ii. The Debtor has complied with the applicable provisions of the Bankruptcy Code.

iii. Such Plan has been proposed in good faith and not by any means forbidden by law.

iv. Any payment made or to be made by the Debtor, or by an entity issuing securities, or acquiring property under such Plan, for services or for costs and expenses in, or in connection with, the Chapter 11 Case or in connection with such Plan and incident to the Chapter 11 Case has been approved by, or is subject to the approval of, the Bankruptcy Court as reasonable.

v. The Debtor has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of such Plan, as a director or officer of Reorganized XO, and (a) the appointment to or continuance in such office by such individual must be consistent with the interests of Holders of Claims and Creditors' Interests and with public policy and (b) the Debtor has disclosed the identity of any "insider" who will be employed or retained by Reorganized XO and the nature of any compensation for such "insider."

vi. With respect to each Impaired Class of Claims or Interests, each Holder of a Claim or Interest in such Class has either accepted such Plan or will receive or retain under such Plan on account of such Claim or Interest property of a value, as of the Effective Date, that is not less than the amount that such holder would receive or retain if the Debtor was liquidated on the Effective Date under Chapter 7 of the Bankruptcy Code.

vii. With respect to each Class of Claims or Interests, such Class has either accepted such Plan or is not Impaired by such Plan. If this requirement is not met, such Plan may still be confirmed pursuant to section 1129(b) of the Bankruptcy Code.

viii. Except to the extent that the Holder of a particular Claim has agreed to a different treatment of its Claim, such Plan provides that (a) allowed Administrative Expenses will be paid in full in Cash on the Effective Date, (b) Allowed Priority Claims will be paid in full in Cash on the Effective Date, or if the Class of such Claims accepts such Plan, such Plan may provide for deferred Cash payments, of a value as of the Effective Date, equal to the Allowed amount of such Claims, and (c) the Holder of an Allowed Priority Tax Claim will receive on account of such Claim deferred Cash payments over a period not exceeding six years after the date of assessment of such Claim, of a value, as of the Effective Date, equal to the Allowed amount of such Claim.

ix. If a Class of Claims is Impaired under such Plan, at least one Class of Claims that is Impaired by such Plan has accepted such Plan, determined without including any acceptance of such Plan by any "insider."

x. Confirmation of such Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor of the Debtor under such Plan.

xi. All fees payable under section 1930 of title 28 as determined by the Bankruptcy Court at the Confirmation Hearing have been paid or such Plan provides for the payments of all such fees on the Effective Date.

xii. Such Plan provides for the continuation after the Effective Date of payment of all Retiree Benefits (as defined in section 1114 of the Bankruptcy Code), at the level established pursuant to subsection 1114(e)(1)(B) or 1114(g) of the Bankruptcy Code at any time prior to confirmation of such Plan, for the duration of the period for which the Debtor has obligated themselves to provide such benefits.

The Debtor believes that both Alternatives under the Plan satisfy all of the statutory requirements of Chapter 11 of the Bankruptcy Code. Certain of these requirements are discussed in more detail below.

b. Unfair Discrimination and Fair and Equitable Tests

The Bankruptcy Code contains provisions for confirmation of a plan even if the plan is not accepted by all impaired classes, as long as at least one impaired class of claims has accepted the plan. The "cramdown" provisions of the Bankruptcy Code are set forth in section 1129(b) of the Bankruptcy Code. Under section 1129(b), upon the request of a plan proponent, the bankruptcy court will confirm a plan despite the lack of acceptance by an impaired class or classes if the bankruptcy court finds that (i) the plan does not discriminate unfairly with respect to each non-accepting impaired class, (ii) the plan is fair and equitable with respect to each non-accepting impaired class, and (iii) at least one impaired class has accepted the plan. These standards ensure that holders of junior interests, such as common shareholders, cannot retain any interest in the debtor under a plan of reorganization that has been rejected by a senior class of impaired claims or interests unless such impaired claims or interests are paid in full.

A plan does not discriminate unfairly if claims or interests in different classes but with similar priorities and characteristics receive or retain property of similar value under a plan or, to the extent value is not similar, the disparate treatment is supported by legitimate reasons. By establishing separate Classes for the Holders of each type of Claim or Interest and by treating each Holder of a Claim or Interest in each Class identically and similar Claims or Interests in different Classes similarly, both Alternatives under the Plan have been structured so that similar Claims or Interests in the same Class or different Classes receive similar treatment. As a result,

the Plan does not "discriminate unfairly" within the meaning of section 1129(b) of the Bankruptcy Code as to any impaired Class of Claims or Interests.

The Bankruptcy Code provides a non-exclusive definition of the phrase "fair and equitable." Section 1129(b)(2) of the Bankruptcy Code establishes tests for determining what is "fair and equitable" for secured creditors, unsecured creditors and equity Holders, as follows:

i. *Secured Creditors.* Either (1) each impaired secured creditor retains its liens securing its secured claim and receives on account of its secured claim deferred cash payments having a present value equal to the amount of its allowed secured claim, (2) each impaired secured creditor realizes the "indubitable equivalent" of its allowed secured claim, or (3) the property securing the claim is sold free and clear of liens, with such liens to attach to the proceeds of the sale and the treatment of such liens with respect to such proceeds to be as provided in clause (1) or (2) of this subparagraph.

ii. *Unsecured Creditors.* Either (1) each impaired unsecured creditor receives or retains, under the plan, property of a value equal to the amount of its allowed claim or (2) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the Plan.

iii. *Equity Interests.* Either (1) each holder of an equity interest will receive or retain, under the plan, property of a value equal to the greatest of the fixed liquidation preference to which such holder is entitled, the fixed redemption price to which such holder is entitled, or the value of the interest or (2) the holder of an interest that is junior to the non-accepting class will not receive or retain any property under the plan.

In general, the provisions of section 1129(b) permit confirmation, notwithstanding non-acceptance by an impaired class, if that class and all junior classes are treated in accordance with the "absolute priority" rule, which requires that a dissenting class be paid in full before a junior class may receive anything under a plan of reorganization on account of their claims or interests. Case law surrounding section 1129(b) requires that no class senior to a non-accepting impaired class receives more than payment in full on its claims.

In the event that either Class 5 (General Unsecured Claims) or Class 6 (Senior Note Claims) does not accept the applicable Alternative under Plan, in order to confirm such Plan, the Debtor must demonstrate to the Court that either (i) each Holder of a Claim in the non-accepting Class will receive or retain under such Plan property of a value equal to the allowed amount of its Claim, or (ii) the Holders of Claims or Holders of Interests that are junior to the Claims of the Holders of such Claims will not receive or retain on account of such Claims or Interests any property under such Plan. Additionally, the Debtor must demonstrate that the Holders of Claims that are senior to the Claims in such non-accepting Class will receive no more than payment in full on their Claims under such Plan. If either Class 5 (General Unsecured

Claims) or Class 6 (Senior Notes Claims) votes to reject either Alternative under the Plan, the Debtor believes that both Alternatives under the Plan nevertheless satisfy these standards. Specifically, whether the FL/Telmex Plan or the Stand-Alone Plan is consummated, the Holders of Claims and Interests that are junior to the Claims in Classes 5 and 6 will receive no property under such Plan on account of their Claims or Interests and no Holder of a Claim that is senior to the Claims in such Classes will receive more than payment in full under such Plan. The fact that, under the Stand-Alone Plan, Claims and Interests in Classes 7 (Subordinated Note Claims), 9 (Old Preferred Stock Interests) and 10 (Old Common Stock Interests) will receive a redistribution of Nontransferable Rights does not violate the "absolute priority" rule because such Rights are being made as a redistribution of property distributed to Class 1 (Senior Secured Lender Claims).

If all the applicable requirements for confirmation of an Alternative under the Plan are met as set forth in sections 1129(a)(1) through (13) of the Bankruptcy Code, except that one or more Classes of impaired Claims have failed to accept such Plan pursuant to section 1129(a)(8) of the Bankruptcy Code, the Debtor intends to request that the Court confirm such Plan in accordance with section 1129(b) of the Bankruptcy Code. The Debtor believes that both Alternatives under the Plan satisfy the "cramdown" requirements of the Bankruptcy Code and may seek confirmation of either Alternative over the objection of dissenting Classes, as well as over the objection of individual Holders of Claims who are members of an accepting Class

In addition, the Debtor intends to seek "cramdown" of either Alternative under the Plan on all Classes of Claims and Interests which are deemed to have rejected the applicable Alternative under the Plan. In such case, the Debtor will request confirmation of such Plan under section 1129(b) of the Bankruptcy Code notwithstanding the deemed rejection of such Plan by Classes 7, 8, 9, 10 and 11. The Debtor believes that both Alternatives under the Plan may be confirmed pursuant to the above-described "cramdown" provision, over the deemed dissent of Holders of Claims or Interests in such Classes in view of the treatment proposed for such Classes. Specifically, XO believes that the treatment under both Alternatives under the Plan of the Holders of Interests or Claims in Classes 7, 8, 9, 10 and 11 satisfies the "fair and equitable" test since there is no Class junior to such non-accepting Classes that is entitled to receive or retain any property under either Alternative under the Plan.

c. Best Interests Test

With respect to each Impaired Class of Claims and Interests, confirmation of either Alternative under the Plan requires that each Holder of a Claim or Interest either (a) accept such Plan or (b) receive or retain under such Plan property of a value, as of the Effective Date, that is not less than the value such Holder would receive or retain if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code. To calculate the probable distribution to Holders of each Impaired Class of Claims and Interests if the Debtor was liquidated under Chapter 7, a bankruptcy court must first determine the aggregate dollar amount that would be generated from the Debtor's assets if its Chapter 11 Case were converted to a Chapter 7 case under the Bankruptcy Code. This "liquidation value" would consist primarily of the proceeds from a forced sale of the Debtor's assets by a Chapter 7 trustee.

To estimate potential returns to Holders of Claims and Interests in a Chapter 7 liquidation, the Debtor determined, as might a Bankruptcy Court conducting such an analysis, the amount of cash liquidation proceeds that might be available for distribution and the allocation of such proceeds among the Classes of Claims and Interests of XO based on their relative priorities. The Debtor considered many factors and data, including (i) the operating and financial performance of XO, (ii) the attractiveness of the assets of XO, respectively, to potential buyers, (iii) the potential universe of buyers, (iv) the potential impact of the Chapter 7 cases upon the businesses of the Debtor, as well as on the realizable value from the liquidation of the non-cash assets of XO, (v) the relative timing of the potential sale of the Debtor's assets, and (vi) an analysis of the liabilities and obligations of XO. For the purposes of this analysis, the Debtor has assumed that the liquidation of all assets would be conducted in an orderly, yet expedited, manner over a six-month period commencing on September 30, 2002. The liquidation proceeds available to XO for distribution to Holders of Claims against and Interests in XO, respectively, would consist of the net proceeds from the disposition of the assets of XO, augmented by any other cash held after deducting the expenses of operating the business pending disposition and the costs associated with the disposition of the non-cash assets of the XO.

In general, liquidation proceeds would be allocated in the following priority: (i) first, to the Claims of secured creditors to the extent of the value of their collateral; (ii) second, to the costs, fees and expenses of the liquidation, as well as other administrative expenses of the Debtor's Chapter 7 cases, including tax liabilities; (iii) third, to the unpaid Administrative Claims of reorganization cases (if commenced); (iv) fourth, to Priority Tax Claims and other Claims entitled to priority in payment under the Bankruptcy Code; (v) fifth, to unsecured Claims; (vi) sixth, to Holders of Old Preferred Stock (in accordance with their relative ranking); and (vii) seventh, to Holders of Old Common Stock. The Debtor's liquidation costs in their respective Chapter 7 cases would include the compensation of a bankruptcy trustee, as well as compensation of counsel and other professionals retained by such trustee, asset disposition expenses, applicable taxes, litigation costs, Claims arising from the operation of the Debtor during the pendency of the Chapter 7 cases and all unpaid Administrative Claims incurred by the Debtor during the reorganization cases (if commenced) that are allowed in the Chapter 7 case. The liquidation itself might trigger certain Priority Claims, such as Claims for severance pay, and would likely accelerate or, in the case of taxes, make it likely that the Internal Revenue Service would assert other claims as Priority Tax Claims rather than asserting them in due course as is expected to occur under the reorganization cases. These Priority Claims would be paid in full out of the net liquidation proceeds, after payment of secured Claims, Chapter 7 costs of administration and other Administrative Claims, and before the balance would be made available to pay unsecured claims or to make any distribution in respect of Interests.

The Debtor believes that both Alternatives under the Plan meet the "best interests of creditors" test of Section 1129(a)(7) of the Bankruptcy Code. The Debtor believes that the members of each Impaired Class will receive greater or equal value if either the FL/Telmex Plan or the Stand-Alone Plan was consummated than they would in a liquidation. The Liquidation Analysis, a copy of which is attached hereto as Appendix C, provides that in the event of a liquidation as described therein, the proceeds available for Holders of Senior Secured Lender Claims in XO would be approximately $257 million to $561 million, resulting in a recovery of only 22.6% to 52.2%. The Liquidation Analysis provides that there would be no recovery to Holders of General Unsecured Claims, Senior Note Claims, Subordinated Note Claims,

Securities Claims, Old Preferred Stock Interests, Old Common Stock Interests or Other Old Equity Interests.

In contrast, under the Plan, Senior Secured Lender Claims will receive a 98.1% recovery under the FL/Telmex Plan and 92.6% under the Stand-Alone Plan. Therefore, Holders of such Claims will receive more under either Alternative under the Plan than in a liquidation. Although the Debtor believes that both Alternatives under the Plan meet the "best interests of creditors" test of Section 1129(a)(7) of the Bankruptcy Code, there can be no assurance that the Bankruptcy Court will determine that the applicable Alternative under the Plan meets this test. THESE ESTIMATES OF VALUE ARE SUBJECT TO A NUMBER OF ASSUMPTIONS AND SIGNIFICANT QUALIFYING CONDITIONS. ACTUAL VALUES AND RECOVERIES COULD VARY MATERIALLY FROM THE ESTIMATES SET FORTH HEREIN.

d. Feasibility

The Bankruptcy Code requires that the bankruptcy court determine that confirmation of a plan is not likely to be followed by liquidation or the need for further financial reorganization of the Debtor. For purposes of showing that both Alternatives under the Plan meet this feasibility standard, the Debtor and Houlihan Lokey have analyzed the ability of Reorganized XO to meet its obligations under each of the Alternatives under the Plan and retain sufficient liquidity and capital resources to conduct their business.

The Debtor believes that with a significantly deleveraged capital structure, their business will be able to return to viability. The decrease in the amount of debt on the Company's balance sheet will improve the Company's cash flow by reducing its interest expense. To further support its belief in the feasibility of both Alternatives under the Plan, the Debtor has relied upon Pro Forma Financial Projections for Fiscal Years 2002 through 2005 contained in Appendix B-1 (FL/Telmex Plan) and Appendix B-2 (Stand-Alone Plan) annexed hereto. The Projections indicate that Reorganized XO should have sufficient cash flow to pay and service their debt obligations under the FL/Telmex Plan or under the Stand-Alone Plan. Accordingly, the Debtor believes that both Alternatives under the Plan comply with the financial feasibility standard of Section 1129(a)(11) of the Bankruptcy Code.

