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T.R.A. DOCKET ROOM



October 2, 2009

VIA OVERNIGHT DELIVERY

Ms. Sharla Dillon
Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Re: *Joint Application of PAETEC Communications, Inc., US LEC of Tennessee Inc.
and McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business
Services for Approval to Participate in Various Debt Financing Arrangements*

Dear Ms. Dillon:

Enclosed for filing are an original and thirteen (13) copies of the above referenced application, which seeks the approval of the Tennessee Regulatory Authority for the above named Applicants to participate in various debt financing arrangements contemplated by their ultimate corporate parent, PAETEC Holding Corp. Also enclosed is check in the amount of \$75.00 to cover the requisite filing fee for three (3) certificated applicants.

Please date-stamp the extra copy of this filing, and return it to us in the self-addressed, postage paid envelope provided. Should you have any questions with respect to this matter, please do not hesitate to contact us.

Respectfully submitted,

A handwritten signature in dark ink, appearing to be "Tony S. Lee".

Tony S. Lee
Grace R. Chiu

Counsel to Applicants

Enclosure

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY**

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T.R.A. DOCKET ROOM

Joint Application of)

PAETEC COMMUNICATIONS, INC.,)

US LEC OF TENNESSEE INC.)

and)

McLEODUSA TELECOMMUNICATIONS)
SERVICES, INC. D/B/A PAETEC)
BUSINESS SERVICES)

For Approval to Participate in Various)
Debt Financing Arrangements)

Docket No. 09-_____

JOINT APPLICATION

I. INTRODUCTION

PAETEC Communications, Inc. ("PAETEC"), US LEC of Tennessee Inc. ("PAETEC-TN"), and McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services ("PAETEC Business") (collectively, the "Applicants," and each, an "Applicant"), by and through their undersigned counsel, hereby request approval,¹ to the extent required by Section 65-4-109 of the Tennessee Code Annotated, TENN. CODE ANN. § 65-4-109, to participate in various debt financing arrangements contemplated by their ultimate corporate parent, as described more fully herein.

Applicants provide intrastate telecommunications services in the State of Tennessee pursuant to certification granted by the Tennessee Regulatory Authority ("Authority") as detailed

¹ Although Applicants are seeking any necessary approval for their participation in these financing arrangements, Applicants do so without prejudice to their right to assert that such transactions are beyond the jurisdiction of the state public utility commissions.

in Section II of this Application. Applicants are sister companies and wholly owned subsidiaries of PAETEC Holding Corp. ("PAETEC Parent"), a publicly traded Delaware corporation headquartered in Fairport, New York. PAETEC Parent is one of the largest nationwide providers of competitive communications services, with a presence in 83 of the nation's top 100 metropolitan statistical areas ("MSAs").

PAETEC Parent anticipates that over the next five years it will enter into various debt financing arrangements including, but not limited to, transactions to amend, restate, and/or refinance long-term debt, finance new capital expenditures, and obtain funding for general corporate purposes and working capital. In order for PAETEC Parent to capture market conditions favorable to such arrangements, Applicants need the flexibility to immediately participate in such financing transactions before such conditions change and the opportunity to take advantage of favorable financing conditions and other business opportunities is lost. Accordingly, Applicants request the Authority to grant them authorization providing the flexibility to participate in various financing transactions and related arrangements as follows:

1. Authorization to guarantee and secure the obligations of PAETEC Parent (and, as applicable, its subsidiaries, including Applicants) of up to \$700 million in long-term indebtedness. The requested authorization, which would cover the execution and delivery of one or more guarantees, pledge and security agreements, and such other agreements as may be required, is in addition to the approvals previously granted by the Authority in Docket Nos. 06-00221 and 07-00229 (hereafter, the "Financing Orders");² and

² By orders issued in 2006 and 2007 in the above referenced dockets, the Authority granted Applicants authorization to participate in PAETEC Parent's debt financing arrangements.

