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PAETEC Corp. Announces 2006 Fourth Quarter and Full Year Results

Fairport, NY – February 21, 2007 -- PAETEC Corp. today announced 2006 fourth quarter and full year financial and operating results, including the following highlights:

- 2006 fourth quarter revenue of \$151.5 million, which represented a 12.9% increase over 2005 fourth quarter revenue of \$134.2 million
- Fiscal 2006 revenue of \$586.3 million, which represented a 15.1% increase over fiscal 2005 revenue of \$509.4 million
- A 28.9% increase in access lines in service from December 31, 2005 to 1,256,904 access line equivalents in service at December 31, 2006

Quarterly Performance

Total revenue for the 2006 fourth quarter increased 12.9% to \$151.5 million from \$134.2 million for the 2005 fourth quarter. Adjusted EBITDA for the 2006 fourth quarter increased by 29.3% to \$25.4 million.* Net income for the 2006 fourth quarter was \$2.6 million compared to net income of \$5.9 million for the fourth quarter of 2005, resulting primarily from increased interest expense.

* Adjusted EBITDA represents net (loss) income before interest, provision for (benefit from) income taxes, depreciation and amortization, change in fair value of Series A convertible redeemable preferred stock conversion right, stock-based compensation, withdrawn initial public offering and related terminated new senior secured credit facility expenses, leveraged recapitalization costs, and loss on extinguishment of debt. Adjusted EBITDA is not a measurement of financial performance under accounting principles generally accepted in the United States. For additional information, see "Selected Financial and Operational Data" and related note (1).

The increase in revenue resulted from continued internal growth and was attributable in part to increased MPLS VPN sales. Quarterly revenue growth was balanced between increases in Network Services revenue of 12.8%, Carrier Services revenue of 15.1% and Integrated Solutions revenue of 9.0%. Adjusted EBITDA margin (adjusted EBITDA as a percentage of total revenue) improved to 16.8% for the 2006 quarter from 14.6% for the 2005 quarter.

Sequential Performance

Total revenue of \$151.5 million for the 2006 fourth quarter increased 2.1% from the 2006 third quarter due to continued access line additions and revenue generated by increased sales of Integrated Solutions. Adjusted EBITDA of \$25.4 million for the 2006 fourth quarter represented a 35.9% increase over adjusted EBITDA for the 2006 third quarter. Before giving effect to an employee compensation-related charge of approximately \$5.0 million incurred in the third quarter, fourth quarter adjusted EBITDA would have increased 7.2% over third quarter adjusted EBITDA.

Fiscal Year 2006 Performance

Total revenue for 2006 of \$586.3 million increased 15.1% over 2005 revenue. The growth resulted from increases of 14.9% in Network Services revenue, 15.1% in Carrier Services revenue and 17.6% in Integrated Solutions revenue. Core revenue growth was driven by continued increases in revenue generated by PAETEC's MPLS VPN product offering and other enhanced IP services, including Voice over IP, IP Hoot & Holler services, and Ethernet and other broadband solutions.

Adjusted EBITDA for 2006 increased 11.9% over 2005 to \$91.8 million. The increase was primarily due to the continued growth in service revenue and related operating leverage. Adjusted EBITDA for 2006 included the following two non-recurring recapitalization transaction charges totaling \$6.1 million: \$1.1

million in financing costs; and the \$5.0 million employee compensation-related charge from the 2006 third quarter, previously noted.

Net income was \$7.8 million for 2006 compared to \$14.5 million for 2005. The decrease was primarily attributable to increased interest expense associated with the indebtedness incurred in connection with the June 2006 leveraged recapitalization, as well as \$10.5 million in one-time recapitalization transaction charges.

Capital Expenditures

PAETEC continued to invest in expansion of its network and product offerings during 2006. Capital expenditures for 2006 increased to \$49.3 million from \$38.2 million in 2005. Approximately \$8.0 million in capital expenditures was used for new switching infrastructure investments in Newark, New Jersey, and Tampa, Florida, as well as investments in expanding the MPLS and Voice over IP networks. The year-over-year increase also included approximately \$3.1 million in operating leases that had been refinanced as capital leases shortly before the June 2006 recapitalization. These leases were subsequently refinanced with the \$400 million senior secured credit facility obtained as part of the recapitalization.