Holders of Claims against and Interests in the Debtor are advised, however, that the Projections were not prepared with a view toward compliance with the published guidelines of the American Institute of Certified Public Accountants or any other regulatory or professional agency or body or generally accepted accounting principles. Furthermore, the Debtor's independent certified public accountants have not compiled or examined the Projections and accordingly do not express any opinion or any other form of assurance with respect thereto and assume no responsibility for the Projections.

The Projections also assume that (i) the Plan will be confirmed and consummated in accordance with its terms or the terms of the Investment Agreement or the Stand-Alone Term Sheet, (ii) there will be no material change in legislation or regulations, or the administration thereof, including telecommunications and environmental legislation or regulations, that will have an unexpected effect on the operations of Reorganized XO, (iii) there will be no change in United States generally accepted accounting principles that will have a material effect on the

reported financial results of Reorganized XO and (iv) there will be no material contingent or unliquidated litigation or indemnity claims applicable to Reorganized XO. The assumptions inherent in the Projections are based upon future business decisions and objectives, which differ in Appendix B-1 versus Appendix B-2 based upon the significant difference in the amount of capital available to XO pursuant to the Investment Agreement and the Stand-Alone Term Sheet, and are subject to change. In addition, although they are presented with numerical specificity and considered reasonable by the Debtor when taken as a whole, the assumptions and estimates underlying the Projections are subject to significant business, economic and competitive uncertainties and contingencies, many of which will be beyond the control of Reorganized XO.

Accordingly, the Projections are only estimates that are necessarily speculative in nature. It can be expected that some or all of the assumptions in the Projections will not be realized and that actual results will vary from the Projections, which variations may be material and are likely to increase over time. The Projections should therefore not be regarded as a representation by the Debtor or any other person that the results set forth in the Projections will be achieved. In light of the foregoing, readers are cautioned not to place undue reliance on the Projections. The Projections should be read together with the information in this Disclosure Statement entitled "Risk Factors," which sets forth important factors that could cause actual results to differ from those in the Projections.

XO is subject to the informational requirements of the Exchange Act and in accordance therewith files periodic reports and other information with the SEC (as defined below) relating to its business, financial statements and other matters. Such filings will not include projected financial information. The Debtor does not intend to update or otherwise revise the Projections, including any revisions to reflect events or circumstances existing or arising after the date of this Disclosure Statement or to reflect the occurrence of unanticipated events, even if any or all of the underlying assumptions do not come to fruition. Furthermore, the Debtor does not intend to update or revise the Projections to reflect changes in general economic or industry conditions.

e. Valuation Analysis

In order to comply with the "best interests" test as well as to determine the relative distributions to parties in interest under a potential plan, an estimated transaction value (the "Transaction Value") and recovery analysis (the "Recovery Analysis") has been prepared by Houlihan Lokey, financial advisors to the Company, for both the FL/Telmex Plan and the Stand-Alone Plan. Houlihan Lokey has determined the Transaction Value and Recovery Analysis based on an assumed Effective Date of September 30, 2002 giving effect to the implementation of the Plan.

i. FL/Telmex Plan

In reaching its conclusions regarding the implied Transaction Value and the associated Recovery Analysis relating to the FL/Telmex Plan, Houlihan Lokey analyzed, among other things, (i) the amount of the aggregate purchase price implied by the Investment Agreement and (ii) the form and amount of distributions to Senior Secured Lender Claims, Other Secured Claims and Note Claims pursuant to the Investment Agreement.

Pursuant to the Investment Agreement, Forstmann Little and Telmex have agreed to invest a combined $800 million in cash in exchange for an 80% ownership interest in Reorganized XO (pre-dilution for common stock to be issued pursuant to the Management Shares Purchase Agreement). The Investment Agreement contemplates (i) the assumption of XO's existing $1.0 billion in principal amount of Senior Secured Lender Claims, (ii) the assumption of approximately $24.7 million (estimated as of September 30, 2002) of outstanding capital lease obligations and (iii) the elimination of all Note Claims and Old Preferred Stock Interests pursuant to the restructuring outlined in the Investment Agreement.

Based upon the face amount of the aforementioned securities, the implied aggregate Transaction Value of the FL/Telmex Plan is $2,025 million, thus implying a pre-money Transaction Value of $1,425 million.

Transaction Value - FL/Telmex Plan

($ in millions)	
Cash Purchase Price	$800.0
Post-Transaction Equity Ownership	*80.0%*
Implied Total Company Equity Value	**$1,000.0**
Plus: Restructured Bank Debt	1,000.0
Plus: Capital Lease Obligations	24.7
Aggregate Implied Purchase Price	**$2,024.7**
Less: Net Cash Invested in XO *(net of $200 million allocation to Senior Note Claims)*	(600.0)
Aggregate Implied Pre-Money Purchase Price	**$1,424.7**
Implied Multiple of FY 2001 Revenues	*1.1x*

The Company reported approximately $1,259 million of aggregate revenues for the fiscal year ended December 31, 2001. The implied pre-money Transaction Value represents a 1.1x multiple of the Company's fiscal year 2001 revenues, which is comparable to prevailing forward public market valuations of selected other domestic providers of broadband communications services.

The following chart provides a summary overview of the implied recoveries to the Senior Secured Lenders and Note Claims in the context of the FL/Telmex Plan.

Recovery Analysis

($ in millions except per share value)	
Implied Forstmann Little and Telmex Transaction Value	**$2,025**
Less: Restructured Senior Secured Lender Claims	(1,000)
Less: Capital Lease Obligations *(estimated as of 6/30/02)*	(25)
Implied Total Restructured Equity Value	**$1,000**
Value Allocation & Recoveries:	
Senior Secured Lender Claims:	
Allowed Claim Amount Including Estimated Accrued Interest through September 30, 2002	$1,028
Amount of Restructured Senior Secured Lender Claims	1,000
Plus: Estimated Accrued Interest as of the Effective Date *(to be paid in cash)*	28
Less: Senior Secured Lender Waiver of Interest Pursuant to the Shareholder Litigation Settlement	(20)
Total Net Value Allocated to Senior Secured Lender Claims	**1,008**
Implied Recovery	***98.1%***
Note Claims: *(2)*	
Allowed Claim Amount *(1)* *(as of June 16, 2002)*	$3,871
% of Post-Reorganization Equity	*17.9%*
Implied Equity Value	$179
Plus: Cash	199
Total Value Allocated to XO Note Claims	**$378**
Implied Recovery	***9.8%***
General Unsecured Claims: *(2)*	
Estimated Claim Amount	$20
% of Post-Reorganization Equity	*0.1%*
Implied Equity Value	$1
Plus: Cash	1
Total Value Allocated to XO Note Claims	**$2**
Implied Recovery	***8.6%***

(1) Represents the aggregate principal balance of the Company's Senior Notes plus accrued and unpaid interest through June 16, 2002, excluding those Senior Notes held by the Company. The Company's Senior Discount Notes reflect estimated accreted values through June 16, 2002.

(2) Please note that the recoveries to Note Claims and General Unsecured Claims are allocated pro rata after taking into account the subordination provision between the Note Claims and the Subordinated Note Claims.

ii. Stand-Alone Plan

In reaching its conclusions regarding the implied Transaction Value and the associated Recovery Analysis relating to the Stand-Alone Plan, Houlihan Lokey analyzed, among other things, (i) the amount of the aggregate pre-Rights Offering equity value outlined in the Stand-Alone Term Sheet and (ii) the form and amount of distributions to Senior Secured Lender Claims, Other Secured Claims and Note Claims pursuant to the Stand-Alone Plan.

The Stand-Alone Plan contemplates (i) the elimination of all Senior Secured Lender Claims, Note Claims, Old Preferred Stock Interests and Other Old Equity Interests, (ii) Holders of the Senior Secured Claims receiving (x) $500 million in aggregate principal amount of New Junior Secured Loans, (y) certain residual rights under the Rights Offering, and (z)(a) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation,

90,250,000 shares of the New Reorganization Common Stock representing 95% of all issued and outstanding shares of New Reorganization Common Stock (subject to dilution resulting from the exercise of the New Warrants, the issuance of shares pursuant to the Rights Offering and the exercise of New Options under the Management Incentive Program), or (b) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, 95,000,000 shares of the New Reorganization Common Stock representing 100% of all issued and outstanding shares of New Reorganization Common Stock (subject to dilution resulting from the exercise of the New Warrants, the issuance of shares pursuant to the Rights Offering and the exercise of New Options under the Management Incentive Program), (iii) Holders of Senior Note Claims and General Unsecured Claims receiving (x) Nontransferable Rights to purchase up to $200 million (subject to increase in certain events) of common equity in Reorganized XO; and (y)(a) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation, 4,750,000 shares of the New Reorganization Common Stock (representing 5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date), New Series A Warrants to purchase 9,500,000 shares of New Reorganization Common Stock (representing 10% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date), New Series B Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date), New Series C Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date) and 10% of the FL/Telmex Recovery; or (b) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, but the Official Committee of Unsecured Creditors has recommended a vote in favor of the Stand-Alone Plan, has not withdrawn such recommendation and the Debtor believes, in its reasonable judgment, that all of the members of such Committee have voted their Claims in favor of confirmation of the Stand-Alone Plan, New Series B Warrants to purchase 4,750,000 shares of New Reorganization Common Stock (representing 5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date). Additionally, the Stand-Alone Plan provides for a $200 million new senior secured Exit Facility that will be reduced by up to $200 million of cash proceeds realized from the Rights Offering.

Based upon the face amount of the New Junior Secured Loans and the pre-Rights transaction equity value outlined in the Stand-Alone Plan, the implied aggregate Transaction Value contemplated by the Stand-Alone Plan is roughly $1,000 million, thus implying a post-Rights Offering enterprise value of approximately $1,200 million assuming 100% participation in the Rights Offering by the Holders of Senior Note Claims and zero participation by the Holders of General Unsecured Claims. [16]

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[16] The foregoing valuation and recovery analyses were prepared by Houlihan Lokey and do not reflect the opinion of the Holders of Senior Secured Claims or their advisors. In fact, representatives of the Holders of Senior Secured Claims have advised XO that they expressly disagree with these analyses and that they should not be attributed to the Holders of the Senior Secured Claims.

Transaction Value - Stand-Alone Plan	
($ in millions)	
Stated Pre-Rights Equity Value	**$475.0**
Plus: Estimated Revolver Drawdown *(1)*	-
Plus: New Junior Secured Loans	500.0
Plus: Capital Lease Obligations	24.7
Aggregate Implied Pre-Rights Enterprise Value *(1)*	**$999.7**
Plus: Rights Offering Proceeds Assuming 100% Subscription	200.0
Aggregate Implied Post-Rights Enterprise Value	**$1,199.7**
(1) This analysis excludes maximum net revolver borrowings of approximately $114 million in Q3-05 in the event that no money is raised in the Rights Offering.	

The following charts provide a summary overview of the implied recoveries to the Senior Secured Lenders and Note Claims in the context of the Stand-Alone Plan assuming (1) two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation and there is no participation in the Rights Offering, (2) two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation and there is 100% participation in the Rights Offering by Holders of the Senior Note Claims and zero participation by the Holders of General Unsecured Claims and (3) less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, but the Official Committee of Unsecured Creditors has recommended a vote in favor of the Stand-Alone Plan, has not withdrawn such recommendation and the Debtor believes, in its reasonable judgment, that all of the members of such Committee have voted their Claims in favor of confirmation of the Stand-Alone Plan and there is no participation in the Rights Offering.

Recovery Analysis - Stand-Alone Plan Assuming No Participation in the Rights Offering
(Assuming Official Committee Vote is Obtained)

Assumed Pre-Rights Enterprise Value	**$1,000**
Less: New Revolver Borrowings *(future estimated revolver borrowings are excluded for the purposes of this analysis)*	-
Less: Capital Lease Obligations	(25)
Less: New Junior Secured Loans	(500)
Implied Pre-Rights Equity Value	**$475**
Less: Estimated Value Warrants *(1)*	38
Less: Estimated Value of Management Options *(2)*	-
Residual Pre-Rights Offering Equity Value Available for Distribution	**$437**
Value Allocation & Recoveries:	
Amount of Outstanding Bank Debt *(including accrued interest through June 16, 2002)*	$1,009
% Allocation of Equity Value - Pre Dilution for Warrants, Rights & Mgmt. Options	*95.0%*
Implied Equity Value	$415
New Junior Secured Loans *(estimated market value)*	476
Total Implied Allocated Value	**$891**
Implied Recovery	*88.4%*
Amount of Outstanding Senior Notes and Senior Discount Notes *(3) (4)*	$3,872
% Allocation of Equity Value - Pre Dilution for Warrants, Rights & Mgmt. Options	*5.0%*
Implied Equity Value	$22
Estimated Value of Warrants *(5)*	38
Total Implied Allocated Value	$60
Implied Recovery	*1.5%*
Amount of General Unsecured Claims *(4)*	$20
% Allocation of Equity Value - Pre Dilution for Warrants, Rights & Mgmt. Options	*0.0%*
Implied Equity Value	$0
Estimated Value of Warrants *(5)*	0
Total Implied Allocated Value	$0
Implied Recovery	*1.4%*

(1) For the purposes of this analysis, we estimated the value of warrants allocated to the Senior Noteholders on a pre-rights offering basis with respect to shares and implied equity value.

(2) For the purposes of this analysis, we have not deducted the value of management options for 7% of the common stock of reorganized XO.

(3) Represents the aggregate principal balance of the Company's Senior Notes plus accrued and unpaid interest through June 16, 2002, excluding those Senior Notes held by the Company. The Company's Senior Discount Notes reflect estimated accreted values through June 16, 2002.

(4) Please note that the recoveries to Note Claims and General Unsecured Claims are allocated pro rata after taking into account the subordination provision between the Note Claims and the Subordinated Note Claims.

(5) The Senior Noteholders and General Unsecured Claims are assumed to be allocated (1) 7-year warrants to purchase 10% of New Common Stock at a 25% premium to the implied pre-rights offering equity value of $475 million, (2) 7-year warrants to purchase 7.5% of New Common Stock at a 50% premium to the implied pre-rights offering equity value of $475 million, and (3) 7-year warrants to purchase 7.5% of New Common Stock at a 100% premium to the implied pre-rights offering equity value of $475 million. For the purposes of this analysis, all warrants are valued assuming a 40% volatility and a 6.0% risk-free rate.

