





COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE  
REFER TO OUR FILE

November 9, 2006

A-310814 F0004  
S-00061152

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HARRISBURG PA 17101-1236

DOCUMENT  
FOLDER

Joint Application of US LEC of Pennsylvania, Inc. (US LEC) and PAETEC Corporation  
for approval of an indirect transfer of control of US LEC and registration of the  
securities certificate of US LEC in respect to its guarantee of certain credit facilities

To Whom It May Concern:

This is to advise you that the Commission in Public Meeting on November 9, 2006 adopted  
an Order in the above entitled proceeding.

An Order has been enclosed for your records.

Very truly yours,

James J. McNulty  
Secretary

encls  
cert. mail  
MH

GARY D GREFRATH  
EXECUTIVE VP ADM  
US LEC CORP  
TRANSAMERICA SQ 401  
401 N TRYON ST SUITE 1000  
CHARLOTTE NC 28202

**DOCKETED**  
SEP 12 2007

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**PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
Harrisburg, PA 17105-3265**

Public Meeting held November 9, 2006

Commissioners Present:

Wendell F. Holland, Chairman  
James H. Cawley, Vice Chairman  
Kim Pizzingrilli  
Terrance J. Fitzpatrick

**DOCUMENT  
FOLDER**

Joint application of US LEC of Pennsylvania, Inc. (US LEC) and PAETEC Corporation for approval of an indirect transfer of control of US LEC and registration of the securities certificate of US LEC in respect to its guarantee of certain credit facilities. Docket Nos.  
A-310814F0004  
S-00061152

**ORDER**

**DOCKETED**  
SEP 12 2007

**BY THE COMMISSION:**

On August 28, 2006, US LEC of Pennsylvania, Inc. (US LEC) and PAETEC Corporation (PAETEC) filed the above-captioned joint application and securities certificate pursuant to Chapter 11 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 1101-1103; our Policy Statement on Utility Stock Transfers, 52 Pa. Code § 69.901; and Chapter 19 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 1901, *et seq.* Copies of the joint application and securities certificate were served upon the Office of Consumer Advocate and the Office of Small Business Advocate. Further notice was not required, no protest period was established, and no protests or comments were received. The applicants voluntarily extended the consideration period of the securities certificate to November 10, 2006.

US LEC, a North Carolina corporation, is a wholly owned subsidiary of US LEC Corp. (US LEC Parent), a publicly traded Delaware corporation (NASDAQ: CLEC). US LEC is certified in Pennsylvania as an interexchange toll reseller (IXC), resold and facilities-based competitive local exchange carrier (CLEC) and facilities-based IXC at Docket Numbers A-310814, A-310814F0002 and A-310814F0003, respectively. US LEC Parent provides Internet protocol (IP), data and voice products and services in the eastern United States and, through its subsidiaries, is authorized to provide telecommunications services in 43 states and the District of Columbia.

PAETEC is a privately held Delaware corporation based Fairport, New York and is a major provider of communications services including telecommunications, Internet, communications management software, voice over Internet protocol (VoIP) and personalized services through its private-IP network. PAETEC operates in Pennsylvania through its wholly owned subsidiary, PAETEC Communications, Inc. (PAETEC Com), which is certified in Pennsylvania as an IXC, CLEC, competitive access provider and facilities-based IXC at Docket Numbers A-310743, A-310743F0002, A-310743F0003 and A-310743F0004, respectively.

The proposed transfer of control will be executed via series of transactions whereby US LEC Parent and PAETEC will become wholly owned subsidiaries of a new publicly owned holding company, New PAETEC<sup>1</sup>. US LEC and PAETEC Com will then be indirect wholly owned subsidiaries of New PAETEC. The transactions entail US LEC Parent and PAETEC merging with and into subsidiaries of New PAETEC created solely for the purpose of the mergers, with US LEC Parent and PAETEC surviving. In consideration for the common stock shares of US LEC Parent and PAETEC, current US LEC Parent shareholders will receive one share of New PAETEC and current PAETEC

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<sup>1</sup> After completion of all of the transactions, New PAETEC will change its name to PAETEC Communications Corp. and is expected to be listed on the NASDAQ Stock Market under US LEC Parent's current symbol, CLEC.

shareholders will receive 1.623 shares of New PAETEC. New PAETEC will then be one-third owned by former US LEC Parent shareholders and two-thirds owned by former PAETEC shareholders and US LEC Parent and PAETEC will become direct subsidiaries of New PAETEC<sup>2</sup>.