US LEC Merger

The merger has received all necessary material regulatory approvals to close the transaction, the syndication to raise \$850 million in debt financing required to close the transaction has been completed, and shareholder meetings have been scheduled for February 28, 2007. Subject to shareholder approval by PAETEC and US LEC shareholders and satisfaction of other closing conditions, the parties anticipate that the closing would occur shortly following the shareholder meetings.

US LEC will hold a conference call today, February 21, 2007, at 11:00 a.m. Eastern Time. Members of PAETEC's management will participate in a portion of the call, which will include a discussion of matters relating to the combined company. A live broadcast of the call will be available online at www.uslec.com and www.fulldisclosure.com. To listen to the live call, please go to the web site at least fifteen minutes early to register, download, and install any necessary audio software. A telephone replay and a replay via web cast will be available shortly after the call through February 28, 2007.

About PAETEC

PAETEC Communications, Inc., is an innovative supplier of communications solutions to medium and large businesses and institutions. With the belief that every customer has unique needs, PAETEC offers personalized solutions that include a comprehensive suite of Voice over Internet Protocol (VoIP) services delivered over our Private-IP MPLS network. With more than 1,100,000 access line equivalents in service, PAETEC serves approximately 19,100 core business customers across the U.S. by offering a full line of telecommunications and Internet services, enterprise communications management software, security solutions, and managed services. The company was the recipient of the 2005 American Business Ethics Award for a mid-size company, presented by the Society of Financial Services Professionals. PAETEC is headquartered in Fairport, N.Y. More information about the company can be found by visiting www.paetec.com.

Forward-Looking Statements

Some of the statements in this announcement constitute forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, financial position, levels of activity, performance or achievements of PAETEC to be materially different from any future results, financial position, levels of activity, performance or achievements expressed or implied by such forward-looking statements. The risks and uncertainties include, but are not limited to, the following

- changes in regulation and the regulatory environment;
- competition in the markets in which the company operates;
- the continued availability of necessary network elements from competitors of the company;
- the ability of the company to raise capital in the future;
- the ability of the company to manage and expand their business and execute their acquisition strategy;
- changes in customer preferences and the ability of the company to adapt the company's product and service offerings;
- the ability of the company to convert its existing network into a network with more advanced technology;
- effects of network failures, system breaches and natural catastrophes, terrorism and other interruptions;
- the ability of the company to service its indebtedness;
- covenants in agreements governing the indebtedness of the company that limits the discretion of the company's management in the operation of its business; and
- the costs associated with being a public company, if applicable.

These risks and other risks that could have a material adverse effect on the business, results of operations and financial position of the company are described in the Form S-4 registration statement of PAETEC Holding Corp. on file with the Securities and Exchange Commission. PAETEC expressly disclaims any duty to update the forward-looking statements, and the estimates and assumptions associated with them, after the date of this announcement to reflect changes in circumstances or expectations or the occurrence of unanticipated events, except to the extent required by applicable securities laws.

Additional Information About Merger Transaction

On February 8, 2007, the Securities and Exchange Commission declared effective a registration statement (File No.: 333-138594) filed with the Securities and Exchange Commission by PAETEC Holding Corp. that contains a proxy statement of PAETEC and US LEC Corp. and a prospectus of PAETEC Holding Corp. regarding the proposed merger transaction between PAETEC and US LEC, as well as other relevant documents concerning the proposed transaction. The proxy statement and the prospectus were mailed to stockholders of record of PAETEC on February 8, 2007. Investors and security holders of PAETEC are urged to read the proxy statement and the prospectus for the transaction and the other relevant documents because they contain important information about PAETEC, US LEC and PAETEC Holding Corp., and the proposed merger transaction. Investors and security holders of PAETEC may obtain free copies of the proxy statement and the prospectus and other documents filed by PAETEC Holding Corp. with the Securities and Exchange Commission at the Securities and Exchange Commission's web site at <http://www.sec.gov> and may also obtain free copies of the proxy statement and the prospectus by writing to PAETEC, One PAETEC Plaza, 600 WillowBrook Office Park, Fairport, New York 14450, Attention: Investor Relations.