Recovery Analysis - Stand-Alone Plan Assuming $200 Million Participation in the Rights Offering
(Assuming Official Committee Vote is Obtained)

Revised Recovery Calculation Post Rights Offering:		
Assumed Pre-Rights Enterprise Value		**$1,000**
Implied Pre-Rights Offering Equity Value		**$475**
Less: Estimated Value of Warrants *(1)*		(69)
Less: Estimated Value of Management Options *(2)*		-
Plus: Proceeds from Rights Offering		200
Residual Post-Rights Offering Equity Value Available for Distribution		**$606**
Allocation of Shares in the Rights Offering: *(3)*		
Assumed Amount & Subscription	***Amount***	
Senior Notes & Senior Discount Notes	$200	40.0
General Unsecured Claims	$0	-
Subordinated Notes	$0	-
Preferred Stock	$0	-
Common Stock	$0	-
Senior Secured Lenders		90.3
Senior Notes & Senior Discount Notes *(pre-rights offering)*		4.7
General Unsecured Claims		0.0
Total Shares post Rights Offering		135.0
% of Shares Allocated in Rights Offering		*29.6%*
Amount of Outstanding Bank Debt *(including accrued interest through June 16, 2002)*		$1,009
% Allocation of Equity Value - Pre-Dilution for Warrants & Mgmt. Options		*66.9%*
Implied Equity Value		$405
New Junior Secured Loans *(estimated market value)*		476
Total Implied Allocated Value		**$882**
Implied Recovery		*87.4%*
Amount of Outstanding Senior Notes and Senior Discount Notes *(4)*		$3,872
% Allocation of Equity Value - Pre Dilution for Warrants & Mgmt. Options		*33.1%*
Implied Equity Value		$201
Estimated Value of Warrants *(5)*		68
Less: Rights Offering Investment		(200)
Total Implied Allocated Value		$69
Implied Recovery		*1.8%*
Amount of General Unsecured Claims *(6)*		$20
% Allocation of Equity Value - Pre Dilution for Warrants, Rights & Mgmt. Options		*0.0%*
Implied Equity Value		$0
Estimated Value of Warrants *(5)*		0
Less: Rights Offering Investment		-
Total Implied Allocated Value		$0
Implied Recovery		*2.0%*
Equity Ownership Percentages Post-Rights Offering:		
Banks		66.9%
Senior Notes & Senior Discount Notes		33.1%
General Unsecured Claims		0.0%
Subordinated Notes		0.0%
Preferred Stock		0.0%
Common Shares		0.0%

(1) For the purposes of this analysis, we estimated the value of Warrants allocated to the Senior Noteholders on a post-Rights Offering basis with respect to the implied equity value.

(2) For the purposes of this analysis, we have not deducted the value of management options for 7% of the common stock of reorganized XO.

(3) Based on pre-Rights Offering equity value assuming 95 million shares are issued. Please note that, for the purposes of this analysis, we do not assume that holders of General Unsecured Claims exercise their Rights.

(4) Represents the aggregate principal balance of the Company's Senior Notes plus accrued and unpaid interest through June 16, 2002, excluding those Senior Notes held by the Company. The Company's Senior Discount Notes reflect estimated accreted values through June 16, 2002.

(5) The Senior Noteholders and General Unsecured Claims are assumed to be allocated (1) 7-year warrants to purchase 10% of New Common Stock at a 25% premium to the implied pre-rights offering equity value of $475 million, (2) 7-year warrants to purchase 7.5% of New Common Stock at a 50% premium to the implied pre-rights offering equity value of $475 million, and (3) 7-year warrants to purchase 7.5% of New Common Stock at a 100% premium to the implied pre-rights offering equity value of $475 million. For the purposes of this analysis, all warrants are valued assuming a 40% volatility and a 6.0% risk-free rate.

(6) Please note that the recoveries to Note Claims and General Unsecured Claims are allocated pro rata after taking into account the subordination provision between the Note Claims and the Subordinated Note Claims.

Recovery Analysis - Stand-Alone Plan Assuming No Participation in the Rights Offering
(Assuming Official Committee Vote is not Obtained, but Official Committee of Unsecured Creditors Votes to Accept the Plan)

Assumed Pre-Rights Enterprise Value	**$1,000**
Less: New Revolver Borrowings *(future estimated revolver borrowings are excluded for the purposes of this analysis)*	-
Less: Capital Lease Obligations	(25)
Less: New Junior Secured Loans	(500)
Implied Pre-Rights Equity Value	**$475**
Less: Estimated Value of Warrants *(1)*	9
Less: Estimated Value of Management Options *(2)*	-
Residual Pre-Rights Offering Equity Value Available for Distribution	**$466**
Value Allocation & Recoveries:	
Amount of Outstanding Bank Debt *(including accrued interest through June 16, 2002)*	$1,009
% Allocation of Equity Value - Pre Dilution for Warrants, Rights & Mgmt. Options	*100.0%*
Implied Equity Value	$466
New Junior Secured Loans *(estimated market value)*	476
Total Implied Allocated Value	**$942**
Implied Recovery	*93.4%*
Amount of Outstanding Senior Notes and Senior Discount Notes *(3) (4)*	$3,872
% Allocation of Equity Value - Pre Dilution for Warrants, Rights & Mgmt. Options	*0.0%*
Implied Equity Value	$0
Estimated Value of Warrants *(5)*	9
Total Implied Allocated Value	$9
Implied Recovery	*0.2%*
Amount of General Unsecured Claims *(4)*	$20
% Allocation of Equity Value - Pre Dilution for Warrants, Rights & Mgmt. Options	*0.0%*
Implied Equity Value	$0
Estimated Value of Warrants *(5)*	0
Total Implied Allocated Value	$0
Implied Recovery	*0.2%*

(1) For the purposes of this analysis, we estimated the value of warrants allocated to the Senior Noteholders on a pre-rights offering basis with respect to shares and implied equity value.

(2) For the purposes of this analysis, we have not deducted the value of management options for 7% of the common stock of reorganized XO.

(3) Represents the aggregate principal balance of the Company's Senior Notes plus accrued and unpaid interest through June 16, 2002, excluding those Senior Notes held by the Company. The Company's Senior Discount Notes reflect estimated accreted values through June 16, 2002.

(4) Please note that the recoveries to Note Claims and General Unsecured Claims are allocated pro rata after taking into account the subordination provision between the Note Claims and the Subordinated Note Claims.

(5) The Senior Noteholders and General Unsecured Claims are assumed to be allocated 7-year warrants to purchase 5% of New Common Stock at a 50.0% premium to the implied pre-rights offering equity value of $475 million. For the purposes of this analysis, the warrants are valued assuming a 40% volatility and a 6.0% risk-free rate.

E. Securities Considerations

Upon the consummation of either Alternative under the Plan, XO will rely on Section 1145 of the Bankruptcy Code, to the extent it is applicable, to exempt the issuance of the New Common Stock, Post-Termination Securities and the Conversion Common Stock from the registration requirements of the Securities Act (and of any state securities or "blue sky" laws). Section 1145 exempts from registration the sale of a debtor's securities under a Chapter 11 plan if such securities are offered or sold in exchange for a claim against, or equity interest in, or a claim for an administrative expense in a case concerning, the debtor. In reliance upon this exemption, issuance of the New Common Stock, Post-Termination Securities and Conversion Common Stock, and the issuance of securities upon exercise or conversion thereof, generally will be exempt from the registration requirements of the Securities Act of 1933 (the "Securities Act"). Accordingly, recipients will be able to resell the New Common Stock, Post-Termination Securities or Conversion Common Stock without registration under the Securities Act or other federal securities laws, unless the recipient is an "underwriter" with respect to such securities, within the meaning of Section 1145(b) of the Bankruptcy Code. Section 1145(b) of the Bankruptcy Code defines "underwriter" as one who (a) purchases a claim with a view to distribution of any security to be received in exchange for the claim, or (b) offers to sell securities issued under a plan for the holders of such securities, (c) offers to buy securities issued under a plan from persons receiving such securities, if the offer to buy is made with a view to distribution or (d) is an "issuer" of the relevant security, as such term is used in Section 2(11) of the Securities Act.

Notwithstanding the foregoing, statutory underwriters may be able to sell securities without registration pursuant to the resale limitations of Rule 144 under the Securities Act which, in effect, permits the resale of securities received by statutory underwriters pursuant to a Chapter 11 plan, subject to applicable volume limitations, notice and manner of sale requirements, and certain other conditions. Holders who believe they may be statutory underwriters as defined in Section 1145 of the Bankruptcy Code are advised to consult with their own counsel as to the availability of the exemption provided by Rule 144.

F. Alternatives to Confirmation and Consummation of the Plan

The Debtor believes that both Alternatives under the Plan afford Holders of Claims and Interests the potential for the greatest recovery and, therefore, is in the best interests of such Holders. If, however, the requisite acceptances of either Alternative under the Plan are not received, or the applicable Alternative is not confirmed and consummated, the theoretical alternatives include (a) formulation of an alternative plan of reorganization or (b) liquidation of the Debtor under Chapter 7 or 11 of the Bankruptcy Code.

1. Alternative Plan(s) of Reorganization

Even if the applicable Alternative is uncontested, it is estimated that such Plan will take several months to confirm and could take longer. Furthermore, even if all Classes of Impaired Claims entitled to vote on such Plan voted to accept such Plan, such Plan nevertheless may not be confirmed by the Bankruptcy Court. The Bankruptcy Court, which sits as a court of equity, may exercise substantial discretion. Section 1129 of the Bankruptcy Code sets forth the

requirements for confirmation and requires, among other things, that the confirmation of such Plan not be followed by a need for further financial reorganization and that the value of distributions to dissenting creditors and shareholders not be less than the value of distributions such creditors and shareholders would receive if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code. Although the Debtor believes that both Alternatives under the Plan will meet such tests, there can be no assurance that the Bankruptcy Court would reach the same conclusion.

a. Liquidation Under Chapter 7 or Chapter 11

If neither Alternative under the Plan is confirmed, the Debtor may be forced to liquidate under Chapter 7 of the Bankruptcy Code pursuant to which a trustee would be elected or appointed to liquidate the Debtor's assets for distribution to creditors in accordance with the priorities established by the Bankruptcy Code. It is impossible to predict precisely how the proceeds of the liquidation would be distributed to the respective Holders of Claims against or Interests in the Debtor.

As described above, however, the Debtor believes that in a liquidation under Chapter 7, before creditors received any distribution, additional administrative expenses involved in the appointment of a trustee or trustees and attorneys, accountants and other professionals to assist such trustees would cause a substantial diminution in the value of the Debtor's Estates. The assets available for distribution to creditors would be reduced by such additional expenses and by Claims, some of which would be entitled to priority, which would arise by reason of the liquidation and from the rejection of leases and other executory contracts in connection with the cessation of operations and the failure to realize the greater going-concern value of the Debtor's assets.

MANAGEMENT OF THE COMPANY ESTIMATES THAT THE TOTAL LIQUIDATION PROCEEDS AVAILABLE FOR DISTRIBUTION, NET OF CHAPTER 7 EXPENSES, WOULD AGGREGATE APPROXIMATELY $257 MILLION TO $561 MILLION. THIS WOULD RESULT IN A DISTRIBUTION TO CLASS 1 OF LESS THAN 100% OF THEIR CURRENT ALLOWED CLAIMS AND NO DISTRIBUTION TO HOLDERS OF CLASS 5. CONSEQUENTLY, THE COMPANY BELIEVES THAT BOTH THE FL/TELMEX PLAN AND THE STAND-ALONE PLAN, EACH OF WHICH PROVIDES FOR THE CONTINUATION OF ITS BUSINESS, WOULD PROVE A SUBSTANTIALLY GREATER ULTIMATE RETURN TO THE HOLDERS OF SUCH CLAIMS THAN WOULD A CHAPTER 7 LIQUIDATION.

The Debtor also could be liquidated pursuant to the provisions of a Chapter 11 plan of reorganization. In a liquidation under Chapter 11, the Debtor's assets could be sold in an orderly fashion over a more extended period of time than in a liquidation under Chapter 7. Thus, a Chapter 11 liquidation might result in larger recoveries than in a Chapter 7 liquidation, but the delay in distributions could result in lower present values received and higher administrative costs. Because a trustee is not required in a Chapter 11 case, expenses for professional fees could be lower than in a Chapter 7 case. However, any distribution to the Holders of Claims under a Chapter 11 liquidation plan probably would be delayed substantially.

Although preferable to a Chapter 7 liquidation, the Debtor believes that any alternative liquidation under Chapter 11 is a much less attractive alternative to creditors than either Alternative under the Plan because of the greater return the Debtor anticipates either Alternative under the Plan provides.

G. After the Restructuring

Upon consummation of an Alternative under the Plan the Company intends to continue as an operating entity and provide telecommunications services to its customers.

H. Support for the Restructuring

Senior Secured Lenders holding $584,990,000 in aggregate principal amount of the Senior Credit Facility (approximately 58% of Class 1 Claims) support the FL/Telmex Plan and have executed the Bank Plan Support Agreement, dated June 13, 2002, attached hereto as Appendix E, requiring them, subject to certain conditions, to vote in favor of a plan implementing the terms of the Investment Agreement.

The Administrative Agent has delivered the Bank Stand-Alone Support Letter, dated July 16, 2002, attached hereto as Appendix F. On July 18, 2002, a subgroup of the Senior Lenders Committee and the Official Committee of Unsecured Creditors reached an agreement on certain modifications to the Stand-Alone Term Sheet reflected in the Stand-Alone Plan. On July 19, 2002, the Senior Lenders Committee informed the Bankruptcy Court that the Senior Lenders Committee would support both the FL/Telmex Plan and the Stand-Alone Plan.

On July 19, 2002, the Official Committee of Unsecured Creditors informed the Bankruptcy Court that based upon the negotiations between the Senior Lenders Committee and the Official Committee of Unsecured Creditors, the Official Committee of Unsecured Creditors would support both the FL/Telmex Plan and the Stand-Alone Plan.

I. Estimated Fees and Expenses

The Debtor estimates that fees and expenses incurred in connection with the restructuring will be approximately $59 million, consisting of:

- up to $14 million in the fees and expenses of the Investors, as required reimbursements pursuant to the terms and conditions of the Investment Agreement (excluding expenses incurred in enforcing any provision of the Investment Agreement or related document); and

- up to $45 million in fees and expenses related to the Investment and/or the Stand-Alone Term Sheet, including, without limitation, fees and expenses of brokers, agents, accounting firms, investment banks, other financial advisors, commercial banks, other financial institutions, law firms and public relations firms, but excluding (A) expenses with respect to the settlement of litigation related to the Investment and (B) the Company's obligation to pay the expenses of the Senior Secured Lenders or any commercial bank or other financial institution in connection with the Amended and Restated Credit

Facility or the Exit Facility and the issuance of the Post-Termination Securities.

The Debtor anticipates that a substantial portion of the fees referenced above will be paid at the consummation of the Plan.