2. Authorization to participate in various financing arrangements related to any restructuring, refinancing and/or financing of any long-term indebtedness of PAETEC Parent (and, as applicable, its subsidiaries, including Applicants) covered by the authorizations granted in paragraph 1 immediately preceding and in the Financing Orders, so long as the total long-term indebtedness at any one time outstanding complies with any such conditions as the Authority determines are necessary to include in its order approving this Application. The authorization to participate in such related financing arrangements shall permit refinancings, refundings, renewals, reissuances, redemptions, and rollovers of any such indebtedness outstanding, the incurrence or issuance of additional long-term indebtedness, and the amendment or revision of any terms or provisions of, or relating to, any long-term indebtedness.

The authority described above will provide PAETEC Parent with the flexibility required to access the capital markets in a timely and efficient manner, to take advantage of opportunities to reduce its financing costs, obtain more attractive terms and conditions and/or relaxed covenant restrictions, better leverage its financial resources, and select the financing options most appropriate for the purpose of the debt. Applicants submit that Authority approval of this Application will enable PAETEC Parent to strengthen its financial condition, which will enhance Applicants' respective competitive position in the Tennessee telecommunications marketplace, and ultimately inure to the benefit of Tennessee customers. Grant of this Application therefore will serve the public interest of the State of Tennessee.

In support of this Application, Applicants state as follows:

II. DESCRIPTION OF THE PARTIES

Applicants are sister companies and indirect, wholly owned subsidiaries of PAETEC Parent. Applicants are each authorized to provide intrastate telecommunications services in Tennessee as detailed below.

A. PAETEC Communications, Inc.

PAETEC is a Delaware corporation with principal offices located at One PAETEC Plaza, 600 Willow Brook Office Park, Fairport, New York 14450. PAETEC offers voice, data and IP solutions to businesses, enterprise organizations and institutions in 47 states and the District of Columbia. In Tennessee, PAETEC is authorized to provide resold interexchange telecommunications services and operator services pursuant to certification granted by the Authority in Docket No. 98-00691.

B. US LEC of Tennessee Inc.

PAETEC-TN is a Delaware corporation with principal offices located at 6801 Morrison Boulevard, Charlotte, North Carolina 28211. PAETEC-TN provides local exchange and intrastate interexchange telecommunications services in three states: Kentucky, Mississippi, and Tennessee. In Tennessee, PAETEC-TN is authorized to provide local exchange, exchange access, and interexchange telecommunications services pursuant to certification granted by the Authority in Docket No. 97-00387.

C. McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services

PAETEC Business is an Iowa corporation with principal offices located at One Martha's Way, Hiawatha, Iowa 52233. PAETEC Business provides integrated communications services, including local services, primarily in 20 Midwest, Southwest, Northwest, and Rocky Mountain

states.³ In Tennessee, PAETEC Business is authorized to provide resold and facilities-based local exchange and intrastate interexchange telecommunications services pursuant to authority granted in Docket No. 00-00906, and operator services pursuant to certification granted in Docket No. 96-01632.

D. PAETEC Holding Corp.

PAETEC Parent⁴ is a publicly traded Delaware corporation (NASDAQ GS: PAET) with principal offices located at One PAETEC Plaza, 600 Willow Brook Office Park, Fairport, New York 14450. Through its regulated operating subsidiaries, PAETEC Parent has a presence in 83 of the nation's top 100 MSAs, delivering communications solutions to business customers in 48 states and the District of Columbia. In Tennessee, PAETEC Parent provides telecommunications services through PAETEC, PAETEC-TN, and PAETEC Business. Additional information regarding PAETEC Parent, including its most recent SEC Form 10-Q, as filed with the Securities and Exchange Commission, is available at www.paetec.com.

