

XII. CERTAIN CHARTER AND BYLAW PROVISIONS

A. FL/Telmex Plan - Charter and Bylaw Provisions

Under the FL/Telmex Plan, the following Amended Certificate of Incorporation and Amended Bylaw provisions will be adopted by Reorganized XO. These provisions set forth below are summaries only and are qualified in their entirety by the Amended Certificate of Incorporation and Amended Bylaws, as applicable.

1. Board of Directors

The Amended Certificate of Incorporation provides that the number of directors shall be set forth in the Amended Bylaws, where it is initially set at twelve (12). The Reorganized XO Board of Directors may not take any action so long as the Forstmann Little Investors owns 10% of the outstanding shares of common stock unless a quorum including at least one director designated by the Forstmann Little Investors is present at such Board of Directors meeting. Likewise, Reorganized XO Board of Directors may not take any action so long as Telmex owns 10% of the outstanding shares of common stock unless a quorum including at least one director designated by Telmex is present at such Board of Directors meeting.

The Amended Certificate of Incorporation provides that if, at any time following the issuance of any shares of Class C Common Stock but prior to the Board Representation Date (as defined below), shares of Class C Common Stock are outstanding, the affirmative vote of a majority of the outstanding shares of the Class C Common Stock shall be required before Reorganized XO or any subsidiary may:

- acquire, by purchase, merger or otherwise, any equity or other ownership interest in, or assets of, any person in exchange for consideration with a fair market value greater than 20% of the net assets of Reorganized XO determined in accordance with GAAP;
- authorize for issuance or issue any equity securities, or any equity derivative securities, with a fair market value at the time of issuance in excess of \$100 million, subject to certain exceptions;
- incur indebtedness in excess of \$100 million in aggregate principal amount, subject to certain exceptions;
- amend the Amended Certificate of Incorporation or Bylaws of Reorganized XO; or
- issue any preferred stock.

“Board Representation Date” means the earlier of (i) the first date on which the Board of Directors of Reorganized XO has received written notice from Telmex that Telmex desires to designate directors to the Board of Directors of Reorganized XO pursuant to the Stockholders Agreement, and Telmex has determined in good faith, after consultation with its legal counsel,

which counsel shall be an outside law firm of national reputation, that one or more directors, officers or employees of Telmex or a subsidiary of Telmex can become directors without violating applicable law, and (ii) the first date upon which any director, officer or employee of Telmex or a Subsidiary of Telmex is elected or appointed as a director.

The Amended Certificate of Incorporation provides for an executive committee consisting of five (5) members. Initially, the executive committee will consist of Reorganized XO's chief executive officer, three members elected by the Forstmann Little Investors and one independent director appointed by Telmex. After such time that Telmex designates directors to the Board of Directors of Reorganized XO, the executive committee will consist of two designees of the Forstmann Little Investors, two designees of Telmex and Reorganized XO's chief executive officer. The Amended Certificate of Incorporation of Reorganized XO further provides that, once Telmex has designated a director, approval by a two-thirds majority vote of the executive committee of Reorganized XO is necessary to:

- adopt a new business plan or modify the current business plan;
- approve or recommend a Major Event, 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;
- enter into a transaction or series of transactions with a fair market value in excess of \$100 million;
- purchase, redeem, prepay acquire or retire for value any shares of its capital stock or securities exercisable for or convertible into shares of its capital stock other than as required under the terms of such capital stock;
- redeem, retire, defease, offer to purchase or change any material term, condition or covenant in respect of outstanding long-term indebtedness other than as required under the terms of such indebtedness;
- declare or pay dividends;
- incur indebtedness in excess of \$100 million in aggregate principal amount, subject to certain qualifications;
- change accounting practices (other than as required by GAAP); and
- terminate certain employees in senior management positions as set forth in the Stockholders Agreement.

These provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of the Company.

2. Conversion of Shares and Rights of Shareholders

As permitted by the DGCL, certain voting rights and designations for Reorganized XO's New Common Stock will be included in the Amended Certificate of Incorporation of Reorganized XO as deemed necessary by the Forstmann Little Investors and Telmex.

3. Amendment of Bylaws

The Reorganized XO Board of Directors or its shareholders are authorized and empowered to adopt, amend and repeal Reorganized XO's Amended Bylaws.

4. Section 203 Amendment

The Amended Certificate of Incorporation will be amended to make the anti-takeover protection of Section 203 of the DGCL inapplicable to Reorganized XO. Section 203 of the DGCL provides that a person who acquires fifteen percent (15%) or more of the outstanding voting stock of a Delaware corporation becomes an "interested stockholder." Section 203 prohibits a corporation from engaging in mergers or certain other "business combinations" with an interested stockholder for a period of three (3) years following the time that such interested stockholder becomes an interested stockholder, unless (i) prior to the date the stockholder becomes an interested stockholder, the board of directors of a corporation approves either the business combination or the transaction which results in the stockholder becoming an interested stockholder, or (ii) the interested stockholder is able to acquire ownership of at least 85% of the outstanding voting stock of the corporation (excluding shares owned by directors of the corporation who are also officers and shares owned by certain employee stock plans) in the same transaction by which the stockholder became an interested stockholder, or (iii) the interested stockholder obtains control of the Board of Directors, which then approves a business combination which is authorized by a vote of the Holders of two-thirds of the outstanding voting stock not held by the interested stockholder.

A "business combination" is defined broadly in the DGCL to include any merger or consolidation with the interested stockholder, any merger or consolidation caused by the interested stockholder in which the surviving corporation will not be subject to Delaware law, or the sale, lease, exchange, mortgage, pledge, transfer or other disposition to the interested stockholder of any assets of the corporation having a market value equal to or greater than 10% of the aggregate market value of the assets of the corporation. "Business combination" is also defined to include transfers of stock of the corporation or a subsidiary to the interested stockholder (except for transfers in conversion, exchange or pro rata distribution which do not increase the interested stockholder's proportionate ownership of a class or series), or any receipt by the interested stockholder (except proportionately as a stockholder) of any loans, advances, guaranties, pledges or financial benefits. This summary is qualified in its entirety by Section 203 of the DGCL.

The amendment to opt out of Section 203 will become effective as of the earliest date permitted by law, currently twelve (12) months after adoption of amendments to the

Amended Certificate of Incorporation, and will not apply to any business combination with any interested stockholder prior to adoption.

B. Stand-Alone Plan - Charter and Bylaw Provisions

Under the Stand-Alone Plan, the following Amended Certificate of Incorporation and Amended Bylaw provisions will be adopted by Reorganized XO. These provisions are summaries and are qualified in their entirety by the Amended Certificate of Incorporation and the Amended Bylaws.

1. Board of Directors

The Amended Certificate of Incorporation will provide that the number of directors shall be set forth in the Amended Bylaws, where it will be initially set at seven (7) designated as follows: (i) two by Reorganized XO's senior management and (ii) five by the Allowed Holders of Senior Secured Lender Claims, provided that if the Rights Offering yields more than \$150 million, then one of the members of the Board nominated by the Holders of Senior Secured Lender Claims shall resign and the remaining directors shall elect to fill the vacancy an individual nominated by one or more of the parties who exercised Rights. The Amended Certificate of Incorporation and Bylaws shall reflect the foregoing provisions.

2. Amendment of Bylaws

The Reorganized XO Board of Directors or its shareholders are authorized and empowered to adopt, amend and repeal Reorganized XO's Amended Bylaws.

C. Indemnification of Directors and Officers

Under Section 145 of the DGCL, a corporation may indemnify its directors, officers, employees and agents and its former directors, officers, employees, and agents and those who serve, at the corporation's request, in such capacities with another enterprise, against expenses (including attorneys' fees), as well as judgments, fines and settlements in non-derivative lawsuits, actually and reasonably incurred in connection with the defense of any action, suit or proceeding in which they or any of them were or are made parties or are threatened to be made parties by reason of their serving or having served in such capacity. The DGCL provides, however, that such person must have acted in good faith and in a manner such person reasonably believed to be in (or not opposed to) the best interests of the corporation and, in the case of a criminal action, such person must have had no reasonable cause to believe his or her conduct was unlawful. In addition, the DGCL does not permit indemnification in an action or suit by or in the right of the corporation, where such person has been adjudged liable to the corporation, unless, and only to the extent that, a court determines that such person fairly and reasonably is entitled to indemnity for costs the court deems proper in light of liability adjudication. Indemnity is mandatory to the extent a claim, issue or matter has been successfully defended.

The Amended Certificate of Incorporation under both the FL/Telmex Plan and the Stand-Alone Plan will contain provisions that provide that no director of Reorganized XO shall be liable for breach of fiduciary duty as a director except for (1) any breach of the director's duty

of loyalty to Reorganized XO or its stockholders; (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law; (3) liability under Section 174 of the DGCL; or (4) any transaction from which the director derived an improper personal benefit. The Amended Certificate of Incorporation will contain provisions that further provide for the indemnification of directors and officers to the fullest extent permitted by the DGCL. The Amended Certificate of Incorporation will require Reorganized XO to advance expenses incurred by an officer or director in defending any such action if the director or officer undertakes to repay such amount if it is determined that the director or officer is not entitled to indemnification.

XO has obtained a \$90,000,000 (\$500,000 retention amount) directors' and officers' liability insurance policy against certain liabilities, including liabilities under the Securities Act. Pursuant to the Investment Agreement, Reorganized XO will not allow such insurance policies to lapse, cease to remain effective or fail to be renewed to prevent any material increase in potential exposure or liability of the directors and officers. In addition pursuant to the Investment Agreement, Reorganized XO must maintain directors' and officers' liability insurance in such amounts and otherwise on terms and conditions reasonably acceptable to each Investor throughout the term of the Stockholders Agreement. Although XO is not required to maintain directors' and officers' liability insurance under the Stand-Alone Term Sheet, XO intends to maintain such insurance.

XIII. THE SOLICITATION; VOTING PROCEDURE

A. Parties in Interest Entitled to Vote

Under section 1124 of the Bankruptcy Code, a class of claims or interests is deemed to be "impaired" under a plan unless (i) the plan leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder thereof or (ii) notwithstanding any legal right to an accelerated payment of such claim or interest, the plan cures all existing defaults (other than defaults resulting from the occurrence of events of bankruptcy) and reinstates the maturity of such claim or interest as it existed before the default.

In general, a holder of a claim or interest may vote to accept or to reject a plan if (i) the claim or interest is "allowed," which means generally that no party in interest has objected to such claim or interest, and (ii) the claim or interest is impaired by the plan. If, however, the holder of an impaired claim or interest will not receive or retain any distribution under the plan on account of such claim or interest, the Bankruptcy Code deems such holder to have rejected the plan, and, accordingly, holders of such claims and interests do not actually vote on the plan. If a claim or interest is not impaired by the plan, the Bankruptcy Code deems the holder of such claim or interest to have accepted the plan and, accordingly, holders of such claims and interests are not entitled to vote on the plan.

B. Classes Impaired under the Plan

Classes 1, 5 and 6 are entitled to vote to accept or reject either or both Alternatives under the Plan. By operation of law, each Unimpaired Class of Claims is deemed to have accepted both Alternatives under the Plan and, therefore, is not entitled to vote to accept or reject the FL/Telmex Plan or the Stand-Alone Plan. By operation of law, each Holder of a Claim in Classes 7, 8, 9, 10 and 11 is deemed to have rejected both Alternatives under the Plan and, therefore, is not entitled to vote to accept or reject the FL/Telmex Plan or the Stand-Alone Plan.

C. Voting Rules; Standards

The following rules and standards shall apply to the completion, delivery, acceptance and tabulation of votes for both Alternatives under the Plan:

1. Any Ballot which is properly completed, executed and timely returned to the Balloting Agent that does not indicate an acceptance or rejection of an Alternative under Plan or indicates both an acceptance and rejection of an Alternative under the Plan shall be deemed to be a vote to accept such Alternative the Plan.

2. Any Ballot which is returned to the Balloting Agent indicating acceptance or rejection of the Alternatives under the Plan but which is unsigned or does not contain an original signature shall not be counted.

3. Any Ballot postmarked prior to the deadline for submission of Ballots but received afterward shall not be counted, unless otherwise ordered by the Court.

4. Pursuant to Bankruptcy Rule 3018(a), whenever a holder of a claim submits more than one ballot voting the same claim prior to the deadline for submission of ballots, except as otherwise directed by the Bankruptcy Court, the last such ballot sent and received prior to the voting deadline will be deemed to reflect the voter's intent and thus to supersede any prior ballots. The Bankruptcy Court has adopted a rebuttable presumption that any creditor who submits a superseding ballot has sufficient cause to do so, within the meaning of Bankruptcy Rule 3018(a).

5. A Holder of a Claim or Interest must vote all of its Claims or Interests within a particular Class under the Plan either to accept or reject either or both of the Alternatives under the Plan and may not split its vote. Accordingly, a Ballot (or multiple Ballots with respect to separate claims within a single class) that partially rejects and partially accepts an Alternative, or that indicates both a vote for and against an Alternative, shall be deemed to be a vote to accept such Alternative under the Plan. This provision shall not apply to summary ballots, completed by intermediaries acting on behalf of groups of Claim Holders, that reflect the votes of the beneficial Holders of such Claims.