J. Recommendation of the Restructuring

XO's Board of Directors and, in certain instances, a subcommittee thereof composed of disinterested, non-management directors considered a number of alternatives with respect to restructuring XO's capital structure, held lengthy meetings, discussed the restructuring with its advisors and, through senior management and advisors, engaged in extensive negotiations with representatives of the Investors regarding the FL/Telmex Plan, the Icahn Group regarding the Icahn Proposal, and the Senior Lenders Committee regarding the Stand-Alone Plan. In addition, the Board of Directors, through senior management and advisors, were involved in negotiations with the Senior Lenders Committee and with the Senior Note Committee regarding the terms of the treatment of the Senior Notes under both the FL/Telmex Plan and the Stand-Alone Plan. See "III. Overview of the Plan and Chapter 11 Case – B. Background." After considering the alternatives, and in light of these extensive negotiations, the Board of Directors approved the petition and the Plan

THE DEBTOR BELIEVES THAT THE CONSUMMATION OF EITHER ALTERNATIVE UNDER THE PLAN WILL ENABLE THE DEBTOR TO SUCCESSFULLY REORGANIZE AND ACCOMPLISH THE OBJECTIVES OF CHAPTER 11 AND THAT ACCEPTANCE OF BOTH THE FL/TELMEX PLAN AND THE STAND-ALONE PLAN IS IN THE BEST INTERESTS OF THE DEBTOR AND THE HOLDERS OF CLASSES 1, 5 AND 6 CLAIMS.

THE DEBTOR, THE SENIOR LENDERS COMMITTEE AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS ALL STRONGLY RECOMMEND THAT HOLDERS OF CLASSES 1, 5 AND 6 CLAIMS VOTE TO ACCEPT BOTH THE FL/TELMEX PLAN AND THE STAND-ALONE PLAN.

VIII. CAPITALIZATION

A. Outstanding Common Stock

Old Class A Common Stock. As of May 1, 2002, the number of shares of Old Class A Common Stock issued and outstanding was 337,791,856.

Old Class B Common Stock. As of May 1, 2002, the number of shares of Old Class B Common Stock issued and outstanding was 104,423,158.

B. Outstanding Old Preferred Stock

On March 31, 2002, XO had eight series of redeemable Old Preferred Stock outstanding[17]. These series, the respective number of shares issued and outstanding, and the respective aggregate liquidation preferences are summarized in the table below (dollars in thousands):

	Shares Issued & Outstanding	Aggregate Liquidation Preference
14% Series A Senior Exchangeable Redeemable Preferred Shares	10,961,885	$ 548,094
6 ½% Series B Cumulative Convertible Preferred Stock	1,768,795	88,440
Series C Cumulative Convertible Participating Preferred Stock	584,375	584,375
Series D Convertible Participating Preferred Stock	265,625	265,625
13 ½% Series E Senior Redeemable Exchangeable Preferred Stock Due 2010	238,070	238,070
7% Series F Convertible Redeemable Preferred Stock Due 2010	59,143	59,143
Series G Cumulative Convertible Participating Preferred Stock	268,750	268,750
Series H Convertible Participating Preferred Stock	131,250	131,250
Total	14,277,893	$2,183,747

[17] Approximately 6.4 million shares of Old Preferred Stock with $490 million in liquidation preference is held by a subsidiary of XO.

C. Outstanding Notes

As of April 30, 2002 the Company had outstanding eleven issues of Notes[18] with principal amounts and accreted values, as follows (dollars in thousands):

12.5% Senior Notes due 2006	$ 350,000
9.625% Senior Notes due 2007	400,000
9.0% Senior Notes due 2008	335,000
9.45% Senior Discount Notes due 2008	583,080
10.75% Senior Notes due 2008	500,000
10 75% Senior Notes due 2009	675,000
12.25% Senior Discount Notes due 2009	459,825
10.5% Senior Notes due 2009	400,000
12.125% Senior Discount Notes due 2009	335,772
12.75% Senior Notes due 2007	149,370
5.75% Convertible Subordinated Notes due 2009	517,500
Total	$4,705,547

D. Secured Senior Credit Facility

In February 2000, XO entered into the $1,000.0 million Senior Credit Facility underwritten by a syndicate of banks and other financial institutions. The Senior Credit Facility consists of a $387.5 million tranche A term loan facility, a $225.0 million tranche B term ban facility and a $387.5 million revolving credit facility. As of December 31, 2001, XO had borrowed the full $1,000.0 million available under this facility.

All obligations under the Senior Credit Facility are secured by substantially all of the assets of XO, including the telecommunications assets purchased using the proceeds thereof, all intercompany receivables owed to XO by the Operating Subsidiaries, the stock of its directly held domestic Operating Subsidiaries and 65% of the stock of its directly held foreign Operating Subsidiaries. In addition, the Operating Subsidiaries have guaranteed up to $125.0 million of the obligations (or such greater amount as may be permitted under the Indentures) allocated ratably among the credit facility secured by all of their assets.

Both the revolving credit facility and the tranche A term loan facility mature on December 31, 2006, and the tranche B term loan facility matures on June 30, 2007, in each case, subject to earlier maturity on October 31, 2005 if certain conditions are not satisfied.

Amounts drawn under the revolving credit facility and the term loans bear interest, at XO's option, at the alternate base rate or reserve-adjusted London Interbank Offered Rate (Libor) plus, in each case, applicable margins.

The Secured Credit Facility will be amended pursuant to the Plan (V. Acceptance or Rejection of the Plan - Acceptance by Impaired Classes).

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[18] Approximately $557 million of the total amount of these Notes is held by a subsidiary of XO.

IX. DESCRIPTION OF SECURITIES TO BE ISSUED UNDER THE FL/TELMEX PLAN

The following is a summary of some of the terms and provisions of XO's capital stock to be issued under the FL/Telmex Plan. If a Termination Event occurs and XO delivers the Stand-Alone Notice to the Bankruptcy Court, please refer to Section "XI. Descriptions of Securities to be Issued Under the Stand-Alone Term Sheet". This summary is qualified in its entirety by reference to XO's current certificate of incorporation and bylaws and the Amended Certificate of Incorporation and Bylaws included as exhibits to the Investment Agreement. The current certificate of incorporation of XO is publicly filed with the Delaware Secretary of State and a copy of the bylaws of XO may be obtained upon request to XO.

A. Authorized Common Stock

1. Prior to the Consummation of the FL/Telmex Plan

XO currently has the authority to issue a total of 1,120,000,000 shares of common stock consisting of up to:

- 1,000,000,000 shares of Old Class A Common Stock; and
- 120,000,000 shares of Old Class B Common Stock.

2. Following the Consummation of the Investment Agreement

Under the Amended Certificate of Incorporation and Bylaws of Reorganized XO, Reorganized XO will have the authority to issue a total of 284,000,002 shares of common stock consisting of up to:

- 200,000,000 shares of New Class A Common Stock;
- 80,000,000 shares of New Class C Common Stock;
- 2 shares of New Class D Common Stock; and
- 4,000,000 shares of New Class E Common Stock.

In conjunction with the Investment Agreement, shares of New Class A Common Stock will be held by the Forstmann Little Investors, the Holders of Allowed General Unsecured Claims and the Holders of Senior Notes Claims, New Class C Common Stock will be held by Telmex, New Class D Common Stock will be held by the Forstmann Little Investors and New Class E Common Stock will be held by certain electing senior members of management. The following table summarizes the XO common stock that will be outstanding after consummation of the FL/Telmex Plan and the closing of the Investment:

XO Common Stock	Number of Shares Outstanding After Consummation of the FL/Telmex Plan
New Class A Common Stock	115,999,998
New Class C Common Stock	80,000,000
New Class D Common Stock	2
New Class E Common Stock	4,000,000[19]

3. Rights applicable to New Common Stock

Voting Rights. All outstanding classes of New Common Stock will have one vote per share and will be eligible to vote on all matters that come before the stockholders, including without limitation, election of directors to the Board of Directors. Except for the special rights, preferences and voting procedures set forth in the Amended Certificate of Incorporation and Bylaws, some of which are summarized below, all Holders of all classes of New Common Stock shall have the same voting rights and shall vote together as a single class.

Dividends. If a dividend is declared by the Board of Directors, each class of New Common Stock of Reorganized XO would be entitled to receive dividends. Dividends may not be paid with respect to any class of common stock of Reorganized XO unless dividends are paid with respect to all other classes of common stock of Reorganized XO. When a dividend is declared by the Board of Directors, each share of New Class A Common Stock, New Class C Common Stock, and New Class D Common Stock shall be entitled to three (3) times the amount of the dividend payable on each share of New Class E Common Stock.

Liquidation. In the event of any dissolution, liquidation or winding-up of Reorganized XO, after payment or provision for payment of Reorganized XO's debts and subject to any amounts that may be payable in respect of any preferred class of capital stock of Reorganized XO, the remaining assets would be distributed to the Holders of New Class A Common Stock, New Class C Common Stock and New Class D Common Stock (on a fully-diluted basis, including in-the-money options and warrants), on a per share basis, in an amount equal to three (3) times the amount that would be distributed to the Holders of the New Class E Common Stock.

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[19] This assumes all of the Management Stock Purchases are consummated.

B. New Class A Common Stock

Under the FL/Telmex Plan, Reorganized XO will distribute 79,999,998 shares of New Class A Common Stock to be issued in connection with the Plan to the Forstmann Little Investors as part of the consideration for its Investment. The remaining 36,000,000 shares of New Class A Common Stock to be outstanding upon consummation of the Plan will be distributed, pro rata, to Holders of Allowed General Unsecured Claims (Class 5) and Senior Note Claims (Class 6).

The par value of the New Class A Common Stock will be $0.01 per share. New Class A Common Stock will have the voting and other rights set forth above and shall have identical characteristics to New Class C Common Stock and New Class D Common Stock except where New Class C Common Stock and New Class D Common Stock are given special voting power and conversion rights, as specified below.

C. New Class C Common Stock

Reorganized XO will distribute 80,000,000 shares of New Class C Common Stock to be issued in connection with the FL/Telmex Plan to Telmex as consideration for its Investment.

Additional Voting Rights. So long as shares of New Class C Common Stock remain outstanding, the approval of the majority of shares of New Class C Common Stock, voting separately, is required for Reorganized XO to enter into any agreement with respect to an acquisition, merger, consolidation, reorganization, recapitalization or sale of all or a substantial portion of the Company's assets. Prior to the Board Representation Date, the approval of a majority of shares of New Class C Common Stock outstanding is required to:

- approve any transaction or series of transactions involving greater than 20% of Reorganized XO's net assets;
- authorize the issuance of equity securities or incur indebtedness in excess of $100 million;
- amend the Amended Certificate of Incorporation and Bylaws of Reorganized XO; or
- issue any preferred stock.

Conversion. The Amended Certificate of Incorporation of Reorganized XO provides that each share of New Class C Common Stock may be converted at the option of the holder at any time into one share of New Class A Common Stock. The Amended Certificate of Incorporation and Bylaws also provides that each share of New Class C Common Stock shall be automatically converted into one share of New Class A Common Stock:

- if such share is transferred from a permitted transferee to a prohibited transferee, as defined in the Stockholders Agreement;

- at such time as permitted holders of New Class C Common Stock own in the aggregate less than 10% of the total number of shares of outstanding Reorganized XO common stock; or

- on the fourth anniversary of the date that the first shares of New Class C Common Stock were originally issued.

D. New Class D Common Stock

Two shares of New Class D Common Stock will be distributed to the Forstmann Little Investors as part of their consideration for the Investment.

Additional Voting Rights. So long as shares of New Class D Common Stock remain outstanding, the approval of the majority of shares of New Class D Common Stock, voting separately, is required for Reorganized XO to enter into any agreement with respect to an acquisition, merger, consolidation, reorganization, recapitalization or sale of all or a substantial portion of Reorganized XO's assets.

Conversion. The Amended Certificate of Incorporation and Bylaws of Reorganized XO provide that each share of New Class D Common Stock may be converted at the option of the Holder at any time into one share of New Class A Common Stock. The Amended Certificate of Incorporation and Bylaws of Reorganized XO also provides that each share of New Class D Common Stock shall be automatically converted into one share of New Class A Common Stock at such time as all outstanding shares of New Class C Common Stock have been converted into shares of New Class A Common Stock.

E. New Class E Common Stock

Certain key executives of Reorganized XO are being given the opportunity to participate in the XO Communications, Inc. Equity Participation Program. This participation would take the form of a purchase by such executives of up to approximately 4,000,000 shares of New Class E Common Stock of Reorganized XO, at a purchase price of $1.71 per share. The terms of the New Class E Common Stock will be governed by the Amended and Restated Certificate of Incorporation of Reorganized XO and a Management Stockholders Agreement, as between the Investors, the Company and the holders of such stock. Terms of the Class E Common Stock and the Management Stockholders Agreement are summarized below:

1. Voting Rights and Dividends.

Subject to certain special voting rights of the New Class C Common Stock and the New Class D Common Stock discussed above, the holders of all classes of the Common Stock vote together as a single class, with each share of Common Stock having one vote. When a dividend is declared by the Board of Directors, each share of New Class A Common Stock, New Class C Common Stock, and New Class D Common Stock shall be entitled to three (3) times the amount of the dividend payable on each share of New Class E Common Stock. No dividend may be paid in respect of the New Class A Common Stock, New Class C Common Stock or New Class D Common Stock unless amounts payable in respect of the New Class E Common Stock are also paid at such time, and vice versa.

2. Exchange of the New Class E Common Stock for New Class A Common Stock.

Upon the occurrence of certain events, some or all of the outstanding shares of the New Class E Common Stock will be exchanged for shares of the New Class A Common Stock. For example, if there is an Exchange Event (as defined below), the Board of Directors shall declare that all or a portion of the outstanding shares of New Class E Common Stock are to be exchanged for shares of the New Class A Common Stock at a specified exchange rate to be determined pursuant to an exchange rate formula. The exchange rate formula is designed to take into account the fact that the holder of a share of the New Class E Common Stock benefits by investing less capital on a per share basis than the holder of a share of New Class A Common Stock, New Class C Common Stock, and New Class D Common Stock. An "Exchange Event" shall mean, subject to certain exceptions, any of the following events:

(a) any merger (other than a merger of a wholly-owned subsidiary of Reorganized XO with and into Reorganized XO), consolidation, reorganization or recapitalization of Reorganized XO or any sale of all or a substantial portion of the assets of Reorganized XO and its subsidiaries, taken as a whole;

(b) a sale by either Investor of any of its shares of New Class A Common Stock, New Class C Common Stock, and New Class D Common Stock except for a sale to any affiliate of such Investor (an "Investor Sale"); or

(c) the fourth anniversary of the initial issuance of the New Class E Common Stock.

3. Dissolution, Liquidation or Winding-Up

In the event of any dissolution, lquidation or winding-up of Reorganized XO, after payment or provision for payment of Reorganized XO's debts and subject to any amounts that may be payable in respect of any preferred class of capital stock of Reorganized XO, the remaining assets would be distributed to the Holders of the New Class A Common Stock, New Class C Common Stock and New Class D Common Stock (on a fully-diluted basis, including in-the-money options and warrants), on a per share basis, in an amount equal to three (3) times the amount that would be distributed to the Holders of the New Class E Common Stock.