Information regarding the identity of persons who may, under the Securities and Exchange Commission's rules, be deemed to be participants in the solicitation of stockholders of US LEC in connection with the proposed transaction, and their interests in the solicitation, are set forth in the joint proxy statement/prospectus contained in the registration statement that has been filed by PAETEC Holding Corp. with the Securities and Exchange Commission.

This communication shall not constitute an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

PAETEC Corp. and Subsidiaries
Condensed Consolidated Statements of Operations
(Dollar Amounts in Thousands)

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
REVENUE:				
Network services revenue	\$ 118,941	\$ 105,399	\$ 460,347	\$ 400,717
Carrier services revenue	22,876	19,881	88,284	76,685
Integrated solutions revenue	9,671	8,898	37,671	32,022
TOTAL REVENUE	<u>151,488</u>	<u>134,178</u>	<u>586,302</u>	<u>509,424</u>
COST OF SALES (exclusive of depreciation and amortization shown separately below)	72,780	63,440	282,169	237,809
RETROACTIVE NETWORK COST DISCOUNT	-	-	-	(1,750)
LITIGATION SETTLEMENT	-	-	1,500	(860)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (exclusive of depreciation and amortization shown separately below and inclusive of stock-based compensation)	56,224	51,633	219,516	193,846
WITHDRAWN INITIAL PUBLIC OFFERING AND NEW SENIOR SECURED CREDIT FACILITY EXPENSES	-	(112)	-	4,553
LEVERAGED RECAPITALIZATION RELATED COSTS	67	-	15,153	-
DEPRECIATION AND AMORTIZATION	<u>9,322</u>	<u>7,845</u>	<u>34,618</u>	<u>29,076</u>
INCOME FROM OPERATIONS	13,095	11,372	33,346	46,750
CHANGE IN FAIR VALUE OF SERIES A CONVERTIBLE REDEEMABLE PREFERRED STOCK CONVERSION RIGHT	-	953	(10,777)	10,778
LOSS ON EXTINGUISHMENT OF DEBT	-	-	5,081	-
OTHER INCOME, net	(1,167)	(1,019)	(4,510)	(3,098)
INTEREST EXPENSE	<u>10,175</u>	<u>2,873</u>	<u>27,319</u>	<u>10,472</u>
INCOME BEFORE INCOME TAXES	4,087	8,565	16,233	28,598
PROVISION FOR INCOME TAXES	<u>1,462</u>	<u>2,683</u>	<u>8,430</u>	<u>14,124</u>
NET INCOME	<u>\$ 2,625</u>	<u>\$ 5,882</u>	<u>\$ 7,803</u>	<u>\$ 14,474</u>

PAETEC Corp. and Subsidiaries
Condensed Consolidated Balance Sheets
(Dollar Amounts in Thousands)

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 46,885	\$ 49,394
Accounts receivable, net	79,740	68,313
Deferred income taxes	14,210	19,505
Prepaid expenses and other current assets	4,942	4,704
Total current assets	<u>145,777</u>	<u>141,916</u>
PROPERTY AND EQUIPMENT, net	167,566	151,994
GOODWILL	35,082	35,082
INTANGIBLE ASSETS	8,631	9,725
DEFERRED INCOME TAXES	11,572	13,359
OTHER ASSETS, net	11,112	3,154
TOTAL ASSETS	<u>\$ 379,740</u>	<u>\$ 355,230</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 27,321	\$ 20,328
Accrued expenses	43,824	47,164
Deferred revenue	22,478	18,923
Current portion of long-term debt	2,856	12,186
Total current liabilities	<u>96,479</u>	<u>98,601</u>
LONG-TERM DEBT	370,930	99,700
FAIR VALUE OF SERIES A CONVERTIBLE REDEEMABLE PREFERRED		
STOCK CONVERSION RIGHT	-	10,778
OTHER LONG-TERM LIABILITIES	5,646	3,605
TOTAL LIABILITIES	<u>473,055</u>	<u>212,684</u>
COMMITMENTS AND CONTINGENCIES		
SERIES A CONVERTIBLE, REDEEMABLE PREFERRED STOCK	<u>-</u>	<u>193,164</u>
STOCKHOLDERS' DEFICIT:		
Class A common stock	367	267
Class B common stock	-	26
Treasury stock	(45,694)	-
Additional paid-in capital	21,591	24,378
Accumulated other comprehensive loss	(2,093)	-
Accumulated deficit	(67,486)	(75,289)
Total stockholders' deficit	<u>(93,315)</u>	<u>(50,618)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 379,740</u>	<u>\$ 355,230</u>

