

2003

Year in Review



 **PAETEC**
COMMUNICATIONS

PAETEC's mission is to be the nation's most customer and employee-oriented integrated communications provider.

Exceeding customer expectations and bringing a higher set of customer service standards to the telecommunications industry is our key objective.

PAETEC's culture is one in which employees look forward to excelling at their jobs and our customers look forward to interacting with our employees. Every employee at PAETEC is an owner, thus creating an operating environment where teamwork and consideration for customer concerns naturally occur.



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Message from the CEO

Given where PAETEC is situated now in its five-year history, creating this year in review has been a challenging exercise. The task seems straightforward enough: look back, capture highlights of the Company's progress in 2003, and report to shareholders and friends of the business. However, the process drives our thoughts beyond the past year into reflection about where we've come from, where we are, and where we're headed.

Clearly, the vision, values, and ideas that sparked the creation of the Company in 1998 remain in force today. In some ways, PAETEC represents hope fulfilled for the creators of the Telecommunications Act of 1996. We've lived up to the entrepreneurial promise of that era and more – by creating a company that thrives on competition, stays current in fast-changing environments, and responds to customer requirements at the speed of thought.

Looking back on the past five years, we recognize how successfully we've beaten the odds in an industry where mere survival has been the exception rather than the rule. And PAETEC has done much

more than survive. I won't go so far as to say that we've knocked the cover off our plan, but we've more than achieved it. We've become profitable and free cash flow positive; we're repaying healthy principal on our debts; we've passed the thousand-employee threshold – all the things we said five years ago that we intended to do. Those who measure PAETEC from the outside – industry peers, the media, and financial analysts – have been impressed.

By our own evaluation, the Company enters its sixth year poised for a whole new phase of development. We've opened up new sales offices and will invest in placing well-trained people on the street to support them. We've put significant dollars into building a broad suite of data and managed security services, and we are tooling up network infrastructure for the future – not just to handle more traffic as the customer base grows, but to embrace a wider palette of customer demands.

As employees at every level within PAETEC will attest, celebrating success is a creative art form in this company. They'll also tell you the celebrations don't last overly long.



Complacency is not in our nature, and our current business planning certainly reflects that. We are on the cusp of new developments that will ensure that PAETEC plays a leading role in established as well as emerging markets. To all who have contributed so much toward making our

first five years outstandingly successful, I give many thanks, and advise them to stay tuned: the best is yet to come.

Aruna A. Chouh
Chairman and Chief Executive Officer



Bradford M. Bono
Co-Chief Operating Officer

“It’s About the Company You Keep...”

2003 was a banner year for PAETEC on the business development front. Co-Chief Operating Officer Brad Bono has an irresistible twinkle in his eye when he points to sales successes and key wins in the marketplace. He’s also emphatic about a key factor that animates every transaction – relationship. “It’s about the company you keep,” he says. “We know how to build relationships over time by making promises we can keep, and delivering on those promises with outstanding service day after day.”

BUILDING AND DEEPENING RELATIONSHIPS HAD a great deal to do with PAETEC's financial success in 2003. Marketing types call it wallet share, but Bono casts it in practical terms: depth of account access, continued vertical market penetration, and potent professionalism in every area, from sales support to service and customer care. Competitive advantage results from continuous improvement in each area. "There's a reason PAETEC has the highest customer retention rates in the industry," Bono says. "Our sales and service people understand that a delighted customer is our most effective ally. They're committed to building true satisfaction in the relationship."

An array of testimonials garnered in 2003 reveals that customers are not shy about spreading the word when they recognize a good thing. Says Mike Sprysenski, Director of Engineering at Clear Channel Communications, "Working with PAETEC is as easy as one call to one vendor, with no bureaucracy, no red tape. They treat our business like it's their own."

THROUGHOUT 2003, A LEADERBOARD LIST OF organizations chose to establish or expand relations with PAETEC. Consider Princeton

"As a primary telecommunications provider for the Rhode Island School of Design, PAETEC has assumed the role of a Business Partner – alleviating additional calls and offering concise and accurate diagnosis to open issues."

–Judy Tanzi, Manager Telecommunications, Rhode Island School of Design

Agent Channel

Ask John Budney, Senior Vice President, to describe the Agent side of PAETEC's business, and he'll offer a blend of impressive metrics and colorful anecdotes. Good-natured jabs are common in Budney's repertoire, belying his solid command of the business and legendary rapport with PAETEC's Agents – who by all accounts have contributed enormously to the Company's success for several years running, particularly in 2003.

