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August 30, 2009

Via Overnight Delivery

Chairman Mary W. Freeman  
c/o Sharla Dillon, Docket Manager  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

DOCKET NO.

10-00176

**Re: Joint Petition of PaeTec Communications, Inc., US LEC of Tennessee, LLC  
d/b/a PaeTec Business Services and McLeodUSA Telecommunications  
Services, LLC d/b/a PaeTec Business Services For Approval to Participate in  
New Financing Arrangements**

Dear Chairman Freeman:

On behalf of PaeTec Communications, Inc., US LEC of Tennessee, LLC d/b/a PaeTec Business Services and McLeodUSA Telecommunications Services, LLC d/b/a PaeTec Business Services ("Petitioners"), enclosed for filing with the TRA are an original and thirteen (13) copies of the above-referenced Petition. Also enclosed is a check in the amount of \$75.00 to cover the filing fee.

Please date-stamp the enclosed extra copy of this filing and return it in the envelope provided. Should you have any questions, please do not hesitate to contact Jeff Strenkowski at (202) 373-6002.

Respectfully submitted,

Jean L. Kiddoo  
Brett P. Ferenchak  
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Counsel for Petitioners

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Joint Petition of  
  
**PAETEC COMMUNICATIONS, INC.,**  
  
**US LEC OF TENNESSEE, LLC D/B/A**  
**PAETEC BUSINESS SERVICES**  
  
and  
  
**McLEODUSA TELECOMMUNICATIONS**  
**SERVICES, LLC D/B/A PAETEC**  
**BUSINESS SERVICES**  
  
For Approval to Participate in New  
Financing Arrangements

PaeTec Communications, Inc. (“PAETEC”), US LEC of Tennessee, LLC d/b/a PAETEC Business Services (“PAETEC-TN”), and McLeodUSA Telecommunications Services, LLC d/b/a PAETEC Business Services (“PAETEC Business”) (collectively, the “Petitioners,” and each, a “Petitioner”), by their undersigned counsel and pursuant to Section 65-4-109 of the Tennessee Code and any other regulations deemed applicable, requests approval, to the extent necessary, from the Tennessee Regulatory Authority (“Authority”) to participate in proposed new financing arrangements contemplated by their ultimate corporate parent, PAETEC Holding Corp. (“PAETEC Parent”) (together with the Petitioners, the “Parties”), as described more fully herein.

A/73483682.1

Parent's other subsidiaries.<sup>1</sup> Since PAETEC Parent will need to commence the debt offering process for the new financing arrangements in advance of completing the strategic acquisitions, Petitioners request that the Authority act expeditiously to grant the approval herein requested no later than November 12, 2010.

In support of this Petition, Petitioners state as follows:

**I. DESCRIPTION OF THE PARTIES**

**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, LLC d/b/a PAETEC Business Services**

PAETEC-TN is a Delaware limited liability company 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.

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<sup>1</sup> To the extent necessary, Petitioners and/or PAETEC Parent will separately seek approval for such acquisitions.

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

PAETEC Business is an Iowa limited liability company with principal offices located at One Martha's Way, Hiawatha, Iowa 52233. PAETEC Business is authorized to provide resold and/or facilities-based telecommunications services in 48 states and the District of Columbia and provides integrated communications services, including local services, primarily in 20 Midwest, Southwest, Northwest, and Rocky Mountain states. In Tennessee, PAETEC Business is authorized to provide resold and facilities-based local exchange and intrastate interexchange telecommunications services pursuant to certification granted by the Authority in Docket No. 00-00906 and operator services pursuant to certification granted by the Authority in Docket No. 96-01632.

**D. PAETEC Holding Corp. and PAETEC Corp.**

PAETEC Parent 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. PAETEC Parent is the parent of PAETEC Corp., a Delaware corporation that holds 100 percent of PAETEC and, indirectly through it and other intermediate holding companies, PAETEC-PA and PAETEC Business. Through its regulated operating subsidiaries, including its three subsidiaries that operate in Tennessee, PAETEC Parent has a presence in 84 of the nation's top 100 MSAs, delivering communications solutions to business customers in 48 states and the District of Columbia. 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/investors](http://www.paetec.com/investors).