4. Rights under Management Stockholders Agreement

Under the FL/Telmex Plan, the Management Stockholders Agreement shall set forth certain rights pertaining to and restrictions on ownership of the shares of the New Class E Common Stock. These rights and restrictions shall remain in effect (and apply to any shares of New Class A Common Stock for which shares of New Class E Common Stock are exchanged) until the aggregate ownership by the Investors of the outstanding New Investor Common Stock falls below 20%.

a. Vesting. Twenty-five percent (25%) of the shares of New Class E Common Stock will "vest" on the date of the purchase of the shares and an additional twenty-five percent (25%) will vest on each of the first, second and third anniversaries thereafter. If the

stockholder's employment with Reorganized XO is terminated for any reason whatsoever, Reorganized XO may, at its option, repurchase from the stockholder any shares of New Class E Common Stock that have not yet "vested." Whenever Reorganized XO exercises its option to purchase any "unvested" shares each Investor shall have the right, in its sole discretion, to purchase a pro rata portion of such shares subject to the same terms and conditions as Reorganized XO.

b. Restrictions on Transfer, and Tag-Along and Drag-Along Rights. Subject to certain exceptions, shares of New Class E Common Stock may not be sold, pledged or otherwise disposed of except in conjunction with sales by the Investors of their shares of New Class A Common Stock, New Class C Common Stock, and New Class D Common Stock. If either Investor sells shares of New Class A Common Stock, New Class C Common Stock, and New Class D Common Stock in an Investor Sale, holders of New Class E Common Stock or the New Class A Common Stock into which the New Class E Common Stock has been exchanged will have the right to participate proportionately in such sale and can be required to participate proportionately in such sale. In such event, all shares of New Class E Common Stock would be exchanged for shares of New Class A Common Stock at the applicable exchange rate.

c. Registration Rights. The Management Stockholders Agreement provides that each holder of shares of New Class E Common Stock (or any shares of New Class A Common Stock for which the shares of New Class E Common Stock may have been exchanged) shall be entitled, subject to certain terms and conditions, to participate in certain registered public offerings of New Common Stock. The registration rights provisions of the Management Stockholders Agreement contain customary terms, conditions, obligations and rights, including, without limitation, indemnification provisions and cutback and blackout provisions.

d. Termination of Restrictions and Rights. Upon the Investors ceasing to own, in the aggregate, at least 20% of the then outstanding shares of common equity in Reorganized XO, on an as-converted basis, the New Class E Common Stock (A) may be sold, pledged or otherwise disposed of free from the restrictions contained in the Management Stockholders Agreement and (B) will no longer be subject to any rights or obligations under the Management Stockholders Agreement.

X. DESCRIPTION OF SECURITIES TO BE ISSUED UNDER THE STAND-ALONE PLAN

The following is a summary of certain terms and provisions of XO's capital stock to be issued under the Stand-Alone Plan. If a Termination Event has not occurred, please refer to Section "X. Descriptions of Securities to be Issued Under the Investment Agreement". This summary is qualified in its entirety by reference to XO's current certificate of incorporation and bylaws and the Stand-Alone Term Sheet. The current certificate of incorporation of XO is publicly filed with the Delaware Secretary of State and a copy of the bylaws of XO may be obtained upon request to XO.

A. New Reorganization Common Stock

This summary of terms and conditions outlines certain terms of the New Reorganization Common Stock under the Stand-Alone Plan.

95,000,000 shares of New Reorganization Common Stock will be issued on the Effective Date to the Holders of Senior Secured Lender Claims in connection with the Stand-Alone Term Sheet, and additional shares of New Reorganization Common Stock may be issued pursuant to the Rights Offering, the New Warrants (as described below) and the Management Incentive Program (as described in "V. Events Leading to Commencement of the Chapter 11 Case - J. Management Stock Purchases, Options and Retention Plans"). The par value of the New Reorganization Common Stock will be $0.01 per share. Reorganized XO shall be authorized to issue 1,000,000,000 shares of New Reorganization Common Stock.

Voting Rights. The New Reorganization Common Stock will have one vote per share and will be eligible to vote on all matters that come before the stockholders, including without limitation, election of directors to the Board of Directors. Except for the special voting procedures set forth in the Amended Certificate of Incorporation and Bylaws to effectuate the Plan, all Holders of New Reorganization Common Stock shall have the same voting rights and shall vote together as a single class.

Dividends. If a dividend is declared by the Board of Directors, the New Reorganization Common Stock is entitled to receive dividends.

Liquidation. In the event of any dissolution, liquidation or winding-up of Reorganized XO, after payment or provision for payment of Reorganized XO's debts and subject to any amounts that may be payable in respect of any preferred class of capital stock of Reorganized XO, the remaining assets would be distributed to the Holders of New Reorganization Common Stock on a per share basis.

B. Exit Facility

This summary of terms and conditions outlines certain terms of the Exit Facility under the Stand-Alone Plan.

Reorganized XO may arrange for a revolving credit facility (the "Exit Facility") with a maximum availability of $200 million (the "Maximum Exit Facility Availability") as follows:

- The Exit Facility shall be granted a first priority lien on all assets to the extent it is available and drawn.
- The Exit Facility may be drawn at any time following the end of the fourth (4th) complete quarter following the Effective Date, provided, that Reorganized XO and its Operating Subsidiaries are in compliance with all other covenants under the New Junior Secured Loans.
- The Exit Facility may not be drawn when Reorganized XO and its Operating Subsidiaries' cash balance is above $50 million.
- The Maximum Exit Facility Availability shall be reduced by any cash proceeds to Reorganized XO from a Rights Offering of Reorganized XO common equity.
- Fees, pricing and documentation for the Exit Facility shall be in a form and on terms satisfactory to the Holders of Senior Secured Lender Claims on the Voting Record Date.

XO is currently engaged in discussions with a number of institutional investors who have expressed interest in providing the Exit Facility. As of the date hereof, XO has not executed any commitment letters or term sheets with respect to the Exit Facility. The Projections with respect to the Stand-Alone Plan, attached hereto as Appendix B-2, are based upon assumptions as to the terms of the Exit Facility that XO deems to be reasonable under the circumstances.

C. New Junior Secured Loans

This summary of terms and conditions outlines certain terms of the New Junior Secured Loans to be issued to the Holders of Senior Secured Lender Claims under the Stand-Alone Plan.

1. Parties

Reorganized XO will be the borrower of the New Junior Secured Loans. All current and future subsidiaries of Reorganized XO will guaranty payment under the facility. The Administrative Agent will act as the administrative agent for the New Junior Secured Loans. The initial holders of the New Junior Secured Loans will be the lenders who are parties to the Senior Credit Facility.

2. Terms

New Junior Secured Loans shall be issued in an initial principal amount equal to $500 million. Interest on the New Junior Secured Loans shall be PIK and shall accrue quarterly at a rate of Libor +600 basis points. XO may, at its option at any time, make a one-time election to begin paying cash interest at an interest rate of Libor +400 basis points, payable quarterly. The New Junior Secured Loans automatically shall become cash pay, as set forth in the preceding sentence, once the interest coverage ratio (EBITDA/interest, calculated on a trailing 12-month basis) exceeds 4.0x. The New Junior Secured Loans shall mature six and one-half (6.5) years after the date of issuance.

Principal amortization on New Junior Secured Loans shall be made as follows:

a. 100% of the net cash proceeds of all asset sales, other than amounts thereof reinvested (provided that the aggregate amount of such proceeds reinvested after the closing shall not exceed $50,000,000 in the aggregate) or used to permanently reduce the Exit Facility commitment; provided however, that the Exit Facility commitment shall, to the extent required thereby, be first permanently reduced by 100% of all non-reinvested asset sale proceeds until there are no principal amounts or commitments outstanding on the Exit Facility. Asset sales shall be defined to include all sales of dark fiber, and substantially all of the network capacity in a particular city.

b. 50% of all other cash proceeds of equity raised in excess of $200 million, including the first $200 million of any equity raised through the Rights Offering but not including proceeds from the exercise of New Warrants and New Options, subject to any applicable requirements of the Exit Facility with respect to the application of such proceeds to the permanent reduction of the Exit Facility commitment until there are no principal amounts or commitments outstanding on the Exit Facility.

c. 100% of all debt issued (other than the Exit Facility); provided, however, that the Exit Facility commitment shall, to the extent required thereby, be first reduced by 100% of all such debt proceeds until there are no principal amounts or commitments outstanding on the Exit Facility.

d. 50% of all Consolidated Excess Cash Flow (to be defined as in the Existing Credit Agreement) in excess of $25 million per quarter; provided, however, that the Exit Facility commitment shall, to the extent required thereby, be first reduced by 100% of all Consolidated Excess Cash Flow until there are no principal amounts or commitments outstanding on the Exit Facility.

e. 100% of all net cash proceeds of the FL/Telmex Recovery after any distributions otherwise payable by the Debtor or the Reorganized Debtor pursuant to the Plan.

f. Beginning on June 30, 2007, principal shall begin amortizing according to an amortization schedule of 5% per quarter for nine months; 10% per quarter for six months; 15% per quarter for six months; and the remaining 35% at maturity on March 31, 2009. This schedule will be pushed back pro tanto if closing is delayed beyond September 30, 2002. All

mandatory prepayments shall be applied pro rata to the remaining scheduled installments of the New Junior Secured Loans.

The New Junior Secured Loans will be secured by a second-priority perfected security interest on the assets of Reorganized XO and its Operating Subsidiaries (subject only to the first-priority perfected security interest in respect of the Exit Facility).

Covenants shall be established including (1) minimum unrestricted cash and cash equivalents; (2) minimum EBITDA; and (3) a maximum capital expenditures. The New Junior Secured Loans shall also include customary events of default for transactions of this type.

D. New Warrants

This summary of terms and conditions outlines certain terms of the New Warrants to be issued under the Stand-Alone Plan.

1. Terms

Three series of New Warrants will be issued under the Stand-Alone Plan: New Series A Warrants, New Series B Warrants and New Series C Warrants.

- The New Series A Warrants will be exercisable at an exercise price of $6.25 per share, representing a 25% premium to the pre-Rights Offering equity value of Reorganized XO assumed in the Stand-Alone Plan ($475 million).

- The New Series B Warrants will be exercisable at an exercise price of $7.50 per share, representing a 50% premium to the pre-Rights Offering equity value of Reorganized XO assumed in the Stand-Alone Plan ($475 million).

- The New Series C Warrants will be exercisable at an exercise price of $10.00 per share, representing a 100% premium to the pre-Rights Offering equity value of Reorganized XO assumed in the Stand-Alone Plan ($475 million).

Each series of New Warrants will expire seven (7) years after the date of issuance.

2. Contingent Distribution

Under the Stand-Alone Plan, on the Effective Date, each of the Holders of Allowed General Unsecured Claims (Class 5) and Holders of Allowed Senior Note Claims (Class 6) will receive (in addition to any other distribution authorized under the Plan) its pro rata share of the Senior Note Portion or General Unsecured Claim Portion (each as defined below), as applicable, of New Warrants as follows:

i. If two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation,

(1) New Series A Warrants to purchase 9,500,000 shares of New Reorganization Common Stock representing 10% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan;

(2) New Series B Warrants to purchase 7,125,000 shares of New Reorganization Common Stock representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan;

(3) New Series C Warrants to purchase 7,125,000 shares of New Reorganization Common Stock representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan; or

ii. if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, but the Official Committee of Unsecured Creditors has recommended a vote in favor of the Stand-Alone Plan, has not withdrawn such recommendation and the Debtor believes, in its reasonable judgment, that all of the members of such Committee have voted their Claims in favor of confirmation of the Stand-Alone Plan, New Series B Warrants to purchase 4,750,000 shares of New Reorganization Common Stock (representing 5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);

3. Procedure and Exercise

The New Warrants will be evidenced by a Warrant Certificate and will be issued pursuant to the Plan and subject to the terms and conditions of the Warrant Agreement to be executed on the Effective Date of the FL/Telmex Plan by Reorganized XO and American Stock Transfer & Trust Company, as Warrant Agent.

New Warrants may be exercised at any time on or before 5:00 p.m., New York City time, on the expiration date listed on the Warrant Certificate. The holder of New Warrants evidenced by a Warrant Certificate may exercise them by surrendering a Warrant Certificate,

with the form of election to purchase properly completed and executed, together with payment of the exercise price (the "Exercise Price") as specified in the Warrant Agreement at the principal corporate trust office of the Warrant Agent. In the event that upon any exercise of New Warrants the number of shares of New Reorganization Common Stock to be issued shall be less than the total number of shares of New Reorganization Common Stock evidenced thereby, there shall be issued to the holder thereof or his assignee a new Warrant Certificate evidencing the number of shares of New Reorganization Common Stock not issued. No adjustment shall be made for any dividends on any Common Stock issuable upon exercise of such New Warrant.

The Warrant Agreement provides that upon the occurrence certain events, including, without limitation, (i) below-market equity issuances after consummation of the Stand-Alone Plan and (ii) equity issuances made or committed to at or prior to consummation of the Stand-Alone Plan at valuations less than the pre-Rights Offering equity value of XO of $475 million, the number of shares of New Reorganization Common Stock issued upon exercise of a New Warrant set forth on the face thereof shall, subject to certain conditions, be adjusted.

No fractions of a share of New Reorganization Common Stock will be issued upon the exercise of any New Warrant, but Reorganized XO will pay the cash value thereof determined as provided in the Warrant Agreement.

Warrant Certificates, when surrendered at the principal corporate trust office of the Warrant Agent by the registered holder thereof in person or by legal representative or attorney duly authorized in writing, may be exchanged, in the manner and subject to the limitations provided in the Warrant Agreement, but without payment of any service charge, for another Warrant Certificate or Warrant Certificates of like tenor evidencing in the aggregate a like number of New Warrants.

Upon due presentation for registration of transfer of a Warrant Certificate at the office of the Warrant Agent a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of New Warrants shall be issued to the transferee(s) in exchange for such Warrant Certificate, subject to the limitations provided in the Warrant Agreement, without charge except for any tax or other governmental charge imposed in connection therewith.

Reorganized XO and the Warrant Agent may deem and treat the registered holder(s) thereof as the absolute owner(s) of a Warrant Certificate (notwithstanding any notation of ownership or other writing thereon made by anyone), for the purpose of any exercise thereof, of any distribution to the holder(s) thereof, and for all other purposes, and neither Reorganized XO nor the Warrant Agent shall be affected by any notice to the contrary. Neither the New Warrants nor the Warrant Certificate entitles any holder hereof to any rights of a stockholder of the Company.

E. Rights Offering

This summary of terms and conditions outlines certain terms of the Rights Offering to be effected under the Stand-Alone Plan.

