



Agenda Date: 10/20/10
Agenda Item: IVC

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center, Suite 801
Newark, NJ 07102
www.nj.gov/bpu/

TELECOMMUNICATIONS

IN THE MATTER OF THE JOINT PETITION OF
PAETEC COMMUNICATIONS, INC. AND)
US LEC OF PENNSYLVANIA LLC D/B/A)
PAETEC BUSINESS SERVICES FOR APPROVAL)
TO PARTICIPATE IN VARIOUS FINANCING)
TRANSACTIONS)

ORDER

Docket No. TF10080629

James H. Laskey Esq. Norris, McLaughlin & Marcus 721 Route 202 P.O. Box 5933 Bridgewater,
NJ 08807

(SERVICE LIST ATTACHED)

BY THE BOARD:

PAETEC Communications, Inc. ("PAETEC") and US LEC of Pennsylvania LLC d/b/a PAETEC Business Services ("PAETEC-PA") (together, the "Petitioners," and each, a "Petitioner"), filed a petition with the Board on August 31, 2010, pursuant to N.J.S.A. 48:3-7 and N.J.S.A. 48:3-9, for approval to participate in various debt financing arrangements.

PAETEC is a Delaware corporation and an indirect, wholly owned subsidiary of PAETEC Holding Corp. ("PAETEC Holding" or the "Company"). PAETEC is authorized to provide facilities-based local exchange and interexchange telecommunications services, pursuant to the Board's Order of Approval dated February 6, 2003 in Docket No. TE02060319, and provides resold telecommunications services in New Jersey on a deregulated basis pursuant to an Authorized Resale Carrier Letter of Acknowledgement acknowledged by Bell-Atlantic-New Jersey, Inc. on July 22, 1998.

PAETEC-PA is a North Carolina corporation and, like PAETEC, an indirect, wholly-owned subsidiary of PAETEC Holding ("Company"). PAETEC-PA is authorized to provide local exchange and intrastate interexchange telecommunications services pursuant to the Board's Order of Approval issued in Docket No. TE99030180. PAETEC-PA's property in New Jersey consists of (1) a data switch, a remote access server and two routers located in Newark and (2) a Foundry Fiber switch, two routers, and customer channel banks located in Princeton.

PAETEC Holding is a publicly traded Delaware Corporation with headquarters located in Fairport, New York. PAETEC Holding is a competitive provider of personalized business communications for medium-sized and larger business, enterprise organizations and institutions across the United States. Through its operating subsidiaries, the Company offers a

comprehensive suite of voice, data, and IP services, as well as enterprise communications management software, network security solutions, customer premises equipment, and managed services. Subsidiaries of the Company offer facilities-based and/or resale local exchange and/or interexchange telecommunications services in 48 states and the District of Columbia pursuant to certification or other authorization or on a deregulated basis. They also offer domestic interstate and international communications services pursuant to authorization granted by the Federal Communications Commission.

The debt obligations of PAETEC Holding at the time of the filing of the Petition were \$950 million in aggregate principal amount plus a revolving credit facility of \$50 million and term local credit facility of \$65 million both of which were undrawn. Specifically, the Company's outstanding indebtedness consists of 9.5% Senior Notes due in 2015 in the aggregate principal amount of \$300 million, and 8.875% Senior Notes due in 2017 in the aggregate principal amount of \$650 million. These obligations were previously approved by the Board in Docket Nos. TM06080616, TF07070544 and TF09100817.

Petitioners now request Board approval to participate in 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. The proceeds of this financing would be to fund certain acquisitions that PAETEC Holding may choose to pursue. After filing the Joint Petition, PAETEC Holding entered into an agreement to acquire Cavalier Telephone Corporation and its subsidiaries (collectively, "Cavalier"). Cavalier will participate in the existing financing arrangement of PAETEC Holding as well as the financing arrangements that are the subject of the Joint Petition. On September 14, 2010, PAETEC Holding and Cavalier filed a Joint Petition with respect to the transaction and Cavalier's participation in the financing arrangements of PAETEC Holding, which is pending in Docket No. TM10090678.

In response to data requests, Petitioners explained that 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 shortly before closing, and will reflect market conditions then existing. Petitioners therefore have supplied the core terms expected of these arrangements and explained the purposes for which the proceeds may be used. Those terms are 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 \$600 million

Debt instruments. 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, up to a maximum of ten (10) years.