6. If a creditor casts simultaneous or duplicate Ballots voted inconsistently, such Ballots shall count as one vote accepting each Alternative under Plan.

7. Each creditor shall be deemed to have voted the full amount of its claim.

8. Any Ballot received by the Balloting Agent by telecopier, facsimile or other electronic communication shall not be counted.

9. Unless otherwise ordered by the Bankruptcy Court, questions as to the validity, form, eligibility (including time of receipt), acceptance and revocation or withdrawal of Ballots will be determined by the Balloting Agent and the Debtor in their sole discretion, which determination will be final and binding.

The Debtor also reserves the right to reject any and all Ballots not in proper form, the acceptance of which would, in the opinion of the Debtor or their counsel, be unlawful. The Debtor further reserves the right to waive any defects or irregularities or conditions of delivery as to any particular Ballot. The interpretation (including the Ballot and the respective instructions thereto) by the Debtor, unless otherwise directed by the Bankruptcy Court, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with deliveries of Ballots must be cured within such time as the Debtor (or the Bankruptcy Court) determines. Neither the Debtor nor any other person will be under any duty to provide notification of defects or irregularities with respect to deliveries of Ballots nor will any of them incur any liabilities for failure to provide such notification. Unless otherwise directed by the Bankruptcy Court, delivery of such Ballots will not be deemed to have been made until such irregularities have been cured or waived. Ballots previously furnished (and as to which any irregularities have not theretofore been cured or waived) will be invalidated.

HOLDERS OF CLAIMS MAY VOTE TO (I) ACCEPT BOTH ALTERNATIVES, (II) REJECT BOTH ALTERNATIVES OR (III) ACCEPT ONE ALTERNATIVE AND REJECT THE OTHER ALTERNATIVE. ANY EXECUTED BALLOT THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF AN ALTERNATIVE OR INDICATES BOTH AN ACCEPTANCE AND REJECTION OF AN ALTERNATIVE SHALL BE DEEMED TO CONSTITUTE AN ACCEPTANCE OF SUCH ALTERNATIVE.

D. Further Information; Additional Copies

If you have any questions or require further information about the voting procedure for voting your Claim(s) or Interest(s) or about the packet of material you received, or if you wish to obtain an additional copy of the Plan, this Disclosure Statement, or any exhibits or appendices to such documents (at your own expense, unless otherwise specifically required by Bankruptcy Rule 3017(d)), please contact the Balloting Agent:

XO Communications, Inc.
c/o Bankruptcy Services LLC
70 East 55th Street, 6th Floor
New York, New York 10022
Attn: Mariah Martin
Phone: (212) 376-8494

XIV. CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain United States federal income tax consequences of the Plan with respect to XO and certain Holders of Claims who are entitled to vote to accept or reject either Alternative under the Plan. Accordingly, the following summary does not apply to Holders whose Claims are entitled to reinstatement or payment in full in cash under the Plan or to Holders whose Claims or Interests are Impaired under the Plan and who are deemed to reject both FL/Telmex Plan and the Stand-Alone Plan. The consequences to XO and Holders of Claims will differ depending on whether the FL/Telmex Plan or the Stand-Alone Plan is consummated. This description is for informational purposes only and, due to a lack of definitive judicial or administrative authority or interpretation, substantial uncertainties exist with respect to various tax consequences of the Plan as discussed herein. No opinion of counsel has been sought or obtained with respect to any tax consequences of the Plan. No rulings or determinations of the Internal Revenue Service (the "IRS") or any other taxing authority has been sought or obtained with respect to the tax consequences of the Plan, and the discussion below is not binding upon the IRS or any other taxing authority. XO is not making any representations regarding the particular tax consequences of the confirmation and consummation of the Plan as to any Holder, and is not rendering any form of legal opinion as to such tax consequences. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position from any discussed herein.

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 discussion of United States federal income tax consequences below is based on the Internal Revenue Code of 1986, as amended (the "IRC"), regulations promulgated thereunder by the United States Department of Treasury, published rulings and pronouncements of the IRS, and judicial decisions, all as in effect on the date of this document. Changes in these rules, or new interpretations thereof, may have retroactive effect and could significantly affect the federal income tax consequences described below.

The following discussion does not address foreign, state or local tax consequences of the Plan, nor does it purport to address all of the United States federal income tax consequences of the Plan or tax consequences applicable to special classes of taxpayers (e.g., banks and certain other financial institutions, insurance companies, tax-exempt organizations, persons that are, or hold their Claims through, pass-through entities, persons whose functional currency is not the United States dollar, foreign persons, dealers in securities or foreign currency, persons who received their stock pursuant to the exercise of any employee stock option or otherwise as compensation and persons holding Claims that are a hedge against, or that are hedged against, currency risk or that are part of a straddle, constructive sale or conversion transaction). Furthermore, the following discussion does not address United States federal taxes other than income taxes. The following discussion assumes that Holders hold their Claims as capital assets for United States federal income tax purposes.

THE FOLLOWING SUMMARY OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED ON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO THE HOLDER OF A CLAIM. EACH HOLDER OF A CLAIM IS URGED TO CONSULT ITS OWN TAX ADVISOR REGARDING THE UNITED STATES FEDERAL, STATE, LOCAL AND ANY FOREIGN TAX CONSEQUENCES OF THE TRANSACTIONS DESCRIBED HEREIN AND IN THE PLAN.

A. Tax Consequences to XO

1. Cancellation of Indebtedness Income

Under the FL/Telmex Plan, the cancellation of the Subordinated Notes and the exchange of the Allowed Senior Note Claims and General Unsecured Claims for cash and New Class A Common Stock pursuant to the Plan will result in the cancellation of a portion of XO's outstanding indebtedness. Upon consummation of the Plan, XO will realize cancellation of debt ("COD") income in an amount equal to: (i) the adjusted issue price (including any accrued but unpaid interest) of the Subordinated Notes plus; (ii) the excess of the adjusted issue price (including any accrued but unpaid interest) of the Senior Notes over the sum of (a) the amount of cash paid in exchange therefor and (b) the fair market value of the New Class A Common Stock issued in exchange therefor plus; (iii) the excess of the General Unsecured Claims over the sum of (x) the amount of cash paid in exchange therefor and (y) the fair market value of the New Class A Common stock issued in exchange therefor. In addition, XO may recognize COD income as a result of amendments to the terms of the Senior Credit Facility, depending on two factors: first, whether the Senior Secured Lender Claims are treated as publicly traded during the period beginning 30 days prior to consummation of the Plan and ending 30 days after consummation of the Plan and second, depending on whether the amendments to the terms of the Senior Credit Facility are considered sufficiently material to constitute an exchange for federal income tax purposes (as described below). Because XO will be a Debtor in a bankruptcy case at the time it realizes the COD income, XO will not be required to include such COD income in its taxable gross income. Instead, XO will be required to reduce certain of its tax attributes by the amount of unrecognized COD income in the manner prescribed by IRC section 108(b). The required attribute reduction is generally applied to reduce net operating loss carryforwards ("NOLs"), to the extent of such NOLs, and certain other tax attributes of XO (including XO's tax basis in certain property).

XO will also realize COD income under the Stand-Alone Plan. The amount of such COD will be a function of the consideration issued with respect to the various claims. For example, the COD income realized with respect to the Senior Note Claims will equal the excess of (x) the adjusted issue price (including any accrued but unpaid interest) of the Senior Notes over (y) the fair market value of the New Warrants (if the required class vote occurs) plus the fair market value of the Nontransferable Rights. In addition, COD income will be realized with respect to the Senior Secured Lender Claims in an amount equal to the excess of (a) the adjusted issue price (including any accrued but unpaid interest) of the Senior Secured Lender Claims over (b) the fair market value of the Class A Common Stock plus the issue price of the New Junior Secured Loans (determined as described below).

2. NOLs and Other Tax Attributes

The appropriate methodology for applying the attribute reduction described above to an affiliated group filing a consolidated federal income tax return is uncertain. A recent Supreme Court case may be interpreted to suggest, and the IRS has recently taken the position that, an affiliated group's consolidated NOLs must be reduced when a member of the group has COD that is excluded from income. In addition, the Company may be entitled to make certain elections that will affect attribute reduction. Reducing consolidated NOLs may permit XO to avoid reducing its tax basis in certain depreciable and amortizable assets, although all or substantially all of the NOLs of the XO consolidated group would be eliminated using that methodology.

The Company will determine the appropriate methodology and elections under their interpretation of the law as in effect when the Company's tax returns are filed and given the facts as they are known at such time. The Company cannot assure you that the IRS will agree with the methodology chosen by the Company. Accordingly, the NOLs of the Company may be substantially reduced or even eliminated. Other tax attributes may also be reduced. To the extent that asset basis is reduced, depreciation or amortization of assets would also be reduced, and gain recognized (and therefore tax imposed) in connection with a disposition of assets may be increased.

3. Section 382 Limitation

When a corporation undergoes an ownership change, IRC section 382 generally limits the ability of the corporation to utilize historic NOLs and certain subsequently recognized "built-in" losses and deductions (i.e., losses and deductions that have economically accrued but are unrecognized as of the date of the ownership change) (the "Annual Section 382 Limitation"). For purposes of the Annual Section 382 Limitation, an "ownership change" is generally defined as a more than 50 percentage point change in ownership of the applicable corporation over a three-year "testing period." As a general rule, a corporation's Annual Section 382 Limitation equals the value of the stock of the corporation (with certain adjustments) immediately before the ownership change, multiplied by the applicable "long-term tax-exempt rate" then in effect (e.g., 5.01% for a June 2002 ownership change). Certain "recognized built-in losses," including certain deductions, triggered during a "recognition period taxable year" may be limited in the same manner as if such loss were an NOL existing as of the ownership change. A "recognition period taxable year" is any taxable year that a portion of which falls within the five year period beginning on the date of the ownership change. Subject to certain limitations, any unused portion of the Annual Section 382 Limitation may be available in subsequent years. A corporation must meet certain continuity of business enterprise requirements for at least two years following an ownership change in order to preserve the Annual Section 382 Limitation.

XO believes that it will undergo an ownership change as a result of the implementation of Plan. If that occurs, the ability of the Company to utilize any NOLs that remain after the implementation of the Plan will be subject to an Annual Section 382 Limitation, as described above. In addition, the Company may have "net unrealized built-in losses," in which event, a portion of their losses, depreciation, amortization and other items considered to be "recognized built-in losses" may be limited as described above. There are

significant factual and legal uncertainties governing the computation of “net unrealized built-in loss,” and, accordingly, the extent to which this limitation will apply is uncertain.

IRC section 382(l)(5) provides an exception to the application of the Annual Section 382 Limitation for ownership changes occurring to corporations under the jurisdiction of a Bankruptcy Court if certain requirements are met (the “Bankruptcy Exception”). If the Bankruptcy Exception applies, IRC section 382(a) would not apply to limit XO’s use of its NOLs and “recognized built-in losses.” However, if a second ownership change were to occur within the two-year period starting with the consummation of the Plan, the Annual Section 382 Limitation imposed as a result of this second ownership change would be zero. Under the FL/Telmex Plan, it is unlikely that XO will qualify for the Bankruptcy Exception. In order for the Bankruptcy Exception to apply to XO, its historic shareholders and creditors that held certain “qualified indebtedness” (as defined by regulation) prior to implementation of the Plan must own (as a result of being shareholders and creditors immediately prior to implementation of the Plan) more than 50% of the total voting power and total value of XO’s stock after such implementation. If the Bankruptcy Exception applied, XO’s ability to utilize its NOLs arising prior to the Effective Date and built-in losses and deductions (if any) recognized after the effective date of the Plan would not be limited as described above. Under the Stand-Alone Plan, XO may be able to qualify for the Bankruptcy Exception. Whether XO qualifies for the Bankruptcy Exception will depend on a number of factors, including the extent of trading in the Senior Secured Lender Claims. Even if XO does qualify for the Bankruptcy Exception, however, it might elect out of the Bankruptcy Exception in order to avoid the possibility of a zero Annual Section 382 Limitation, unless it is able to adopt measures (such as restrictions on transfers of shares) designed to minimize the risk of a second ownership change.

If XO does not qualify for the Bankruptcy Exception or elects to have the Bankruptcy Exception not apply, a special rule under IRC section 382(l)(6) will apply in calculating XO’s Annual Section 382 Limitation. Under this special rule, XO’s Annual Section 382 Limitation will be calculated by reference to the lesser of (i) the value of XO’s stock (with certain adjustments) immediately after the ownership change (as opposed to immediately before the ownership change, as discussed above, and including any increase in value resulting from any surrender or cancellation of indebtedness under the bankruptcy case) or (ii) the value of XO’s assets (determined without regard to liabilities) immediately before the ownership change.