## **II. DESIGNATED CONTACTS**

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

Jean L. Kiddoo  
Brett P. Ferenchak  
Jeffrey R. Strenkowski  
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with a copy to the following designated representative of Petitioners:

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

## **III. EXISTING FINANCING ARRANGEMENTS**

The obligations of PAETEC Parent and its subsidiaries under existing financing arrangements currently total \$950 million in aggregate principal amount, with an additional \$50 million available under an undrawn revolving credit facility. More specifically, PAETEC Parent's indebtedness currently consists of: (1) a revolving credit facility of \$50 million aggregate principal amount, which currently is entirely undrawn; (2) 9.5% Senior Notes due 2015 in the aggregate principal amount of \$300 million; and (3) 8½% Senior Secured Notes due 2017 in the aggregate principal amount of \$650 million. The Authority has already considered these existing financing arrangements of PAETEC Parent and authorized Petitioners (which have

guaranteed these arrangements and pledged their assets as security for the arrangements) to participate in these arrangements.<sup>2</sup>

#### **IV. NEW FINANCING ARRANGEMENTS**

##### **A. Purposes of Financing Transactions**

PAETEC Parent anticipates using the proceeds from the financing arrangements for which approval is sought herein for one or more targeted acquisitions. PAETEC Parent is pursuing certain acquisition candidates that would fulfill one or more of the following Company objectives:

- to increase its penetration of existing markets;
- to expand into new markets;
- to augment the geographic scope of its network fiber-based assets, primarily in high density markets; and
- to enhance its ability to sell and deliver value-added services.

PAETEC Parent is seeking acquisition candidates that will add customers and cash flow to its existing network services business and/or will enhance its operating efficiencies by lowering access costs through expansion of fiber and collocation assets. In accordance with this strategy, PAETEC Parent is focusing its acquisition efforts on other competitive carriers, on local and long distance providers, on enhanced service providers, on network integrators, and on equipment solutions providers. From time to time, PAETEC Parent may consider selective acquisitions of those types of businesses that PAETEC Parent believes will enhance its package of service offerings, increase its customer base and bring experienced back office, technical and customer service personnel to the company.

##### **B. Request for Prior Approval to Participate in New Financing Arrangements**

In connection with the proposed new financing arrangements, it is expected that PAETEC Parent will be the entity incurring the indebtedness, and that Petitioners (together with

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<sup>2</sup> See Docket Nos. 09-00161, 07-00229 and 06-00221

certain other PAETEC Parent subsidiaries) may also be co-borrowers and/or be required to secure the debt obligations incurred in the financing by executing and delivering guarantees, pledge agreements, and/or such other security agreements as may be required. Petitioners therefore request Authority approval to participate in the proposed new financing arrangements in an aggregate amount of up to \$600 million as borrowers and/or guarantors and by pledging all or substantially all of their assets as security for the proposed new financing arrangements.

**C. Expected Core Terms of the New Financing Arrangements**

The exact amounts and terms of the proposed new financing arrangements, which may be completed in multiple issuances and tranches, will not be priced and otherwise finalized until the specific arrangement(s) have been completed shortly before closing, 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 conditions 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 arrangements.

***Amount:*** Up to \$600 million.

***Debt instruments.*** PAETEC Parent currently anticipates that the financing arrangements will consist of secured and/or unsecured notes. In order to maintain flexibility to address market requirements, Petitioners seek approval to participate in secured or unsecured notes or debentures (including notes convertible into common stock and private notes that may be exchanged for public notes); conventional credit facilities, such as revolving credit facilities

(which can be reborrowed during the term of the commitment) and term loans; letters of credit; and bridge loans.

***Maturity:*** The maturity date will be subject to negotiation and will depend on credit conditions. Petitioners request authority to enter into arrangements with maturity dates of up to ten (10) years.

***Interest:*** Any interest rate will likely be the market rate for similar financings and will not be determined until the financing is finalized. Depending on the type of debt securities, facility(ies) or other arrangements, the interest rate(s) could be a fixed rate (typically set at signing or closing based on then current market conditions) or a floating rate (consisting of a base rate, which will float with a rate index such as LIBOR or Federal Funds Rate, along with an applicable margin rate), or a combination of fixed rates and floating rates

***Security:*** Some and perhaps all of the financing arrangements are expected to be secured by a security interest in substantially all of the assets of PAETEC Parent and PAETEC Parent's subsidiaries, including a security interest in Petitioners' respective assets.<sup>3</sup> The stock of each Petitioner may also be pledged as additional security. Additionally, it is expected that each Petitioner will provide guarantees of PAETEC Parent's obligations under the financing arrangements or may be a borrower or co-borrower under the arrangements. The security documents will contain appropriate provisions indicating that exercise of certain rights thereunder may be subject to obtaining prior regulatory approval. Accordingly, Petitioners request authority to pledge their assets, provide guarantees, and become a borrower or co-borrower as applicable upon completion of the financing.