PAETEC Corp. and Subsidiaries
Selected Financial and Operational Data
(Dollar Amounts in Thousands)

	2005		2006	
	Third Quarter	Year Ended December 31	Third Quarter	Year Ended December 31
Consolidated Balance Sheet Data: (in thousands)				
Cash and cash equivalents	\$ 48,213	\$ 49,394	\$ 38,956	\$ 46,885
Property and equipment, net	144,845	151,994	163,394	167,566
Total assets	351,778	355,230	366,345	379,740
Long-term debt (including current portion)	122,877	111,886	374,458	373,786
Series A convertible redeemable preferred stock	189,367	193,164	-	-
Total stockholders' deficit	(52,714)	(50,618)	(98,664)	(93,315)

Operating Data

(as of period end):

Geographic markets served	29	29	29	29
Number of switches deployed	12	12	13	13
Total digital T1 transmission lines installed	38,082	40,621	48,866	52,371
Network services digital T1 transmission lines installed	29,962	32,169	38,982	42,017
Percentage of network services digital T1 transmission lines disconnected	2.0%	6.7%	2.2%	9.2%
Total access line equivalents installed	913,968	974,904	1,172,784	1,256,904
Total employees	1,226	1,231	1,307	1,312

	2005			2006		
	Third Quarter	Fourth Quarter	Year Ended December 31	Third Quarter	Fourth Quarter	Year Ended December 31

Other Financial Data:

(in thousands)

Capital expenditures	\$ 9,380	\$ 7,557	\$ 38,156	\$ 12,246	\$ 11,450	\$ 49,295
Net income	\$ 5,208	\$ 5,882	\$ 14,474	\$ (1,533)	\$ 2,625	\$ 7,803
Add back non-EBITDA items included in net income (loss):						
Depreciation and amortization	7,159	7,845	29,076	9,117	9,322	34,618
Interest expense, net of interest income	2,168	2,386	9,067	9,410	9,608	24,995
Provision for (benefit from) income taxes	2,899	2,683	14,124	(530)	1,462	8,430
EBITDA	\$ 17,434	\$ 18,796	\$ 66,741	\$ 16,464	\$ 23,017	\$ 75,846
Change in fair value of Series A convertible redeemable preferred stock conversion right	(772)	953	10,778	-	-	(10,777)
Stock-based compensation	-	-	-	2,128	2,307	6,496
Withdrawn initial public offering and related terminated new senior secured credit facility expenses	4,665	(112)	4,553	-	-	-
Leveraged recapitalization costs	-	-	-	93	67	15,153
Loss on extinguishment of debt	-	-	-	-	-	5,081
Cumulative effect of a change in accounting principle	-	-	-	-	-	-
Adjusted EBITDA (1)	\$ 21,327	\$ 19,637	\$ 82,072	\$ 18,685	\$ 25,391	\$ 91,799
Adjusted EBITDA, as a percentage of total revenue (1)	16.4%	14.6%	16.1%	12.6%	16.8%	15.7%

(1) Adjusted EBITDA, as defined by PAETEC, represents net income before interest, provision for income taxes, depreciation and amortization, withdrawn initial public offering and related terminated new senior secured credit facility expenses, change in fair value of Series A convertible redeemable preferred stock conversion rights, leveraged recapitalization costs, stock-based compensation and loss on extinguishment of debt. PAETEC's adjusted EBITDA is a non-GAAP financial measure used by PAETEC's management, together with GAAP measures such as revenue and cash flows from operations, to assess PAETEC's historical and prospective operating performance. Management believes that trends in PAETEC's adjusted EBITDA are a valuable indicator of PAETEC's ability to produce operating cash flow to fund working capital needs, to service debt obligations and to fund capital expenditures. The above table sets forth, for the periods indicated, a reconciliation of the differences between adjusted EBITDA and net income, as net income is calculated in accordance with generally accepted accounting principles.