

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**December 3, 2010**

IN RE:	)	
	)	
JOINT PETITION OF PAETEC COMMUNICATIONS,	)	DOCKET NO.
INC., US LEC OF TENNESSEE, LLC D/B/A PAETEC	)	10-00176
BUSINESS SERVICES AND MCLEODUSA	)	
TELECOMMUNICATIONS SERVICES, LLC D/B/A	)	
PAETEC BUSINESS SERVICES FOR APPROVAL TO	)	
PARTICIPATE IN NEW FINANCING ARRANGEMENTS	)	

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**ORDER APPROVING FINANCING ARRANGEMENTS**

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This matter came before Chairman Mary W. Freeman, Director Eddie Roberson and Director Sara Kyle of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on November 22, 2010 for consideration of the *Joint Petition* filed on August 31, 2010 by 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”). The Petitioners request approval to participate in proposed new financing arrangements contemplated by their ultimate corporate parent, PAETEC Holding Corp. (“PAETEC Parent”) (together with the Petitioners, the “Parties”).

PAETEC is a Delaware corporation that offers voice, data and Internet Protocol solutions to businesses, enterprise organizations and institutions in forty-seven states and the District of Columbia. In Tennessee, PAETEC is authorized to provide resold interexchange telecommunications services and operator services pursuant to Authority Order in Docket No. 98-00691.

PAETEC-TN is a Delaware limited liability company that provides local exchange and intrastate interexchange telecommunications services in Kentucky, Mississippi and Tennessee. In Tennessee, PAETEC-TN is authorized to provide local exchange, exchange access and interexchange telecommunications services pursuant to Authority Order issued in Docket No. 97-00387.

PAETEC Business is an Iowa limited liability company that provides resold and/or facilities-based telecommunications services in forty-eight states and the District of Columbia and provides integrated communications services, including local services, primarily in twenty 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 Authority Order in Docket No. 00-00906 and operator services pursuant to Authority Order in Docket No. 96-01632.

PAETEC Parent is a Delaware corporation. PAETEC Parent indirectly holds 100 percent of PAETEC. Through its regulated operating subsidiaries, including its three subsidiaries that operate in Tennessee, PAETEC Parent has a presence in eighty-four of the nation's top 100 metropolitan statistical areas, delivering communications solutions to business customers in forty-eight states and the District of Columbia.

#### **THE JOINT PETITION**

PAETEC Parent anticipates using the proceeds from the proposed financing arrangements for one or more targeted acquisitions. 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. The Petitioners request authorization 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.

It is expected that PAETEC Parent will be the entity incurring the indebtedness and that Petitioners (together with 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. Some, 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 in Tennessee. 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.

The *Joint Petition* states that no transfer of certificate, authorization, assets or customers will occur as a result of Petitioners' participation in the financing arrangements. Immediately following Petitioners' execution of the financing arrangements, Petitioners 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. The proposed financing transaction will be transparent to customers.

#### **FINDINGS AND CONCLUSIONS**

Tenn. Code Ann. § 65-4-109 (2004) provides:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

Based on the record, the panel voted unanimously to approve the financing transaction pursuant to Tenn. Code Ann. § 65-4-109 based on the following findings.

1. This financing transaction is subject to Authority approval pursuant to Tenn. Code Ann. § 65-4-109.

2. The transaction is being made in accordance with the laws enforceable by this agency.

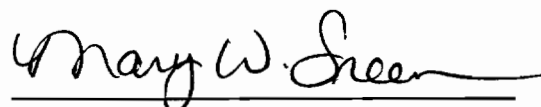
3. The purpose of this transaction is in the public interest because it will strengthen Petitioners' respective ability to compete in the market for telecommunications services in Tennessee.

**IT IS THEREFORE ORDERED THAT:**

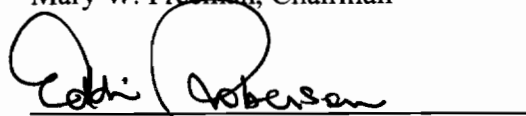
1. PAETEC Communications, Inc., US LEC of Tennessee, LLC d/b/a PAETEC Business Services and McLeodUSA Telecommunications Services, LLC d/b/a PAETEC Business Services are authorized to enter into the financing arrangements described in the *Joint Petition*.

2. The authorization and approval given hereby shall not be used by any party, including but not limited to, any lending party for the purpose of inferring an analysis or assessment of the risks involved.

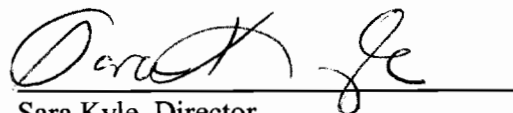
3. This decision is not intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee or any political subdivision thereof.



Mary W. Freeman, Chairman



Eddie Roberson, Director



Sara Kyle, Director