



PAETEC

Personalizing Solutions for a Changing World

PAETEC IN REVIEW

**Personalizing Solutions for
a Changing World**



Message From Our CEO:

The modern economy can move from boom to bust and back again with little warning, while advancing technology can change the competitive landscape almost overnight.

The only constant for anyone running a business or institution seems to be perpetual disruptions and ever-more complex challenges.

In this environment, data, voice, and Internet communications play such a central role for any business that your decision about a communications provider is critical. Great communications providers serve as effective business partners, and few partners will be more essential to your organization's near-term survival and long-term success than the company you entrust with your mission-critical communications.

For more than 10 years, PAETEC has pursued organic growth and strategic acquisitions that go beyond the ordinary to create an extraordinary

range of capabilities. In other words, we've worked hard to create a unique portfolio that allows us to be your trusted partner and expert advisor. You'll find more detail on our approach to partnership throughout this publication, but I'd like to briefly highlight what I see as three of PAETEC's most significant differentiating characteristics: personalized solutions delivered nationwide, unmatched customer service, and a solid financial position.

Personalized Solutions, Delivered Nationwide

We work nationwide to deliver reliable and scalable solutions for your data, voice, and Internet communications across 83 of the top



Arunas A. Chesonis

Chairman and CEO, (in his office in front of employee photo wall)

100 MSAs (Metropolitan Statistical Areas) in the nation. Since our McLeodUSA acquisition in early 2008, we've organically expanded into Oregon, Maine, and Northern California including San Francisco, Oakland, San Jose, and Sacramento.

We have combined elements of PAETEC's broad portfolio to create holistic solutions to the critical challenges of primary connectivity, business continuity/disaster recovery, and security. In addition, we can manage key services end-to-end, allowing you to devote more time to your business.

PAETEC also delivers business-intelligence capabilities that let you accurately understand and more effectively manage the lifecycle of complex IT resources. And, we have a financing solution that can subsidize and even eliminate your capital cost for equipment and software as part of a broader network services contract.

I am also very excited about the launch of fixed wireless services nationwide. PAETEC has acquired a company with 10 years of experience using fixed wireless to supplement wireline local network access or even to bypass the incumbent carrier's local network entirely. It's exciting to increase the depth of our one-stop services by offering this capability at the national level.

Unmatched Customer Service

PAETEC operates nationally, but we think and serve locally. One of our first major actions after achieving national status in 2008 was to create a regionalized leadership structure. We have placed accountability for sales, order fulfillment, and customer service in the hands of four regional presidents who are committed to maintaining a positive local touch.

To ensure that we stay attuned to our customers' experience, we have formal Customer Advisory Boards in 50 cities with over 1,000 members. We use this customer feedback to improve operations and refine our product roadmap.

Internally, we place a tremendous emphasis on developing the PAETEC workforce so our people have the expertise to give you unmatched customer service. PCU (PAETEC Communications University) includes extensive courses on systems, product solutions, sales skills, and more. In 2009, for a third consecutive year, our Training Department was named among the top 125 international training organizations, according to *Training* magazine.

Also in 2009, our NOC (Network Operations Center) was named the Back-Office Customer Service Department of the Year in the annual Stevie Awards for Sales and Customer Service.

Solid Financial Position

In a volatile economy, it is important to know that PAETEC has a solid financial position. Our revenue in 2008 exceeded \$1.5 billion in just our 10th year of operation, and we have been free cash flow positive* for the 24th consecutive quarter.

*Adjusted EBITDA (earnings before Interest, Taxes, Depreciation and Amortization) and free cash flow (adjusted EBITDA less capital expenditures), are non-GAAP measures that are defined and reconciled to GAAP in the "Selected Financial Data" section herein.

In 2008, our adjusted EBITDA* exceeded \$237.0 million, and we ended the year with \$164.5 million in cash and equivalents.

Ultimately, what most distinctly differentiates PAETEC is our people. Our mission is to be the most customer and employee-oriented communications provider. We go to great lengths to solicit your opinions, and our employees go the extra mile to respond.

The result is that our 3,600-plus employees serve as customer ambassadors, delivering unmatched service and personalized solutions throughout the country. Our people treat all of our 47,000 business-class customers as if each one was our only customer. In the end, that's what PAETEC is all about – personalized solutions, designed for you.

Sincerely,

Arunas A. Chesonis
Chairman and CEO

Personalized Solutions

PAETEC's philosophy of personalized solutions for business communications is at the heart of everything we do. Our people take great pride in delivering the most appropriate solution built around your specific needs. It begins with core offerings that span data, voice, and Internet requirements.

Solutions Built for Your Needs

Having consulted with our customers for many years, we've learned that businesses need more than a catalog of products and services. You need solutions. PAETEC has responded by compiling key elements of our portfolio into solutions that address specific categories of needs.



Communications Solutions

deliver reliable and scalable products for data, voice and Internet services. PAETEC tailors its range of primary services to enhance your internal and external communications.



Business Continuity Solutions

utilize PAETEC's effective tools for disaster preparedness, network redundancy, and application recovery. These tools help you recover from the loss or corruption of data, and help you keep operating during and after a disaster.



Security Solutions

protect critical corporate files and applications, mitigate risks, and support regulatory compliance.



Managed Services Solutions

help you manage budgetary constraints and limited IT resources by essentially outsourcing your communications needs. Wouldn't it be nice to let somebody else worry about the network so you can focus on your operations? That's exactly what PAETEC's Managed Services Solutions deliver.



Financing Solutions

create an opportunity for you to acquire vital business equipment or software at little or no capital expense. PAETEC's EFS (Equipment for Services) program includes an innovative profit-sharing mechanism to reduce and subsidize capital expenses as part of an overall network services contract.

PAETEC can also make arrangements to rent equipment to your business. We are responsible for equipment maintenance, monitoring, and support for the life of the contract. When the term expires, you can either continue to rent the equipment, or return it and upgrade to a more advanced communications system without facing the loss of embedded costs for owned equipment.



Lori Ewoldt, Michael Mills, Kaleb Harrison
NOC, Cedar Rapids, IA

Voice Communications.

Years of Experience + Innovative Thinking

Marc Cross

Central Office, Cedar Rapids, IA

Data Services

Can you imagine a day without data communications? Data networking is essential for every business model and every type of enterprise. PAETEC's robust portfolio includes a wide variety of data solutions and applications, all designed with the strictest security and performance requirements in mind.

Do you have multiple locations? MPLS VPN (Multi-Protocol Label Switching Virtual Private Network) can dramatically boost productivity while helping you manage your bandwidth more cost-effectively.

In addition, Ethernet Local Loop is a flexible, high-bandwidth access solution that can support both voice and data communications. This proven, cost-effective technology is an increasingly popular access solution and can support Dedicated Internet, MPLS VPN, and VoIP (Voice over Internet Protocol). PAETEC offers bandwidth over Ethernet Local Loop that ranges from 10 Mbps to 1,000 Mbps.