The numbers on the Agent side speak for themselves: close to \$90 million in revenue and a healthy contribution in EBITDA – well above plan for the year. It's a robust business, paying out more than \$1 million a month in Agent commissions. Budney and his team have their sights set on continuing the momentum.

"PAETEC steps up to the plate when it comes to supporting the Agents," he

University, a marquis account in the education field that every telecommunications provider in North America would love to claim. PAETEC signed Princeton three years ago, and re-signed



**PAETEC's Agent Management Team:
(from left to right) Jerry Tedino, Joe De Pietro,
John Budney, Gary Eisenberger, Ron Beer**

says. "We're continuing to add resources dedicated to the Agent Channel, ramping up support for sales on the data side,

and increasing our field marketing representation. I'm proud of what the team was able to accomplish this past year."

the University in 2003 – an example that speaks volumes about the Company's potency in serving the education market. Stanford University, another flagship institution, deployed our PINNACLE Communications Management Suite to manage its campus-wide computing and communications infrastructure, facilities and services. Hundreds of other colleges and universities – including every Ivy League school

in the nation – are being served around the clock today by PAETEC.

The Company continued to develop and deepen relations with a host of flagship customers from diverse sectors of the business world, including OppenheimerFunds, Birds Eye Foods, LinkSys (a division of Cisco Systems), RE/MAX First Realty, and Starwood Hotels & Resorts... to name just a few.

Wholesale Markets



For much of its history, PAETEC's wholesale business has been mainly one of interconnection. Customers – largely other carriers and communications providers – purchased high-bandwidth connectivity to the PSTN for both inbound and outbound calling as well as traditional dedicated and switched 1+/8xx long distance services. In 2003, the Company demonstrated its ability to evolve beyond this service-enabling model to that of a service-intensive provider.

Leveraging the expertise and scalable back office systems originally established to support PAETEC's acclaimed enterprise suite of services, the Company now offers fully integrated wholesale communications services to the reseller community on a national scale, mirroring its retail offerings.

PAETEC's entry into this service arena comes at a time when the need for bundled services is at its highest – and the market has responded. Today, as the preferred

“We have been extremely effective in leveraging account wins in regional vertical markets,” says Bono. “Take a look at healthcare in the Philadelphia area. In 2003, PAETEC was engaged to provide communications services for the network of health care providers under Jefferson Health System. This was a massive, complex undertaking, and we pulled it off without a hitch. It's not just a hospital here and there – we have a major presence

throughout their entire network. And we're positioned to duplicate this kind of success in other regions.” In fact, PAETEC now serves half of the hospitals in the Philadelphia market – the fifth largest metropolitan center in the United States. Good news travels fast.

CONSUMMATE PROFESSIONALISM BEGINS WITH the initial point of contact in the sales process

underlying service provider for many of the industry's premier communications resellers, the Company serves more customers, with more products, and with more options for integrated services than ever before.

"Increasingly, service providers are not just choosing us because of our competitive pricing, national footprint, and service delivery capabilities, but also because they recognize PAETEC as being a true partner in their business," says E.J. Butler, Co-Chief Operating Officer. "Our depth of industry experience extends beyond operational expertise into marketing, regulatory, billing, and many other areas that they can leverage to make their organizations more successful."

Wholesale Markets continues to be a successful, strategic component of PAETEC's overall business plan, a profitable complement to the larger, enterprise focus of the Company. "While Wholesale operates as a distinct distribution channel within PAETEC, the Company culture permeates the department," says Butler. "Combine competitive pricing with exceptional service, and the market will find you."

and extends from there. PAETEC expanded its direct sales force by over 40 professionals in 2003 to support the opening of new regional offices in Orlando, Boston, Chicago, and Ontario, California. "We are extremely selective about who we hire – another aspect of the company we keep," says Bono. "We look for experience and intelligence, of course, but beyond that, our sales professionals have to demonstrate passionate

commitment to customer service. The trump card is integrity. It's not only about growing the business; it's about how we grow it. Everything depends on the level of trust built into every relationship our sales professionals initiate in the marketplace; then the depth of our support and back office cements our bonds with the customer for the long term."