The securities certificate of US LEC is in respect to the guarantee by all subsidiaries of New PAETEC, including US LEC and PAETEC Com, of all amounts owing under the new credit facilities of New PAETEC<sup>3</sup>. The credit facilities include a \$625 million first-lien term loan, a \$175 million second-lien term loan and a \$50 million revolving credit facility for a total of \$850 million. The proceeds will be used to fund the refinancing of all debt of PAETEC and US LEC Parent. In addition, US LEC Parent's outstanding Series A mandatory redeemable convertible preferred stock will be repurchased in conjunction with the merger transactions. The remaining portions of the proceeds will be utilized to pay the fees and expenses of the merger and refinancing, capital expenditures and working capital needs.

The refinancing will result in lower capital costs for New PAETEC and increased capital capacity. US LEC depends on US LEC Parent (and ultimately New PAETEC) for capital needs and therefore has an interest in ensuring US LEC Parent and New PAETEC's access to capital and reduction in capital costs. US LEC will not issue any securities nor incur any debt in conjunction with the credit facilities.

The applicants aver that the proposed transactions will be transparent to Pennsylvania customers and will not affect the operations, rates or conditions of service provided. US LEC and PAETEC Com will continue under the same names and continue

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<sup>2</sup> Because the former PAETEC owners are the majority owners of New PAETEC, there is no effective change in control for PAETEC Com.

<sup>3</sup> PAETEC Com filed an abbreviated securities certificate at Docket No. S-00061149 for its guarantee of the credit facilities. The abbreviated securities certificate was registered pursuant to the provision of 66 Pa. C.S. § 1903 and 52 Pa. Code § 3.602 on September 19, 2006.

to provide telecommunications service in Pennsylvania. The applicants aver that the proposed change in control will strengthen the competitive position of both US LEC and PAETEC through the increased market power of the combined companies. New PAETEC, based on US LEC Parent's closing stock price on August 11, 2006, will have an approximate enterprise value of \$1.3 billion and produce nearly \$1 billion in annual revenue. The applicants also estimate cost saving synergies of \$25 million in the first year after closing and \$40 million annually beginning in 2008, which will benefit Pennsylvania consumers. US LEC and PAETEC Com are both current with all annual and Security Planning and Readiness report filing requirements, and there are no outstanding Commission fines or assessments.

Based upon the record and the averments of the applicants, we conclude that there is substantial evidence of affirmative public benefits sufficient to warrant approval of the proposed transactions under *City of York v. Pennsylvania Public Utility Commission*, 295 A.2d 825 (Pa. 1972). Having reviewed the instant joint application, we have determined that the proposed indirect transfer of control is necessary or proper for the service, accommodation, convenience or safety of the public, and that the joint application should be approved. We have also examined the instant securities certificate and have determined that the guarantee by US LEC of certain credit facilities appears to be necessary or proper for the present and probable future capital needs of the utility, and, as a result, the securities certificate should be registered; **THEREFORE,**

**IT IS ORDERED:**

1. That the joint application for the indirect transfer of control of US LEC of Pennsylvania, Inc. is hereby approved and a certificate of public convenience be issued evidencing our approval.

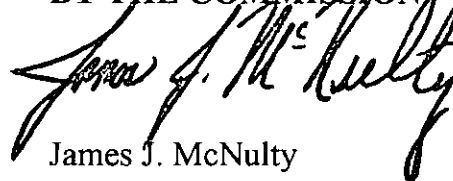
2. That within 60 days of the consummation of the transaction approved in Ordering Paragraph No. 1, above, US LEC of Pennsylvania, Inc. file with this Commission notice of such consummation.

3. That if the applicants determine that the proposed transaction will not take place, US LEC of Pennsylvania, Inc. promptly so notify this Commission.

4. That upon filing of the notice mentioned in Ordering Paragraph No. 2 or 3, above, the case at Docket No. A-310814F0004 be marked closed.

5. That the securities certificate of US LEC of Pennsylvania, Inc. in respect to its guarantee of certain credit facilities is hereby registered, and the case at Docket No. S-00061152 be marked closed.

**BY THE COMMISSION**



James J. McNulty  
Secretary

(SEAL)

ORDER ADOPTED: November 9, 2006

ORDER ENTERED:

**NOV 09 2006**