Are you worried about malicious hackers? Managed CPE (Customer Premises Equipment) Firewall with UTM (Unified Threat Management) protects corporate

data and networks while freeing up your IT resources to focus on your business. Are your IT resources strained? PAETEC's two geographically diverse, Class-A Customer Data Centers can host your applications and provide flexible and secure access to your data, freeing you from the hassle of managing your own equipment.

If reducing expenses while increasing competitiveness is what you're after, then our Dynamic IP (Internet Protocol) with SIP (Session Initiation Protocol) Trunking solution set can give your business the edge you need. PAETEC's Dynamic IP services converge data and voice communications onto a single circuit, which reduces expenses while delivering IP-based flexibility and capabilities.

Voice Communications

In a world of Twitter and texts, there is often no substitute for the sound of a human voice. PAETEC's voice services include local, long distance, and toll-free services. Whether you choose traditional voice or next-generation VoIP services, we deliver world-class quality built upon our own vast industry expertise and the leading technology of our partners.

Many businesses will find PAETEC's Advanced Toll-Free services particularly useful. This service offers 32 distinct features that include Advanced Routing (including time of day and geographic routing), hosted Integrated Voice Response functionality, and Online management and report tools to boost your marketing efforts. This not only helps you efficiently manage workflows, it also supports business continuity in the event of a disaster.

PAETEC's commitment to personalization doesn't end with core services. Our portfolio delivers powerful options that include our PAETEC Online customer portal, Fixed Wireless, telecom management software, equipment, and consulting.

PAETEC Online

To give you greater control of your communications services, PAETEC Online offers a new world of proactive partnership. Think of it as an online customer service representative that securely provides information, account management, and problem resolution from any Internet-connected computer. This free capability allows you to directly add and change features, review bills and payment history, and even view the status of your trouble tickets. In addition, you can use PAETEC Online to analyze your service usage patterns, spot trends before they become problems, and plan for growth.

Of course, if you would rather speak with someone at PAETEC, give us a call. We answer customer calls with a live person, typically within 20 seconds.

Fixed Wireless

In 2008, PAETEC acquired MPX, a New York-based company with 10 years of experience in licensed fixed wireless system engineering and field integrations. In 2009, we are taking these capabilities nationwide.

We use carrier-grade microwave equipment and consultative engineering to build reliable "last-mile" access loops between your facility and a local PAETEC point-of-presence. We can provision your wireless local loops at speeds ranging from DS-3 to Gigabit Ethernet, which will support the full range of voice and IP services in our portfolio.

The benefits are many. Fixed Wireless provides complete physical infrastructure diversity to better ensure your ability to operate during and after a catastrophe. You could even totally bypass the local wired network if you choose. Customers have also benefited from leveraging PAETEC's fiber network in tandem with Fixed Wireless facilities. In cases where customer facilities were in obscured locations, without a direct line-of-site to the wireless equipment, PAETEC has been able to use our extensive

fiber network to extend our point-of-presence to another location that does have a clear line to the customer's building. PAETEC wireless solutions are also ideal for campus settings that require high-bandwidth point-to-point connections between buildings in a private network.

Data Center Services

PAETEC Data Centers are home to many of the largest Web properties and business collocation facilities in the nation. Built for the most demanding of customers, our data centers provide a secure environment to develop your business continuity and hosting needs, eliminating the need to build and maintain your own private data center.

Robust and dedicated Internet access on our IP backbone, a combination of both public and private Internet peering arrangement, and SAS 70 Type II certification means you never have to worry about your business-critical data.

When it's time to take your business to the next level, PAETEC data centers provide the flexible solutions to let you grow your business. PAETEC offers a variety of cabinet rack space solutions or custom cages built to your specifications, all housed within our secured facilities with best-in-class fire suppression,

power coverage, and redundant network connectivity.

Our next-generation facilities are only part of the story though. Combined with our full suite of managed professional services, including advanced monitoring of device and application performance, data backup and recovery services, and comprehensive 24 x 7 x 365 monitoring, you can rest easy knowing that dedicated PAETEC personal are always monitoring your data.



Fixed Wireless Case Study:

NEW YORK UNIVERSITY · LANGONE MEDICAL CENTER

New York University Langone Medical Center (NYULMC) is among the world's premier centers for healthcare, biomedical research, and medical education. And with 10,000 people on staff, the institution is one of New York City's largest employers.

As the center steadily expanded in size and scope, Director of IT Charles Bridgeman faced a tremendous recurring challenge to upgrade the center's multi-site network infrastructure. Crunch time came when the center began moving functions into leased facilities remote from its main "Superblock" Manhattan campus. Bridgeman recognized the need for more data capacity, and he wanted the flexibility to incorporate voice services.

Charles Bridgeman

Director of IT, NYU Langone Medical Center

Building a private fiber network would involve significant right-of-way challenges in addition to being very costly and technically complex. The best alternative, Bridgeman concluded, was a licensed fixed wireless system that would deliver high reliability without the risk of interference from neighboring wireless networks.

He turned to PAETEC for a fixed wireless system that delivered 100 Mbps Ethernet for data, with incremental T-1 circuits for voice to a remote facility on Park Avenue. The PAETEC engineering team worked with Bridgeman throughout the design and implementation stages. The PAETEC team determined the physical installation requirements at each building, and also handled all aspects of FCC licensing on NYULMC's behalf. After installation, PAETEC configured the system interfaces to operate the link within the center's broader network.

"As soon as we put the microwave link into service, our staff noticed a significant 'quicken' of the network," Bridgeman said. "We felt like we had our own private fiber line, but without any of the associated headaches."

The center also contracted with PAETEC for comprehensive maintenance, emergency response, and remote monitoring services where technicians proactively communicate with Bridgeman's team in the event of any service issue.

As NYULMC has grown and its communications needs have evolved, the center has repeatedly chosen PAETEC Fixed Wireless to deliver a personalized solution:

- PAETEC connected the Hospital for Joint Diseases with a remote facility on 2nd Avenue. This link provided 155 Mbps connectivity over a Gigabit Ethernet interface.
- The center installed a Gigabit Ethernet link between the Rusk Institute on First Avenue and offices on 34th Street.
- PAETEC extended the Rusk Institute's LAN (Local Area Network) to a medical practice office across the street.
- PAETEC deployed a Gigabit Ethernet link between the Rusk Institute and the Day Surgery and Musculoskeletal Center on East 38th Street.
- Another Gigabit link went live between Skirball Institute and 32nd street.

Incorporating fixed wireless transport has improved communications service for end users, reduced operating costs for the institution, and enhanced the delivery of quality care to patients. "The research, clinical, and administrative groups we support are happy with the results they see," Bridgeman said. "It's a winning scenario all around."

Network Design, Deployment & Equipment

PINNACLE Software

The PINNACLE Communications Management Suite established new standards for usability, flexibility, and integration opportunities in 2008 with the release of PINNACLE Communications Management Suite V6.