4. Interest Deductions

It is possible that the New Junior Secured Loans will be subject to the rules governing “applicable high-yield obligations,” in which event, a portion of the interest otherwise deductible on such loans will be deferred until paid or possibly disallowed. It is also possible that XO may be entitled to interest deductions on other obligations in excess of the stated interest payable on such obligations if such obligations are considered to be issued with original issue discount. See, e.g., the discussion below concerning possible original issue discount on the Senior Secured Lender Claims.

B. Certain Tax Consequences to Holders of Certain Claims

1. General

a. Tax Securities

The tax consequences of the Plan to a Holder of a Claim may depend in part upon (1) whether such Claim is based on an obligation that constitutes a “security” for federal income tax purposes and (2) whether all or a portion of the consideration received for such Claim is an obligation that constitutes a “security” for federal income tax purposes. The determination of whether a debt obligation constitutes a security for federal tax purposes is complex and depends on the facts and circumstances surrounding the origin and nature of the claim. Generally, obligations arising out of the extension of trade credit have been held not to be tax securities, while corporate debt obligations evidenced by written instruments with original maturities of ten years or more have been held to be tax securities. It is uncertain whether the Claims or the New Junior Secured Loans will be considered securities for federal tax purposes and Holders are advised to consult their tax advisors with respect to this issue.

b. “Fair Market Value”

For tax purposes, the fair market value of the New Class A Common Stock, New Reorganization Common Stock, New Warrants and Rights will be their actual fair market value upon issuance. The fair market value of the new debt instruments will be their respective “issue price,” as defined in the IRC. The “issue price” of any such note should be its “stated principal amount” (generally, the aggregate of all payments due under the note, excluding stated interest), if neither the note nor the Claim for which it is exchanged is considered to be “publicly traded” (within the meaning of the original issue discount (“OID”) rules of the IRC) within a short period before or after the Effective Date of the Plan. Otherwise, such issue price will be its actual fair market value, as determined by such public trading. For this purpose, “stated interest” does not include interest unless it is unconditionally payable in cash or other property (other than debt instruments of the issuer) at least annually at a single fixed rate (or certain qualified floating rates). The OID rules of the Code define “publicly traded” to include appearing on a “quotation medium” that provides a reasonable basis to determine fair market value by disseminating either recent price quotations of identified brokers, dealers or traders, or actual prices of recent sales transactions. As no transfer restrictions are contemplated for the new debt instruments, the Company cannot assure that the new debt instruments will not be considered “publicly traded.”

c. Character of Gain or Loss

The character of any gain or loss as ordinary or capital with respect to a Claim, or with respect to the disposition of stock or a security received in respect of a Claim, will depend on a number of factors, including, without limitation,

- the origin and nature of the Claim,
- the tax status of the Holder of the Claim,
- whether the Claim is a capital asset in the hands of the Holder, and

- the extent to which the Holder previously claimed a loss, bad debt deduction or charge to a reserve for bad debts with respect to the Claim.

If gain or loss recognized by a Holder of a Claim is capital gain or loss, it will be long-term if the Holder held the asset underlying such Claim for more than one year.

Special considerations apply to Holders that acquired their Claim at a discount subsequent to their issuance (see "Market Discount" below), or when interest was in default. The tax consequences of the receipt of cash and property that is attributable to accrued but unpaid interest is discussed below in the section entitled "Consideration Allocable to Interest." Each Holder is urged to consult its tax advisor as to the application of these factors to its own particular circumstances.

d. Consideration Allocable to Interest

A Holder of a Claim that receives a distribution under the Plan with respect to its Claim will recognize ordinary income to the extent it receives cash or property in respect of interest (including original issue discount that has accrued during the time that the Holder has held such Claim) that has not already been included by the Holder in income for federal income tax purposes under its regular method of accounting. In the event that the cash and other property allocable to interest is less than the amount previously included as interest in the Holder's federal income tax return, the discharged portion of interest may be deducted in the taxable year in which the Effective Date occurs. The extent to which consideration distributed under the Plan is allocable to interest is uncertain, and Holders of Claims are urged to consult their own tax advisors concerning that subject.

e. Market Discount

Generally, a "market discount" bond is one acquired after its original issuance for less than the issue price of such bond plus the aggregate amount, if any, of original issue discount includible in the income of all holders of such bond before such acquisition. Generally, gain realized on the disposition of a market discount bond (or on the disposition of property exchanged for such bond in certain non-taxable exchanges) will be ordinary income to the extent of "accrued market discount" at the time of such disposition (determined using either constant interest or ratable daily accrual). The market discount rules will also apply in the case of stock or a security acquired on original issuance under a non-taxable exchange for a market discount obligation.

f. Original Issue Discount

If the new debt obligations to be issued under the Plan or the debt obligations for which they will be exchanged are "publicly traded" within the meaning of the OID rules, the new debt obligations may have significant amounts of OID. The amount of OID applicable to a particular debt instrument would equal the difference between such debt instrument's "stated redemption price at maturity" (as such term is defined in the IRC) and its "issue price" (determined as discussed above in the section on "Fair Market Value"). In general, a holder of a debt instrument with OID must include such OID in its income on a constant yield to maturity

basis over the term of the instrument. The rules and regulations governing the calculation and taxation of OID are complex, and holders of debt obligations are urged to consult their tax advisors with regard to the tax consequences to them of owning such debt obligations.

g. Rights and New Warrants

Both the Rights and the New Warrants should be treated as rights to acquire New Reorganization Common Stock of Reorganized XO, and although the treatment of relatively short-term, contingent rights to acquire stock such as the Rights is somewhat uncertain, this discussion assumes that such rights and warrants will be treated as securities. Thus, for federal income tax purposes, the Rights and New Warrants should be treated as securities having no principal amount, and the exercise of these rights should not result in a taxable event.

h. Treatment of "Gifts" by the Holders of the Senior Secured Lender Claims

Although this Disclosure Statement provides that, under the Stand-Alone Plan, Holders of Allowed General Unsecured Claims and Allowed Senior Note Claims will receive distributions treated as gifts from the Holders of the Senior Secured Lender Claims, such distributions will not be treated as gifts for U.S. federal income tax purposes. Therefore, the Holders of the Senior Secured Lender Claims will not be treated as receiving any property "gifted" to the Holders of Allowed General Unsecured Claims and Allowed Senior Note Claims. Instead, the Holders of Allowed General Unsecured Claims and Allowed Senior Note Claims will be treated as receiving any distributions directly from the Company in exchange for their Allowed General Unsecured Claims and Allowed Senior Note Claims.

2. Consequences to Certain Holders

a. Senior Secured Lender Claims

The United States federal income tax consequences of the Plan to Senior Secured Lenders (including the character and amount of income, gain or loss recognized) will depend upon, among other things, (1) the manner in which a Senior Secured Lender acquired its Senior Secured Lender Claims; (2) the length of time the Senior Secured Lender Claim has been held; (3) whether the Senior Secured Lender Claim was acquired at a discount; (4) whether the Senior Secured Lender has taken a bad debt deduction with respect to the Senior Secured Lender Claim (or any portion thereof) in the current or prior tax years; (5) whether the Senior Secured Lender has previously included in income any accrued but unpaid interest with respect to the Senior Secured Lender Claim; (6) the Senior Secured Lender's method of tax accounting or rules or provisions specific to its situation (such as rules applicable to banks); and (7) whether the Senior Secured Lender Claims constitute "securities" for United States federal income tax purposes. Therefore, Senior Secured Lenders should consult their own tax advisors for information that may be relevant to their particular situations and circumstances and the particular tax consequences of the Plan to them.

i. Under the FL/Telmex Plan:

Under the FL/Telmex Plan, the tax consequences to the Senior Secured Lenders will also depend on two factors: (i) whether the amendment and restatement of the Senior Credit

Facility constitutes a "material modification" for federal income tax purposes within the meaning of Treasury Regulations section 1.1001-3; and (ii) whether the Senior Secured Lender Claims are "publicly traded" (within the meaning of the OID rules of the IRC).

It is unclear whether the amendment and restatement of the Senior Credit Facility constitutes a "material modification" for federal income tax purposes. Certain safe harbors for the deferral of scheduled payments do not appear to apply, and accordingly the test is whether there is a "material deferral" of scheduled payments. If the deferral is not material, the amendment and restatement of the Senior Credit Facility will not result in recognition of gain or loss to the Senior Secured Lenders. If the deferral is material, the amendment and restatement of the Senior Credit Facility will result in recognition of gain or loss to the Senior Secured Lenders if the Senior Secured Lender Claims are not securities. If the gain or loss is recognized, the amount of such gain or loss will be the difference, if any, between the issue price of restated Senior Secured Lender Claims and the adjusted tax basis of the Senior Secured Lender Claim prior to the restatement.

The "issue price" of any such Claim should be the "stated principal amount" of the note underlying such Claim (generally, the aggregate of all payments due under the note, excluding stated interest), if the Senior Secured Lender Claims are not considered to be "publicly traded" (within the meaning of the OID rules of the IRC) within a short period before or after the Effective Date of the Plan. Otherwise, such issue price will be its actual fair market value, as determined by such public trading. For this purpose, "stated interest" does not include interest unless it is unconditionally payable in cash or other property (other than debt instruments of the issuer) at least annually at a single fixed rate (or certain qualified floating rates). The OID rules of the Code define "publicly traded" to include appearing on a "quotation medium" that provides a reasonable basis to determine fair market value by disseminating either recent price quotations of identified brokers, dealers or traders, or actual prices of recent sales transactions. As no transfer restrictions are contemplated for the Senior Secured Lender Claims, XO cannot assure that they will not be considered "publicly traded."

ii. Under the Stand-Alone Plan:

Under the Stand-Alone Plan, the consequences to the Senior Secured Lenders will depend on whether the Senior Secured Lender Claims and New Junior Secured Loans are securities and whether either of such instruments publicly trades.

(1) If the Senior Secured Lender Claims are securities

If the Senior Secured Lender Claims are securities, the exchange of Senior Secured Lender Claims for New Junior Secured Loans, New Reorganization Common Stock and the Rights will constitute a recapitalization; and Senior Secured Lender Claims will not recognize gain or loss if the New Junior Secured Loans are also securities. A Senior Secured Lender's holding period in the New Junior Secured Loans, the New Reorganization Common Stock and the Rights would include the Senior Secured Lender's holding period in its Senior Secured Note Claim, and the Senior Secured Lender would have a basis in the New Junior Secured Loans, the New Reorganization Common Stock and the Rights equal, in the aggregate, to the Senior Secured Lender's basis in its Senior Secured Lender Claims.

If the New Junior Secured Loans are not securities, each Senior Secured Lender will recognize gain, but not loss, in an amount equal to the lesser of (i) the issue price of the New Junior Secured Loans and (ii) the excess of (A) the sum of fair market value of the New Reorganization Common Stock and the Rights plus the issue price of the New Junior Secured Loans over (B) the adjusted basis of the Senior Secured Lender in the Senior Secured Lender Claim. A Senior Secured Lender's holding period in the New Reorganization Common Stock and the Rights would include the Senior Secured Lender's holding period in its Allowed Senior Note Claim, while the Senior Secured Lender would start a new holding period in the New Junior Secured Loans. The Senior Secured Lender's basis in the New Junior Secured Loans would equal their issue price, and the Senior Secured Lender's basis in the New Reorganization Common Stock and the Rights would equal the Senior Secured Lender's basis in its Senior Secured Lender Claim less the issue price of the New Junior Secured Loans plus the amount of gain, if any, recognized on the exchange.

(2) If the Senior Secured Lender Claims are not securities

If the Senior Secured Lender Claims are not securities, the exchange of Senior Secured Lender Claims for New Junior Secured Loans, New Reorganization Common Stock and the Rights will be fully taxable; and Senior Secured Lender Claims will recognize gain or loss in an amount equal to the excess of (A) the sum of fair market value of the New Reorganization Common Stock and the Rights plus the issue price of the New Junior Secured Loans over (B) the adjusted basis of the Senior Secured Lender in the Senior Secured Lender Claim. A Senior Secured Lender would start a new holding period in the New Junior Secured Loans, the New Reorganization Common Stock and the Rights. A Senior Secured Lender's basis in the New Reorganization Common Stock and the Rights would equal its fair market value, and the Holder's basis in the New Junior Secured Loans would equal the issue price of such Loans.

b. Allowed Senior Note Claims in XO

The United States federal income tax consequences of the Plan to Senior Noteholders (including the character and amount of income, gain or loss recognized) will depend upon, among other things, (1) the manner in which a Senior Noteholder acquired its Senior Note; (2) the length of time the Senior Note has been held; (3) whether the Senior Note was acquired at a discount; (4) whether the Senior Noteholder has taken a bad debt deduction with respect to the Senior Note (or any portion thereof) in the current or prior tax years; (5) whether the Senior Noteholder has previously included in income any accrued but unpaid interest with respect to the Senior Note; (6) the Senior Noteholder's method of tax accounting; and (7) whether the Allowed Senior Note Claims in XO (i.e., the Senior Notes) constitute "securities" for United States federal income tax purposes. Therefore, Senior Noteholders should consult their own tax advisors for information that may be relevant to their particular situations and circumstances and the particular tax consequences of the Plan to them.

i. Under the FL/Telmex Plan:

Under the FL/Telmex Plan, the exchange of Allowed Senior Note Claims for cash and New Class A Common Stock will be a recapitalization with respect to Allowed Senior Notes Claims that are securities. With respect to an exchange that is a recapitalization, a Senior

Noteholder will recognize gain, but not loss, with respect to its Allowed Senior Note Claim in XO surrendered pursuant to the Plan in an amount equal to the lesser of (x) the amount of gain realized (i.e., the excess of the amount of cash and fair market value of the New Class A Common Stock received by such Senior Noteholder in exchange for its Allowed Senior Note Claim, over such Senior Noteholder's adjusted tax basis in its Allowed Senior Note Claim) and (y) the cash received by such Senior Noteholder in the exchange. A Senior Noteholder's basis in the New Class A Common Stock will equal its basis in the Allowed Senior Note Claim less the amount of cash received plus the amount of gain, if any, recognized. The Senior Noteholder's holding period in the New Class A Common Stock will include the Senior Noteholder's holding period in the Allowed Senior Note Claim.