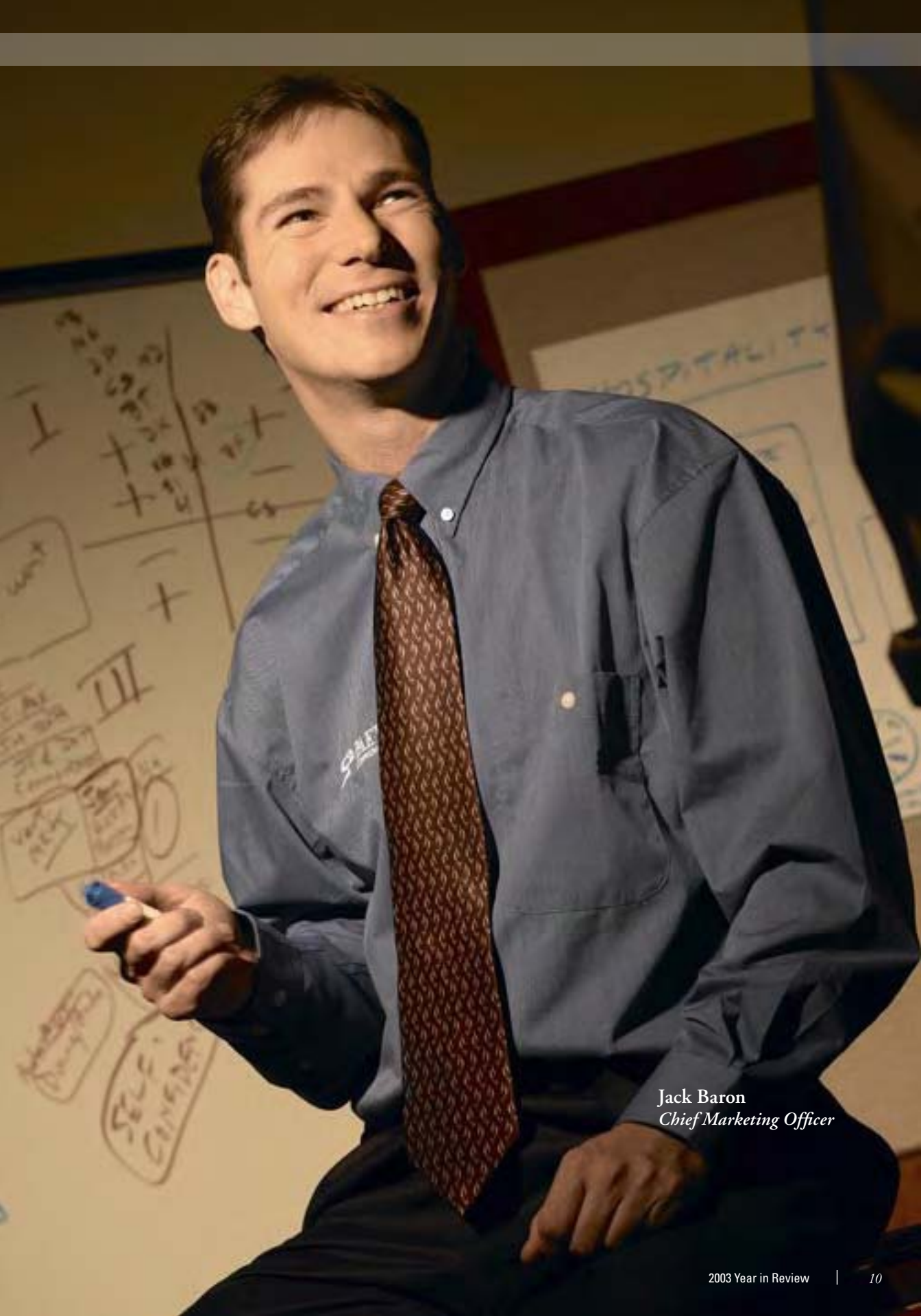
Customer service is the lifeblood of PAETEC's success. Bono knows it, and he extols it. "PAETEC's customer service and provisioning capabilities, quite simply, are second to none. Our sales force knows that we back up what we sell. We deliver what we promise, every time. Our partners know this as well as our customers."

PAETEC's 2003 investments in expanding and improving back office processes and technologies are already bearing fruit on the front lines. Case in point: sales order processing is no longer hindered by regional constraints. In years past, an order signed in California might sit in queue until a California order processor was free to handle it. Today, the same order can be quickly turned around in New Jersey or Rochester if the host region is too busy. "Expanded back office capabilities translate into pure responsiveness in our account management and tracking processes," says Bono. "It eases the burden on our sales force, and our customers see the difference." ■

Employees and Customers Build the Brand

Give Chief Marketing Officer Jack Baron ten seconds to explain why PAETEC has been successful while much of the industry has floundered, and he'll recite the Company's mission statement: "PAETEC's corporate mission is to be the most customer and employee-focused company in every market we serve."