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<sup>3</sup> PAETEC's assets located in Tennessee include telecommunications facilities and equipment. PAETEC-TN's assets located in Tennessee include telecommunications facilities and equipment, furniture and office equipment and related supplies. PAETEC Business's assets located in Tennessee consists of dark fiber.



***Use of Proceeds:*** As noted above, the proceeds are expected to be used for targeted acquisitions. The proceeds may be used to pay for the capital stock (or other equity interests) or assets of the acquired business and/or to refinance the debt of PAETEC Parent and/or the acquired business in connection with the transaction, as well as pay for transaction costs. Any remaining proceeds may be made available to finance new capital expenditures and for working capital and other general corporate purposes.

**V. PUBLIC INTEREST CONSIDERATIONS**

Grant of this Petition will serve the public interest of the State of Tennessee because the authorization requested will enable PAETEC Parent to move quickly to take advantage of favorable acquisition opportunities by obtaining the necessary additional financing necessary to complete such strategic acquisitions that will benefit the company as a whole, including Petitioners. The flexibility afforded by the authorization requested herein will also enable PAETEC Parent to take advantage of the most favorable financing instruments and terms available. In sum, the financing arrangements are expected to enhance the respective competitive position of Petitioners in the Tennessee telecommunications marketplace, all of which ultimately will inure to the benefit of their respective Tennessee customers and other Tennessee enterprise entities that may choose PAETEC as their service provider in the future.

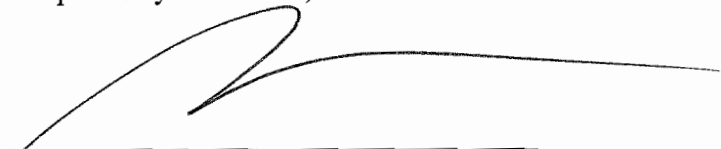
Further, the funds to be obtained through the financing arrangements are necessary and appropriate, are consistent with the performance by the Petitioners of their services to the public, will not impair the ability of Petitioners to perform such services and will promote the corporate purposes of the Petitioners. Further, based on *pro forma* review of any targeted acquisition, PAETEC Parent expects that its leverage profile will be the same both before and after such acquisition.

Finally, grant of this Petition is consistent with the public interest because no transfer of any Certificate, assets or customers will occur as a result of Petitioners' participation in the financing arrangements. Immediately following Petitioners' execution of the relevant documents in connection with such financing arrangements, Petitioners will continue to provide service to their respective Tennessee customers pursuant to their respective authorization with no change in the rates or terms and conditions of service as currently provided. Petitioners' participation in the financing arrangements will therefore be transparent to their Tennessee customers.

**VI. CONCLUSION**

For the foregoing reasons, Petitioners submit that the public interest, convenience, and necessity would be furthered by grant of this Petition, authorizing Petitioners to participate in the financing arrangements described herein.

Respectfully submitted,



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Counsel to the Parties

Dated: August 30, 2010

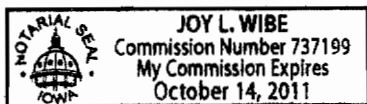
## VERIFICATION

STATE OF IOWA                   §  
   §  
COUNTY OF LINN               §

I, William A. Haas, state that I am Vice President Regulatory and Public Policy of PAETEC Holding Corp., the ultimate parent company of PAETEC Communications, Inc. ("PAETEC"), US LEC of Tennessee LLC d/b/a PAETEC Business Services ("PAETEC-TN") and McLeodUSA Telecommunications Services, LLC d/b/a PAETEC Business Services ("PAETEC Business"); that I am authorized to make this Verification on behalf of PAETEC, PAETEC-TN, and PAETEC Business; that the foregoing filing was prepared under my direction and supervision; and that the statements in the foregoing document are true and correct to the best of my knowledge, information, and belief.

William A. Haas  
Name: Williams A. Haas  
Title: Vice President Regulatory and Public Policy  
PAETEC Holding Corp.

SWORN TO AND SUBSCRIBED before me on the 26 day of August, 2010.



Joy L. Wibe  
Notary Public

My commission expires: 10/14/11