Interest: The interest rate will be the market rate for similar financings and will not be determined until the financing is finalized.

Security: The loans to PAETEC Holding will be secured by a security interest in substantially all of Petitioners' respective assets. The stock of each Petitioner may also be pledged as security.

Use of Proceeds: The proceeds will be available to pursue various targeted acquisitions. Any remaining proceeds will be used to finance new capital expenditures; and for working capital and other general corporate purposes. Additionally, proceeds of any such transactions will be used to pay fees and expenses incurred in connection with such arrangements.

By responding to favorable market conditions, Petitioners state that PAETEC will improve and enhance its market position. These benefits indirectly benefit Petitioners and, ultimately, will benefit their respective customers in New Jersey. Petitioners anticipate that their participation in the debt financing arrangements described herein will ultimately strengthen the ability of PAETEC and PAETEC PA to enhance their service offerings, and provide more advanced telecommunications services to a broader customer base to the benefit of New Jersey consumers and the State's telecommunications marketplace.

Petitioners' participation in the financing arrangements described herein will not involve a transfer of authorizations, assets or customers of either Petitioner. Petitioners' participation will be transparent to their respective customers in New Jersey. Petitioners will continue to provide services to their respective New Jersey customers with no changes in the rates or terms and conditions of service as currently provided.

By letter dated October 7, 2010, the Division of Rate Counsel ("Rate Counsel") filed comments and recommended that the Board approve this petition. However, Rate Counsel asserted that "it is appropriate [for the Board] to require the Petitioners to provide all the information required by N.J.S.A. 48:3-9 and N.J.A.C. 14:1-5.9 regarding a petition for approval of debt, once such debt is consummated."

After review, the Board FINDS that the proposed transaction is consistent with the applicable law, under N.J.S.A. 48:3-7 and N.J.S.A. 48:3-9, and the Board HEREBY AUTHORIZES Petitioners to participate in the financing arrangements described herein.

This Order is issued subject to the following provisions:

1. This Order shall not affect or in any way limit the exercise of the authority of the Board in any future petition or in any proceeding regarding rates, costs of service, franchises, service, financing, accounting, capitalization, depreciation or any other matters affecting Petitioners.
2. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by Petitioners.
3. Notwithstanding anything to the contrary in the documents executed pursuant to the financing transactions or other supporting documents, a default or assignment under

such agreement shall not constitute automatic transfer of Petitioners' assets. Board approval must be sought pursuant to N.J.S.A. 48:1-1 et seq. where applicable.

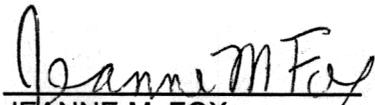
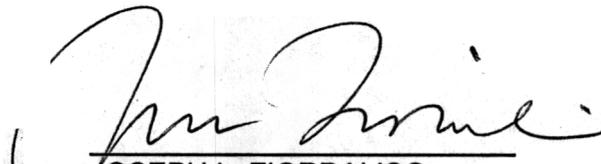
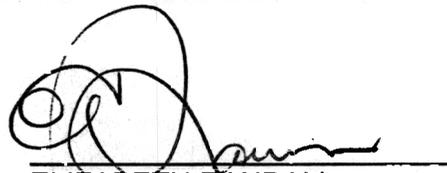
4. Petitioners shall semi-annually file statements for the amounts, use of the amounts and use of the credit facilities pursuant to N.J.S.A. 48:3-9 and N.J.A.C. 14:1-5.9. Furthermore, Petitioners shall report to the Board and Rate Counsel any financing transactions entered into pursuant to the approval contained in this Order upon completion of the transaction.
5. The authority granted in this Order shall become null and void and of no effect with respect to any portion which is not exercised on or before December 31, 2012.

DATED 10/20/10

BOARD OF PUBLIC UTILITIES
BY:



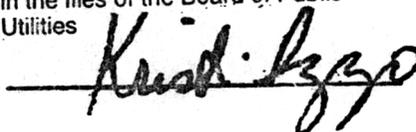
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ELIZABETH RANDALL
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



SERVICE LIST

In the Matter of the Joint Petition of PAETEC Communications, Inc. and US LEC of Pennsylvania LLC d/b/a PAETEC Business Services for Approval to Participate in Various Financing Transactions

Docket No. TF10080629

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