1. Rights Offering

Under the Stand-Alone Plan, XO will offer 40,000,000 shares of New Reorganization Common Stock (the "Rights Shares") at $5.00 per share for an aggregate of $200 million through the rights offering described below; provided, that XO may offer up to an additional 3,333,333 shares for up to an aggregate of $16,666,666 in certain events. See "V. Events Leading to Commencement of the Chapter 11 Case – K. Litigation – 3. Shareholder Litigation Settlement". Assuming 40,000,000 shares of New Reorganization Common Stock are offered in the Rights Offering, the Rights Shares would represent approximately 29.6% of the shares of New Reorganization Common Stock outstanding following their issuance, without giving effect to the issuance of shares pursuant to options issued pursuant to the Management Incentive Program and the New Warrants.

Holders of Senior Note Claims, General Unsecured Claims, Subordinated Note Claims and Old Preferred Stock Interests and Old Common Stock Interests will have the opportunity to exercise Nontransferable Rights to subscribe for any or all of the Rights Shares, subject to the priority and allocation rules described below through the first business day after the 29th day after the Effective Date (the "Nontransferable Rights Expiration Date"). Thereafter, Transferable Rights will be issued to the Holders of senior secured debt covering any Rights Shares not issued upon exercise of Nontransferable Rights. The Transferable Rights will expire on the first business day after the 29th day after the Transferable Rights Certificates are delivered (the "Final Expiration Date").

2. Priority and Allocation of Nontransferable Rights

Although Holders of Classes 5, 6, 7, 9 and 10 Claims and Interests are not entitled to any Rights under the Plan, based upon negotiations among the Debtor, the Official Committee of Unsecured Creditors and a subset of the Senior Lenders Committee, Holders of Classes 5, 6, 7, 9 and 10 will have the opportunity to exercise Rights, to the extent described below.

The following categories of Holders will have the opportunity to exercise Nontransferable Rights: (i) Holders of General Unsecured Claims (Class 5) and Senior Note Claims (Class 6), (ii) Holders of Subordinated Note Claims (Class 7), (iii) Holders of Old Preferred Stock Interests (Class 9) and (iv) Holders of Old Common Stock Interests (Class 10). Each Holder will have the opportunity to specify on its Nontransferable Rights Certificate the total number of Rights Shares it wishes to purchase (up to the full amount of the offering), subject to allocation and pro ration as set forth below:

First: to the Holders of General Unsecured Claims (Class 5) and Senior Note Claims (Class 6), pro rata based on the ratio of the amount of each such exercising Holder's Claim to the aggregate amount of all Claims in such Classes;

Second: one-third of any remaining Nontransferable Rights to each of the following groups of Holders:

(i) Holders of Subordinated Note Claims (Class 7),

(ii) Holders of Old Preferred Stock Interests (Class 9), and

(iii) Holders of Old Class A Common Stock Interests,

allocated in each case pro rata based on the ratio of the amount of each such exercising Holder's Claim, liquidation preference (in the case of Old Preferred Stock Interests) or number of shares (in the case of the Old Common Stock) to the aggregate amount of all Claims, liquidation preference or number of shares, as applicable, of such Holder's Class; provided that, pursuant to the Shareholder Stipulation, if, but only to the extent, that the Holders of Old Class A Common Stock Interests receive Nontransferable Rights with an aggregate exercise price of less than $16,666,666, additional Nontransferable Rights will be issued and allocated to such Holders of Old Class A Common Stock Interests on such basis; provided, further, that any remaining Nontransferable Rights from such initial allocation to the Holders of Old Class A Common Stock Interests shall subsequently be reallocated to the Holders of Old Class A Common Stock Interests based on the ratio of the amount of each such exercising Holder's funded but unfilled subscription request to the aggregate funded but unfilled subscription requests of all Holders of Old Class A Common Stock Interests;

Third: any remaining Nontransferable Rights to the Holders of General Unsecured Claims (Class 5) and Senior Note Claims (Class 6), pro rata based on the ratio of the amount of each such exercising Holder's funded but unfilled subscription request to the aggregate funded but unfilled subscription requests of all Holders of such Classes; and

Fourth: any remaining Nontransferable Rights to the Holders of Subordinated Note Claims (Class 7), Old Preferred Stock Interests (Class 9) and Old Common Stock Interests (Class 10) pro rata based on the ratio of the amount of each such exercising Holder's funded but unfilled subscription request to the aggregate funded but unfilled subscription requests of all Holders of such Classes.

As soon as practicable after the Nontransferable Rights Expiration Date, if and to the extent that any outstanding Nontransferable Rights have not theretofore been exercised, the Company will issue and the Rights Agent will deliver to the Holders of Senior Secured Lenders Claims (Class 1) an equivalent number of Transferable Rights on a pro rata basis, based upon the amount of each such Holder's Class 1 Claims. (the date of such issuance, the "Transferable Rights Issuance Date").

3. Procedure

All Nontransferable Rights will be offered as a gift from the Holders of Senior Secured Lender Claims simultaneously during the 30-day period following the Effective Date, on a contingent basis for all rights other than first allocation to the Holders of General Unsecured Claims (Class 5) and Senior Note Claims (Class 6) described above.

Rights Certificates will be sent to Holders of Rights by the Balloting Agent following the Effective Date. If you are a Holder of a Claim or Interest entitled to receive Rights pursuant to the Rights Offering and do not receive a Rights Certificate, received a damaged Rights Certificate or lost your Rights Certificate, or if you have any questions concerning the procedures for exercising your Rights, please call XO Rights Center, c/o American Stock Transfer & Trust Company at 1-800-937-5449.

a. Method of Exercise of Rights.

If you are entitled to purchase Rights Shares pursuant to the Rights Offering, you must (a) complete and sign your original Rights Certificate (copies will not be accepted) and (b) return it in the envelope provided together with payment for all Rights Shares subscribed for in the form of either (i) a check, bank draft, cashier's check or money order payable to: American Stock Transfer & Trust Company as Rights Agent – XO Communications or (ii) a wire transfer of payment and notification that payment for the shares was sent prior to the final due date via wire transfer directly to a bank account maintained by American Stock Transfer & Trust Company at Chase Manhattan Bank, ABA ROUTING #: 021-000-021, for credit to Account #: 323053785, Contact: XO Communications Rights Offering.

The Rights Agent will deposit all share purchase checks received by it prior to the final due date into a segregated interest-bearing account pending proration and distribution of shares. The Rights Agent will not accept cash as a means of payment for Rights Shares. EXCEPT AS OTHERWISE SET FORTH BELOW, A PAYMENT PURSUANT TO THIS METHOD MUST BE IN UNITED STATES DOLLARS BY MONEY ORDER OR CHECK DRAWN ON A BANK LOCATED IN THE CONTINENTAL UNITED STATES, MUST BE **PAYABLE TO AMERICAN STOCK TRANSFER & TRUST COMPANY AS RIGHTS AGENT – XO COMMUNICATIONS,** AND MUST ACCOMPANY AN EXECUTED RIGHTS CERTIFICATE TO BE ACCEPTED.

Any payment required from a holder of Nontransferable Rights must be received by the Rights Agent on or prior to the Nontransferable Rights Expiration Date. Any payment required from a holder of Transferable Rights must be received by the Rights Agent on or prior to the Final Expiration Date. Any excess payment to be refunded by the Rights Agent to a holder of Rights and all interest accrued on a holder's excess payment will be mailed by the Rights Agent to the holder within fifteen business days after the applicable expiration date. Interest on the excess payment will accrue from the applicable expiration date through the date that is one business day prior to the mail date of the reimbursement check.

Whichever of the two methods described above is used, issuance and delivery of certificates for the Rights Shares purchased are subject to collection of checks and actual payment pursuant to any notice of guaranteed delivery.

A RIGHTS HOLDER WILL HAVE NO RIGHT TO RESCIND A SUBSCRIPTION AFTER THE RIGHTS AGENT HAS RECEIVED PAYMENT.

Holders who hold Rights for the account of others, such as brokers, trustees or depositaries for securities, should notify the respective beneficial owners of the Rights as soon as possible to ascertain the beneficial owners' intentions and to obtain instructions with respect to the Rights. If the beneficial owner so instructs, the record holder of the Rights should complete a Rights Certificate and submit it to the Rights Agent with the proper payment. In addition, beneficial owners of Rights held through such a holder should contact the holder and request the holder to effect transactions in accordance with the beneficial owner's instructions.

The instructions accompanying the Rights Certificates should be read carefully and followed in detail. DO NOT SEND RIGHTS CERTIFICATES TO THE COMPANY.

IN ORDER FOR YOU TO EXERCISE YOUR NONTRANSFERABLE RIGHTS, YOUR NONTRANSFERABLE RIGHTS CERTIFICATE MUST BE PROPERLY COMPLETED AS SET FORTH ABOVE AND IN ACCORDANCE WITH THE INSTRUCTIONS THEREON. ALL NONTRANSFERABLE RIGHTS CERTIFICATES AND PAYMENT FOR SHARES MUST BE RECEIVED BY AMERICAN STOCK TRANSFER & TRUST COMPANY (THE "RIGHTS AGENT") NO LATER THAN 5:00 P.M. (EASTERN TIME) ON THE NONTRANSFERABLE RIGHTS EXPIRATION DATE.

IN ORDER FOR YOU TO EXERCISE YOUR TRANSFERABLE RIGHTS, YOUR TRANSFERABLE RIGHTS CERTIFICATE MUST BE PROPERLY COMPLETED AS SET FORTH ABOVE AND IN ACCORDANCE WITH THE INSTRUCTIONS THEREON. ALL TRANSFERABLE RIGHTS CERTIFICATES AND PAYMENT FOR SHARES MUST BE RECEIVED BY THE RIGHTS AGENT NO LATER THAN 5:00 P.M. (EASTERN TIME) ON THE FINAL EXPIRATION DATE SPECIFIED ON THE TRANSFERABLE RIGHTS CERTIFICATE.

THE METHOD OF DELIVERY OF RIGHTS CERTIFICATES AND PAYMENT OF THE PURCHASE PRICE FOR RIGHTS SHARES TO THE RIGHTS AGENT WILL BE AT THE ELECTION AND RISK OF THE RIGHTS HOLDERS, BUT IF SENT BY MAIL IT IS RECOMMENDED THAT THE CERTIFICATES AND PAYMENTS BE SENT BY REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, AND THAT A SUFFICIENT NUMBER OF DAYS BE ALLOWED TO ENSURE DELIVERY TO THE RIGHTS AGENT AND CLEARANCE OF PAYMENT PRIOR TO 5:00 P.M., EASTERN TIME, ON THE APPLICABLE EXPIRATION DATE. BECAUSE UNCERTIFIED PERSONAL CHECKS MAY TAKE AT LEAST FIVE BUSINESS DAYS TO CLEAR, YOU ARE STRONGLY URGED TO PAY, OR ARRANGE FOR PAYMENT, BY MEANS OF A CERTIFIED OR CASHIER'S CHECK OR MONEY ORDER.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Company, whose determinations will be final and binding. The Company in its sole discretion may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any Right. Rights will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Company determines in its sole discretion. Neither the Company nor the Rights Agent will be under any duty to give notification of any defect or irregularity in connection with the submission of Rights Certificates or incur any liability for failure to give such notification.

b. Delivery of Stock Certificates

Certificates representing the Rights Shares purchased pursuant to the Rights Offering will be delivered to subscribers as soon as practicable after the corresponding Rights have been validly exercised and full payment for the Rights Shares has been received and cleared.

4. Transferability

The Nontransferable Rights are not transferable.

The Transferable Rights evidenced by a single Transferable Rights Certificate may be transferred in whole by endorsing the Transferable Rights Certificate for transfer in accordance with the accompanying instructions. A portion of the Transferable Rights evidenced by a single Transferable Rights Certificate (but not fractional Transferable Rights) may be transferred by delivering to the Rights Agent a Transferable Rights Certificate properly endorsed for transfer, with instructions to register the portion of the Transferable Rights evidenced thereby in the name of the transferee (and to issue a new Transferable Rights Certificate to the transferee evidencing the transferred Transferable Rights). In this event, a new Transferable Rights Certificate evidencing the balance of the Transferable Rights will be issued to the Transferable Rights holder or, if the Transferable Rights holder so instructs, to an additional transferee.

Holders wishing to transfer all or a portion of their Transferable Rights (but not fractional Transferable Rights) should allow at least three Business Days prior to the Final Expiration Date for (i) the transfer instructions to be received and processed by the Rights Agent, (ii) a new Transferable Rights Certificate to be issued and transmitted to the transferee or transferees with respect to transferred Transferable Rights, and to the transferor with respect to retained rights, if any, and (iii) the Transferable Rights evidenced by the new Transferable Rights Certificates to be exercised or sold by the recipients thereof. Neither the Company nor the Rights Agent shall have any liability to a transferee or transferor of Transferable Rights if Transferable Rights Certificates are not received in time for exercise or sale prior to the Final Expiration Date.

All commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred in connection with the purchase or sale (or subsequent exercise) of Transferable Rights will be for the account of the transferor of the Transferable Rights, and none of these commissions, fees or expenses will be paid by the Company or the Rights Agent.

5. Rights Expiration Date

The Nontransferable Rights will expire on the first business day after the 29th day after the Effective Date. The Transferable Rights shall expire on the first business day after the 29th day after the Transferable Rights Certificates are delivered.

6. Questions; Additional Information

If you have any questions about (1) the procedure for exercising the Rights or the packet of materials that you have received or (2) the amount of Rights available to you, please contact the Rights Agent:

XO Communications, Inc.
c/o American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
Attn: Shareholder Relations Department
Phone: 1-800-937-5449

XI. RISK FACTORS

THE HOLDER OF AN IMPAIRED CLAIM AGAINST THE DEBTOR SHOULD CAREFULLY CONSIDER THE FOLLOWING FACTORS BEFORE DECIDING WHETHER TO VOTE TO ACCEPT OR TO REJECT THE PLAN.

1. The Investment, the Stand-Alone Term Sheet and the Plan

The Investors Do Not Believe the Conditions to their Obligations under the Investment Agreement Will be Met and will not Waive any of Those Conditions

The Investors have repeatedly informed XO that they believe it to be "virtually impossible" that the conditions to their obligations under the Investment Agreement will be satisfied, that they will not waive any of those conditions and that Holders should therefore not anticipate a closing thereunder to occur. XO agrees that there is substantial uncertainty as to whether or not those conditions will be satisfied, but it does not agree that it is "virtually impossible" to satisfy them, particularly if the Investors comply with their obligation under the Investment Agreement to use their reasonable best efforts to consummate and make effective the transactions contemplated thereby, and their implied obligations of good faith and fair dealing. In particular, but without limitation, the Investors have informed XO that neither the Plan, the Bank Amendment Term Sheet nor the Shareholder Stipulation are satisfactory to them and the pending lawsuit brought by the Treasurer of the State of Connecticut is covered by the "litigation condition" of Section 5.2(u) of the Investment Agreement.

The Investors have also informed XO that in their opinion their right to terminate the Investment Agreement and collect the Break-Up Fee pursuant to Section 6.1(i) of the Investment Agreement may have already been triggered by actions taken by XO with respect to the Stand-Alone Plan. At present, however, the Investors have not terminated or purported to terminate the Investment Agreement.