E. Designated Contacts

Questions, correspondence or other communications concerning this Application should be directed to Applicants' counsel of record:

Tony S. Lee
Grace R. Chiu
Venable LLP
575 7th Street, N.W.
Washington, D.C. 20004
Tel: (202) 344-4000
Fax: (202) 344-8300
Email: TSLee@Venable.com
GRChiu@Venable.com

³ In addition to Tennessee, PAETEC Business is authorized to provide resold and/or facilities-based telecommunications services in 47 other states and the District of Columbia

⁴ As used in this Application, "PAETEC Parent" refers to PAETEC Holding Corp. and, where applicable, its predecessor, PAETEC Corp.

with a copy to the following designated representative of Applicants:

William A. Haas
Vice President of Public Policy & Regulatory
PAETEC Holding Corp.
One Martha's Way
Hiawatha, IA 52233
Email: William.Haas@paetec.com

III. APPLICANTS' PARTICIPATION IN PAETEC PARENT'S EXISTING DEBT FINANCING ARRANGEMENTS

Under existing debt financing arrangements, the obligations of PAETEC Parent currently total \$941 million in aggregate principal amount. More specifically, PAETEC Parent's indebtedness currently consists of: (1) a term loan of approximately \$241 million aggregate principal amount and a revolving loan of \$50 million aggregate principal amount, both outstanding under certain credit facilities; (2) \$300 million aggregate principal amount of its 9.5% Senior Notes due 2015; and (3) \$350 million aggregate principal amount of its 8.875% Senior Secured Notes due 2017.

The Authority has already considered various financing arrangements of PAETEC Parent and in the Financing Orders authorized Applicants to participate in PAETEC Parent's debt financing arrangements, including those listed above.

IV. REQUEST FOR APPROVAL TO PARTICIPATE IN VARIOUS DEBT FINANCING ARRANGEMENTS

A. Purposes of Financing Transactions

PAETEC Parent anticipates that over the next five years it will enter into various debt financing transactions for the following purposes: to refinance existing long-term debt obligations with lower cost debt instruments; to refinance existing long-term debt maturities; to finance new capital expenditures supporting both the expansion of its national footprint, including the acquisition of other telecommunications companies and/or telecommunications

assets, and the enhancement of its communications service offerings; and to provide for working capital and general corporate purposes.

B. Request for Prior Approval to Participate in Such Financing Transactions

In connection with such financing transactions, it is expected that Applicants (together with certain other PAETEC Parent subsidiaries) will be required to guarantee and secure the debt obligations of PAETEC Parent (and/or of other subsidiaries of PAETEC Parent incurring debt pursuant to such transactions) by executing and delivering one or more guarantees, pledge agreements, and such other security agreements as may be required in a given transaction.

In anticipation of these transactions and recognizing the need to expeditiously capture favorable market conditions as may occur from time to time, Applicants hereby request Authority approval to participate in such financing transactions and related arrangements as follows:

1. Authorization to guarantee and secure the obligations of PAETEC Parent (and, as applicable, its other subsidiaries) of up to \$700 million in long-term indebtedness. The requested authorization, which would cover the execution and delivery of one or more guarantees, pledge and security agreements, and such other agreements as may be required, is in addition to the approval previously granted by the Authority in the Financing Orders; and

2. Authorization to participate in various financing arrangements related to any restructuring, refinancing and/or financing of any long-term indebtedness of PAETEC Parent (and, as applicable, its subsidiaries, including Applicants) covered by the authorizations granted in paragraph 1 immediately preceding and by the Financing Orders, so long as the total long-term indebtedness at any one time outstanding complies with such conditions as the Authority determines are necessary to include in its order approving this Application. The authorization to

participate in such related financing arrangements shall permit refinancings, refundings, renewals, reissuance, redemptions, and rollovers of any such indebtedness outstanding, the incurrence or issuance of additional long-term indebtedness, and the amendment or revision of any terms or provisions of, or relating to, any existing long-term indebtedness.

C. Expected Core Terms of Debt Financing Arrangements

The exact amounts and terms of each financing transaction or related arrangement, which may be completed in multiple tranches, will not be finalized until the specific arrangement(s) have been completed or shortly before funding of the various transactions, and will reflect market conditions then existing. Some of the terms, such as the interest rate, may fluctuate during the term of the financing due to changes in market condition and the financial condition of PAETEC Parent. The core terms of each such financing arrangement are expected to be substantially as follows:

Funding Providers: The funding providers may be banks, financial institutions, private lending institutions, private individuals, and/or other institutions, either individually or a consortium. The funding group may change over the life of the financing.

Amount: Up to \$700 million.