For Baron, those words not only define PAETEC's corporate culture and inform its interactions with customers, they account for the Company's financial strength. "In a way that most companies only dream of, our corporate mission statement truly defines the behavior of the Company," he says. "It's really behavior that differentiates PAETEC as a service provider as well as an employer. There is a great deal of artistry in this



Jack Baron
Chief Marketing Officer

business, and it comes from people. In our hiring, we look for intelligence, integrity, and common sense, but what we're really after is a certain ineffable quality – the ability to create and nurture great relationships.”

From Baron's perspective, one of PAETEC's challenges in 2003 was to infuse its marketing and branding initiatives with values at the core of its mission statement – and do so in the midst of rapid financial and physical growth. At the onset, he chose to focus hiring processes for marketing in areas that would best support and enhance relations with customers – Channel Marketing, Product Development and Management, and Marketing Communications.

“Our messages have been refined, and our visual image has been upgraded across all media.”

PAETEC's newly-minted Channel Marketing team added expert sales support operatives in the field, laid the groundwork for a host of “guerrilla marketing” initiatives to support sales efforts in

core cities, and launched several other new innovative processes in 2003. Chief among these was the institution of Customer Advisory Boards in key geographic markets across the nation. The first session was held in Chicago; similar meetings are being launched and planned throughout 2004 in ten major cities PAETEC serves. “These Advisory Boards afford key customers with a unique opportunity to provide direct face-to-face feedback, advice, and even criticism to our senior leaders,” says Baron, “in an environment that is



geared to fix problems, strengthen relationships, and shape company directions.”

Even in its early stages, the success of the program is apparent. “We anticipated these Boards would flourish as a way to improve dialogue with our customers, and in this capacity, they are working extremely well,” says Baron. Customers, it turns out, have been clamoring to get involved.

It’s worth their time – it raises their profile and carries caché.

Most importantly, it allows them to refine a relationship with PAETEC that serves their needs downstream.

More than simply providing a feedback loop, customers are also helping to infuse new life into the Company brand. Baron points to a major branding enhancement initiative PAETEC’s Marketing Communications and Visual Media teams have undertaken this year. “Our messages have been refined, and our visual image has been upgraded across all media,” he says. “We’ve revamped our suite of sales collateral, redesigned our website, and our customers...” – Baron can’t resist a smile, “are providing us with bundles of great testimonials – in many cases, unsolicited. They’re actually eager to help. It’s remarkable.”



DIRECT CUSTOMER INPUT ALSO FACTORS INTO creating a product roadmap for the future. PAETEC invested heavily in market research in 2003, building on its depth of understanding of the telecommunications landscape in North America. These efforts strengthened PAETEC's strategic initiatives into managed services, and accelerated development of leading-edge data offerings.

THE NEAR-TERM ROADMAP INCLUDES:

- The Burstable Internet product, developed to provide real-time bandwidth on demand for PAETEC's high-speed Internet customers,
- bringing economy into their operations by ensuring that they only pay for what they use. It's a compelling offering that maximizes the value of PAETEC's network.
- A new E-mail Scanning service, providing comprehensive protection for corporate networks against viruses, pornography, and spam. This represents an excellent example of PAETEC's thrust into Managed Security.
- MPLS VPN, providing flexible, secure virtual private networking at public network prices. PAETEC's self-healing backbone ensures

Strategic Marketing Focus 2004

2005

- Data Services

Burstable IP | MPLS VPN | IP Quality of Service | IP Video | IP Voice

- Voice Services

Integrated Equipment Bundle | POTS Advantage Services | Enhanced IP & IP Centrex

- PINNACLE Communications Management Suite

Invoice Management | Flexible Network Device Management | Function-Based Web Dashboards

- Integrated Solutions Group

IP PBX | LAN / WAN | Customer Premise Equipment Management

- Managed Security

E-mail Scanning | Managed Firewall | Disaster Recovery & Network Connectivity | Intrusion Detection

tremendous reliability and the highest performance metrics in the industry – invaluable characteristics for mission-critical enterprise networks.

“Increasingly, customers require exceptionally high-quality data capabilities,” says Baron. “That means three things to us – reliability, availability, and security. We’ve worked hard on this, and PAETEC can now boast the best throughput and latency figures in the industry – better than Verizon, better than SBC, better than everyone. That means we can deliver feature-rich services that our competitors simply cannot match.”

What’s next? Baron points to more Managed Security services. Research, customer feedback, and marketing initiatives indicate that security is developing into a critical requirement for customers – and PAETEC has already begun to build the infrastructure necessary to meet their developing needs. “It’s a project with a long-term horizon, but it begins now.”