PINNACLE simplifies and automates IT lifecycle management by integrating Telecom Expense Management, Service Management, Operations Management, and Regulatory Compliance into a single, platform-independent framework.

The more complex your network, the more opportunities you will have to save money and increase efficiency. PINNACLE V6 helps our customers capitalize on those opportunities by incorporating interactive user-friendly business intelligence analytics, context-sensitive multi-media training materials, and a fully customizable user interface that will allow your organization to do things that were never before possible.

Allworx

Winning Internet Telephony's Product of the Year for the 3rd consecutive year was just the start for Allworx, which PAETEC acquired in 2007 as a wholly owned subsidiary. The award-winning communications platform that PAETEC acquired would go on to win Product of the Year from *Communications Solutions*, receive recognition and accolades from industry heavyweights such as Texas Instruments, and bring to market the

Allworx 9224, a premier high-fidelity wideband IP phone, as well as Allworx's next-generation of communications system software.

Allworx systems support both traditional and VoIP telephone services, providing a "future-proof" solution that allows customers to manage their transition to VoIP at their own pace. With Allworx, you receive all the business productivity enhancements, cost savings, and flexibility of VoIP with no risk of disruption to your business.

Network Design, Deployment & Equipment

PAETEC also is a certified partner with Cisco, Nortel, Avaya, and ADTRAN. Through these established relationships, we offer business telephone systems, voicemail, voice and data cabling, IP applications and services, routers, and turnkey cabling solutions to businesses of all sizes.

Our dedicated technical and engineering personnel are ready to help you through every step of creating a new network or upgrading your current facilities. Our support includes project management, staging, configuration, physical installation, and end-to-end testing. After installation, we can partner with you to monitor and manage your network.

Quite simply, PAETEC is your one-stop shop for everything from sales and service to installation, maintenance, and management.

Timothy Brotzman

Senior Manager, Database Applications, Rochester, NY



John Chapman
Senior Vice President, Marketing

IP services have become mainstream, but not all IP service providers are created equally. For starters, it's important to know that using IP technology does not necessarily mean you have to entrust your business to the public Internet. In fact, relying on the Internet can expose your business to serious and unnecessary risks.

"IP" refers to an efficient and flexible technology for transporting data, voice, and video. PAETEC's IP services are carried on our private network, not the public Internet. This adds an important level of security compared with many IP services for business on the market. But private network facilities are just the beginning of our approach to ensuring your security.

PAETEC has created UTM services that deliver comprehensive Internet security solutions. These include Hosted Firewall, as well as Managed CPE Firewall.

Hosted Firewall is ideal for multi-site customers. It keeps your corporate assets and customer information secure, which is essential given the increasingly stringent regulatory requirements for data security. PAETEC's Hosted Firewall solution resides within our network rather than at your location. Since we "host" your firewall, you are free to devote more resources and time to your core business operations.

For single-site customers, Managed CPE Firewall delivers robust security while eliminating the need for you to purchase and maintain the multiple appliances, servers, and software needed for an in-house solution.

All signature and patch updates are delivered automatically to ensure that you always have the most recent network protection.

Both services are designed to protect business-class customers from malicious Internet attacks and network-security anomalies. And multi-location customers can deploy Managed CPE Firewall and Hosted Firewall together to create layered, "defense in depth" network security for dispersed locations.

Customers have told us that Internet security is extremely complex and time-consuming. In response, we developed the hosted and managed firewall solutions, which allow you to devote your IT resources to building your business while PAETEC protects your vital data and assets.

Allworx Equipment

PAETEC MPLS CASE STUDY: CARLTON SCALE

Carlton Scale distributes and services industrial scales from its headquarters in Greensboro, NC, and seven branch locations in North Carolina, Tennessee, Virginia, and Maryland. Until recently, each office of the 60-plus year old company had a different phone system.

Chris Trevey
President, Carlton Scale

None of the company's 85 employees had voicemail at work. There was no option for offices to call each other through extension dialing. And requesting maintenance and repair was a challenge because it involved multiple service technicians from diverse equipment providers. In 2007, Carlton Scale's new president decided it was time for a unified communications system.

The company sought help from Hayes & Associates, a communications equipment and network reseller based in a nearby city. Fortunately, the head of Hayes had recently discovered and installed an Allworx communications system and allowed Carlton Scale to connect to his Allworx system for a test drive.

It didn't take long for Carlton Scale to decide that Allworx was an excellent and cost-effective choice. Today, the company uses the flagship Allworx 24x system at its corporate headquarters and has Allworx 6x systems at all branch locations. In addition to this core equipment, Carlton Scale purchased 86 Allworx office phones.

Productivity has increased because every employee now has voicemail as well as three-digit, desktop-to-desktop dialing to all sites. Among many other features, staff members can forward incoming calls to their cell phones, which means customers can be served more quickly and efficiently.

The installation also provides "soft phone" service, which lets traveling employees use the Allworx system to make calls through a laptop computer.

"The Allworx system is very user-friendly, and it is a really wonderful system," said Carlton Scale's President, Chris Trevey. "I suggest that anyone go and try it. The system has so much functionality, and it is so easy to set up conference calls."

The new communications system was just the beginning of benefits for Carlton Scale. The company also decided to move its managed communications services from AT&T to PAETEC's MPLS network. This lets employees securely access company data from virtually anywhere. It also prioritizes voice traffic to better ensure that customers can stay in touch with the company, and that company employees can stay in contact with each other.

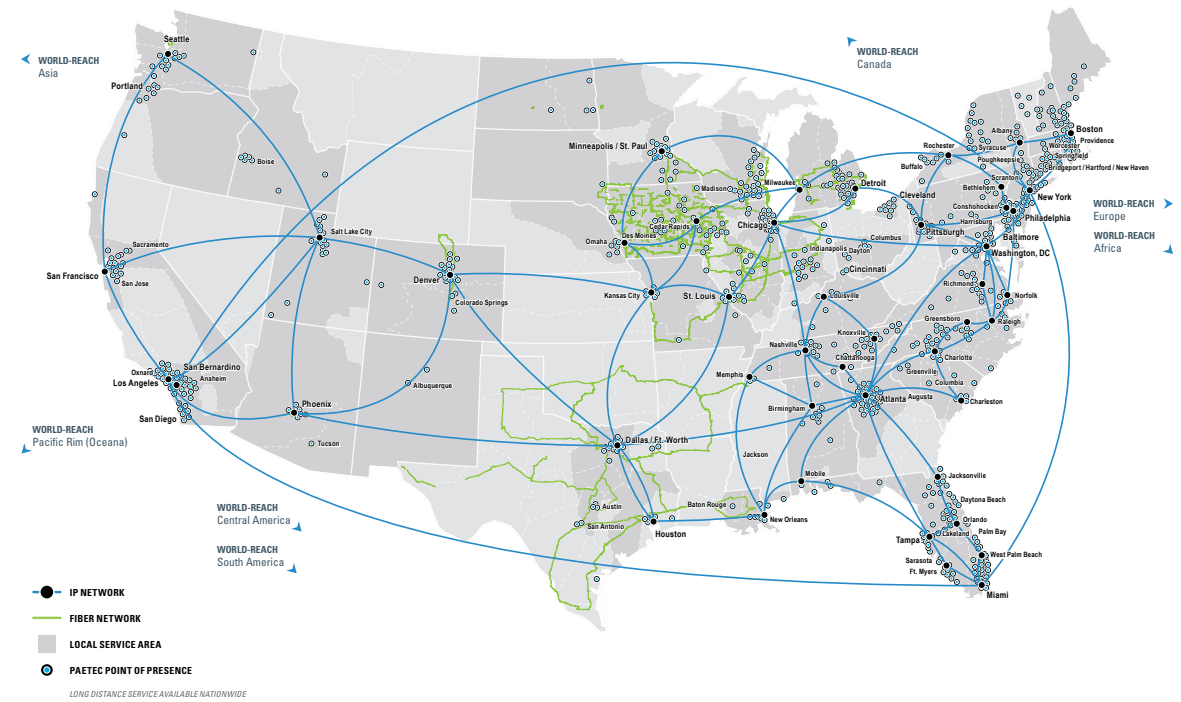
Allworx systems can be personalized to meet the specific needs of any business. And the systems offer built-in flexibility and scalability to accommodate new communications requirements as a business grows.



