



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

IN THE MATTER OF THE JOINT PETITION	)	<u>TELECOMMUNICATIONS</u>
OF PAETEC COMMUNICATIONS, INC. AND	)	
US LEC OF PENNSYLVANIA INC. FOR	)	ORDER
APPROVAL TO PARTICIPATE IN CERTAIN	)	
DEBT FINANCING ARRANGEMENTS	)	DOCKET NO. TF07070544

(SERVICE LIST ATTACHED)

BY THE BOARD:

PAETEC Communications, Inc. ("PAETEC") and US LEC of Pennsylvania Inc. ("US LEC") (together, the "Petitioners," and each, a "Petitioner"), filed a petition with the Board on July 19, 2007, pursuant to N.J.S.A. 48:3-7 and N.J.S.A. 48:3-9, for approval to participate in certain debt financing arrangements, as detailed herein.

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 serves 6,301 customers in New Jersey.

US LEC is a North Carolina corporation and, like PAETEC, an indirect, wholly-owned subsidiary of PAETEC Holding ("Company"). US LEC is authorized to provide local exchange and intrastate interexchange telecommunications services pursuant to the Board's Order of Approval issued in Docket No. TE99030180. US LEC'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.

By Order of Approval in Docket No. TM06080616, issued on November 15, 2006, the Board authorized Petitioners to guarantee and secure the obligations of PAETEC Holding, as borrower, under senior secured credit facilities of \$850 million aggregate principal amount (the "Existing Credit Facilities").

Petitioners now request Board approval to (1) guarantee \$300 million of senior unsecured notes issued by their ultimate corporate parent, PAETEC Holding, and (2) incur, guarantee and/or secure additional indebtedness of up to \$500 million not covered by the Board's Order of Approval issued in Docket No. TM06080616, provided that such incurrence, guarantees and/or securities are consummated in accordance with the terms of the Amended Credit Facilities and the Notes as amended from time to time.

On July 10, 2007, PAETEC Holding restructured its existing debt. The Company sold \$300 million aggregate principal amount of its 9.5% Senior Notes due 2015 pursuant to a purchase agreement (the "Notes Purchased Agreement") entered into on June 27, 2007, with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Deutsche Bank Securities, and Wachovia Capital Markets, LLC, as initial purchasers (the "Notes Offering") and applied the net proceeds of the Notes Offering, together with cash on hand, to repay \$300 million principal amount of term loans outstanding under the Existing Credit Facilities (the "Partial Term Loan Repayment"). Concurrently with the Notes Offering, certain amendments to the Existing Credit Facilities, which are advantageous to PAETEC Holding and its subsidiaries, became effective (as amended, "Amended Credit Facilities"). These amendments provide the Company with enhanced operating flexibility, including the ability to incur additional indebtedness, and provide for reduced interest rates.

Each of PAETEC Holding's wholly-owned subsidiaries, including the Petitioners, will guarantee the Notes on a senior unsecured basis, subject to receipt of any required governmental approvals. Each guarantee will rank equally in the right of payment with all existing and future senior indebtedness of the guarantor. The debt obligations of PAETEC Holding under the Amended Credit Facilities will be guaranteed by the existing guarantees issued by Petitioners in connection with the Existing Credit Facilities. Similarly, the debt obligations of PAETEC Holding under the Amended Credit Facilities will be secured by the existing security agreement and existing pledge agreement, each as executed by Petitioners in connection with the Existing Credit Facilities.

The Existing Credit Facilities provided a term loan facility in a total principal amount of \$800 million, all of which was fully drawn, and a revolving credit facility in a total available principal amount of \$50 million, none of which was drawn. The Amended Credit Facilities, following the making of the Partial Term Loan Repayment, provide a term loan facility in a total principal amount of \$500 million, all of which is fully drawn, and a revolving credit facility in a total available principal amount of \$50 million, none of which is drawn. In addition, an uncommitted incremental facility, which was in the amount of \$100 million in the Existing Credit Facilities, will be increased to \$225 million under the Amended Credit Facilities.

The Company will be required to make scheduled principal payments under the term loan portion of the Amended Credit Facilities, in equal quarterly installments, in an annual amount of \$5.0 million during the first 5 ½ years after the closing date.

Borrowings under the Amended Credit Facilities bear interest, at the Company's option, at an annual rate equal to either a specified "base rate" plus a margin of 1.50% or LIBOR plus a

margin of 2.50%. The margin applicable to LIBOR loans under the revolving credit facility portion of the Amended Credit Facilities will be based on the total leverage ratio.

The maturity date of the term loan facility is February 28, 2013, and the maturity date of the revolving credit facility, is February 28, 2012. All proceeds of the term loan facility have been applied for the same purposes permitted under the Existing Credit Facilities. Borrowings under the existing term loan facilities were used to refinance substantially all of the senior secured indebtedness of PAETEC Corp., to repurchase all outstanding shares of US LES Corp. preferred stock in connection with the closing of the business combination of PAETEC Corp. and US LEC Corp., as well as to repay fees and expenses incurred in connection with the refinancing and stock repurchase. Similarly, all proceeds of the loans under the revolving credit facility will be used for the same purposes permitted under the Existing Credit Facilities including working capital, capital expenditures and other general corporate purposes.