In a fast-paced financial world of quarterly results, long-term horizons invite challenging questions. How long? How much? How come? Baron has an answer that is entirely consistent with PAETEC’s mission. “We continue to look in the mirror with our customers’ help. We prepare for the future together. Anticipating and executing course corrections is a healthy part of the process.” ■



Voice of the Customer: Pacific Pleasures

SITUATED ON 200 ACRES OVERLOOKING THE Pacific Ocean, the St. Regis Monarch Beach Resort and Spa is one of Southern California’s newest landmarks. Few hotels in the world can match this extraordinary Tuscan-style establishment with a host of spacious, elegantly appointed guestrooms commanding spectacular views of the Pacific. Blending superlative comfort with the latest in amenities and technology, “The St. Regis Monarch Beach Resort and Spa prides itself in providing the finest service in the hospitality industry, bar none,” according to Luis Leon, St. Regis Director of Finance.

PAETEC began doing business with the St. Regis Monarch Beach Resort and Spa in 2001. The relationship deepened when Eric Sands, St. Regis’s IT Systems Manager, transitioned the resort’s local dial tone to PAETEC’s network. According to Sands, the cutover went flawlessly with 900 DID’s ported over in less than 15 minutes. More recently, the resort turned to PAETEC for an internet solution, resulting in a full T1 being installed to meet its growing need for bandwidth.

“Those unfamiliar with our industry are often surprised by the complexity and sophistication of the services we provide,” says Leon. “We absolutely require vendors who are prepared to match our commitment to remarkable customer service. PAETEC has not only met our expectations, they’ve consistently exceeded them – so much so, that we have been pleased to increase our commitment to them.”

Information Technology

During 2003, PAETEC completed a sweeping set of Information Technology initiatives that significantly improved both internal productivity as well as the support delivered to our customers. Groundwork was also laid for major IT programs that will improve productivity in 2004 and beyond.

In December, the entire company achieved a major milestone – ISO 9001:2000 Certification. The translation: across the Company, each functional unit and geographic region have documented their business processes while embracing constant quality improvement. According to Jeff Burke, Executive Vice President of Managed Services and Information Technology, the payoffs are considerable.

“It’s fair to say that ISO certification of our entire organization gives us unique stature in our industry,” Burke says. “Our Maestro Quality Program, which includes our focus on ISO, is a competitive differentiator recognized by our customers and business partners.”



Jeffrey L. Burke
*Executive Vice President
of Managed Services and
Information Technology*

Building on the success of its ISO certification, the Company is embarking on a new initiative for 2004 that will take PAETEC to the next level of quality: Six-Sigma. Widely recognized as a leading methodology for quality improvement, Six-Sigma can be used as a tool to dramatically reduce defects and increase operational efficiency. In 2003, company executives began receiving Six-Sigma training, which will be extended to other key employees in 2004.

IN 2003 PAETEC LAUNCHED CONQUEST – the largest IT project since the Company’s inception. The vision behind Conquest is to have a unified enterprise business system that maximizes automation and minimizes cost. Conquest essentially streamlines business processes through automation – from reducing keystrokes by sales executives and order processing to providing detailed insight into sales and customer service activities. Building upon Oracle’s powerful eBusiness Suite, IT made major investments in software, personnel, and training to launch the Conquest initiative. Leveraging

The Company also expanded implementation of Mercury Interactive’s IT Governance Suite, a sophisticated tool for monitoring and managing business processes. “We use advanced technologies such as IT Governance Suite to improve business performance and give us a competitive edge,” says Jeff Burke. “For example, when a customer calls into customer service with a top-priority problem, the assigned Strategic Account Managers (SAMS) in Sales are immediately alerted through their customized desktop dashboard. The SAMS use the dashboard technology to understand what is going on with their customers – and to take it one step further – proactively communicate with customers to let them know our action plan to solve their problem. I would say that is quality customer support enabled by technology.” Customized dashboards are now deployed to all managers and many critical business functions across the Company.

THE EXPERTISE WIELDED BY BURKE AND HIS team has played a decisive role in broadening PAETEC’s product portfolio beyond the scope of

“CIOs are amazed at the breadth of our offerings outside the typical telecom portfolio.”

proven success with Oracle Financials, additional Conquest applications in 2004 will include Human Resources, payroll, strategic marketing, sales forecasting, order automation, and customer support.

traditional telecom offerings. “Customers are looking for proven communications solutions,” says Burke. “At PAETEC, we support our internal organization with the very same solutions we offer to customers.” For example, when IT introduced

WebFront: PAETEC at Your Fingertips

an e-mail scanning system internally, over the course of the year, the system scanned about 6 million e-mails, intercepted well over 3 million spam messages, and also stopped a total of 64,761 viruses from entering PAETEC's network. The solution was so effective that in 2003 PAETEC decided to offer the same level of protection to customers.

