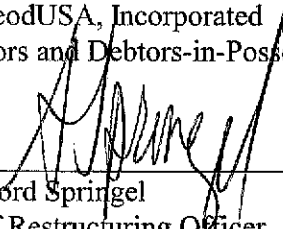
42. No previous request for relief sought in this Application has been made to this Court or any other.

³ (...continued)
al., Case No. 01-24795 (RB) (Bankr. N.D.Ill. July 18, 2001); In re Outboard Marine Corporation, Case No. 00 B 37405 (Bankr. N.D.Ill. December 22, 2000); In re Allied Products Corporation, Case No. 00 B 28798 (Bankr. N.D. Ill. October 2, 2000).

WHEREFORE, the Debtor respectfully requests that the Court enter an order (i) authorizing the Debtors to retain and employ Skadden effective as of the Petition Date, as its attorneys under a general retainer to perform the legal services that will be necessary during their chapter 11 cases and (ii) granting such other and further relief as is just and proper.

Dated: Cedar Rapids, Iowa
October 28, 2005

McLeodUSA, Incorporated
Debtors and Debtors-in-Possession



Stanford Springel
Chief Restructuring Officer

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

IN RE:) Chapter 11
) Hon. John H. Squires
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) **Hearing Date:** October 28, 2005
) **Hearing Time:** 10:30 a.m

Timothy R. Pohl hereby certifies that he caused to be served a true and correct copy of the **above Motion** upon the parties listed on the attached Service List via Federal Express Overnight Delivery (Saturday Delivery) on the 28th day of October, 2005.

Dated: Chicago, Illinois
October 28, 2005

/s/ Timothy R. Pohl _____

Timothy R. Pohl (ARDC No. 06208157)
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SERVICE LIST

The Office of the United States Trustee
Attention: Kathryn M. Gleason, Esq.
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P.O. Box 3177
Cedar Rapids, IA 52406-3177

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**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**

Upon the application, dated October 28, 2005 (the "Application"),¹
wherein McLeodUSA Incorporated ("McLeodUSA") and certain of its subsidiaries
(the "Subsidiary Debtors") debtors and debtors-in-possession in the above-captioned
cases (collectively the "Debtors"), applied to this Court for entry of an order,
pursuant to 11 U.S.C. §§ 327(a) and 329, authorizing, each of the Debtors to employ
and retain the law firm of Skadden, Arps, Slate, Meagher & Flom LLP and its
affiliated law practice entities (collectively, "Skadden" or the "Firm") under a general

¹ Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Application.

retainer as their attorneys; and the Court having reviewed the Application, the Declaration of Timothy R. Pohl (the "Pohl Declaration"), a member of Skadden, Arps, Slate, Meagher & Flom LLP, and the Declaration of Stanford Springel in Support of Chapter 11 Petitions and First Day Orders; and the court being satisfied with the representations made in the Application and the Pohl Declaration that Skadden represents no interest adverse to any of the Debtors' estates, that it is a disinterested person as that term is defined under section 101(14) of the Bankruptcy Code, as modified by section 1107(b) of the Bankruptcy Code, that its employment is necessary and in the best interests of the Debtors' estates, creditors, and other parties-in-interest; and it appearing that proper and adequate notice has been given and that no other or further notice is necessary; and upon the record herein; and after due deliberation thereon; and good and sufficient cause appearing therefor, it is hereby

ORDERED, ADJUDGED AND DECREED THAT:

1. The Application is Granted.
2. Pursuant to sections 327(a) and 329 of the Bankruptcy Code, the Debtors, as debtors and debtors-in-possession, are authorized to employ and retain Skadden as their attorneys under a general retainer as of the Petition Date to perform the services set forth in the Application and Engagement Agreement, a copy of which is attached to the Pohl Declaration as Exhibit A.

3. Skadden shall be compensated as delineated in the Engagement Agreement and in accordance with the procedures set forth in sections 330 and 331 of the Bankruptcy Code and such Bankruptcy Rules and Local Rules as may then be applicable, from time to time, and such procedures as may be fixed by order of this Court.

4. Skadden is authorized to apply the Initial Retainer to pay any fees, charges, and disbursements that relate to services rendered to the Debtors prior to the Petition Date that remain unpaid as of such date and shall add and hold the remaining portion of the Initial Retainer as the Final Retainer for application of fees, charges and disbursements relating to services rendered subsequent to the Petition Date as may further be ordered by the Court.

5. During the course of these cases, Skadden shall invoice the Debtors on or before the last day of the month following the month for which compensation is sought (the "Monthly Statement Date") for services rendered and charges and disbursements incurred (the "Monthly Statement"). Skadden shall serve such Monthly Statement on (i) McLeodUSA Incorporated, 6400 C Street SW, P.O. Box 3177, Cedar Rapids, IA, 52406 (Attn: James E. Thomopson, Esq.), (ii) the United State Trustee, 227 West Monroe Street, Suite 3350, Chicago, Illinois, 60606 and (iii) counsel to the Agent for the Prepetition Lenders, Davis, Polk & Wardwell,

450 Lexington Avenue, New York, New York 10017 (Attn: Donald S. Bernstein, Esq.).

6. The Debtors, the United States Trustee and counsel to the Prepetition Lenders shall have twenty (20) days after the Monthly Statement Date to review the statement. At the expiration of the twenty (20) day period, the Debtors shall promptly pay ninety percent (90%) of the fees and one hundred percent (100%) of the disbursements requested in the Monthly Statement, except such fees or disbursements as to which an objection has been served. In the event that the Debtors, the United States Trustee or counsel to the Prepetition Lenders has an objection to the compensation or reimbursement sought in a particular Monthly Statement, such party shall, within twenty (20) days of the Monthly Statement Date, serve upon Skadden and the other persons designated to receive the Monthly Statements, a written "Notice of Objection to Fee Statement" setting forth the precise nature and the amount at issue. Thereafter, the objecting party and Skadden shall attempt to reach an agreement regarding the correct payment to be made. If the parties are unable to reach an agreement on the objection within twenty (20) days after receipt of such objection, the objecting party may file its objection with the Court and such objection will be resolved at the Final Fee Application Hearing (defined below).

7. Pursuant to section 5.10 of the Plan, within thirty (30) days of the Effective Date, Skadden shall file a final application for compensation and reimbursement for services rendered in connection with the chapter 11 cases and set such matter for hearing before the Court (the "Final Fee Application Hearing").

Dated: Chicago, Illinois
_____ 2005

United States Bankruptcy Judge
The Honorable John H. Squires