Debt instruments. Portions of the financed funds may be in the form of conventional credit facilities, such as revolving credits (which can be reborrowed during the term of the commitment); letters of credit; secured or unsecured notes or debentures (including notes convertible into common stock) issued to banks, other types of financial institutions or other investors; and term loans.

Maturity: Any maturity date will be subject to negotiation and will depend on credit conditions. All maturity dates will be longer than one (1) year.

Interest: Any interest rate will likely be the market rate for similar financings and will not be determined until the financing is finalized. As is typical in such transactions, the interest rate will have two components: a base rate and a margin rate. The base rate would be defined as the base or prime rate charged by a specified major bank for loans of similar size with similar maturities or as an adjusted federal funds rate. Eurodollar loans would be specified on a specified London Interbank Rate (LIBOR).

Security: Relevant to this Application, some and perhaps all of the loans to PAETEC Parent (and, as applicable, its subsidiaries) are expected to be secured by a security interest in substantially all of Applicants' respective assets. The stock of each Applicant may also be pledged as additional security. Additionally, it is expected that each Applicant will provide guarantees or may be a borrower or co-borrower. The security documents will contain appropriate provisions indicating that exercise of certain rights thereunder may be subject to obtaining prior regulatory approval.

Use of Proceeds: As noted above, proceeds will be available to refinance existing long-term debt obligations with lower cost debt instruments; refinance existing long-term debt maturities; finance new capital expenditures; and for working capital and general corporate purposes. Additionally, proceeds of any such transactions may be used to pay fees and expenses incurred in connection with such arrangements.

The proposed financings are purely financial in nature and will not alter the rates, terms, conditions or services respectively offered by Applicants in Tennessee. Applicants will remain wholly owned subsidiaries of PAETEC Parent and will continue to operate as providers of telecommunications services in Tennessee.

V. PUBLIC INTEREST CONSIDERATIONS

Grant of this Application will serve the public interest of the State of Tennessee because the authorization requested will enable PAETEC Parent to capture favorable market conditions in a timely and efficient manner and thereby take advantage of opportunities to reduce its financing costs, obtain more attractive terms and conditions and relaxed covenant restrictions, better leverage its financial resources, and select the financing options most appropriate for the purpose of the debt. The flexibility afforded by the authorization requested herein will enable PAETEC Parent to strengthen its financial condition and, in turn, create opportunities to enhance the respective competitive position of Applicants in the Tennessee telecommunications marketplace, all of which ultimately will inure to the benefit of their respective Tennessee customers.

Grant of this Application is particularly important to Applicants in light of the U.S. economic crisis, which is reflected in the continued turbulence in financial markets worldwide. The wave of U.S. bank failures coupled with the freeze in credit markets has led PAETEC Parent to consider fresh approaches to navigating the altered landscape of the financial markets. Whereas prior to the economic crisis, PAETEC Parent was able to monitor and take advantage of favorable market conditions that presented windows of opportunity that remained open for extended periods of time, the current economic climate and market instability require PAETEC Parent to have the ability to move quickly to take advantage of favorable financing opportunities before they disappear.

The ability to move quickly depends in large measure on the length of time required to obtain regulatory approval. Whereas in the past, Applicants have generally had adequate time to obtain prior regulatory approval to participate in financing arrangements, PAETEC Parent

believes it can no longer seize such favorable opportunities if the applications for regulatory approval must contain all of the key terms of the financing arrangement being contemplated. Faced with the continued economic uncertainty reflected in the financial markets, PAETEC Parent must have both the ability to respond immediately to capture favorable market conditions and the flexibility to enter into different types of debt financing arrangements.⁵

For this reason, Applicants submit the instant Application for prior approval of the anticipated financing arrangements before negotiations of these arrangements, including key terms and conditions, have been concluded. Applicants have supplied the core terms expected of these arrangements and explained the purposes for which the proceeds may be used. This approach strikes the proper balance between complying with the statutory requirement to obtain prior regulatory approval and the practical reality that certain terms and conditions will be determined when negotiation of the arrangement has been completed (which is expected to occur shortly before the transaction closes).