PAETEC

Paul Bunting, Rachel Greene
Customer Care, Cedar Rapids, IA

Our Network



Our Products

DATA

Data

- MPLS VPN
- Managed Router Support
- Dedicated Internet Access

Transport/Access

- Ethernet Local Loop
- Private Line
- Fixed Wireless

Security

- Hosted E-mail Security
- Hosted Web Security
- Hosted Firewall
- Managed CPE Firewall

VOICE

Voice

- Local
- Long Distance
- Toll-Free
- Advanced Toll-Free
- Advantage Business Lines
- Direct Trunk Overflow
- Managed Fraud Protection

VoIP

- Dynamic IP
- Hosted IP Telephony

Conferencing

- Audio Conferencing
- Web Conferencing

Consulting

- Network Diversity Engineering
- Toll-Free Routing Consultation

EQUIPMENT

CPE

- IP Phone Systems
- Routers
- Integrated Access Devices
- Media Gateways

Consulting

- Network Engineering Consultation
- Hardware Maintenance Support

Financing

- Equipment for Services
- Equipment Rental
- Software for Services

APPLICATIONS

- PINNACLE Communications Management Suite
- Hosted Broadcast Notification

DATA CENTER

- Colocation Services
- Data Backup & Recovery
- Dedicated Hosted Server
- Shared Web Hosting

Our Network

PAETEC's national network is the result of aggressive organic expansion combined with strategic acquisitions made over more than a decade.

Today, our network includes 88 circuit-based switches, 32 IP-based soft switches, 107 backbone routers, and 19,000 route miles of fiber. These network elements are monitored by three geographically diverse NOCs.

The compelling part of this story, though, is how we've assembled and configured these network elements to support personalized solutions in all of our markets across the United States. In October of 2008 – just seven months after the McLeodUSA acquisition added 26 major markets in 20 states – PAETEC announced the successful unification of previously separate network facilities to create an integrated data network across the company's national footprint.

This milestone established the platform we used to deploy an integrated product portfolio available to new customers nationwide. We also used our own internal resources to develop a single view for Network Management across our facilities to enhance our own monitoring and trouble-resolution capabilities.

As part of our commitment to building and developing world-class, next-generation communications networks, we have partnered



Customer Care Call Center
Charlotte, NC



Jason Fava
NOC Technician, Charlotte, NC

with leading technology providers including Cisco, GENBAND, Alcatel-Lucent, and Juniper. We expect these and other key partners to push the boundaries of technology and flexibility and to help us deliver unparalleled reliability, availability, and serviceability.

Through our relationships with these and other strategic technology companies, we have been able to streamline our operations while helping you simultaneously keep a sharp watch on expenses and maintaining our quality of customer service.

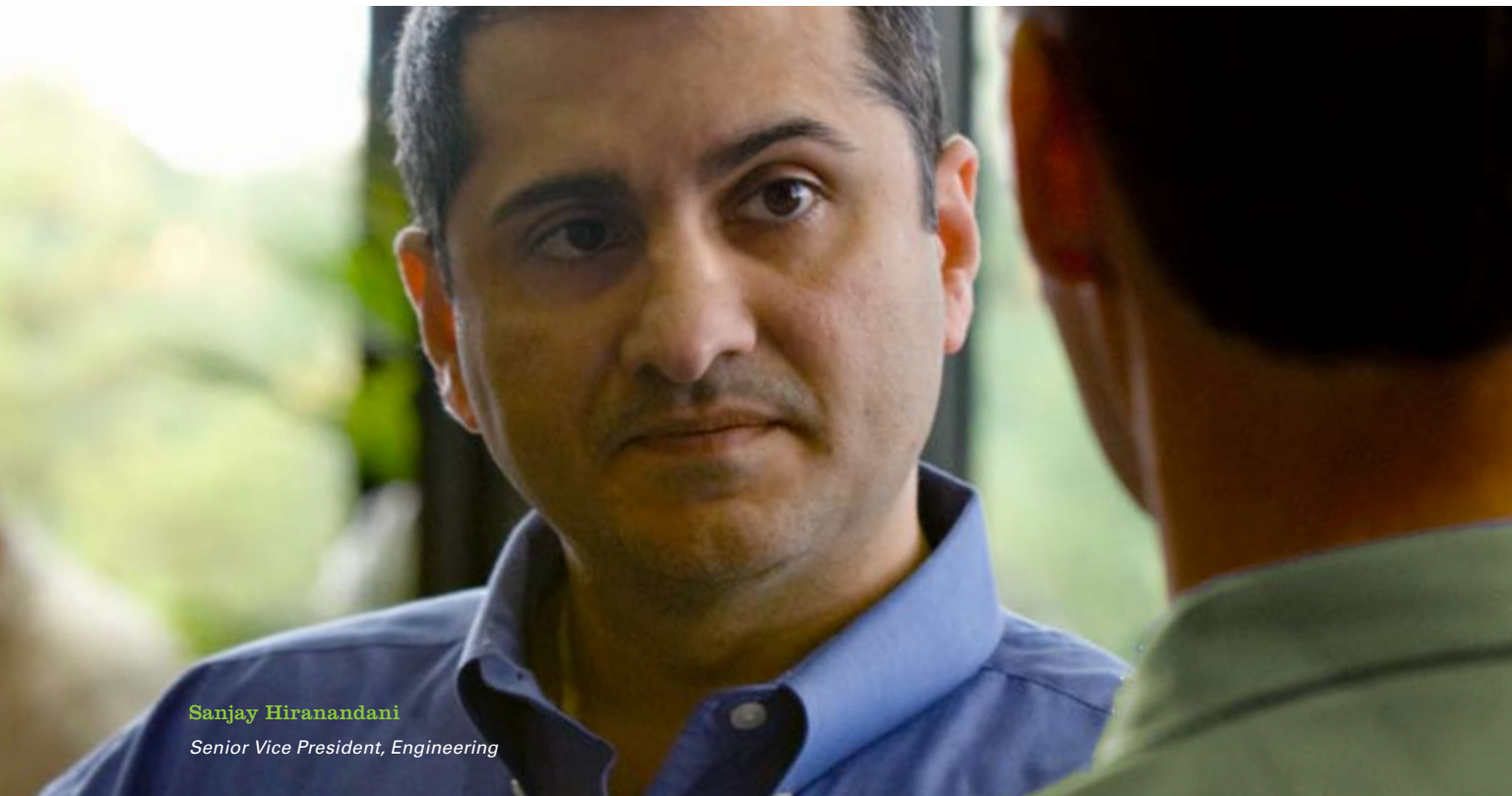
Our network is supported and monitored 24 x 7 x 365 in our state-of-the-art NOCs. Our NOC technicians are certified through a rigorous program with four levels of proficiency. This career progression program means you can rest assured that your business is getting the attention it deserves from experts who care about your business.