The exchange of Allowed Senior Note Claims for cash and New Class A Common Stock will be a fully taxable transaction with respect to Allowed Senior Note Claims that are not securities. A Senior Noteholder would recognize any gain or loss realized on the transaction and would take a fair market value basis in its New Class A Common Stock. Its holding period would begin on the day after it received the New Class A Common Stock.

ii. Under the Stand-Alone Plan:

Under the Stand-Alone Plan, the tax consequences of the exchange of Allowed Senior Note Claims for Nontransferable Rights and possibly New Warrants will be a recapitalization with respect to Allowed Senior Notes Claims that are securities. The Senior Noteholders should not recognize any gain or loss realized on the transaction. A Senior Noteholder's basis in the Nontransferable Rights and New Warrants (if any) will equal in the aggregate its basis in the Allowed Senior Note Claim, and its holding period will include its holding period in the Allowed Senior Note Claim.

Under the Stand-Alone Plan, the tax consequences of the exchange of Allowed Senior Note Claims for Nontransferable Rights and possibly New Warrants will be a fully taxable transaction with respect to Allowed Senior Notes Claims that are not securities. Senior Noteholders will recognize any gain or loss realized on the exchange, and will have a fair market value basis in the Nontransferable Rights and any New Warrants received. Their holding period in the Nontransferable Rights and New Warrants, if any, will begin on the day after they receive them.

c. General Unsecured Claims

Whether the transactions contemplated by the FL/Telmex Plan or the Stand-Alone Plan occur, the exchange of a General Unsecured Claim under the Plan will be a fully taxable transaction. The Holder of such a claim must recognize any gain or loss realized on the transaction, and will take a fair market value basis in the property received in the exchange. The Holder's holding period in the property received in the exchange will begin on the day following the Holder's receipt of such property.

C. Certain Consequences to Non-United States Holders

A non-U.S. Holder will generally not be subject to United States federal income tax with respect to the property received in exchange for its Claim in XO pursuant to the Plan

unless, among other things, (a) such non-U.S. Holder is engaged in a trade or business in the United States to which income, gain or loss from the exchange is "effectively connected" for United States federal income tax purposes, or (b) in the case of an individual, such Non-U.S. Holder is present in the United States for 183 days or more during the taxable year that includes the Effective Date, and certain other requirements are met. A Non-U.S. Holder may, however, be subject to United States federal withholding tax and information reporting with respect to the property received in respect of accrued interest or market discount. A Non-U.S. Holder is a Holder that is not (i) a citizen or individual resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate whose income is includible in gross income for United States federal income tax purposes regardless of source or (iv) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) the trust was in existence on August 20, 1996 and properly elected to continue to be treated as a United States person.

D. Information Reporting and Backup Withholding

Distributions pursuant to the Plan will generally be subject to information reporting by the payor (the Disbursing Agent) to the IRS. Moreover, such reportable payments are subject to backup withholding under certain circumstances. Under the IRC's backup withholding rules, payments made pursuant to the Plan, may be subject to information reporting and backup withholding at the applicable rate unless the payee (a) comes within certain exempt categories (which generally include corporations) and, when required, demonstrates this fact or (b) provides a correct United States taxpayer identification number and certifies under penalty of perjury that the taxpayer identification number is correct and that it has not been notified that it is otherwise subject to backup withholding.

Payments made to a Non-U.S. Holder pursuant to the Plan generally will not be subject to backup withholding, provided that such Holder furnishes certification of its non-U.S. status (and any other required certifications), or is otherwise exempt from backup withholding. Generally, such certification must be provided on IRS Form W-8BEN. Information reporting may apply to payments received by a Non-United States Holder.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a Holder's United States federal income tax liability, and a Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing an appropriate claim for refund with the IRS.

XV. ADDITIONAL INFORMATION AVAILABLE

XO files annual, quarterly and current reports, proxy statements and other information with the Securities Exchange Commission ("SEC"). You may read and copy any documents filed by XO at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings with the SEC are also available to the public through the SEC's Internet site at <http://www.sec.gov>.

XVI. RECOMMENDATION AND CONCLUSION

For all of the reasons set forth in this Disclosure Statement, the Debtor believes that the confirmation and consummation of either of the Alternatives under the Plan will be preferable to all other alternatives. Consequently, the Debtor urges all eligible voters to ACCEPT both the FL/Telmex Plan and the Stand-Alone Plan, and to complete and return their Ballots so that they will be RECEIVED by the Balloting Agent on or before 5:00 p.m., prevailing Eastern time, on August 19, 2002.

Dated: July 22, 2002

XO COMMUNICATIONS, INC.

By: /s/ Gary D. Begeman
Name: Gary D. Begeman
Title: Senior Vice President, General Counsel
and Secretary

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ATTORNEYS FOR
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Debtor and Debtor-in-Possession

THE PLAN
(Filed Separately)

FINANCIAL PROJECTIONS

(FL/Telmex Plan)

Responsibility for and Purpose of the Projections

As a condition to confirmation of a plan, the Bankruptcy Code requires, among other things, that the Bankruptcy Court determine that confirmation is not likely to be followed by the liquidation or the need for further financial restructuring of the debtor. In connection with the development of the FL/Telmex Plan, and for purposes of determining whether the FL/Telmex Plan satisfies this feasibility standard, the Company's management has, through the development of financial projections related to the FL/Telmex Plan (the "Plan A Projections"), analyzed the ability of the Company to meet its obligations under the FL/Telmex Plan to maintain sufficient liquidity and capital resources to conduct its business. The Plan A Projections were also prepared to assist each Holder of a Claim in Classes 1, 5 and 6 in determining whether to accept or reject the FL/Telmex Plan.

The Plan A Projections should be read in conjunction with the assumptions, qualifications and footnotes to charts containing the Plan A Projections set forth herein, the historical consolidated financial information (including the notes and schedules thereto) and the other information set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and the Company's Quarterly Reports on Form 10-Q for the period ended March 31, 2002. The Plan A Projections were prepared in good faith based upon assumptions believed to be reasonable and applied in a manner consistent with past practices. Most of the assumptions about the operations of the business after the assumed Effective Date that are utilized in the Plan A Projections were prepared in June 2002 and were based, in part, on economic, competitive, and general business conditions prevailing at the time. While, as of the date of this Disclosure Statement, such conditions, to the knowledge of management, have not materially changed, any future changes in these conditions may materially impact the ability of the Company to achieve the Plan A Projections.

Please note that the Plan A Projections are substantially identical to the Plan B Projections attached hereto as Appendix B-2. However, the Plan A Projections and Plan B Projections do reflect the different capital structures and implied fresh start enterprise valuations associated with the transactions contemplated by the FL/Telmex Plan and Stand-Alone Plan, respectively.

THE PLAN A PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARDS COMPLYING WITH THE GUIDELINES FOR PROSPECTIVE FINANCIAL STATEMENTS PUBLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. ACCORDINGLY, THE PLAN A PROJECTIONS WERE NOT INTENDED TO BE PRESENTED IN ACCORDANCE WITH THE PUBLISHED GUIDELINES OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS REGARDING FINANCIAL PROJECTIONS, NOR HAVE THEY BEEN PRESENTED IN LIEU OF PRO FORMA HISTORICAL FINANCIAL INFORMATION, AND

ACCORDINGLY, ARE NOT INTENDED TO COMPLY WITH RULE 11-03 OF REGULATION S-X OF THE SEC. THE COMPANY'S INDEPENDENT ACCOUNTANT, ERNST & YOUNG LLP, HAS NEITHER COMPILED NOR EXAMINED THE ACCOMPANYING PROSPECTIVE FINANCIAL INFORMATION TO DETERMINE THE REASONABLENESS THEREOF AND, ACCORDINGLY, HAS NOT EXPRESSED AN OPINION OR ANY OTHER FORM OF ASSURANCE WITH RESPECT THERETO.

THE COMPANY DOES NOT, AS A MATTER OF COURSE, PUBLISH PROJECTIONS OF ITS ANTICIPATED FINANCIAL POSITION, RESULTS OF OPERATIONS OR CASH FLOWS. ACCORDINGLY, THE COMPANY DOES NOT INTEND TO, AND DISCLAIMS ANY OBLIGATIONS TO (A) FURNISH UPDATED PROJECTIONS TO HOLDERS OF CLAIMS OR INTERESTS PRIOR TO THE EFFECTIVE DATE OR TO HOLDERS OF NEW COMMON STOCK OR ANY OTHER PARTY AFTER THE EFFECTIVE DATE, (B) INCLUDE SUCH UPDATED INFORMATION IN ANY DOCUMENTS THAT MAY BE REQUIRED TO BE FILED WITH THE SEC, OR (C) OTHERWISE MAKE SUCH UPDATED INFORMATION PUBLICLY AVAILABLE.

THE PLAN A PROJECTIONS PROVIDED IN THE DISCLOSURE STATEMENT HAVE BEEN PREPARED EXCLUSIVELY BY THE COMPANY'S MANAGEMENT. THESE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS THAT, THOUGH CONSIDERED REASONABLE BY MANAGEMENT, MAY NOT BE REALIZED, AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE COMPANY'S CONTROL. THE COMPANY CAUTIONS THAT NO REPRESENTATIONS CAN BE MADE AS TO THE ACCURACY OF THESE FINANCIAL PROJECTIONS OR TO THE COMPANY'S ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE. FURTHER, EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THESE PROJECTIONS WERE PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE OCCURRENCE OF THESE EVENTS MAY AFFECT FINANCIAL RESULTS IN A MATERIAL AND POSSIBLY ADVERSE MANNER. THE PLAN A PROJECTIONS, THEREFORE, MAY NOT BE RELIED UPON AS A GUARANTY OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR.

FINALLY, THE FOLLOWING PLAN A PROJECTIONS INCLUDE ASSUMPTIONS AS TO THE ENTERPRISE VALUE OF THE REORGANIZED COMPANY, THE FAIR VALUE OF ITS ASSETS AND ITS ACTUAL LIABILITIES AS OF THE EFFECTIVE DATE. THE COMPANY WILL BE REQUIRED TO MAKE SUCH ESTIMATES AS OF THE EFFECTIVE DATE. SUCH DETERMINATIONS WILL BE BASED UPON THE FAIR VALUES AS OF THAT DATE, WHICH COULD BE MATERIALLY GREATER OR LOWER THAN THE VALUES ASSUMED IN THE FOREGOING ESTIMATES.