If Applicants cannot use this approach, PAETEC Parent may be forced to forgo financial opportunities that could reap the company substantial savings and other economic benefits. In turn, the benefits that would flow to Applicants from PAETEC Parent's strengthened financial position will be lost, along with potential service benefits and enhancements that would inure to their Tennessee customers.

Finally, grant of this Application would not be contrary to the public interest because no transfer of any certificate, authorization, assets or customers will occur as a result of Applicants' participation in any debt financing transaction. Immediately following Applicants' execution of

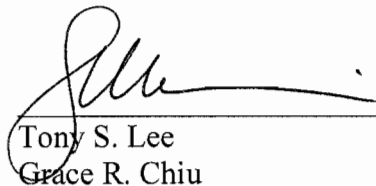
⁵ The decision as to whether to pursue any given opportunity will be made by PAETEC Parent depending on a combination of factors, such as its recent quarterly results, its short- and long-term needs, and the anticipated length of time that the "window" to capture favorable market conditions will be open.

the relevant documents in connection with such debt financing arrangements, Applicants will continue to provide service to their respective Tennessee customers pursuant to their respective authorizations with no change in the rates or terms and conditions of service as currently provided. Applicants' participation in such debt financing arrangements will therefore be transparent to their Tennessee customers.

V. CONCLUSION

For foregoing reasons, Applicants submit that the public interest, convenience, and necessity would be furthered by grant of this Application and issuance of an order authorizing Applicants to participate in the various financing transactions and related arrangements described herein.

Respectfully submitted,



Tony S. Lee
Grace R. Chiu
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Washington, D.C. 20004
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GRChiu@Venable.com

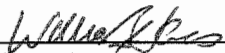
Counsel to
PAETEC Communications, Inc.,
US LEC of Tennessee Inc., and
McLeodUSA Telecommunications Services, Inc.
d/b/a PAETEC Business Services

Dated: October 2, 2009

VERIFICATION

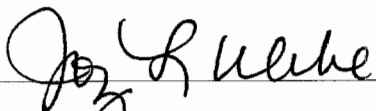
STATE OF IOWA §
 §
COUNTY OF LINN §

I, William A. Haas, hereby verify under penalty of perjury that I am Vice President of Public Policy and Regulatory of PAETEC Holding Corp. (the "Company"), the ultimate corporate parent of Applicants; that I am authorized to make this verification on behalf of the Company; that I have read the foregoing document and know the contents thereof; and that the same are true of my own knowledge, except to those matters therein stated upon information and belief, and as to those matters I believe them to be true.

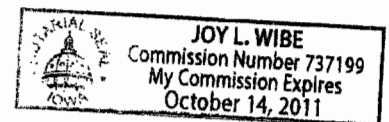


William A. Haas
Vice President of Public Policy & Regulatory
PAETEC Holding Corp.

Subscribed and sworn to before me on this 28 th day of September, 2009.



My commission expires: 10/14/2011

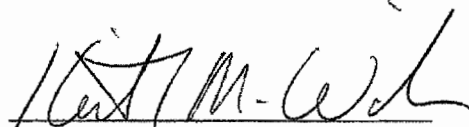


Tennessee

VERIFICATION

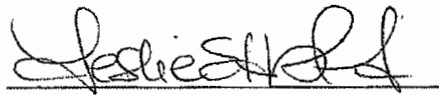
STATE OF NEW YORK §
 §
COUNTY OF MONROE §

I, Keith M. Wilson, hereby verify under penalty of perjury that I am the Chief Financial Officer of PAETEC Holding Corp. (the "Company"), the ultimate corporate parent of Applicants; that I am authorized to make this verification on behalf of the Company; that I have read the foregoing document and know the contents thereof; and that the same are true of my own knowledge, except to those matters therein stated upon information and belief, and as to those matters I believe them to be true. I further verify that the financing arrangements described therein will comply with all applicable laws.




Keith M. Wilson
Chief Financial Officer
PAETEC Holding Corp.

Subscribed and sworn to before me on this 2nd day of October, 2009.



My commission expires: 8/17/13


LESLIE E. HARTFORD
NOTARY PUBLIC-STATE OF NEW YORK
No. 01HA6210284
Qualified in Monroe County
My Commission Expires August 17, 2013