Based on prior communications from the Investors and their counsel, including memoranda requesting that these positions be included in this Disclosure Statement, XO anticipates that the Investors may assert some or all of the following as grounds for not consummating the transactions contemplated by the Investment Agreement, among others:

- Whether certain pending or threatened litigation against XO, the Investors or their respective officers and directors shall have been resolved in a manner satisfactory to each Investor in its sole discretion (the Investors having informed XO that the Shareholder Stipulation is not satisfactory to them and that the Investors believe the lawsuit brought by the Treasurer of the State of Connecticut is covered by the "litigation condition" of Section 5.2(u) of the Investment Agreement);

- Whether there shall have been, as of the Effective Date, a material adverse change in the Company's business, operations, assets, financial condition, prospects or results of operations;

- Whether the Plan shall have been confirmed within the time specified by the Investment Agreement, plus any extension thereof to which XO may be legally or equitably entitled by virtue of the Investors' prior conduct;

- Whether required regulatory approvals shall have been obtained within the times specified by the Investment Agreement, plus any extension thereof to which XO may be legally or equitably entitled by virtue of the Investors' prior conduct;

- Whether an amended bank credit facility reflecting the terms of the Bank Amendment Term Sheet previously negotiated between the Investors and XO's senior secured lenders remain reasonably acceptable to the Investors (the Investors having given XO notice that such terms are no longer acceptable, since they were offered in the expectation of a transaction supported by the Company's senior noteholders);

- Whether the Plan correctly reflects the terms and conditions of the Investment Agreement in awarding 18% of Reorganized XO's equity (designated in the Investment Agreement for equity holders other than the Investors and management) and $200 million in cash (which XO has the right under the Investment Agreement to use in connection with the Restructuring) to the Holders of Senior Note Claims and General Unsecured Claims (the Investors having informed XO that they do not believe that the Plan correctly reflects those terms);

- Whether XO has entered into a written agreement with respect to any competing proposal (the Investors having informed XO that they believe XO's receipt of the Bank Stand-Alone Support Letter may "trigger certain rights of the Investors" under the Investment Agreement);

- Whether XO can adopt a Business Plan (as defined in the Investment Agreement) that is reasonably acceptable to the Investors;

- Whether the Investment Agreement is assumable or enforceable under the Bankruptcy Code;

- Whether XO's projections show sufficient revenue and cash flow for the Company to pay its "significant" debt obligations under the FL/Telmex Plan;

- Whether this Disclosure Statement fails to contain correct and adequate information and may result in a Plan and confirmation order, which is not reasonably satisfactory to the Investors (*e.g.*, the Investors have informed XO that they believe the descriptions herein of the events surrounding the May 2002 due diligence meetings of Forstmann Little contain misstatements of fact);

- Whether the FL/Telmex Plan it is a feasible plan of reorganization, as required for confirmation by Section 1129 of the Bankruptcy Code;

- Whether XO is entitled to use the "cram down" provisions of the Bankruptcy Code to impose the terms of the Investment Agreement, in the event the Holders of Senior Note Claims do not consent to its terms; and

- Whether this Disclosure Statement and the Plan are not, and the Confirmation Order will not be, reasonably satisfactory to the Investors for failure, among other things, to reflect the Investors' positions on these issues throughout those documents.

For further information on certain lawsuits of XO, see "V. Events Leading to Commencement of the Chapter 11 Case – K. Litigation" and Appendix D hereto. If the Company fails to meet these litigation closing conditions or any other closing condition, the Investors do not have to complete the Investment.

If the Investment Agreement is terminated, or XO concludes that the Investors will not comply with their obligations to close thereunder upon satisfaction of the applicable conditions, XO presently intends to file the Stand-Alone Notice with the Bankruptcy Court, unless a superior alternative is presented to XO.

For a summary of the closing conditions to the Investment Agreement, see "V. Events Leading to Commencement of the Chapter 11 Case – E. Agreements in Connection with the Investment – 1. Investment Agreement – b. Closing Conditions."

The Plan may not Close if Regulatory Approvals are not Obtained.

It is a condition to the Investors' obligation to make the Investment under the Investment Agreement that regulatory approvals required in order to consummate the Investment have been obtained or waived in whole or part by the Investors. If these required approvals (or waivers) are not obtained by January 15, 2003 and by a Final Order (as defined in the Investment Agreement) on March 15, 2003, each Investor may terminate their obligations under the Investment Agreement.

The enactment of new federal, state or local legislation or regulations, including Federal Communications Commission rulemaking, or judicial interpretations of new or existing legislation or regulations, could delay receipt of the approvals necessary to implement the Plan or prevent them from being obtained.

The Company has no Binding Commitment from the Senior Secured Lenders to Support the Stand-Alone Plan.

While the Company has received a letter on behalf of the Administrative Agent indicating support of the Senior Lenders Committee for the Stand-Alone Plan, subject to internal lender approvals, the Company has not received or entered into, and cannot enter into, without giving the Investors a right to terminate the Investment Agreement, a binding commitment or other written agreement with respect to the transactions contemplated by the Stand-Alone Plan. There can be no assurance that the Holders of Senior Secured Lender Claims will support such transactions, and representatives of the Holders of Senior Notes have indicated strong opposition to such transactions.

Furthermore, the Holders of Senior Secured Lender Claims may decide to accept the Icahn Purchase Offer. In that event, Mr. Icahn and his affiliates would obtain a significant degree of control over the Company and the reorganization process and it would be unlikely that the Stand-Alone Plan would be confirmed.

The Investors may have Interests which are Adverse to the Interests of the Company's other Security Holders and they may Act in a Manner that Adversely Impacts the Value of the Company's other Security Holders.

In the event that the transactions contemplated by the Investment Agreement are consummated, after the closing of the Investment, the Investors collectively will control more than 50% of the Company's total voting power and hold a majority of the seats on the Board of Directors of Reorganized XO and the Executive Committee of the Board of Directors of Reorganized XO. The Investors may have interests which are adverse to the interests of the other security holders of Reorganized XO. In particular, certain of the Forstmann Little Entities have a controlling ownership interest in McLeodUSA Incorporated, a competitor of the Company in certain of the Company's markets, and Telmex is the largest telecommunications carrier in Mexico. Because the Investors would have the ability to collectively control the Company's direction and future operations, they may make decisions which are adverse to the interests of the Company's other security holders.

The Investors, if they each independently agree upon a particular course of action, will also effectively control a decision as to whether a change of control of the Company will occur. Thus, the transactions contemplated by the Plan could make it more difficult for a third party to acquire control of the Company, even if a change of control could be beneficial to the interests of the Company's other security holders.

If the Company's New Common Stock or Post-Termination Securities are Not Listed, the Ability of Holders of New Common Stock or Post-Termination Securities to Sell their Securities would be Adversely Impacted.

Although the Investment Agreement contains a condition to closing that the Company have the New Class A Common Stock listed on the Nasdaq National Market System or the New York Stock Exchange, the Company may not be successful in obtaining such listing and the Investors have the right to waive this condition to closing. Although the Stand-Alone Term Sheet does not have a condition requiring the listing of the New Reorganization Common Stock, the Company intends to obtain listing of the New Reorganization Common Stock on the Nasdaq National Market System or the New York Stock Exchange but may not be successful in obtaining such listing.

Thus, it is possible that the New Class A Common Stock or the New Reorganization Common Stock, as applicable, will not be listed on the Nasdaq National Market System, the New York Stock Exchange or any national exchange. If the New Common Stock or the Post-Termination Securities, as applicable, are not listed or are listed and later delisted, it would become difficult to make purchases and sales or obtain timely and accurate quotations with respect to trading of such unlisted securities.

Trading Prices of the Company's New Common Stock or Post-Termination Securities may be Volatile.

The market price of the New Common Stock or Post-Termination Securities, as applicable, could be subject to significant fluctuations in response to various factors and events including the depth and liquidity of the trading market for the New Common Stock or Post-Termination Securities, as applicable, and variations in the Company's operating results. The trading price of the New Common Stock or Post-Termination Securities, as applicable, following the restructuring will also be affected by the risk factors referred to in this Disclosure Statement, as well as prevailing economic and financial trends and conditions in the public securities markets. Market prices of securities of telecommunications companies such as XO have exhibited a high degree of volatility during recent periods. Shortfalls in revenues or in earnings before interest, income taxes, depreciation and amortization from the levels anticipated by the public markets could have an immediate and significant adverse effect on the trading price of the New Common Stock or Post-Termination Securities, as applicable, in any given period. The trading price of these securities may also be affected by developments which may not have any direct relationship with the business or long-term prospects, including reported financial results and fluctuations in the trading prices of the shares of other publicly held companies in the telecommunications industry.

In the event that the transactions contemplated by the Investment Agreement are consummated, after the Effective Date, the Investors will hold large positions in the common equity of Reorganized XO. Prior to the fourth anniversary of the Effective Date, unless waived by the non-transferring Investor the Investors are restricted by the Stockholders Agreement from transferring their common stock, except to certain affiliates. However, after such date if an Investor decides to sell New Class A Common Stock in the public markets, the trading price of the stock may be adversely affected.

The Company Does Not Plan to Pay Any Dividends on New Common Stock or New Reorganization Common Stocks

The Company does not anticipate paying any dividends on, or repurchasing any shares of, its New Common Stock or its New Reorganization Common Stock for the foreseeable future.

Election Not to Be Subject to Section 203 May Make the Company More Vulnerable to Takeovers

The Plan provides that if the Investment Agreement is consummated, the Company will opt out of the provisions of Section 203 of the Delaware General Corporation Law ("DGCL"). The election to eliminate the protection provided by Section 203 of the DGCL may make the Company more vulnerable to takeovers without giving it the ability to prohibit or delay such takeovers as effectively.

2. Chapter 11 Case

General Considerations

The Plan sets forth the means for satisfying the Claims against the Debtor. Certain Claims and Interests receive no distributions pursuant to the Plan. Reorganization of certain of the Debtor's businesses and operations under the proposed Plan also avoids the potentially adverse impact of a liquidation on the Debtor's employees and other stakeholders.

Objections to Classifications

Section 1122 of the Bankruptcy Code provides that a plan may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interests of such class. The Debtor believes that the classification of Claims and Interests under the Plan complies with the requirements set forth in the Bankruptcy Code. However, there can be no assurance that the Bankruptcy Court would reach the same conclusion.

Failure to Confirm or Consummate the Plan

Even if all Impaired voting Classes vote in favor of the Plan, and with respect to any Impaired Class deemed to have rejected the Plan the requirements for a "cramdown" are met, the Bankruptcy Court, which, as a court of equity, may exercise substantial discretion, may choose not to confirm the Plan. Section 1129 of the Bankruptcy Code requires, among other things, a showing that confirmation of the Plan will not be followed by liquidation or the need for further financial reorganization of the Debtor, and that the value of distributions to dissenting Holders of Claims and Interests may not be less than the value such Holders would receive if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code. There can be no assurance that the Bankruptcy Court will conclude the Plan satisfies the requirements of Section 1129 of the Bankruptcy Code.

The Plan provides for certain conditions that must be fulfilled prior to confirmation of the Plan and the Effective Date. There are also a number of conditions under the Investment Agreement that must be satisfied prior to consummation of the Investment and the Effective Date. There can be no assurance that these conditions will be satisfied (or waived), even if the Plan is confirmed by the Bankruptcy Court. Thereafter, there can be no assurance that the Plan will be consummated and the restructuring completed. If the Plan is not consummated, it could result in the Chapter 11 Case becoming protracted or being converted into a Chapter 7 liquidation, either of which could substantially erode the value of the Debtor's enterprise to the detriment of all stakeholders.

Disruption of Operations Due to the Filing of a Chapter 11 Case

The Chapter 11 Case could adversely affect the Debtor's relationships with their respective customers, suppliers and employees, which could adversely affect the going concern value of the business, particularly if the Chapter 11 Case is protracted.

The filing of the Chapter 11 Case by the Debtor and the publicity attendant thereto might also adversely affect the businesses of its non-Debtor Operating Subsidiaries.

Because the business of the Company is closely related to the businesses of all Operating Subsidiaries, any downturn in the business of the Operating Subsidiaries could also affect the Debtor's prospects. XO's non-Debtor Operating Subsidiaries do not have the benefit of the automatic stay.

Covenants May Restrict Opportunities of the Company during the Bankruptcy Period

The Investment Agreement contains several covenants regarding the conduct of XO's business from the time of the execution of the Investment Agreement until the Investment Agreement is terminated or the Investment contemplated thereby is consummated. The covenants require, among other things, that, unless the Investors consent, XO must conduct its business only in the ordinary course, consistent with past practice or as may be ordered by the Bankruptcy Court and must use reasonable best efforts to preserve its assets, properties and business relationships. The covenants also preclude several actions by XO. The covenants may limit the ability of XO to respond to certain market events or take advantage of certain market opportunities, and as a result, the Debtor's operations could be materially adversely affected.

Holders of Impaired Claims will Lose All Current Contractual Rights as a Creditor

Holders of Impaired Claims who receive New Common Stock or Post-Termination Securities pursuant to the Plan will not have the more senior position that a creditor of the Company would have in a future bankruptcy or liquidation proceedings. In a liquidation, holders of common stock are paid, if at all, only after claims of debtholders are satisfied. Therefore, holders of Impaired Claims who receive New Common Stock or Post-Termination Securities pursuant to the Plan will be in a significantly worse position in any future bankruptcy or liquidation of Reorganized XO than they would as holders of debt securities.

Distributions May Be Less than Estimated by the Debtor

To the extent that Administrative Claims, Other Secured Claims, Non-Tax Priority Claims, General Unsecured Claims, Priority Tax Claims or other Claims entitled to be paid in Cash in full under the Plan materially exceed the Debtor's estimates, this would have a negative impact on (a) the $200 million in Cash and the Note Common Stock due to the Holders of Allowed General Unsecured Claims and Senior Note Claims under the FL/Telmex Plan, and (b) the New Warrants and Rights due the Holders of Allowed General Unsecured Claims and Senior Note Claims under the Stand-Alone Plan.

A SUBSTANTIAL AMOUNT OF TIME MAY ELAPSE BETWEEN THE EFFECTIVE DATE AND THE RECEIPT OF A FINAL DISTRIBUTION UNDER THE PLAN, BECAUSE: (I) THE VARIOUS CLASSES OF CLAIMS, AS WELL AS THE CATEGORIES OF ADMINISTRATIVE AND PRIORITY TAX CLAIMS, MAY HAVE SUBSTANTIAL AND/OR COMPLICATED CLAIMS; (II) THE REGULATORY APPROVALS MAY BE DELAYED; AND/OR (III) THE DEBTOR'S ESTIMATE OF ALLOWED CLAIMS COULD BE CONTESTED AT AN ESTIMATION HEARING. FURTHER, ANY DISTRIBUTION MADE IN RESPECT OF ALLOWED CLAIMS ON THE INITIAL DISTRIBUTION DATE MAY BE SIGNIFICANTLY LESS THAN THE ULTIMATE

DISTRIBUTION TO BE RECEIVED BY THE HOLDER OF SUCH CLAIMS OVER TIME ON PERIODIC DISTRIBUTION DATES AND THE FINAL DISTRIBUTION DATE.