Summary of Significant Assumptions

The Company has developed the Plan A Projections (summarized below) to assist both creditors and shareholders in their evaluation of the FL/Telmex Plan and to analyze its feasibility. THE PLAN A PROJECTIONS ARE BASED UPON A NUMBER OF SIGNIFICANT ASSUMPTIONS DESCRIBED BELOW. ACTUAL OPERATING RESULTS AND VALUES WILL VARY FROM THOSE PROJECTED. PLEASE NOTE THAT THE FL/TELMEX PLAN CONTEMPLATES A SIGNIFICANT NEW CASH INFUSION INTO THE COMPANY, WHICH PROVIDES THE COMPANY WITH INCREMENTAL LIQUIDITY ABOVE AND BEYOND THE PLAN B PROJECTIONS ASSOCIATED WITH THE STAND-ALONE PLAN.

a. Fiscal Years. The Company's fiscal year ends on December 31 of each year. Any reference to "Fiscal" immediately followed by a specific year means the 52 week period ending on December 31 of such year. The Projections assume that all fiscal years contain 52 weeks of projected results of operations.

b. Plan Terms and Consummation. The Plan A Projections assume an Effective Date of September 30, 2002 with Allowed Claims and Interests treated in accordance with the treatment provided in the FL/Telmex Plan with respect to such Allowed Claims and Interests. If the Effective Date does not occur by September 30, 2002, additional bankruptcy expenses will be incurred until such time as a new plan of reorganization is confirmed. This delay could significantly impact the Company's results of operations and cash flows.

c. Assumptions Preceding the Effective Date. As a basis for the Plan A Projections, management has estimated the operating results for the period of time leading up to the Effective Date and has made assumptions with respect to the impact that the reorganization process will have on operations prior to the Effective Date. Specifically, it has been assumed that during the Chapter 11 cases, key vendors will continue to provide the Company with services and/or goods on customary terms and credit.

d. General Economic Conditions. The Plan A Projections were prepared assuming that economic conditions in the markets served by the Company do not differ significantly over the next three years from current economic conditions. Inflation in revenues and costs are assumed to remain relatively low.

e. Revenues. Revenues are broken down into five product lines within the Company: (i) voice, (ii) Internet access, (iii) network access, (iv) web hosting, and (v) integrated voice and data services. Revenues from voice continue to grow through the projected period, but decline as percentage of total revenues primarily as a result of the projected growth in data and integrated products. The projected growth in integrated products is in large part attributable to the assumed success of XOptions, a flat-rate, bundled package offering a combination of voice and data services.

f. Cost of Service. Cost of service represents those costs directly associated with providing telecommunications services to the Company's customers. Cost of service includes, among other items, the cost of connecting customers to the Company's networks via leased facilities, the cost of leasing components of the Company's network facilities and costs paid to third party providers for interconnect access and transport services. The improvement in cost of sales as measured as a percentage of revenue is largely attributable to three factors during the projected periods: (i) increase of on-net traffic (the Company-owned network traffic) as a percentage of

total network traffic, (ii) expanded sales of higher margin data products, and (iii) leveraging of fixed costs through the addition of incremental customers.

g. Selling, Operating and General Expenses. Selling, operating and general expenses ("SOG") consist of sales, marketing, customer service and administrative expenses, as well as network provisioning, engineering and operating costs. The increase in the aggregate amount of SOG in the projections is largely attributable to the addition of incremental employees and service and support infrastructure to sustain projected revenue growth. However, SOG as a percentage of revenues is projected to decline in keeping with the Company's increasing success in leveraging its corporate infrastructure as economies of scale under a national footprint are realized.

h. Adjusted EBITDA. Adjusted EBITDA is defined, for purposes of the Plan A Projections, as earnings before net interest expense, income tax provision, depreciation and amortization, unusual items, reorganization items, and extraordinary items.

i. Net Interest Expense. Net interest expense reflects interest expense on the \$1,000.0 million of outstanding borrowings under the Company's restructured Senior Credit Facility and on obligations under capital leases and other secured indebtedness. Net interest expense also reflects estimated interest income with respect to balances of cash and cash equivalents held by the Company. Please refer to "IX. Description of Securities to be Issued Under the FL/Telmex Plan" for discussion of securities to be issued under the FL/Telmex Plan.

j. Extraordinary Gain. Extraordinary gain reflects the early extinguishment of indebtedness resulting from the restructuring of the Company's balance sheet pursuant to the FL/Telmex Plan.

k. Income Taxes. The Plan A Projections assume that, upon consummation, the Reorganized Company and its Operating Subsidiaries will not have the benefit of any tax net operating loss carry-forwards. The Plan A Projections also assume the Reorganized Company and the Operating Subsidiaries will not recognize a reduction in much of the tax basis of the Company's long-term assets as a result of debt forgiveness. (See "XI. Risk Factors" for related future tax issues the Company may encounter and need to consider)

l. Capital Expenditures. Capital expenditures primarily reflect network operating and success-based investments in the projected periods. Capital expenditures in 2002 also reflect investments necessary to complete several network projects already in progress, with the majority of expenditures for those projects having already occurred in prior years. The Company substantially completed its network build in 2001. Consequently, capital expenditures decline significantly in future periods in both absolute terms and as a percent of period revenues.

m. Working Capital. Components of working capital are projected primarily on the basis of historic patterns applied to projected levels of operation. It has been assumed that vendor trade terms return to normal levels in the post-Effective Date period.

n. Fresh Start Accounting. The Plan A Projections have been prepared generally in accordance with the basic principles of "fresh start" accounting for periods after September 30, 2002. These principles are contained in the American Institute of Certified Public Accountants Statement of Position 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." Under "fresh start" accounting principles, the Debtors will determine the reorganization value of the reorganized Company at the Effective Date. This value will be allocated, based on estimated fair market values, to specific tangible or identifiable intangible

assets. The Company is in the process of evaluating further how the reorganization value will be allocated to its various assets. It is likely that the final allocation, as well as depreciation and amortization expense, will differ from the amounts presented herein.

o. Reorganization Value. For purposes of this Disclosure Statement and in order to prepare the Plan A Projections, management has estimated the reorganization value of the Company pursuant to the FL/Telmex Plan as of September 30, 2002 to be approximately \$2,025 million on a post-money basis. See "Valuation Analysis."

Special Note Regarding Forward-Looking Statements

Except for the historical information, statements contained in this Disclosure Statement and incorporated herein by reference, including the projections in this section, may be considered "forward-looking statements" within the meaning of federal securities law. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to, general economic and business conditions, the competitive environment in which the Company operates and will operate, the success or failure of the Company in implementing its current business and operational strategies, the level of trade creditor support, the ability of the Company to maintain and improve its operating margins, and the liquidity of the Company on a cash flow basis (including the ability to comply with the financial covenants of its credit arrangements and to fund the Company's capital expenditure program). For additional information about the Company and relevant risk factors, see "XI. Risk Factors."

Financial Projections

The financial projections prepared by management are summarized in the following tables. Specifically, the attached tables include:

1. Pro-forma reorganized consolidated Company balance sheet as of September 30, 2002 ("Estimated Pre-Consummation"), including all reorganization adjustments.
2. Projected balance sheets as of December 31, 2002 through December 31, 2005.
3. Projected income statements for the fiscal years ending December 31, 2002 through December 31, 2005.
4. Projected statements of cash flow for the fiscal years ending December 31, 2002 through December 31, 2005.

All captions in the attached projections do not correspond exactly to the Company's historical external reporting; some captions have been combined for presentation purposes. Please note that the individual amounts may not sum to the totals presented in the following financial statements due to rounding differences.

XO Communications, Inc.
Projected Opening and Closing Balance Sheet - Plan 1

(\$ in millions)

For the Projected Fiscal Quarter Ending September 30, 2002

	Projected Pre-Transaction	New Investment	Debt/Preferred Restructuring	Projected Post-Debt/Pref. Restructuring	Fresh Start Adjustments	Projected Closing RS
Assets						
Cash & Cash Equivalents	\$434	\$800 (a)	(\$241) (b)	\$993	\$0	\$993
Accounts Receivable (net)	214	-	-	214	-	214
Other Current Assets	86	-	-	86	(61)	25
Total Current Assets	\$734	\$800	(\$241)	\$1,293	(\$61)	\$1,232
Net Property, Plant & Equipment	\$3,472	\$0	\$0	\$3,472	(\$2,346) (c)	\$926
Net Investment in Fixed Wireless Licenses	924	-	-	924	(821) (c)	102
Net Goodwill & Intangibles	125	-	-	125	63 (c)	188
Other Assets	130	-	(77) (b)	53	(36) (c)	17
Total Assets	\$5,386	\$800	(\$318)	\$5,867	(\$3,401)	\$2,466
Liabilities & Shareholders' Equity						
Accounts Payable & Accrued Liabilities	\$353	\$0	\$0	\$353	(\$8)	\$345
Accrued Interest	325	-	(\$25) (b)	-	-	-
Other Current Liabilities	11	-	-	11	-	11
Total Current Liabilities	\$689	\$0	(\$25)	\$364	(\$8)	\$356
Long-Term Debt	\$5,182	\$0	(\$4,167) (b)	\$1,015	\$0	\$1,015
Other Long-Term Liabilities	110	-	-	110	(14) (c)	96
Total Long-Term Liabilities	\$5,981	\$0	(\$4,492)	\$1,489	(\$23)	\$1,466
Preferred Stock	\$1,790	\$0	(\$1,790) (b)	\$0	\$0	\$0
Total Shareholders' Equity	(\$2,385)	\$800 (a)	\$5,964	\$4,379	(\$3,379) (c)	\$1,000
Total Liabilities & Shareholders' Equity	\$5,386	\$800	(\$318)	\$5,867	(\$3,401)	\$2,466

Notes to Pro-Forma Reorganized Balance Sheet

- (a) Reflects the \$800 million aggregate new money investment by Forstmann Little and Telmex. Of the net \$800 million of cash, \$200 million will be allocated to Holders of Senior Notes and Class 5 General Unsecured Claims pursuant to the FL/Telmex Plan.
- (b) The FL/Telmex Plan provides for, among other things, a restructuring of the Company through the exchange of 100% of the Company's outstanding Senior Note Claims and Class 5 General Unsecured Claims into \$200 million in cash and 18% in aggregate of New Reorganization Common Stock. The FL/Telmex Plan assumes that all claims, including accrued interest, related to all of the outstanding Senior Notes and General Unsecured Claims will be forgiven in exchange for the allocation of cash and new securities outlined above. The adjustments reflect the cancellation of all Subordinated Note Claims and Old Preferred Stock Interests pursuant to the terms of the FL/Telmex Plan. Estimated restructuring fees associated with the FL/Telmex Plan approximate \$41 million. Accrued interest has been adjusted to write-off all accrued and unpaid interest and dividends related to the Senior Notes, Subordinated Notes and Old Preferred Stock.
- (c) The Company proposes to account for the reorganization and the related transactions using the principles of "fresh start" accounting as required by Statement of Position 90-7 ("SOP 90-7") issued by the American Institute of Certified Public Accountants (the "AICPA"). The company has estimated a reorganization value of \$2,025 million on a post-money basis, approximately \$1,000 million of which value is assumed to be attributable to shareholder's equity. In accordance with SOP 90-7, the reorganization value has been allocated to specific tangible and identifiable intangible assets and liabilities. The excess of the Company's historical tangible and identified intangible assets over the reorganization value is reflected as an adjustment to record these

assets at their fair value. The Company is currently evaluating the value of various assets, including certain of its fixed assets and LMDS licenses, which may lead to additional pro forma adjustments to book values and result in a different allocation of fair market values over the Company's tangible and identifiable intangible assets as of the Effective Date. The amount of shareholders' equity in the fresh start balance sheet is not an estimate of the trading value of the New Common Stock after confirmation of the FL/Telmex Plan, which value is subject to many uncertainties and cannot be reasonably estimated at this time. The Company does not make any representation as to the trading value of shares and warrants to be issued pursuant to the FL/Telmex Plan.

XO Communications, Inc.				
<i>Projected Consolidated Statements of Operations - Plan A</i>				
<i>(S in millions)</i>	<i>For the Projected Fiscal Period Ending December 31,</i>			
	2002	2003	2004	2005
Revenues				
Voice	\$661	\$686	\$753	\$850
Internet Access	135	131	133	146
Network Access	326	324	371	498
Web Hosting	51	51	58	66
Integrated	135	169	223	293
Total Revenues	\$1,309	\$1,361	\$1,539	\$1,853
Costs and Expenses:				
Cost of Service	\$550	\$557	\$610	\$714
Selling, Operating, and General Expenses	765	771	806	859
Depreciation	459	182	216	256
Amortization	51	3	3	3
Deferred Compensation	9	-	-	-
Total Costs and Expenses:	\$1,834	\$1,514	\$1,636	\$1,832
Profit (Loss) From Operations	(\$525)	(\$153)	(\$97)	\$22
Net Interest Expense	\$248	\$74	\$82	\$87
Other Expenses/(Income)	(0)	-	-	-
Pro Forma Fresh Start & Transaction Adjustments	308	-	-	-
Earnings Before Taxes	(\$1,081)	(\$227)	(\$179)	(\$65)
Income Taxes	-	-	-	-
Net Income (Loss)	(\$1,081)	(\$227)	(\$179)	(\$65)
Cumulative Effect of Change in Accounting Principal	1,878	-	-	-
Extraordinary Gain	(6,219)	-	-	-
Net Income (Loss), After Cumulative Effects of Changes in Accounting Principals and Extraordinary Gain	\$3,261	(\$227)	(\$179)	(\$65)
Preferred Dividends & Accretion	51	-	-	-
Net Income (Loss) Applicable to Common Shares	\$3,210	(\$227)	(\$179)	(\$65)
Adjusted EBITDA	(\$6)	\$32	\$123	\$281
EBITDA Margin	-0.5%	2.4%	8.0%	15.2%

XO Communications, Inc.
Projected Consolidated Balance Sheets - Plan A

(*\$ in millions*)

	<i>Projected as of December 31.</i>			
	2002	2003	2004	2005
Assets				
Cash & Cash Equivalents	\$907	\$622	\$390	\$277
Accounts Receivable (net)	215	237	279	336
Other Current Assets	25	17	20	23
Total Current Assets	\$1,147	\$876	\$688	\$636
Net Property, Plant & Equipment	\$948	\$977	\$997	\$1,008
Net Investment in Fixed Wireless Licenses	94	90	87	84
Net Goodwill & Intangibles	188	188	188	188
Other Assets	17	14	11	8
Total Assets	\$2,394	\$2,146	\$1,971	\$1,923
Liabilities & Shareholders' Equity				
Accounts Payable & Accrued Liabilities	\$344	\$342	\$376	\$413
Accrued Interest	-	-	-	-
Other Current Liabilities	11	11	11	11
Total Current Liabilities	\$355	\$353	\$387	\$424
Long-Term Debt	\$1,015	\$1,015	\$1,015	\$1,015
Other Long-Term Liabilities	86	66	36	16
Total Liabilities	\$1,455	\$1,433	\$1,437	\$1,454
Total Shareholders' Equity	\$939	\$713	\$534	\$469
Total Liabilities & Shareholders' Equity	\$2,394	\$2,146	\$1,971	\$1,923