As technology's evolution continues, traditional voice networks have become increasingly

expensive to install, maintain, and operate. PAETEC understands how challenging this can be for you. Our proven solutions help your business achieve maximum efficiency and productivity whether you choose next-generation capabilities, traditional technologies, or a mix of both.



Pete Hagstrom
NOC, Cedar Rapids, IA



Sanjay Hiranandani
Senior Vice President, Engineering

Many companies offer IP services, but PAETEC has built our IP capabilities with the express purpose of giving you maximum flexibility. For example, with SIP Trunking from PAETEC, you can choose the bandwidth that truly meets your requirements, ranging from a T-1 to Gigabit Ethernet. And, we offer numerous features to address security, connectivity, business continuity, and other critical business issues.

SIP Trunking converges data, voice, and Internet communications onto a single high-speed, IP circuit. This creates a powerful, yet flexible foundation for advanced communications capabilities.

We offer SIP Trunking nationwide, which frees multi-site customers from developing patchwork solutions that involve multiple carriers for networking across diverse locations. In addition, PAETEC delivers SIP Trunking features across both modern IP platforms as well as traditional TDM (Time Division Multiplexing) network technology. You can make the jump to an IP PBX (Private Branch Exchange) with a native IP connection, or you can choose an Integrated Access Device that can work with your legacy PBXs or key systems.

We also use compression techniques that can significantly increase the number of high-quality voice circuits within a single T-1 compared with traditional PRIs (Primary Rate Interfaces).

In addition, our QoS (Quality of Service) capabilities instantly adjust your bandwidth allocation as your business needs change dynamically throughout the day. Voice signals receive instant priority over data to ensure high-quality voice services when you need them. Yet when no voice traffic is present, all of your available bandwidth can be used for data.

Other benefits of choosing PAETEC include:

- VoIP-to-TDM conversion provided within PAETEC's network.
- Expanded free local calling areas.
- Site-to-site voice and data sharing that is securely isolated from the public Internet.

You also have multiple options for certified interoperable IP/PBX equipment from numerous world-class vendors including Cisco, Toshiba, Allworx, and others. Certifying the interoperability of communications equipment and IP networks makes it easier for you to achieve the full benefits of advanced communications capabilities.

Telephony magazine has selected PAETEC's Dynamic IP with SIP Trunking as the industry's Most Innovative Product in 2008. In judging PAETEC against telecom and cable companies, wireless service providers, and a host of niche communications companies, *Telephony* Editor-in-Chief Carol Wilson said, "The judges were impressed not just by this service but also by what PAETEC delivers to its customers in support of SIP Trunking. In this instance, they are innovating in the way they deploy SIP Trunking."

Another judge, Cindy Whelan of Current Analysis, said, "Where PAETEC shines against these competitors is in its focus on customer service."

Integration

“Integration” is an important and far-reaching concept at PAETEC.

We offer integrated voice and data communications to cost-effectively increase your organization’s productivity. We partner with you as an integrated provider that can meet diverse needs that include communications services and equipment; network design, installation, and management; and software that allows you to expertly manage the full lifecycle of complex IT resources. And, we have incorporated the ability to help you finance capital purchases as part of your network services contract.

Integration also refers to PAETEC’s unusually aggressive approach to creating unified national operations and capabilities from our diverse acquisitions and organic growth strategy. This aspect of “integration” is significant, because PAETEC essentially tripled our revenue and geographic reach through the acquisitions of US LEC in 2007 and McLeodUSA in 2008. Effective integration processes are how we are ensuring customers benefit from this dramatic expansion just as much as the company does.

For example, the last critical step in the integration of US LEC began in the fall of 2008 when we announced plans to unify the PAETEC and former US LEC billing systems. We expect to complete this project in early 2010, and intend to convert the McLeodUSA billing system within the following 12 months. While

many competitors rely on disparate customer-billing systems, PAETEC’s creation of a single platform for all customers nationwide should increase our internal efficiency, as well as our external flexibility to serve your evolving needs.

A huge milestone came less than a year after we acquired McLeodUSA, when we announced an integrated product portfolio available in all of our markets. PAETEC is now one of the few carriers that offers a consistent product portfolio nationally, and all new customers receive a single invoice even if they have sites in multiple regions of the country.

To enhance the speed and accuracy of customer service, we created a common customer database for former US LEC and PAETEC customers. McLeodUSA customers will be incorporated into this database as quickly as possible. The key value here is that once an account representative updates information in one system, the change automatically flows through to our other systems including billing.

As we continue to develop and integrate new markets and capabilities, we remain focused on putting the right tools into the hands of the right people – people who are dedicated to delivering the best and most personalized service in the communications industry.



Sharon LaMantia
Executive Vice President, Network Operations

The common denominator underlying the many facets of “integration” within PAETEC is our people. Before we begin the process of integrating systems, product portfolios, or network elements and capabilities, our first priority is to integrate our people. Our goal is to create a cohesive team that cares just as much about your business as you do.

The fundamental key to our success is instilling PAETEC’s culture throughout our national operations. And, our culture is based on four core values that have guided our people since the company’s inception:

Caring Culture

PAETEC cares about you and the local communities where we both live and work. We know that current conditions have created major challenges for non-profit agencies and institutions. To help these organizations maintain the vital community services they provide, PAETEC is making network services available to non-profit groups at approximately half price for two years. Another aspect of caring culture is PAETEC’s corporate-wide Green Team, which is working diligently to reduce our impact on the environment.

Open Communication

From Customer Advisory Boards to open-doors throughout the company, we rely on frank and honest communications to help us constantly improve our ability to serve you.

Unmatched Service

PAETEC does not pretend to be perfect. No company is. But we do pledge to give our customers the best service in the telecommunications industry. In addition to things we learn from talking with customers, we also measure ourselves through the rigorous process of NPS (Net Promoter Score). We use NPS as a valuable tool to measure our service against competitors. It’s one more way that we evaluate our performance with the goal of ensuring your satisfaction.