In the same vein, IT purchased advanced storage management solutions from industry leader EMC. Burke is quick to point out that the need for storage management solutions will grow in coming years – and PAETEC plans to offer proven storage management solutions pioneered for internal use in addressing the growing needs of the Company.

PAETEC'S PINNACLE COMMUNICATIONS MANAGEMENT Suite is another unique product offering that falls well outside the typical telecom stable. It's essentially a proprietary software product, developed and maintained by PAETEC, that provides enterprise communications management for the complex premise-based voice and data telecommunications environment. PINNACLE is recognized as an industry-leading software product with 160 nationally recognizable customers. Partners such as SBC and Verizon have resold PINNACLE during 2003 because they have nothing like it in their arsenals, and because PINNACLE is the best on the market. ■



2003 SAW A CONSOLIDATION OF PAETEC's customer extranet sites, resulting in stronger positioning for WebFront – the Company's online customer interface. Strategically, these mechanisms have greatly improved our ability to convey the Company's value proposition, elevate the PAETEC brand into public awareness, and deliver better customer service. Jeff Burke observes that "WebFront is a strategic weapon. Customers tell me that our tools are stronger than competitors' tools. We're looking to remain in the forefront of wielding the best online tools in the marketplace."

Milestones for 2003

January 01, 2003

PAETEC Begins the Year With
386,928 Reported Access
Lines

February 18, 2003

PAETEC Announces it is Net
Income and Free Cash Flow
Positive as of Q4 2002

February 25, 2003

Joseph Ambersley, Executive
Vice President of Business
Development Re-elected as
Vice Chairman/Treasurer of
CompTel Board

March 20, 2003

PAETEC Launches International
Toll-Free Service

March 27, 2003

PAETEC Achieves Cisco VPN
Security Specialization

March 31, 2003

PAETEC Reports 410,968 Access
Lines

April 6-9, 2003

300 Customers Attend PAETEC's
PINNACLE User's Conference

Network Operations Overview

PAETEC Switch Centers (and markets served)

Albany, NY – Albany, Connecticut,
Poughkeepsie

Boston, MA – Massachusetts, New Hampshire,
Rhode Island

Chicago, IL – Chicago

Los Angeles, CA – Los Angeles, Orange
County, San Diego

Miami, FL – Miami, Orlando, Ft. Lauderdale,
Boca Raton

New York, NY (two switch sites) – New
York City, Long Island, Northern New Jersey,
Westchester County

Philadelphia, PA – Philadelphia, Pittsburgh,
Southern New Jersey, Delaware

Rochester, NY – Rochester, Syracuse, Buffalo

Sterling, VA – Washington DC, Baltimore,
Northern Virginia

Network Operations Centers (NOC)

Rochester, NY

Los Angeles, CA

Voorhees, NJ

April 10, 2003

2nd Switching Center in New
York City is Activated

April 23, 2003

Enhanced E-mail Offering is
Introduced



- Frame Relay Points
- Planned Switch Sites

Local Service Areas
 HEADQUARTERED IN FAIRPORT, N.Y., PAETEC serves customers in 27 U.S. markets, including: Albany, Baltimore, Boca Raton, Boston, Buffalo, Chicago, Connecticut, Delaware, Fort Lauderdale, Long Island, Los Angeles, Miami, New Hampshire, New Jersey, New York City, Orlando, Orange County, Philadelphia, Pittsburgh, Poughkeepsie, Rhode Island, Rochester, San Diego, Northern Virginia, Syracuse, Washington DC, and Western Massachusetts.

May 15, 2003
 Jeffrey L. Burke Named as Executive Vice President of Managed Services and Information Technology

June 10, 2003
 MessageLabs Partners With PAETEC, Adding to an Expanding List of Managed Security Offerings

June 17, 2003
 PAETEC's Hospitality Program Exceeds 1,000 Customers

June 30, 2003
 PAETEC Reports 469,176 Access Lines

July 14, 2003
 PAETEC Launches New Logo and Messaging Themes

July 22, 2003
 PAETEC Awarded New York State Job Training Grant

Network Engineering & Operations: The Business of Preparation

PERHAPS THE BEST WORDS TO characterize the development of PAETEC's back office infrastructure in 2003 are maturation and preparation. During the previous few years, the Company mapped out back office investments necessary to advance its service offerings to true national scope and volume. Those investments took shape in 2003. Engineering, operations, and network planning functions were all fortified during the year as a precursor to ramping up for new levels of wholesale and retail business traffic.