XO Communications, Inc.
Projected Consolidated Statements of Cash Flows - Plan A

(*\$ in millions*)

	<i>For the Projected Fiscal Period Ending December 31.</i>			
	2002	2003	2004	2005
Cash Flows from Operations:				
Net Income (Loss)	(\$1,081)	(\$227)	(\$179)	(\$65)
Adjustments to Net Income:				
Depreciation and Amortization	509	185	220	259
Pro Forma Fresh Start & Transaction Adjustments	308	-	-	-
Non-Cash Interest	207	-	-	-
Deferred Compensation	9	-	-	-
Changes in Non-Working Capital Assets & Liabilities	(30)	-	-	-
Changes in Working Capital	(29)	(33)	(37)	(41)
Net Cash Flows From Operations	(\$107)	(\$75)	\$4	\$154
Cash Flows From Investing Activities:				
Capital Expenditures	(\$300)	(\$211)	(\$237)	(\$266)
Other Investing Activities	-	-	-	-
Net Cash Flows From Investing Activities	(\$300)	(\$211)	(\$237)	(\$266)
Cash Flows From Financing Activities:				
Equity Issuance	\$559	\$0	\$0	\$0
Debt Issuance	-	-	-	-
Debt Repayment	-	-	-	-
Other Financing	-	-	-	-
Net Cash Flows From Financing Activities	\$559	\$0	\$0	\$0
Net (decrease) Increase in Cash	\$152	(\$286)	(\$232)	(\$113)
Cash and Cash Equivalents, Beginning of Period	\$755	\$907	\$622	\$390
Cash and Cash Equivalents, End of Period	\$907	\$622	\$390	\$277

FINANCIAL PROJECTIONS**(Stand-Alone Plan)***Responsibility for and Purpose of the Projections*

As a condition to confirmation of a plan, the Bankruptcy Code requires, among other things, that the Bankruptcy Court determine that confirmation is not likely to be followed by the liquidation or the need for further financial restructuring of the debtor. In connection with the development of the Stand-Alone Plan, and for purposes of determining whether the Stand-Alone Plan satisfies this feasibility standard, the Company's management has, through the development of financial projections related to the Stand-Alone Plan (the "Plan B Projections"), analyzed the ability of the Company to meet its obligations under the Stand-Alone Plan to maintain sufficient liquidity and capital resources to conduct its business. The Plan B Projections were also prepared to assist each Holder of a Claim in Classes 1, 5 and 6 in determining whether to accept or reject the Stand-Alone Plan.

The Plan B Projections should be read in conjunction with the assumptions, qualifications and footnotes to charts containing the Plan B Projections set forth herein, the historical consolidated financial information (including the notes and schedules thereto) and the other information set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and the Company's Quarterly Reports on Form 10-Q for the period ended March 31, 2002. The Plan B Projections were prepared in good faith based upon assumptions believed to be reasonable and applied in a manner consistent with past practices. Most of the assumptions about the operations of the business after the assumed Effective Date that are utilized in the Plan B Projections were prepared in June 2002 and were based, in part, on economic, competitive, and general business conditions prevailing at the time. While, as of the date of this Disclosure Statement, such conditions, to the knowledge of management, have not materially changed, any future changes in these conditions may materially impact the ability of the Company to achieve the Plan B Projections.

Please note that the Plan B Projections are substantially identical to the Plan A Projections attached hereto as Appendix B1. However, the Plan B Projections and Plan A Projections do reflect the different capital structures and implied fresh start enterprise valuations associated with the transactions contemplated by the Stand-Alone Plan and FL/Telmex Plan, respectively.

THE PLAN B PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARDS COMPLYING WITH THE GUIDELINES FOR PROSPECTIVE FINANCIAL STATEMENTS PUBLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. ACCORDINGLY, THE PLAN B PROJECTIONS WERE NOT INTENDED TO BE PRESENTED IN ACCORDANCE WITH THE PUBLISHED GUIDELINES OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS REGARDING FINANCIAL PROJECTIONS, NOR HAVE THEY BEEN PRESENTED IN LIEU OF PRO FORMA HISTORICAL FINANCIAL INFORMATION, AND

ACCORDINGLY, ARE NOT INTENDED TO COMPLY WITH RULE 11-03 OF REGULATION S-X OF THE SEC. THE COMPANY'S INDEPENDENT ACCOUNTANT, ERNST & YOUNG LLP, HAS NEITHER COMPILED NOR EXAMINED THE ACCOMPANYING PROSPECTIVE FINANCIAL INFORMATION TO DETERMINE THE REASONABLENESS THEREOF AND, ACCORDINGLY, HAS NOT EXPRESSED AN OPINION OR ANY OTHER FORM OF ASSURANCE WITH RESPECT THERETO.

THE COMPANY DOES NOT, AS A MATTER OF COURSE, PUBLISH PROJECTIONS OF ITS ANTICIPATED FINANCIAL POSITION, RESULTS OF OPERATIONS OR CASH FLOWS. ACCORDINGLY, THE COMPANY DOES NOT INTEND TO, AND DISCLAIMS ANY OBLIGATIONS TO (A) FURNISH UPDATED PROJECTIONS TO HOLDERS OF CLAIMS OR INTERESTS PRIOR TO THE EFFECTIVE DATE OR TO HOLDERS OF NEW COMMON STOCK OR ANY OTHER PARTY AFTER THE EFFECTIVE DATE, (B) INCLUDE SUCH UPDATED INFORMATION IN ANY DOCUMENTS THAT MAY BE REQUIRED TO BE FILED WITH THE SEC, OR (C) OTHERWISE MAKE SUCH UPDATED INFORMATION PUBLICLY AVAILABLE.

THE PLAN B PROJECTIONS PROVIDED IN THE DISCLOSURE STATEMENT HAVE BEEN PREPARED EXCLUSIVELY BY THE COMPANY'S MANAGEMENT. THESE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS THAT, THOUGH CONSIDERED REASONABLE BY MANAGEMENT, MAY NOT BE REALIZED, AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE COMPANY'S CONTROL. THE COMPANY CAUTIONS THAT NO REPRESENTATIONS CAN BE MADE AS TO THE ACCURACY OF THESE FINANCIAL PROJECTIONS OR TO THE COMPANY'S ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE. FURTHER, EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THESE PROJECTIONS WERE PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE OCCURRENCE OF THESE EVENTS MAY AFFECT FINANCIAL RESULTS IN A MATERIAL AND POSSIBLY ADVERSE MANNER. THE PLAN B PROJECTIONS, THEREFORE, MAY NOT BE RELIED UPON AS A GUARANTY OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR.

FINALLY, THE FOLLOWING PLAN B PROJECTIONS INCLUDE ASSUMPTIONS AS TO THE ENTERPRISE VALUE OF THE REORGANIZED COMPANY, THE FAIR VALUE OF ITS ASSETS AND ITS ACTUAL LIABILITIES AS OF THE EFFECTIVE DATE. THE COMPANY WILL BE REQUIRED TO MAKE SUCH ESTIMATES AS OF THE EFFECTIVE DATE. SUCH DETERMINATIONS WILL BE BASED UPON THE FAIR VALUES AS OF THAT DATE, WHICH COULD BE MATERIALLY GREATER OR LOWER THAN THE VALUES ASSUMED IN THE FOREGOING ESTIMATES.

Summary of Significant Assumptions

The Company has developed the Plan B Projections (summarized below) to assist both creditors and shareholders in their evaluation of the Stand-Alone Plan and to analyze its feasibility. **THE PLAN B PROJECTIONS ARE BASED UPON A NUMBER OF SIGNIFICANT ASSUMPTIONS DESCRIBED BELOW. ACTUAL OPERATING RESULTS AND VALUES WILL VARY FROM THOSE PROJECTED.**

a. Fiscal Years. The Company's fiscal year ends on December 31 of each year. Any reference to "Fiscal" immediately followed by a specific year means the 52 week period ending on December 31 of such year. The Projections assume that all fiscal years contain 52 weeks of projected results of operations.

b. Plan Terms and Consummation. The Plan B Projections assume an Effective Date of September 30, 2002 with Allowed Claims and Interests treated in accordance with the treatment provided in the Stand-Alone Plan with respect to such Allowed Claims and Interests. If the Effective Date does not occur by September 30, 2002, additional bankruptcy expenses will be incurred until such time as a new plan of reorganization is confirmed. This delay could significantly impact the Company's results of operations and cash flows.

c. Assumptions Preceding the Effective Date. As a basis for the Plan B Projections, management has estimated the operating results for the period of time leading up to the Effective Date and has made assumptions with respect to the impact that the reorganization process will have on operations prior to the Effective Date. Specifically, it has been assumed that during the Chapter 11 cases, key vendors will continue to provide the Company with services and/or goods on customary terms and credit.

d. General Economic Conditions. The Plan B Projections were prepared assuming that economic conditions in the markets served by the Company do not differ significantly over the next three years from current economic conditions. Inflation in revenues and costs are assumed to remain relatively low.

e. Revenues. Revenues are broken down into five product lines within the Company: (i) voice, (ii) Internet access, (iii) network access, (iv) web hosting, and (v) integrated voice and data services. Revenues from voice continue to grow through the projected period, but decline as percentage of total revenues primarily as a result of the projected growth in data and integrated products. The projected growth in integrated products is in large part attributable to the assumed success of XOptions, a flat-rate, bundled package offering a combination of voice and data services.

f. Cost of Service. Cost of service represents those costs directly associated with providing telecommunications services to the Company's customers. Cost of service includes, among other items, the cost of connecting customers to the Company's networks via leased facilities, the cost of leasing components of the Company's network facilities and costs paid to third party providers for interconnect access and transport services. The improvement in cost of sales as measured as a percentage of revenue is largely attributable to three factors during the projected periods: (i) increase of on-net traffic (the Company-owned network traffic) as a percentage of total network traffic, (ii) expanded sales of higher margin data products, and (iii) leveraging of fixed costs through the addition of incremental customers.

g. Selling, Operating and General Expenses. Selling, operating and general expenses (“SOG”) consist of sales, marketing, customer service and administrative expenses, as well as network provisioning, engineering and operating costs. The increase in the aggregate amount of SOG in the projections is largely attributable to the addition of incremental employees and service and support infrastructure to sustain projected revenue growth. However, SOG as a percentage of revenues is projected to decline in keeping with the Company’s increasing success in leveraging its corporate infrastructure as economies of scale under a national footprint are realized.

h. Adjusted EBITDA. Adjusted EBITDA is defined, for purposes of the Plan B Projections, as earnings before net interest expense, income tax provision, depreciation and amortization, unusual items, reorganization items, and extraordinary items.

i. Net Interest Expense. Net interest expense reflects interest expense on outstanding borrowings under the Company’s new senior secured Exit Facility, the \$500.0 million in initial principal amount of New Junior Secured Loans and on obligations under capital leases and other secured indebtedness. Net interest expense also reflects estimated interest income with respect to balances of cash and cash equivalents held by the Company. Please refer to “X. Description of Securities to be Issued Under the Stand-Alone Plan” for discussion of securities to be issued under the Stand-Alone Plan.

j. Extraordinary Gain. Extraordinary gain reflects the early extinguishment of indebtedness resulting from the restructuring of the Company’s balance sheet pursuant to the Stand-Alone Plan.

k. Income Taxes. The Plan B Projections assume that, upon consummation, the Reorganized Company and its Operating Subsidiaries will not have the benefit of any tax net operating loss carry-forwards. The Plan B Projections also assume the Reorganized Company and the Operating Subsidiaries will not recognize a reduction in much of the tax basis of the Company’s long-term assets as a result of debt forgiveness. (See “XI. Risk Factors” for related future tax issues the Company may encounter and need to consider)

l. Capital Expenditures. Capital expenditures primarily reflect network operating and success-based investments in the projected periods. Capital expenditures in 2002 also reflect investments necessary to complete several network projects already in progress, with the majority of expenditures for those projects having already occurred in prior years. The Company substantially completed its network build in 2001. Consequently, capital expenditures decline significantly in future periods in both absolute terms and as a percent of period revenues.

m. Working Capital. Components of working capital are projected primarily on the basis of historic patterns applied to projected levels of operation. It has been assumed that vendor trade terms return to normal levels in the post-Effective Date period.

n. Fresh Start Accounting. The Plan B Projections have been prepared generally in accordance with the basic principles of “fresh start” accounting for periods after September 30, 2002. These principles are contained in the American Institute of Certified Public Accountants Statement of Position 90-7 “Financial Reporting by Entities in Reorganization Under the Bankruptcy Code.” Under “fresh start” accounting principles, the Debtors will determine the reorganization value of the reorganized Company at the Effective Date. This value will be allocated, based on estimated fair market values, to specific tangible or identifiable intangible

assets. The Company is in the process of evaluating further how the reorganization value will be allocated to its various assets. It is likely that the final allocation, as well as depreciation and amortization expense, will differ from the amounts presented herein.

o. Reorganization Value. For purposes of this Disclosure Statement and in order to prepare the Plan B Projections, management has estimated the reorganization value of the Company pursuant to the Stand-Alone Plan as of September 30, 2002 to be approximately \$1,000 million on a pre-Rights Offering basis. See "Valuation Analysis."