Personalized Solutions

We design and deliver solutions tailored to your specific situation and needs. Then we go beyond expectations in order to build a long-lasting relationship with your organization. For instance, when a PAETEC customer calls one of our contact centers, we answer with a live person, typically within 20 seconds. We do not force PAETEC customers into an automated answering system, because your call is really important to us!

Living up to these values has led our people to take extraordinary actions to serve your business and our communities.

The Road Ahead

When you think about your business, what do you need from your communications solutions provider? More importantly, what do you want? What will your business need next year, and five years after that?

Since our founding in 1998, PAETEC has been asking customers questions just like these. We then use that information to refine our processes and develop our product roadmap.

On PAETEC's road ahead, we will continue turbo-charging our network services including our MPLS VPN, VoIP, Fixed Wireless, data centers, security, and managed service offerings. Our unique combination of assets are designed to be there for your expanding communications needs as your business succeeds and grows.

Additionally, over the next three years we're expanding our data centers nationally to better serve your business. These data centers will have "in the cloud" product portfolio which include web hosting services, data backup and

recovery, as well as new offerings, including virtual servers and Software as a Service (SaaS).

We will continue to integrate acquired companies to fully deliver the benefits of a single, contiguous company. By leveraging our national network, nationwide reach, and unified systems, our benchmark customer support will become ever better. We expect to continue expanding organically into new major markets. Building on our current reach into 83 of the top 100 largest US MSAs, we are exploring new organic expansions in areas such as Las Vegas, Cincinnati, and Tulsa.

Over time, we plan to steadily increase our on-net, last-mile connectivity, whether it's using our fiber network assets or our ability



Daidre Fanis

Senior Director, Customer Solutions
National Customer Advisory Board Meeting,
Charlotte, NC

to deliver fixed wireless local access anywhere in the country, providing more cost-effective options for our customers.

In 2008, PAETEC began serving businesses as an independent energy advisor, currently limited to our markets in upstate New York. Building on expertise we gained through a recent acquisition, we help customers find innovative and flexible energy services that include renewable as well as traditional sources of energy.

In the years to come, as we continue expanding our geographic reach and our ability to help customers succeed, PAETEC fully expects to become a Fortune 500 company. We believe this will happen because the market ultimately will prove that customers want a company that cares.

And that is ultimately the sweet spot of PAETEC's business model. We work hard to treat customers the way customers want to be treated.

In a world where communications technology is constantly changing and competitive pressures are increasingly intense and global, PAETEC will continue to take the time to understand your business. Our goal is to give customers personalized solutions and unmatched customer service, both today and through whatever changes the future might bring.

Selected Financial Data

The selected consolidated statements of operations data, consolidated balance sheet data, other financial data and operating data reflect the financial results of PAETEC Corp., as predecessor to PAETEC Holding Corp., and PAETEC Corp.'s wholly owned subsidiaries. After February 28, 2007, the date of completion of the merger transaction with US LEC Corp., or "US LEC," the accompanying selected data include the accounts of PAETEC Holding Corp. and its wholly owned subsidiaries, including PAETEC Corp. and PAETEC Corp.'s wholly owned subsidiaries and US LEC Corp. and US LEC Corp.'s wholly owned subsidiaries. After February 8, 2008, the date of completion of the merger transaction with McLeodUSA, the accompanying selected data include the foregoing accounts as well as the accounts of McLeodUSA and McLeodUSA's wholly owned subsidiaries.

The following tables show the selected consolidated statements of operations data, consolidated balance sheet data, other financial data and operating data of PAETEC Corp. as of and for each of the years ended December 31, 2004, 2005 and 2006, and of PAETEC Holding as of and for the years ended December 31, 2007 and 2008. The selected consolidated statements of operations data, other financial data, and the selected consolidated balance sheet data are derived from PAETEC's audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America, or "GAAP." PAETEC's historical results are not necessarily indicative of its results for any future period.

You should read the data set forth below together with PAETEC's consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the other financial information appearing in PAETEC's Annual Report on Form 10-K for our 2008 fiscal year.

Year Ended December 31,	2008 ⁽¹⁾	2007 ⁽²⁾	2006	2005	2004
CONSOLIDATED STATEMENTS OF OPERATIONS DATA: <i>(in thousands except per share data)</i>					
Revenue:					
Network services revenue	\$1,237,668	\$855,833	\$460,347	\$400,717	\$316,731
Carrier services revenue	271,279	144,924	88,284	76,685	70,767
Integrated solutions revenue	61,433	40,256	37,671	32,022	26,173
Total revenue	1,570,380	1,041,013	586,302	509,424	413,671
Cost of sales <i>(exclusive of operating items shown separately below)</i>	781,347	491,684	282,169	237,809	168,115
Litigation settlement	-	-	1,500	(860)	-
Retroactive network cost discount	-	-	-	(1,750)	-
Selling, general and administrative expense. <i>(exclusive of operating items shown separately below and inclusive of stock-based compensation)</i>	572,180	373,715	219,516	193,846	172,075
Impairment charge	355,000	-	-	-	-
Integration and separation costs	12,700	3,665	-	-	-
Leveraged recapitalization related costs	-	-	15,153	-	-
Withdrawn initial public offering and related terminated senior secured credit facility expenses	-	-	-	4,553	-
Depreciation and amortization	174,251	75,237	34,618	29,076	22,808
(Loss) income from operations	(325,098)	96,712	33,346	46,750	50,673
Other income, net	(663)	(4,784)	(4,509)	(3,098)	(715)
Interest expense	73,663	68,373	27,319	10,472	10,911
Loss on extinguishment of debt	-	14,558	5,081	-	-
Change in fair value of Series A convertible redeemable preferred stock conversion right	-	-	(10,778)	10,778	-
(Loss) income before income taxes	(398,098)	18,565	16,233	28,598	40,477
Provision for (benefit from) income taxes	89,797	8,037	8,430	14,124	(37,158)
Net (loss) income	\$(487,895)	\$10,528	\$7,803	\$14,474	\$77,635
(Loss) income allocated to common stockholders	\$(487,895)	\$10,528	\$(33,155)	\$(623)	\$39,495
Basic net (loss) income per common share ⁽³⁾	\$(3.48)	\$0.12	\$(1.05)	\$(0.02)	\$1.35
Diluted net (loss) income per common share ⁽³⁾⁽⁴⁾	\$(3.48)	\$0.10	\$(1.05)	\$(0.02)	\$1.25