If and to the extent the Debtor has underestimated the amount of Allowed Claims or Disputed Claims Reserves for Administrative Claims, Other Secured Claims, Non-Tax Priority Claims, General Unsecured Claims, Priority Tax Claims or other Claims, Reorganized XO could be required to redirect assets to such Disputed Claims Reserves from other reserves, resulting in a potential dilution of assets available for other distributions. Moreover, distributions could vary significantly and materially, depending on the ultimate amount of Allowed Claims made under the Plan.

Inherent Uncertainty of Financial Projections

The Projections set forth in Appendix B-1 (FL/Telmex Plan) and Appendix B-2 (Stand-Alone Plan) annexed hereto cover the Company's operations through fiscal 2005. These Projections are based on numerous assumptions and estimates that are an integral part of the Projections, including confirmation and consummation of the Plan in accordance with its terms, realization of the operating strategy of the Company, industry performance, no material changes in applicable legislation or regulations, exchange rates, or generally accepted accounting principles, general business and economic conditions, competition, adequate financing, absence of material contingent or unliquidated litigation or indemnity claims, and other matters, many of which are beyond the control of the Company and some or all of which may not materialize. These estimates and assumptions are inherently subject to significant business, economic and competitive uncertainties, contingencies and risks, many of which are beyond the control of the Company. These projections were not prepared with a view towards public disclosure or with a view towards complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information. The independent public accountants for the Company have not examined or provided any other form of assurance on the projected financial information.

Actual results may vary from these projections and the variations may be material. Financial projections are necessarily speculative in nature and one or more of the assumptions underlying these projections may prove not to be valid. In addition, unanticipated events and circumstances occurring subsequent to the date of this Disclosure Statement may affect the actual financial results of the Company's operations. The Company does not intend to update or otherwise revise its projections to reflect events or circumstances existing or arising after the date of this Disclosure Statement or to reflect the occurrence of unanticipated events. Consequently, the projected financial information contained herein should not be regarded as a representation by the Debtor, the Debtor's advisors, or any other person that the Projections can or will be achieved.

3. Financial Risks

The Company Expects to Incur Significant Losses

The Company expects to incur significant operating losses over the next several years. If the Company is unable to operate profitably in the time frame expected, there may be adverse consequences to its business.

The Tax Consequences of the Plan are Uncertain

Although the Company does not believe that implementation of the Plan will itself result in significant tax liability, the impact of the Plan on the Company's ability to use existing net operating loss carryovers, built-in-losses and other favorable tax attributes is uncertain. Limitations on the Company's ability to use such favorable tax attributes could adversely affect the Company's financial position.

The Company will have Less Liquidity Under the Stand-Alone Plan.

Under the Stand-Alone Plan, the Company will have less liquidity than under the FL/Telmex Plan. This may limit the Company's ability to respond to business opportunities and may require the Company to raise additional capital in the case that the Company is unable to attain its financial projections. Such reduced liquidity may adversely affect the Company's competitive prospects in the telecommunications industry.

4. Risks Relating to the Telecommunications Industry and Operational Matters

The Company and its Industry are Highly Regulated, which Imposes Substantial Compliance Costs on the Company that Adversely Impact Its Results and Could Restrict its Ability to Compete in its Markets.

The Company is subject to varying degrees of regulation from federal, state and local authorities. This regulation imposes substantial compliance costs on the Company. It also restricts the Company's ability to compete. For example, in each state in which the Company desires to offer its services, the Company is required to obtain authorization from the appropriate state commission. If the Company does not receive and maintain such authorizations, the Company's ability to offer services in its target markets could be adversely affected.

Credit Risks Associated With the Company's Customers and Service Providers May Adversely Affect the Company

In connection with the recent downturn in the United States economy and, to a degree, the events of September 11, 2001, many of the Company's customers have felt the financial downturn or even experienced their own financial problems. This is particularly true of certain telecommunications carriers and other wholesale segment service providers that are customers of the Company, who have been particularly hard hit by the financial devastation in the telecommunications sector. As the credit quality of some customers deteriorates and some customers seek bankruptcy protection, the Company's ability to collect receivables and/or retain such customers may be adversely affected.

If the Company Cannot Quickly and Efficiently Install the Company's Network Hardware, the Company will be Unable to Generate Revenue, thus Adversely Affecting the Company's Operating Results

Each of the Company's networks consists of many different pieces of hardware, including switches, routers, fiber optic cables, electronics and combination radio transmitter/receivers, known as transceivers, and associated equipment, which are difficult to install. If the Company cannot install this hardware quickly, the time in which customers can be connected to the Company's network and the Company can begin to generate revenue from the Company's network will be delayed.

The Failure of the Company's Operations Support Systems to Perform as the Company Expects Could Impair its Ability to Retain Customers and Obtain New Customers or Result in Increased Capital Expenditures, thus Adversely Affecting its Revenues

Some of the operations support systems the Company employs are proprietary. The Company's operations support systems are expected to be an important factor in the Company's success. If any of these systems fail or do not perform as expected, the Company could suffer customer dissatisfaction, loss of business or the inability to add customers on a timely basis, any of which would adversely affect its revenues. Furthermore, problems may arise with higher processing volumes or with additional automation features, which could potentially result in system breakdowns, delays and additional unanticipated expense to remedy the defect or to replace the defective system.

The Company's rights to the use of the dark fiber that make up its network may be affected by the financial health of our fiber providers.

The Company holds and utilizes some of the dark fiber that makes up the backbone of its network, particularly in its inter-city network, through long-term leases or indefeasible right of use agreements, known as IRUs. A bankruptcy or financial collapse of one of these fiber providers could potentially result in a loss of the Company's rights under its long-term lease agreements or IRUs with such provider, which in turn could have a negative impact on the integrity of the Company's network and ultimately on its operating results. The past twelve to eighteen months have resulted in increasing financial pressure on some of the Company's fiber providers as part of the overall weakening of the telecommunications market.

In the Company's Chapter 11 Case and/or the case of a bankruptcy or financial collapse by one of the Company's fiber providers, its rights under our dark fiber agreements remain unclear. In particular, to the Company's knowledge, the rights of the holder of an IRU in strands of dark fiber have never been addressed by the judiciary at the state or federal level in bankruptcy.

The Company May Not Be Able to Continue to Connect its Network to the Incumbent Carrier's Network or Maintain Internet Peering Arrangements on Favorable Terms, which Would Impair its Growth and Performance

The Company must be a party to interconnection agreements with the incumbent carrier in order to connect its customers to the public telephone network. Such agreements are

subject to renewal from time to time or require modification due to regulatory action or requests from the parties. The Company may not be able to renegotiate or maintain interconnection agreements in all of its markets on favorable terms. If the Company is unable to do this, it could adversely affect its ability to provide services in the affected markets.

The Company requires continued peering arrangements with other Internet Service Providers ("ISPs"), particularly the large, national ISPs, to implement its planned expansion of data services including Internet access services. Peering arrangements are agreements among Internet backbone providers to exchange data traffic. Depending on the relative size of the carriers involved, these exchanges may be made without settlement charge. The Company may not be able to renegotiate or maintain peering arrangements on favorable terms, which would impair its growth and performance.

The Availability of Equipment that Takes Advantage of the Multipoint Characteristics of the Company's Broadband Wireless Spectrum Licenses May Continue to Cause Performance Problems or Delays

Although the Company's broadband fixed wireless spectrum has the capability to permit the transmission of voice and data from a fixed point to multiple receivers, which could reduce the Company's installation costs, as compared with traditional point-to-point links, the Company has encountered performance problems with the deployment of multipoint equipment. Until these performance problems are resolved the Company will not be able to take advantage of the multipoint characteristics of its broadband wireless spectrum.

5. Customers and Competition

Technological Advances and Regulatory Changes are Eroding Traditional Barriers Between Formerly Distinct Telecommunications Markets, which Could Result in Increased Competition and Impairment of Growth

New technologies, such as voice-over-internet-protocol, and regulatory changes — particularly those permitting incumbent local telephone companies to provide long distance services — are blurring the distinctions between traditional and emerging telecommunications markets and may affect the traditional telecommunications competitive landscape. In addition, the increasing importance of data services has focused the attention of many telecommunications companies in this growing sector. As a result, a competitor in any one of the Company's business areas is potentially a competitor in its other business areas, which could impair its prospects and growth.

Competition in the Telecommunications Industry that is Putting Downward Pressure on Prices Could Impair the Company's Results

The Company faces intense competition. This competition, which has substantially reduced prices for telecommunication services in recent years, could adversely affect operating results.

Additionally, many of the Company's current and potential competitors have market presence, engineering, technical and marketing capabilities and financial, personnel and

other resources substantially greater than the Company. As a result, some of its competitors can raise capital at a lower cost than the Company can, and they may be able to develop and expand their communications and network infrastructures more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily, and devote greater resources to the marketing and sale of their products and services than the Company. Also, these competitors' greater brand name recognition may require the Company to price its services at lower levels in order to win business. Finally, these competitors' cost advantages allow them to reduce their prices for an extended period of time if they so choose. If the Company is not able to compete effectively with these industry participants, its operating results could be adversely affected.

Competition for Data and Hosting Services that is Putting Downward Pressure on Prices Could Adversely Affect the Company's Results

Competitors for data services consist of online service providers, Internet Service Providers and web hosting providers. New competitors continue to enter this market, including large computer hardware, software, media and other technology and telecommunications companies, as well as the incumbent carriers. Many communications companies and online services providers are currently offering or have announced plans to offer Internet or online services or to expand their network services. If the Company is unable to successfully compete with these data service providers, its operating results could be adversely affected.

It is Expensive and Difficult to Switch New Customers to the Company's Network, and Lack of Cooperation of the Incumbent Carrier Can Slow the New Customer Connection Process, which Could Impact its Ability to Compete

It is expensive and difficult for the Company to switch a new customer to its network because:

- a potential customer faces switching costs if it decides to become the Company's customer, and

- the Company requires cooperation from the incumbent carrier in instances where there is no direct connection between the customer and its network.

The Company's principal competitors, the incumbent carriers, are already established providers of local telephone services to all or virtually all telephone subscribers within their respective service areas. Their physical connections from their premises to those of their customers are expensive and difficult to duplicate. To complete the new customer provisioning process, the Company relies on the incumbent carrier to process certain information. The incumbent carriers have a financial interest in retaining their customers, which could reduce their willingness to cooperate with its new customer provisioning requests.

6. Employees and Facilities

The Loss of Key Personnel Could Weaken the Company's Technical and Operational Expertise, Delay its Introduction of New Services or Entry into New Markets and Lower the Quality of its Service

The Company is highly dependent on the services of the Company's management and other key personnel. The loss of the services of its senior executive management team or other key personnel could cause the Company to make less successful strategic decisions, which could hinder the introduction of new services or the entry into new markets. The Company could also be less prepared for technological or marketing problems, which could reduce its ability to serve its customers and lower the quality of its services.

The Company believes that a critical component for the Company's success will be the attraction and retention of qualified professional and technical personnel. In addition, the Company must also develop and retain a large and sophisticated sales force, particularly in connection with its plan to target larger national or multi-market customers. The Company has experienced intense competition for qualified personnel in its business with the technical and other skill sets that the Company seeks. The Company may not be able to attract, develop, motivate and retain experienced and innovative personnel. If the Company fails to do so, there will be an adverse effect on the Company's ability to generate revenue and, consequently, the Company's operating cash flow.

The Technologies the Company Uses May Become Obsolete, which Would Limit its Ability to Compete Effectively and Adversely Impact its Results

The telecommunications industry is subject to rapid and significant changes in technology. Most technologies and equipment that the Company uses or will use may become obsolete. If the Company does not replace or upgrade obsolete technology and equipment, the Company will be unable to meet the expectations of Company's customers, resulting in ineffective competition and poorer results.

The introduction of new technologies may reduce the cost of services similar to those that the Company plans to provide. As a result, the Company's most significant competitors in the future may be new entrants to the telecommunications industry. These new entrants may not be burdened by an installed base of outdated equipment, and therefore may be able to more quickly respond to customer demands.

Additionally, the markets for data and Internet-related services are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition and frequent new product and service introductions. The future success of the Company's data services business will depend, in part, on its ability to accomplish the following in a timely and cost-effective manner:

- effectively use leading technologies;
- continue to develop technical expertise;

- develop new services that meet changing customer needs; and
- influence and respond to emerging industry standards and other technological changes.

The Company's pursuit of necessary technological advances may require substantial time and expense.

Physical Space Limitations in Office Buildings and Landlord Demands for Fees or Revenue Sharing Could Limit the Company's Ability to Connect Customers Directly to its Networks and Increase the Company's Costs, which Would Adversely Impact the Company's Results

Connecting a customer who is a tenant in an office building directly to the Company's network requires installation of in-building cabling through the building's risers from the customer's office to the Company's fiber in the street or antenna on the roof. In some office buildings, particularly the premier buildings in the largest markets, the risers are already close to their maximum physical capacity due to the entry of other competitive carriers into the market. Fixed wireless direct connections require the Company to obtain access to rooftops from building owners. Moreover, the owners of these buildings are increasingly requiring competitive telecommunications service providers like the Company to pay fees or otherwise share revenue as a condition of access to risers and rooftops. The Company has not been required to pay these fees in smaller markets the Company has served in the past, but has been and may continue to be required to do so to penetrate larger markets, which reduces its operating margins and may adversely impact the Company's financial results.

In addition, some major office building owners have equity interests in, or joint ventures with, companies offering broadband communications services over fiber optic networks and may have an incentive to encourage their tenants to choose those companies' services over the Company's services or to grant those companies more favorable terms for installation of in-building cabling.

If the Company is Unable to Manage its Growth, the Continued Rapid Growth of its Network, Services and Subscribers Could be Slowed, which Would Adversely Impact its Results

The Company has rapidly expanded and developed its network and service offerings and increased the number of its subscribers, and expects to continue to do so. This has placed and will continue to place significant demands on the Company's management, technical staff, operational and financial systems and procedures and controls. The Company may not be able to manage its anticipated growth effectively, which would harm its business, operating results and financial condition. Further expansion and development of its network, service offerings and subscriber base will depend on a number of factors, including:

- technological developments, including improvements in IP technology;
- the Company's ability to hire, train and retain qualified personnel in a competitive labor market;

- availability of rights-of-way, building access and antenna sites;
- development of customer billing, order processing and network management systems that are capable of serving the Company's growing customer base;
- cooperation of the incumbent local telephone companies; and
- meeting build out requirements to ensure renewal of Local Multipoint Distribution Services ("LMDS") licenses.