"2003 was the best year we've ever had in terms of our back office's ability to execute, and half of it was planning for the future," says Co-Chief Operating Officer E.J. Butler, who oversees Network Engineering and Operations, as well

as the Wholesale side of the business. "At a time when our network and operations folks were hitting on all cylinders, turning up more T1s than we've ever turned up before, running more minutes through the network than we've ever run before, and returning the largest gross margins we've ever returned before, they also kept an eye on how PAETEC is going to drive business over the next five years – and actively prepared for it."

"Our infrastructure enhancements have been geared toward embracing emerging technology demands and laying the pavement for the means in which traffic will navigate our network in the years ahead. When the time comes that our enterprise base is ready to deploy these enhanced service platforms, we'll be ready to deliver a host

of products and services consistent with their requirements."

ENABLING ALL OF THIS PREPARATION IS PAETEC'S rule of thumb that infrastructure needs to be installed, tested, and turned up months prior to sales. And while preparation and testing are pervasive in telecommunications, few competing communications providers are willing to go to such lengths to perfect their networks in advance of high-volume customer traffic.

"Lead times like this bring full freedom to exercise the network and verify robustness," says Butler. "We look for problems – in fact, we go out of our way to simulate problems. We tend to be incredibly scrupulous about the whole thing. Then when we go live, we know the network will be ready to handle whatever our customers can throw at it."

The sheer technical prowess necessary to manage planned growth like this has long been a PAETEC trademark. The challenge in 2003 has been to manage the process efficiently. "It's critically important to remain cost competitive in this industry," explains Butler. "We need to ensure that new orders can be placed at competitive rates, even as we invest in new infrastructure." Not unexpectedly, PAETEC staff was able to find new ways to streamline processes and maximize productivity in pursuit of efficiency and cost competitiveness.

Butler and his team are primed to continue tooling up the Company during 2004 and beyond. Preparations are under way for the second phase of PAETEC's data build out, for forthcoming data products, soft switch technology – and for the unexpected. The back office walks first. And then PAETEC runs. ■

August 22, 2003
PICS Telecom Receives
Maestro Quality Award for
Vendor Excellence

September 9, 2003
PAETEC Recertified To New
ISO Standard

September 30, 2003
PAETEC Reports 509,616
Access Lines

October 13, 2003
PAETEC Launches MPLS VPN

October 14, 2003
EMC Receives Maestro Quality
Award for Vendor Excellence

October 14, 2003
PAETEC Named as Second
Fastest Growing Technology
Company In North America in
the Deloitte Technology Fast
500 Listing



Edward J. Butler, Jr.
Co-Chief Operating Officer

December 7, 2003

**PAETEC Receives Official
Corporate-Wide ISO 9001:2000
Certification from BSI Inc.**

December 30, 2003

**Rebranded PAETEC.com Site
Launched**

December 31, 2003

**PAETEC Reports 534,912
Access Lines**

Long-Term Loyalty; World-Class Service

An unspoken maxim permeates the atmosphere at PAETEC, as if to say: In the right environment, good people working together toward a common goal can accomplish anything. It has the ring of a platitude, but many employees will attest that it's the truth. PAETEC's corporate culture is the result of foresight on the part of founders who understood that flexibility and empowerment lead to long-term loyalty. And the executive team understands that corporate culture cannot be confined within company boundaries. It emanates out of the workplace, affecting families, communities, and customers. And in the final analysis, it affects the bottom line.

Richard E. Ottalagana, *Executive Vice President (on left)*
Laurie Marchewka, *Order Processing Specialist*
Joe Edwards, *Network Provisioning Engineer*



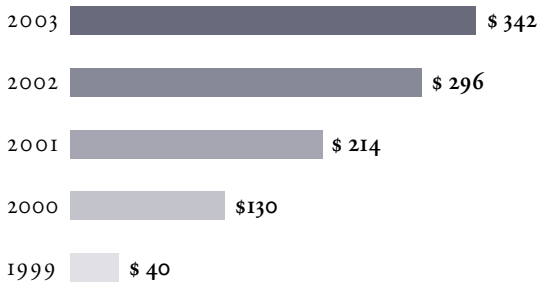
“Honestly, none of this is rocket science. It’s just human nature.” Executive Vice President Richard “Otto” Ottalagana speaks matter of factly, as if PAETEC’s uncommon culture was the result of common knowledge.