As of December 31.	2008 ⁽¹⁾	2007 ⁽²⁾	2006	2005	2004
CONSOLIDATED BALANCE SHEET DATA. <i>(in thousands)</i>					
Cash and cash equivalents	\$164,528	\$112,601	\$46,885	\$49,394	\$45,882
Property and equipment, net	638,941	312,032	167,566	151,994	132,776
Total assets	1,496,520	1,166,356	379,740	355,230	334,573
Long-term debt and capital lease obligations (including current portion and net of debt discount)	930,833	795,557	373,786	111,886	132,126
Series A convertible redeemable preferred stock	-	-	-	193,164	178,067
Year Ended December 31.					
OTHER FINANCIAL DATA. <i>(in thousands)</i>					
Net cash provided by (used in) financing activities	127,767	290,275	(8,202)	(29,131)	(25,236)
Net cash provided by operating activities	152,131	113,116	53,555	64,451	57,894
Net cash used in investing activities	(227,971)	(337,675)	(47,862)	(31,808)	(38,600)
Adjusted EBITDA ⁽⁵⁾	237,725	196,178	91,798	82,072	73,650
As of December 31.					
OPERATING DATA:					
Geographic markets served ⁽⁶⁾	80	53	29	29	27
Number of switches deployed ⁽⁷⁾	118	40	13	12	11
Total digital T1 transmission lines installed ⁽⁸⁾	215,768	119,987	52,371	40,621	30,346
Total access line equivalents installed ⁽⁸⁾	5,178,432	2,879,688	1,256,904	974,904	728,304
Total employees	3,685	2,432	1,312	1,231	1,124

(1) Includes results of McLeodUSA subsequent to the McLeodUSA merger closing date of February 8, 2008.

(2) Includes results of US LEC subsequent to the US LEC merger closing date of February 28, 2007.

(3) Basic and diluted net (loss) income per common share for the years ended December 31, 2005 and 2004 were calculated using the "two-class" method in accordance with Emerging Issues Task Force Bulletin No. 03-06, *Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share*, by dividing undistributed (loss) income allocated to common stockholders by the weighted average number of common shares and potential common shares outstanding during the period, after giving effect to the participating security, which was PAETEC's convertible redeemable preferred stock that was outstanding in those periods. During the second quarter of 2006, as part of a leveraged recapitalization, PAETEC converted or repurchased all of its outstanding preferred stock. At and after June 30, 2006, there were no participating securities outstanding and, therefore, the "two-class" method of calculating basic and diluted (loss) income per share does not apply to those periods.

(4) Potential common shares, which under the treasury stock method consist of stock options, warrants, and restricted stock units, and preferred stock assuming the full conversion of such preferred stock, are excluded from the diluted net loss per common share calculations for 2005, 2006 and 2008 because the effect of their inclusion would have been anti-dilutive. As of December 31, 2006, and thereafter, there were no shares of convertible redeemable preferred stock outstanding.

(5) Adjusted EBITDA is not a financial measurement prepared in accordance with GAAP. Adjusted EBITDA, as defined by PAETEC for the periods presented below, represents net (loss) income before depreciation and amortization, interest expense, provision for (benefit from) income taxes, stock-based compensation, impairment charge, integration and separation costs, loss on extinguishment of debt, leveraged recapitalization related costs, withdrawn initial public offering and related terminated senior secured credit facility expenses, and change in fair value of Series A convertible redeemable preferred stock conversion right. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Adjusted EBITDA Presentation" in PAETEC's Annual Report on Form 10-K for our 2008 fiscal year for PAETEC's reasons for including adjusted EBITDA data and for material limitations with respect to the usefulness of this measurement. The following table sets forth, for the periods indicated, a reconciliation of adjusted EBITDA to net (loss) income, as net (loss) income is calculated in accordance with GAAP:



Keith Wilson
Chief Financial Officer, Executive Vice President, and Treasurer

What a difference a year makes. 2008 was an important year in the long-term evolution of PAETEC. We successfully closed the acquisition of McLeodUSA and transformed the Company into the leading national competitive communications solution to the incumbents.

Our scale and historically conservative financial management enabled PAETEC to march ahead despite the turbulent economy. Due in large part to the addition of the 27 newly acquired markets throughout the central and western US, PAETEC's revenues grew 50.9% to \$1.57 billion, and our Adjusted EBITDA grew to \$237.7 million, up 21.2% from 2007. Cash from operations was particularly strong, increasing 34.5% during 2008 to \$152.1 million.

Despite the healthy financial performance during 2008, PAETEC did reflect a net loss for the year of \$487.9 million. While the headline number is quite substantial, there were two very significant non-cash charges that were required to be taken due to our disciplined adherence to GAAP (Generally Accepted Accounting Principles). We were compelled to take a non-cash charge of \$355.0 million, due to the drop in our stock. This reflected the decline in goodwill associated with recent acquisitions. Additionally, due to the sizable loss, we recognized a \$104.3 million non-cash write down of a deferred tax asset. Both of these charges were non-cash in nature and did not impact our core operating results.

The solid operating performance enabled PAETEC to bolster its balance sheet, and we ended the year with \$164.5 million of cash and equivalents. We also closed out the year with the 24th consecutive quarter of positive free cash flow. Net debt increased a modest 12.2% during the year primarily due to the acquisition of McLeodUSA.

The cost of the debt came down as interest expense increased 7.7% during the year, despite a higher increase in debt due to a favorable interest rate environment and improved overall cost of capital realized by increased scope and scale.

PAETEC remained well within the sole financial maintenance covenant on our debt. In fact, due to the strong support in the debt capital markets for PAETEC, we opportunistically re-financed \$350.0 million in debt during the first half of 2009 and extended maturities to 2017. The refinancing of the senior secured notes, which had a coupon of 8%, is another example of PAETEC conservatively managing our balance sheet.

During the first quarter of 2009, we continued our stock repurchase program, which authorized the Company to buy back up to \$30.0 million of our common stock through the middle of August 2009. At the end of the first quarter of 2009, we had repurchased a cumulative total of 6.5 million shares for an aggregate price of approximately \$13.8 million.

PAETEC's solid financial position is a testament to the hard work of our employees and the support of our customers and partners. We sincerely thank each of them for their dedication and customer commitment. We also want to thank all of our customers and shareholders for your confidence and support. We will continue working hard to keep earning your trust every day.

Selected Consolidated Financial & Operating Data Continued

Year ended December 31.	2008 ⁽¹⁾	2007 ⁽²⁾	2006	2005	2004
<i>(in thousands)</i>					
Net (loss) income	\$(487,895)	\$10,528	\$7,803	\$14,474	\$77,635
Add back non-EBITDA items included in net (loss) income:					
Depreciation and amortization	174,251	75,237	34,618	29,076	22,808
Interest expense, net of interest income	71,857	63,607	24,995	9,067	10,365
Provision for (benefit from) income taxes	89,797	8,037	8,430	14,124	(37,158)
EBITDA	(151,990)	157,409	75,846	66,741	73,650
Stock-based compensation	22,015	20,546	6,496	-	-
Impairment charge	355,000	-	-	-	-
Integration and separation costs	12,700	3,665	-	-	-
Loss on extinguishment of debt	-	14,558	5,081	-	-
Leveraged recapitalization related costs	-	-	15,153	-	-
Withdrawn initial public offering and related terminated senior secured credit facility expenses	-	-	-	4,553	-
Change in fair value of Series A convertible redeemable preferred stock conversion right	-	-	(10,778)	10,778	-
Adjusted EBITDA	\$237,725	\$196,178	\$91,798	\$82,072	\$73,650

(6) Each market represents a geographic area in which PAETEC offers its network services.