Special Note Regarding Forward-Looking Statements

Except for the historical information, statements contained in this Disclosure Statement and incorporated herein by reference, including the projections in this section, may be considered "forward-looking statements" within the meaning of federal securities law. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to, general economic and business conditions, the competitive environment in which the Company operates and will operate, the success or failure of the Company in implementing its current business and operational strategies, the level of trade creditor support, the ability of the Company to maintain and improve its operating margins, and the liquidity of the Company on a cash flow basis (including the ability to comply with the financial covenants of its credit arrangements and to fund the Company's capital expenditure program). For additional information about the Company and relevant risk factors, see "XI. Risk Factors."

Financial Projections

The financial projections prepared by management are summarized in the following tables. Specifically, the attached tables include:

5. Pro-forma reorganized consolidated Company balance sheet as of September 30, 2002 ("Estimated Pre-Consummation"), including all reorganization adjustments.
6. Projected balance sheets as of December 31, 2002 through December 31, 2005.
7. Projected income statements for the fiscal years ending December 31, 2002 through December 31, 2005.
8. Projected statements of cash flow for the fiscal years ending December 31, 2002 through December 31, 2005.

All captions in the attached projections do not correspond exactly to the Company's historical external reporting; some captions have been combined for presentation purposes. Please note that the individual amounts may not sum to the totals presented in the following financial statements due to rounding differences.

XO Communications, Inc.
Projected Opening and Closing Balance Sheet - Plan B

(\$ in millions)

For the Projected Fiscal Quarter Ending September 30, 2002

	Projected Pre-Transaction	Debt/Preferred Restructuring	Projected Post-Debt/Pref. Restructuring	Fresh Start Adjustments	Projected Closing RS
Assets					
Cash & Cash Equivalents	\$434	(\$47) ^(a)	\$387	\$0	\$387
Accounts Receivable (net)	214	-	214	-	214
Other Current Assets	86	-	86	(61)	25
Total Current Assets	\$734	(\$47)	\$687	(\$61)	\$626
Net Property, Plant & Equipment	\$3,472	\$0	\$3,472	(\$2,865) ^(b)	\$607
Net Investment in Fixed Wireless Licenses	924	-	924	(857) ^(b)	67
Net Goodwill & Intangibles	125	-	125	(2) ^(b)	123
Other Assets	130	(71) ^(a)	59	(42) ^(b)	17
Total Assets	\$5,386	(\$118)	\$5,267	(\$3,826)	\$1,441
Liabilities & Shareholders' Equity					
Accounts Payable & Accrued Liabilities	\$353	\$0	\$353	(\$8)	\$345
Accrued Interest	325	(325) ^(a)	-	-	-
Other Current Liabilities	11	-	11	-	11
Total Current Liabilities	\$689	(\$325)	\$364	(\$8)	\$356
Long-Term Debt	\$5,182	(\$4,667) ^(a)	\$515	\$0	\$515
Other Long-Term Liabilities	110	-	110	(14) ^(b)	96
Total Long-Term Liabilities	\$5,981	(\$4,992)	\$989	(\$23)	\$966
Preferred Stock	\$1,790	(\$1,790) ^(a)	\$0	\$0	\$0
Total Shareholders' Equity	(\$2,385)	\$6,664	\$4,279	(\$3,804) ^(b)	\$475
Total Liabilities & Shareholders' Equity	\$5,386	(\$118)	\$5,267	(\$3,826)	\$1,441

Notes to Pro-Forma Reorganized Balance Sheet

- (a) The Stand-Alone Plan provides for, among other things, a restructuring of the Company through the exchange of 50% of the outstanding Senior Secured Lender Claims into 100% of all issued and outstanding shares of New Reorganization Common Stock and the exchange of 100% of the Company's outstanding Senior Note Claims and Class 5 General Unsecured Claims into New Warrants. The Stand-Alone Plan assumes that all claims, including accrued interest, related to all of the outstanding Senior Notes and General Unsecured Claims will be forgiven in exchange for the allocation of new securities outlined above. The adjustments reflect the cancellation of all Subordinated Note Claims and Old Preferred Stock Interests pursuant to the terms of the Stand-Alone Plan. Estimated restructuring fees associated with the Stand-Alone Plan approximate \$47 million (including an estimated \$6.0 million of fees related to the Exit Facility). Accrued interest has been adjusted to write-off all accrued and unpaid interest and dividends related to the Senior Notes, Subordinated Notes and Old Preferred Stock.
- (b) The Company proposes to account for the reorganization and the related transactions using the principles of "fresh start" accounting as required by Statement of Position 90-7 ("SOP 90-7") issued by the American Institute of Certified Public Accountants (the "AICPA"). The company has estimated a reorganization value of \$1,000 million on a pre-Rights Offering basis, \$475 million of which value is assumed to be attributable to shareholder's equity. In accordance with SOP 90-7, the reorganization value has been allocated to specific tangible and identifiable intangible assets and liabilities. The excess of the Company's historical tangible and identified intangible assets over the reorganization value is reflected as an adjustment to record these assets at their fair value. The Company is currently evaluating the value of various assets, including certain of its fixed assets and LMDS licenses, which may lead to

additional pro forma adjustments to book values and result in a different allocation of fair market values over the Company's tangible and identifiable intangible assets as of the Effective Date. The amount of shareholders' equity in the fresh start balance sheet is not an estimate of the trading value of the New Common Stock after confirmation of the Stand-Alone Plan, which value is subject to many uncertainties and cannot be reasonably estimated at this time. The Company does not make any representation as to the trading value of shares and warrants to be issued pursuant to the Stand-Alone Plan.

XO Communications, Inc.				
<i>Projected Consolidated Statements of Operations - Plan B</i>				
<i>(\$ in millions)</i>	<i>For the Projected Fiscal Period Ending December 31,</i>			
	2002	2003	2004	2005
Revenues				
Voice	\$661	\$686	\$753	\$850
Internet Access	135	131	133	146
Network Access	326	324	371	498
Web Hosting	51	51	58	66
Integrated	135	169	223	293
Total Revenues	\$1,309	\$1,361	\$1,539	\$1,853
Costs and Expenses:				
Cost of Service	\$550	\$557	\$610	\$714
Selling, Operating, and General Expenses	765	771	806	859
Depreciation	446	133	170	213
Amortization	43	3	3	3
Deferred Compensation	9	-	-	-
Total Costs and Expenses:	\$1,813	\$1,464	\$1,589	\$1,789
Profit (Loss) From Operations	(\$504)	(\$104)	(\$51)	\$65
Net Interest Expense	\$241	\$48	\$62	\$78
Other Expenses/(Income)	6	19	-	-
Pro Forma Fresh Start & Transaction Adjustments	308	-	-	-
Earnings Before Taxes	(\$1,060)	(\$170)	(\$113)	(\$13)
Income Taxes	-	-	-	-
Net Income (Loss)	(\$1,060)	(\$170)	(\$113)	(\$13)
Cumulative Effect of Change in Accounting Principal	1,878	-	-	-
Extraordinary Gain	(6,719)	-	-	-
Net Income (Loss), After Cumulative Effects of Changes in Accounting Principals and Extraordinary Gain	\$3,782	(\$170)	(\$113)	(\$13)
Preferred Dividends & Accretion	\$1	-	-	-
Net Income (Loss) Applicable to Common Shares	\$3,731	(\$170)	(\$113)	(\$13)
Adjusted EBITDA	(\$6)	\$32	\$123	\$281
EBITDA Margin	-0.5%	2.4%	8.0%	15.2%

XO Communications, Inc.
Projected Consolidated Balance Sheets - Plan B

(\$ in millions)	<i>Projected as of December 31,</i>			
	2002	2003	2004	2005
Assets				
Cash & Cash Equivalents	\$315	\$88	\$25	\$25
Accounts Receivable (net)	215	237	279	336
Other Current Assets	<u>25</u>	<u>17</u>	<u>20</u>	<u>23</u>
Total Current Assets	\$554	\$343	\$324	\$384
Net Property, Plant & Equipment	\$642	\$720	\$787	\$840
Net Investment in Fixed Wireless Licenses	67	64	62	60
Net Goodwill & Intangibles	123	123	123	123
Other Assets	<u>17</u>	<u>14</u>	<u>11</u>	<u>8</u>
Total Assets	\$1,403	\$1,264	\$1,306	\$1,414
Liabilities & Shareholders' Equity				
Accounts Payable & Accrued Liabilities	\$344	\$342	\$376	\$413
Accrued Interest	-	-	-	-
Other Current Liabilities	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>
Total Current Liabilities	\$355	\$353	\$387	\$424
Long-Term Debt	\$527	\$580	\$731	\$835
Other Long-Term Liabilities	<u>86</u>	<u>66</u>	<u>36</u>	<u>16</u>
Total Liabilities	\$967	\$999	\$1,154	\$1,275
Total Shareholders' Equity	\$436	\$265	\$152	\$140
Total Liabilities & Shareholders' Equity	\$1,403	\$1,264	\$1,306	\$1,414

XO Communications, Inc.
Projected Consolidated Statements of Cash Flows - Plan B

(\$ in millions)	<i>For the Projected Fiscal Period Ending December 31,</i>			
	2002	2003	2004	2005
Cash Flows from Operations:				
Net Income (Loss)	(\$1,060)	(\$170)	(\$113)	(\$13)
Adjustments to Net Income:				
Depreciation and Amortization	489	136	173	216
Pro Forma Fresh Start & Transaction Adjustments	308	-	-	-
Non-Cash Interest	219	53	59	65
Deferred Compensation	9	-	-	-
Changes in Non-Working Capital Assets & Liabilities	(30)	-	-	-
Changes in Working Capital	(29)	(33)	(38)	(42)
Net Cash Flows From Operations	(\$94)	(\$15)	\$81	\$227
Cash Flows From Investing Activities:				
Capital Expenditures	(\$300)	(\$211)	(\$237)	(\$266)
Other Investing Activities	-	-	-	-
Net Cash Flows From Investing Activities	(\$300)	(\$211)	(\$237)	(\$266)
Cash Flows From Financing Activities:				
Equity Issuance	(\$41)	\$0	\$0	\$0
Debt Issuance	-	-	92	47
Debt Repayment	-	-	-	(7)
Other Financing	(6)	-	-	-
Net Cash Flows From Financing Activities	(\$47)	\$0	\$92	\$40
Net (decrease) Increase in Cash	(\$441)	(\$225)	(\$63)	(\$0)
Cash and Cash Equivalents, Beginning of Period	\$755	\$314	\$89	\$26
Cash and Cash Equivalents, End of Period	\$314	\$89	\$26	\$26

CHAPTER 7 LIQUIDATION ANALYSIS

The "Best Interest Test" under Section 1129 of the Bankruptcy Code requires that each Holder of impaired claims or impaired interests receives property with a value not less than the amount such Holder would receive in a Chapter 7 liquidation. As indicated in this Disclosure Statement, the Debtor believes that under the Plan, Holders of Impaired Claims or Impaired Interests will receive property with a value equal to or in excess of the value such Holders would receive in a liquidation of the Debtor under Chapter 7 of the Bankruptcy Code. The Chapter 7 Liquidation Analysis set forth herein demonstrates that the Plan satisfies the requirements of the "Best Interest Test."

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 residual cash after deducting the expenses of operating the business pending disposition and the costs associated with the disposition of the non-cash assets of 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 the 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; and (vii) seventh, to Holders of Old Class A Common Stock and Old Class B Common Stock. The Debtor's liquidation costs in its Chapter 7 case 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 cases. 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 all of its 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 any remaining balance would be made available to pay unsecured Claims or to make any distribution in respect of Interests.

The following Chapter 7 liquidation analysis is provided solely to discuss the effects of hypothetical Chapter 7 liquidation of XO and is subject to the assumptions set forth herein. There can be no assurances that the assumptions and estimates employed in determining the liquidation values of the assets of XO will result in accurate estimates of the proceeds that would be realized were XO to undergo an actual liquidation. The Chapter 7 liquidation analysis has not been independently audited or verified.