Judging by recent upheaval in telecom and other industries, it isn’t. Otto knows that motivated people “can move mountains.” He knows, because he asks them to. Actually, he invites them to – a small distinction with an enormous difference.

Case in point: In 2003, PAETEC’s challenge to strengthen practical cost-containment efforts included an objective to reduce call abandonment to negligible levels.

Unanswered calls, no matter how infrequent, represent dissatisfied customers. Improving on already high levels of productivity is a difficult challenge under any circumstance, and nearly impossible to mandate. Instead of issuing an ultimatum to the service team, Otto invited them to explore the situation and come up with a solution on their own steam.

Revenue per Employee (*in thousands*)



An analysis of PAETEC’s on-call availability figures was undertaken, factoring in training, lunches, breaks – every aspect of a typical employee’s day. Based on the results of the study, team members set targets to take their productivity to new heights, and proceeded to reach them. “It’s a compelling example of our culture impacting performance and financials,” says Otto, “and it happens all the time around here.”

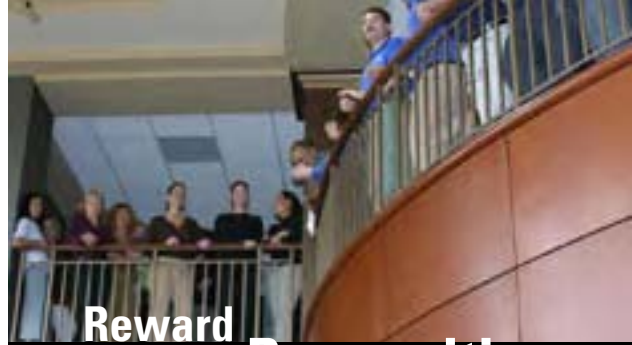
PAETEC’S CULTURAL DYNAMIC TRANSFORMS employee advocacy within the Company into healthy corporate evangelism outside. It begins with the leadership team, is enhanced by thoughtful Human Resources policy, gets implemented by managers at all levels, and is sustained by a great deal of listening. “We know our reputation is blossoming; and if we want the world to listen to us, we’ll have a better chance if we listen to employees first,” says Otto. By all accounts, the employee survey (administered twice a year) is an exercise everyone takes seriously. “Believe me, we act on it,” Otto adds. “That survey has driven changes in benefits, the physical plant, and even vacation time. Employees asked for three weeks, and we gave it to them. All of that adds up to enhanced loyalty.”

PAETEC employee benefits, while at the generous end of the scale in any industry,

are not dearly bought. The Company is self-insured, which brings greater flexibility to offer superior healthcare and disability insurance benefits to employees. Compensation remained competitive in 2003, while a generous corporate bonus – 13 percent of annual salaries, based on company performance – crowned a mix of reward and recognition incentives contributing to employee motivation, morale, and productivity.

That points to another common-sense adage in business – spending money to make money. It's an apt description of the Company's approach to customer care. Within PAETEC's service-driven culture, efforts to answer customer service calls on the first or second ring are commonplace. This requires a service bureau regimen that, at first glance, would seem comparatively expensive. But Otto doesn't see it that way.

“We said we wanted to be the most employee and customer-oriented company in the markets we serve. Our customer service has become so strong that a case can be made for charging premium rates. Our customers just don't leave us. We've got reams of correspondence that all say the same thing in one fashion or another – ‘Your service is fantastic, and I'm willing to pay for it.’” ■



Reward and Recognition

In difficult financial times, many companies choose to reduce employee benefits in order to strengthen the bottom line; but PAETEC is working to avoid the traditional bureaucratic mindset by strengthening its employee-oriented culture. “Our benefits program has been measured in comparison to a variety of large and small corporations,” explains Executive Vice President Ottalagana. “PAETEC has designed its benefit programs to exceed industry benchmarks. We consistently look for ways to enhance our plans because we know that employee satisfaction directly translates to exceptional service to our customers.”

PAETEC employees have access to more than excellent benefits. A host of individual and team awards bestow recognition on employees who demonstrate outstanding job performance. Community service and support is also vigorously encouraged. Every week during all-staff conference calls, employees and vendors are recognized for their contributions. In 2003, for instance, 88 employees received the Chairman's Gold Club Award, recognizing employees who donated one percent or more of their salary to charitable organizations in the regions PAETEC serves. Even business partners who play a major role in supporting PAETEC's mission are honored with a special “Quality Award for Vendor Excellence.” In total, there were 166 award recipients in 2003 – representing over 15 percent of the PAETEC workforce.

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*passionate
about
quality*