(7) Switches are computers that connect customers to PAETEC's network and transmit voice and data communications over the network.

(8) An access line is a telephone line that extends from one of PAETEC's central offices to a customer's premises. PAETEC connects customers to its network by leasing digital T1 telephone and data transmission lines linking its customers to the central office. Each digital T1 transmission line provides the customer with 24 channels for telephone or data service, although some customers do not use or pay for all 24 channels. PAETEC calculates the number of access line equivalents it has installed by multiplying the number of digital T1 transmission lines it has installed by 24. The increase in digital T1 transmission lines and access line equivalents in 2008 was the result of 82,109 digital T1 transmission lines or 1,970,616 access line equivalents acquired through PAETEC's merger with McLeodUSA completed on February 8, 2008. The digital T1 transmission lines reported by PAETEC since its acquisition of McLeodUSA have been adjusted to reflect consistent application of PAETEC's reporting methodology. The adjustment has resulted in the inclusion of approximately an additional 48,000 digital T1 transmission lines, representing 1,152,000 access line equivalents, to those previously reported as of the McLeodUSA merger closing date of February 8, 2008. The additional digital T1 transmission lines represent high capacity transmission lines acquired through the McLeodUSA merger. The increase in digital T1 transmission lines and access line equivalents in 2007 was the result of 50,444 digital T1 transmission lines or 1,210,656 access line equivalents acquired through PAETEC's merger with US LEC completed on February 28, 2007.

Reconciliation of Free Cash Flow to GAAP Measure

Free cash flow, as defined by PAETEC, consists of adjusted EBITDA less capital expenditures (purchases of property and equipment). Free cash flow, as defined by PAETEC, is not a financial measurement prepared in accordance with GAAP.

PAETEC has included data with respect to free cash flow because its management believes free cash flow provides a measure of the cash generated by PAETEC's operations before giving effect to non-cash accounting charges, changes in operating assets and liabilities, acquisition-related items, tax items and similar items that do not directly relate to the day-to-day cash expenses of PAETEC's operations, and after giving effect to application of capital expenditures. PAETEC's management uses free cash flow to monitor the effect of PAETEC's daily operations on its cash reserves and its ability to generate sufficient cash flow to fund PAETEC's scheduled debt maturities and other financing activities, including potential refinancings and retirements of debt, and other cash items.

PAETEC's management believes that consideration of free cash flow should be supplemental, however, because free cash flow has limitations as an analytical financial measure. These limitations include the following:

- free cash flow does not reflect PAETEC's cash expenditures for scheduled debt maturities and other fixed obligations, such as capital leases, vendor financing arrangements and the other cash items excluded from free cash flow; and
- free cash flow may be calculated in a different manner by other companies in PAETEC's industry, which limits its usefulness as a comparative measure.

PAETEC's management compensates for these limitations by relying primarily on PAETEC's results under GAAP to evaluate its operating performance and by considering independently the economic effects of the foregoing items that are not reflected in free cash flow. As a result of these limitations, free cash flow should not be considered as an alternative to net cash provided by operating activities, investing activities, financing activities or changes in cash and cash equivalents as calculated in accordance with GAAP, nor should it be used as a measure of the amount of cash available for debt service or for the payment of dividends or other discretionary expenditures.

Following is a reconciliation of free cash flow to net cash provided by operating activities, as net cash provided by operating activities is calculated in accordance with GAAP:

	2008 ⁽¹⁾	2007 ⁽²⁾	2006	2005	2004
Adjusted EBITDA	\$237,725	\$196,178	\$91,798	\$82,072	\$73,650
Purchases of property and equipment	(119,492)	(81,455)	(41,032)	(29,607)	(24,034)
Free cash flow	\$118,233	\$114,723	\$50,766	\$52,465	\$49,616
Purchases of property and equipment	119,492	81,455	41,032	29,607	24,034
Interest expense, net of interest income	(71,857)	(63,607)	(24,995)	(9,067)	(10,365)
Other	(2,045)	(754)	(1,264)	(1,081)	(707)
Integration and separation costs	(12,700)	(3,665)	-	-	-
Amortization of debt issuance costs	2,062	1,920	1,513	2,108	1,794
Amortization of debt discount	1,006	-	-	-	-
Change in fair value of interest rate swaps	-	-	10	(1,449)	178
Withdrawn initial public offering and related terminated senior secured credit facility expenses	-	-	-	(4,553)	-
Leveraged recapitalization related costs	-	-	(12,531)	-	-
Loss on extinguishment of debt	-	(2,000)	(826)	-	-
Change in operating assets and liabilities	(2,060)	(14,956)	(150)	(3,579)	(6,656)
Net cash provided by operating activities	\$152,131	\$113,116	\$53,555	\$64,451	\$57,894

CORPORATE INFO

BOARD OF DIRECTORS

Arunas A. Chesonis
Chairman of the Board

Richard T. Aab
Vice Chairman and Director

Shelley Diamond
Director

H. Russell Frisby, Jr.
Director

Tansukh V. Ganatra
Director

Michael C. Mac Donald
Director

William R. McDermott
Director

Alex Stadler
Director

Keith M. Wilson
Director

Mark Zupan
Director

EXECUTIVE TEAM

Arunas A. Chesonis
Chief Executive Officer

Edward J. Butler, Jr.
*Chief Operating Officer,
Executive Vice President*

Keith M. Wilson
*Chief Financial Officer,
Executive Vice President,
and Treasurer*

Algimantas K. Chesonis
*Senior Vice President,
Chief Accounting Officer,
and Contoller*

Robert D. Moore, Jr.
*Senior Vice President,
Chief Information Officer*

Mary O'Connell
*Senior Vice President,
Secretary, and General Counsel*

Laurie Zaucha
*Senior Vice President,
Human Resources*

John Chapman
*Senior Vice President,
Marketing*

Mario DeRiggi
*Executive Vice President,
President, National Sales
and Service*

Doug Derstine
*Senior Vice President,
Wholesale Business Unit*

Kevin Errity
*Senior Vice President,
President, East Region*

Sanjay Hiranandani
*Senior Vice President,
Engineering*

Jim Hvidas
*Executive Vice President,
Switch Operations*

Sharon LaMantia
*Executive Vice President,
Network Operations*

John Leach
*Senior Vice President,
President, South Region*

Sean Pflaging
*Senior Vice President,
Network Services*

Dan Reinbold
*Senior Vice President,
President, Central Region*

J. Chris Ryan
*Senior Vice President,
Service Delivery*

Reginald Scales
*Senior Vice President,
President, West Region*

Donna B. Wenk
*Senior Vice President,
Sales Operations, and
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As of June 30, 2009

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PAETEC

Personalizing Solutions for a Changing World