Liquidation Value of the Debtor

The attached table details the computation of the Debtor's liquidation values and the estimated distributions to Holders of Impaired Claims in a Chapter 7 liquidation of XO. This analysis is based upon a number of estimates and assumptions that are inherently subject to significant uncertainties and contingencies, many of which would be beyond the control of the Debtor. Accordingly, while the analysis that follow is necessarily presented with numerical specificity, there can be no assurance that the values assumed would be realized if the Debtor was in fact liquidated, nor can there be any assurance that a Bankruptcy Court would accept this analysis or concur with such assumptions in making its determinations under Section 1129(a) of the Bankruptcy Code. *Actual liquidation proceeds could be materially lower or higher than the amounts set forth below; no representation or warranty can be or is being made with respect to the actual proceeds that could be received in a Chapter 7 liquidation of the Debtor. The liquidation valuations have been prepared solely for purposes of estimating proceeds available in a Chapter 7 liquidation of the Debtor's Estate and do not represent values that may be appropriate for any other purpose. Nothing contained in this valuation is intended to or may constitute a concession or admission of the Debtor for any other purpose.*

Methods for Determining Gross Proceeds from Liquidation

To estimate the 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 liquidation proceeds that might be available for distribution and the allocation of such proceeds among the Classes of Claims and Interests based on their relative priority.

The Debtor developed a liquidation analysis based upon an orderly, yet expedited sale, such as an auction or other similar-type sale of the assets of the Debtor occurring over a period of six-months starting September 30, 2002 and ending March 31, 2003. The gross proceeds were based upon estimates from the Debtor and its financial advisors in light of an orderly, yet expedited liquidation of XO. For the purpose of developing a liquidation analysis of XO, it is assumed that the Company's Operating Subsidiaries would be liquidated over a six-month period on a consolidated basis. The value available to XO from the liquidation of the Company's Operating Subsidiaries is further assumed to equal the value ascribed to the intercompany payables due to XO (after a *pari passu* allocation of estimated liquidation proceeds at the Company's Operating Subsidiaries between existing intercompany payables due to XO and outstanding general unsecured claims).

The analysis further assumes that the Debtor and the Operating Subsidiaries conduct business on a going concern basis from April 30, 2002 through September 30, 2002 at which the six-month liquidation process is assumed to begin. There is a cash cost associated with each of these respective time periods as the Debtor and the Operating Subsidiaries are not assumed to generate positive cash flow during these periods from operations from April 30, 2002 through the end of the six-month liquidation period.

Nature and Timing of the Liquidation Process

Under Section 704 of the Bankruptcy Code, a Chapter 7 trustee must, among other duties, collect and convert the property of the debtor's estate to cash and close the estate as expeditiously as is compatible with the best interests of the parties in interest. Solely for the purposes of this liquidation analysis, it is assumed that the Company would file the reorganization case and the case would be converted to a Chapter 7 liquidation on September 30, 2002. The Debtor assumes dispositions of its assets in multiple transactions, rather than the sale of substantially of assets in a single transaction or a piecemeal liquidation of the Debtor's operating assets, during a six-month period ending March 31, 2003. This analysis is subject to any changes resulting from the extension of the duration of the liquidation period beyond the contemplated six-months.

Additional Liabilities and Reserves

The Debtor believes that there would be certain actual and contingent liabilities and expenses for which provision would be required in a Chapter 7 liquidation before distributions could be made to creditors above and beyond the expenses that would be incurred in a Chapter 11 reorganization, including: (a) certain liabilities that are not dischargeable pursuant to the Bankruptcy Code; (b) Administrative Claims including the fees of a trustee, counsel and other professionals (including financial advisors and accountants) and other liabilities; and (c) certain administrative costs including post-petition trade payables and general and corporate costs associated with the orderly wind-down of the Debtor's businesses. Management believes that there is significant uncertainty as to the reliability of the Debtor's estimates of the amounts related to the foregoing.

CONCLUSION

In summary, the Debtor believes that a Chapter 7 liquidation of the Debtor would result in a diminution in the value to be realized by the Holders of Claims and Interests. As set forth in the following table, the management of the Debtor estimates that the total liquidation proceeds available for distribution to holders of claims in XO, net of Chapter 7 expenses, would aggregate to approximately \$257 million to \$561 million. The Debtor believes that the Claims against and Interests in the Debtor other than Chapter 7 trustees, professional fees and related expenses, Other Secured Claims, and Senior Secured Lender Claims would receive no value in a liquidation of the Company under Chapter 7 of the Bankruptcy Code. Holders of the Senior Secured Lender Claims, Non-Tax Priority Claims, General Unsecured Claims, and Note Claims are expected to receive recoveries under the Plan in excess of that shown in a Chapter 7 liquidation. The recovery for the Debtor's creditors, in aggregate, would be less than the proposed distributions under the Plan. Consequently, the Debtor believes that the Plan, which

provides for the continuation of its business, would prove to provide a substantially greater ultimate return to the Holders of Claims than would a Chapter 7 liquidation. The following table estimates the Debtor's assets as of April 30, 2002, and the amount of recovery on each asset.

<i>Liquidation Analysis of XO Communications, Inc.</i>					
<i>(\$ in millions)</i>					
Assets	Book Value as of 4/30/02	Estimated Recovery		Estimated Liquidation	
		Low Case	High Case	Low Value	High Value
Cash & Marketable Securities	\$0.0	100.0%	100.0%	\$0.0	\$0.0
Accounts Receivable (net)	\$0.0	NA	NA	-	-
Pledged Securities	\$13.4	0.0%	0.0%	-	-
Other Current Assets	\$69.4	2.7%	3.1%	1.9	2.1
Total Current Assets				\$1.9	\$2.1
Plant, Property & Equipment (net)	\$76.4	3.5%	9.4%	\$2.6	\$7.2
Investment in Fixed Wireless Licenses (net)	\$36.6	1.0%	5.0%	9.4	46.8
Other Assets	\$56.1	0.9%	1.8%	1.4	2.9
Net Inter-Company Receivables & Investments in Subsidiaries		9.7%	13.5%	676.3	942.2
Total Fixed Assets				\$689.8	\$999.6
Total Estimated Proceeds from Liquidation of XO Communications, Inc.				\$691.6	\$1,001.7
Costs Associated with Liquidation					
Operating Costs through September 30, 2002 ⁽¹⁾				\$134.9	\$134.9
Operating Costs Associated with Wind-Down ⁽²⁾				232.9	232.9
Employee Severance ⁽³⁾				52.9	52.9
Restructuring Related Transaction Costs ⁽⁴⁾				13.8	20.0
Costs Associated with Liquidation				\$434.6	\$440.8
Net Estimated Liquidation Proceeds Available for Distribution				\$257.0	\$560.9
Estimated Secured Claims as of 9/30/02					
	Claim Amount	Estimated Recovery			
Capital Lease Obligations	\$24.7	Low Value	High Value		
<i>Implied Recovery %</i>		\$24.7	\$24.7		
		100%	100%		
Residual Value Available for Senior Secured Lender Claims		\$232.3	\$536.2		
Senior Secured Lender Claim	\$1,028.1	\$232.3	\$536.2		
<i>Implied Recovery %</i>		22.6%	52.2%		

(1) Represents cash costs to run business from April 30, 2002, through September 30, 2002.

(2) Represents cash used to fund operations during a hypothetical six-month wind down.

(3) Based upon active 5,679 active employees as of 3/24/02 and calculated using base salary, excludes overtime and commission.

(4) Trustee and professional fees associated with the six-month wind down period are estimated at 2% of the total estimated liquidation proceeds.

NOTES TO LIQUIDATION ANALYSIS

CASH

CONSISTS OF ALL CASH AND MARKETABLE SECURITIES HELD AT THE DEBTOR AND IS ASSUMED TO BE FULLY RECOVERABLE, AS BOOK VALUE APPROXIMATES MARKET VALUE. PLEASE NOTE THAT THE CASH HELD AT THE OPERATING SUBSIDIARIES IS INCLUDED IN NET INTERCOMPANY & INVESTMENTS IN SUBSIDIARIES.

ACCOUNTS RECEIVABLE

PLEASE NOTE THAT THE ACCOUNTS RECEIVABLE ARE HELD AT THE OPERATING SUBSIDIARIES AND THE RECOVERY IS INCLUDED IN NET INTERCOMPANY & INVESTMENTS IN SUBSIDIARIES. PAST BAD-DEBT EXPERIENCE, CURRENT ACCOUNTS RECEIVABLE AGING, THE EFFECT OF A CHAPTER 7 LIQUIDATION AND THE SPECIFIC DIRECT COSTS THAT WOULD HAVE TO BE INCURRED TO COLLECT ON RECEIVABLES WOULD ADVERSELY IMPACT THE RECOVERY ON RECEIVABLES. AS SUCH, AN ESTIMATED 41% TO 57% RECOVERY IS APPLIED TO THE ESTIMATED GROSS AMOUNT OF OUTSTANDING RECEIVABLES AT APRIL 30, 2002. THE APPLIED RECOVERY RANGES INCORPORATED LOWER EXPECTED RECOVERIES ON RECIPROCAL COMPENSATION AND ON SIGNIFICANTLY PAST DUE RECEIVABLES IN A CHAPTER 7 LIQUIDATION PROCESS.

PLEDGED SECURITIES

PLEDGED SECURITIES PRIMARILY CONSIST OF COLLATERAL FOR OUTSTANDING LETTERS OF CREDIT AND ARE NOT ASSUMED TO GENERATE ANY VALUE IN A CHAPTER 7 CONTEXT.

OTHER CURRENT ASSETS

OTHER CURRENT ASSETS CONSIST PRIMARILY OF PREPAID EXPENSES RELATED TO LEVEL 3, SERVICE AGREEMENTS, RENTS AND OTHER ITEMS. ADDITIONALLY, OTHER CURRENT ASSETS INCLUDE OTHER DEFERRED ASSETS, OTHER MISCELLANEOUS RECEIVABLES AND ASSETS HELD FOR SALE. A BLENDED RECOVERY OF 2.7% TO 3.1% WAS ASSUMED FOR OTHER CURRENT ASSETS, WITH NO RECOVERY VALUE BEING ALLOCATED TO PREPAID EXPENSES.

PROPERTY, PLANT & EQUIPMENT (NET)

PROPERTY, PLANT & EQUIPMENT IS PRIMARILY COMPRISED OF TELECOMMUNICATIONS NETWORKS, SOFTWARE DEVELOPMENT, CONSTRUCTION IN PROGRESS, OFFICE EQUIPMENT AND FIXTURES AND OTHER LONGER-LIVED TELECOMMUNICATIONS ASSETS. PROPERTY, PLANT & EQUIPMENT WERE ASSUMED TO RECEIVE A BLENDED RECOVERY OF 3.5% TO 9.4% BASED ON THE ASSUMED IMPLIED MARKETABILITY OF THESE ASSETS IN A CHAPTER 7 CONTEXT.

INVESTMENT IN FIXED WIRELESS LICENSES (NET)

INVESTMENT IN FIXED WIRELESS LICENSES IS COMPRISED OF THE DEBTOR'S INVESTMENT IN LMDS LICENSES. LMDS LICENSES WERE ASSUMED TO RECEIVE A BLENDED RECOVERY OF 1% TO 5% BASED ON THE ASSUMED MARKETABILITY OF THESE ASSETS IN A CHAPTER 7 CONTEXT.

OTHER ASSETS

OTHER ASSETS PRIMARILY CONSISTS OF FINANCING COSTS, DEFERRED ASSETS, DEPOSITS AND OTHER MISCELLANEOUS INVESTMENTS, AND WERE ASSUMED TO RECEIVE A BLENDED RECOVERY OF APPROXIMATELY 1% TO 2% IN A CHAPTER 7 CONTEXT.

NET INTERCOMPANY & INVESTMENTS IN SUBSIDIARIES

NET INTERCOMPANY RECEIVABLES EQUAL THE AGGREGATE AMOUNT OF LIQUIDATION PROCEEDS FROM ALL OF THE ASSETS OF THE OPERATING SUBSIDIARIES, REFLECTED AS INTERCOMPANY PAYABLES DUE FROM THE COMPANY'S OPERATING SUBSIDIARIES TO XO. A LIQUIDATION ANALYSIS OF THE COMPANY'S OPERATING SUBSIDIARIES WAS ESTIMATED ON A CONSOLIDATED BASIS AND, AS A RESULT, NO VALUE IS ATTRIBUTED TO XO'S INVESTMENTS IN SUBSIDIARIES DUE TO THE MAGNITUDE OF THE OUTSTANDING INTERCOMPANY PAYABLES DUE FROM THE COMPANY'S OPERATING SUBSIDIARIES TO XO.

PENDING LITIGATION

1. In re XO Communications, Inc. Securities Litigation, Civ. Action No.: 01-1832-A (E.D. Va.) (dismissed by Court Order dated May 31, 2002).
2. Irving Schoenfeld and Morgan Marketing, Ltd., Russ Land and Brian Beavers v. XO Communications, Inc. et al., Case No. 01-018358 (N.Y. Sup. Ct., Nassau County).
3. Ben Marshall Riley, Stanley Nitzburg, and Milton J. Ayala v. Akerson et al., Del. Ch. Ct., New Castle County, No. 19353.
4. Thad Wardall, Trustee, U/A 5-08-00, Wardall Revocable Living Trust, and Brian Bowden v. XO Communications, Inc., Del. Ch. Ct., New Castle County, No. 19590.
5. Sheldon Weiner v. XO Communications, Inc., Del. Ch. Ct., New Castle County, No. 19540.