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BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA CORPORATION COMMISSION
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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. T-03267A-09-0475
 MCLEODUSA TELECOMMUNICATIONS)
 SERVICES, INC. D/B/A PAETEC BUSINESS)
 SERVICES FOR A FINANCING ORDER)
 AUTHORIZING VARIOUS FINANCING)
 TRANSACTIONS)

**SUPPLEMENT TO APPLICATION
AND RESPONSE TO PROCEDURAL ORDER**

McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services (“PAETEC Business” or “Applicant”), by and through its undersigned counsel, hereby respectfully submits this Supplement to its Application for a Financing Order (“Application”) and Response to the April 5, 2010 Procedural Order in this docket.

The Procedural Order noted that PAETEC Business had filed a Notice of Transaction and Request for Retroactive Authority, which reported that the company had closed on a debt financing transaction on January 7, 2010 (the “Closed Transaction”) and directed PAETEC Business to supplement its Application to provide certain information concerning the Closed Transaction.

The Application in this docket had provided information regarding the maximum cumulative amounts and terms for future transaction into which it anticipated it would enter to reduce its financing costs, obtain more attractive terms and conditions and/or relaxed covenant restrictions, better leverage its financial resources, and select the financing options most

1 appropriate for the purpose of the debt. The windows of opportunity to capture market conditions
2 favorable to such arrangements is limited, and PAETEC Business needs the flexibility to
3 immediately participate in such financing transactions before such conditions change, and the
4 opportunity to take advantage of favorable financing conditions and other business opportunities is
5 lost. Those market conditions dictated that PAETEC Business enter the Closed Transaction when
6 it did.

7 With respect to the specific information requested in the April 5, 2010 Procedural Order,
8 under the Closed Transaction, PAETEC Parent issued \$300 million in senior secured notes
9 (“Notes”). Key terms of the notes are as follows

10 Initial Purchasers: Banc of America Securities LLC, One Bryant Park New York,
11 NY 10036, and Deutsche Bank Securities Inc., 60 Wall Street, New York, NY
12 10005, were the initial purchasers of the Notes.

13 Maturity: The Notes will mature on June 30, 2017.

14 Interest Rate: Interest on the Notes will accrue at a rate of 8 7/8% per annum.

15 Interest Payments: The Notes will pay interest semi-annually in cash in arrears on
16 June 30 and December 31 of each year, beginning on June 30, 2010.

17 Guarantees: The Notes will be guaranteed on a senior secured basis by PAETEC
18 Parent’s domestic restricted subsidiaries in existence on the issue date (including
19 PAETEC Business) and by all of its future domestic restricted subsidiaries, other
20 than certain excluded subsidiaries.

21 Ranking: The Notes and the guarantees will be PAETEC Parent’s general
22 obligations and will rank equally in right of payment with all of its existing and
23 future senior indebtedness and senior in right of payment to all of its existing and
24 future subordinated indebtedness.

25 Security: The Notes and the guarantees will be secured on a first-priority basis,
26 equally and ratably with PAETEC Parent’s senior secured credit facilities,
27 existing notes and any future *pari passu* secured obligations, subject to permitted
liens, by substantially all of PAETEC Parent’s assets.

28 The Closed Transaction benefitted PAETEC Business by allowing PAETEC Holding
29 Corp. to extend its debt maturity profile which enhances its financial flexibility. PAETEC also
30 secured highly favorable pricing in a response to strong demand for its offering.

1 Moreover, as set forth in the Application, PAETEC Business had previously encumbered
2 its assets and issued guarantees to secure its parent's debt. After the Closed Transaction, PAETEC
3 Business simply continues to guarantee its parent's debt and its assets continue to be encumbered
4 to secure its parent's debt.¹ It is important to note that PAETEC Business also continues to hold a
5 \$600,000 performance bond, and neither the bond nor its Arizona deposits are part of the new
6 guarantee and encumbrance.

7 Finally, the Procedural Order indicated that the requested information was necessary to be
8 able to determine whether the Closed Transaction meets the statutory requirements set forth in
9 A.R.S. §§ 40-301(C) and 40-302(A) regarding the issuance of stocks and stock certificates, bonds,
10 notes, and other evidences of indebtedness.

11 However, PAETEC Business is a competitive local exchange carrier ("CLEC") that
12 provides local and long distance telecommunications services across many states. In its
13 Application, PAETEC Business requested Commission authority pursuant to A.R.S. § 40-285 and
14 A.A.C. R14-2-804, to encumber its Arizona assets and to issue guarantees to secure the obligations
15 of its parent, PAETEC Holding Corp. ("PAETEC Parent"). PAETEC Business did not request
16 authority to issue stocks and stock certificates, bonds, notes, and other evidences of indebtedness
17 under A.R.S. §§ 40-301(C) and 40-302(A) because, as a facilities-based foreign public service
18 corporation that uses its Arizona assets to provide interstate telecommunications service,² it is not
19 required to do so pursuant to A.R.S. § 40-301(D), which states:

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25 ¹ The Commission has previously approved PAETEC Business's guarantee of notes issued by
26 PAETEC Parent, and encumbrance of PAETEC Business's assets to secure those notes. *See*
27 *Decision No. 70126.*

² PAETEC Business is an Iowa corporation with principal offices located in Hiawatha, Iowa, and it
provides resold and facilities-based local and long distance service in Arizona. *See Application at*
2.

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A.R.S. § 40-301. Issuance of stocks and bonds; authorized purposes

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D. The provision of this article shall not apply to foreign public service corporations providing communications service within this state whose physical facilities are also used in providing communications service in interstate commerce.

The applicable statute and regulation here require foreign public service corporations, such as PAETEC Business, to seek Commission authorization in order "to encumber the whole or any party of its plant or system," A.R.S. § 40-285(A), or to guarantee the obligations of an affiliate, A.A.C. R14-2-804(B)(1). The Commission will review such transactions to determine if they would impair the financial status of the public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the ability of the public utility to provide safe, reasonable and adequate service. A.A.C. R14-2-804(C). The Commission also has often applied a public interest standard in approving similar asset encumbrances or guarantees. See Decision No. 71624 (April 14, 2010).

WHEREFORE, for foregoing reasons, PAETEC Business requests that the Commission issue a decision approving the Application, including the Request for Retroactive Authority for the Closed Transaction.

RESPECTFULLY SUBMITTED this 16th day of April 2010.

ROSHKA DEWULF & PATTEN, PLC

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6 Original and 13 copies of the foregoing
7 filed this 16th day of April 2010 with:

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12 Copy of the foregoing hand-delivered/mailed
13 this 16th day of April 2010 to:

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