The Amended Credit Facilities allow for additional borrowings by the Company and/or its subsidiaries including Petitioners. Specifically, the Company may elect, subject to pro forma compliance with a total leverage ratio covenant and other conditions, to solicit lenders under the facilities or other prospective lenders to increase the total principal amount of borrowings available under the term loan facility. The Amended Credit Facilities permit such additional indebtedness to be incurred or guaranteed by Petitioners, provided that the Company maintains compliance with specified ratios of adjusted consolidated debt to adjusted consolidated Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) of no greater than 5.00:1.00. There is no obligation for Petitioners to incur, guarantee or secure the additional borrowings until any required governmental approvals are obtained.

The general terms and conditions applicable to the incremental term loans and the additional notes and the guarantees of this additional debt (including the nature of the indebtedness and the covenants applicable to the loan parties) would be substantially similar to the terms and conditions applicable to the existing term loans, senior notes, and guarantees previously approved by the Board. The interest rate, the maturity date and possibly the amortization schedule of the additional debt, however would likely change from the terms of the existing term loans and senior notes based on market conditions existing at the time the additional debt is incurred.

The Company and its subsidiaries, including the Petitioners, expect to use the \$500 million in additional funds for general corporate purposes, including, but not limited to, the upgrade of existing infrastructure to improve service to Petitioners' subscribers, the purchase of new equipment to expand Petitioners' existing service to areas not currently served by Petitioners' network, and the entry into strategic transactions with other telecommunications companies to achieve corporate synergies to benefit customers. Petitioners expect that they will use the \$500 million in additional funds from time to time as necessary over the course of the next five years.

Petitioners maintain that grant of this Petition will serve the public interest by allowing Petitioners' ultimate corporate parent to decrease applicable interest rate margins, effect certain desirable changes to covenants, and to repay \$300 million in term loans outstanding under the Existing Credit Facilities. By capturing favorable debt market conditions and restructuring its debt, Petitioners state that PAETEC Holding has improved its capital structure and enhanced 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 US LEC 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.

The Division of Rate Counsel has reviewed this matter and recommends that the Board approve this petition.

After review, the Board FINDS that the proposed transaction is consistent with the applicable law 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 or the State of New Jersey 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. Petitioners shall semiannually file statements for the amounts, use of the amounts and use of the credit facilities pursuant to N.J.A.C. 14:1-5.9 (b).
3. 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.
4. 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.
5. Except as set forth below, the terms and conditions of the incremental term loans and the additional notes shall be substantially similar to, if not more favorable than, those of the existing term loans under the Amended Credit Facilities and the Notes under the current indenture, respectively;
 - a. The amortization schedule for any incremental term loans shall not require payment of more than 20% of the principal amount of such loans prior to maturity and the amortization schedule of the additional notes will be substantially the same as, if not more favorable than, the amortization schedule of the existing senior notes;
 - b. the interest rates for any incremental term loans and additional notes shall be no greater than six percent (6%) higher than the current interest rates applicable to the existing term loans and existing senior notes;
 - c. the maturity date for any incremental term loans and additional notes shall be no later than two years after the maturity date set forth in the existing credit agreements for the existing term loans and existing senior notes.

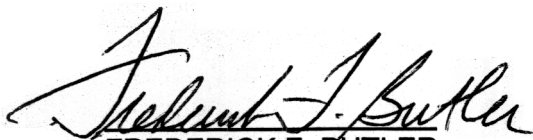
6. Board approval must be sought by Petitioners for any guarantees or security of any incremental term loans or additional notes that cannot be issued pursuant to the foregoing conditions.

DATED: 9/13/07

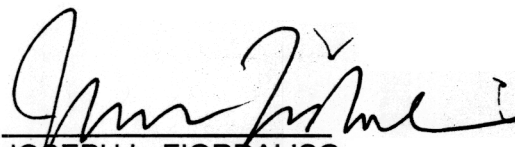
BOARD OF PUBLIC UTILITIES
BY:



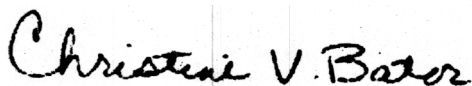
JEANNE M. FOX
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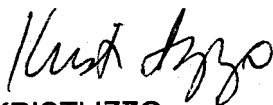


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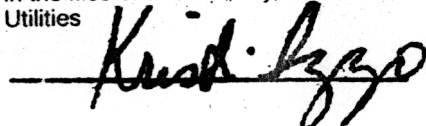
CHRISTINE V. BATOR
COMMISSIONER

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 Inc. for Approval to Participate in Certain Debt Financing Arrangements

Docket No. TF07070544

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