

KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP

TYSONS CORNER

8000 TOWERS CRESCENT DRIVE

SUITE 1200

VIENNA, VIRGINIA 22182

(703) 918-2300

DOCKET FILE COPY ORIGINAL

FACSIMILE

(703) 918-2450

www.kelleydrye.com

DIRECT LINE: (703) 918-2320

EMAIL: jgriffin@kelleydrye.com

NEW YORK, NY

WASHINGTON, DC

LOS ANGELES, CA

CHICAGO, IL

STAMFORD, CT

PARSIPPANY, NJ

BRUSSELS, BELGIUM

HONG KONG

AFFILIATE OFFICES

BANGKOK, THAILAND

JAKARTA, INDONESIA

MANILA, THE PHILIPPINES

MUMBAI, INDIA

TOKYO, JAPAN

ORIGINAL

August 2, 2002

RECEIVED

AUG - 2 2002

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

VIA COURIER

Marlene H. Dortch
Secretary
Federal Communications Commission
445-12th Street, S.W.
Washington, D.C. 20554

Re: XO Communications, Inc.
Applications for Consent to Transfer of Control
IB Docket No. 02-50

Dear Ms. Dortch:

Enclosed for filing on behalf of XO Communications, Inc. ("XO") are the original and five (5) copies of a "Disclosure Statement With Respect to the Third Amended Plan of Reorganization for XO Communications, Inc.," dated July 22, 2002 and filed in the U.S. Bankruptcy Court for the Southern District of New York in *In re XO Communications, Inc.*, Case No. 02-12947 (AJG) ("Disclosure Statement"). The Disclosure Statement describes the terms and conditions of XO's Plan of Reorganization, including the two alternatives that may be implemented pursuant to the Plan. The Disclosure Statement was approved by the Bankruptcy Court on July 22, 2002. The order of the Bankruptcy Court approving the Disclosure Statement is also attached. XO is providing the Disclosure Statement and associated court order in response to the International Bureau's July 31, 2002 request for additional information and as agreed at the July 17, 2002 meeting with Commission staff.

Please date-stamp the additional copy of this letter and return it to the bearer. Although the International Bureau requested that XO send its response to the information request via email, in light of the size of the Disclosure Statement, we are sending the Disclosure Statement and court order to the Commission staff via courier and will email only the date-

015

Marlene H. Dortch
August 2, 2002
Page Two

stamped copy of this letter to the staff. Please contact the undersigned counsel if you have any questions regarding this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Joan M. Griffin". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Joan M. Griffin

cc: Jim Ball
George Li
Claudia Fox
Jackie Ruff
Mark Uretsky
Imani Ellis-Cheek
Zenji Nakazawa
Jeff Tobias
Elizabeth Yockus
Neil Dellar

CERTIFICATE OF SERVICE

I, Charles "Chip" M. Hines III, hereby certify that a true and correct copy of the foregoing letter and attachments from XO Communications, Inc. in the Matter of IB Docket No. 02-50 was served on this the 2nd day of August, 2002 on the individuals in the following list:

Delivered via U.S. Mail:

Scott Burnside
Senior Vice President, Regulatory
And Government Affairs
RCN Corporation
100 Lake Street
Dallas, Pennsylvania 18612

A handwritten signature in black ink, appearing to read "Charles M. Hines III", written over a horizontal line.

Charles "Chip" M. Hines III

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

RECEIVED

AUG - 2 2002

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

----- X
In re: :
XO COMMUNICATIONS, INC., : Chapter 11
Debtor. : Case No. 02-12947 (AJG)
----- X

DISCLOSURE STATEMENT WITH RESPECT TO
THE THIRD AMENDED PLAN OF REORGANIZATION
FOR XO COMMUNICATIONS, INC.

ATTORNEYS FOR
XO Communications, Inc.

Dated: New York, New York
July 22, 2002

WILLKIE FARR & GALLAGHER
787 Seventh Avenue
New York, NY 10019-6099
(212) 782-8000

DISCLAIMER

THE UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW YORK (THE "BANKRUPTCY COURT") HAS APPROVED THIS DISCLOSURE STATEMENT FOR THE PLAN OF REORGANIZATION (THE "PLAN") OF XO COMMUNICATIONS, INC. THE APPROVAL OF THIS DISCLOSURE STATEMENT MEANS THAT THE BANKRUPTCY COURT HAS FOUND THAT THIS DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION WITHIN THE MEANING OF SECTION 1125 OF THE UNITED STATES BANKRUPTCY CODE. SUCH APPROVAL DOES NOT CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT ON THE MERITS OF THE PLAN OR AN ENDORSEMENT OF THE PLAN BY THE BANKRUPTCY COURT.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS INCLUDED HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE PLAN AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN. NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT, REGARDING THE PLAN OR THE SOLICITATION OF ACCEPTANCES OF THE PLAN.

ALL CREDITORS ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN AND THE EXHIBITS AND SCHEDULES ANNEXED TO THE PLAN AND THIS DISCLOSURE STATEMENT. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE UNITED STATES BANKRUPTCY CODE AND RULE 3016 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER NON-BANKRUPTCY LAW. THIS DISCLOSURE STATEMENT HAS BEEN NEITHER APPROVED NOR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN. PERSONS OR ENTITIES TRADING IN OR OTHERWISE PURCHASING, SELLING OR TRANSFERRING SECURITIES OR CLAIMS OF XO COMMUNICATIONS, INC. IN THIS CASE SHOULD EVALUATE THIS DISCLOSURE STATEMENT AND THE PLAN IN LIGHT OF THE PURPOSE FOR WHICH THEY WERE PREPARED.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS. THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY NON-BANKRUPTCY PROCEEDING NOR SHALL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE PLAN AS TO HOLDERS OF CLAIMS AGAINST, OR INTERESTS IN, XO COMMUNICATIONS, INC. IN THIS CASE.

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	PLAN VOTING INSTRUCTIONS AND PROCEDURES	4
	A. Definitions	4
	B. Notice to Holders of Claims	4
	C. Solicitation Package	5
	D. Voting Procedures, Ballots, and Deadlines	5
	E. Rights Certificates and Deadlines under the Stand-Alone Plan	7
	F. New Warrants and Exercise Procedures under the Stand-Alone Plan	8
	G. Confirmation Hearing and Deadline for Objections to Confirmation	10
III.	OVERVIEW OF THE PLAN AND CHAPTER 11 CASE	13
	A. The Debtor	14
	B. Background	14
	C. The Plan of Reorganization	22
	D. Support for the Restructuring	32
	E. Recommendation of the Restructuring	33
IV.	GENERAL INFORMATION	34
	A. The Debtor	34
	B. Directors and Executive Officers of XO	35
V.	EVENTS LEADING TO COMMENCEMENT OF THE CHAPTER 11 CASE	40
	A. Background	40
	B. Development of the Restructuring	42
	C. Discussions with Forstmann Little and Telmex	43
	D. Discussions with the Holders of Notes	44
	E. Discussions with Senior Secured Lenders	47
	F. The Restructuring	53
	G. Post-Restructuring	55
	H. Agreements in Connection with the Investment	56
	I. Stand-Alone Term Sheet	68
	J. Management Stock Purchases, Options and Retention Plans	69
	K. Litigation	70
VI.	CHAPTER 11 CASE	75
	A. Continuation of Business; Stay of Litigation	75
	B. First-Day Orders	75
VII.	THE PLAN	76
	A. Overview of Chapter 11	76
	B. Creditors and Equity Interest Holders Entitled to Vote on the Plan	77
	C. Certain Matters Regarding Classification and Treatment of Claims and Interests	78
	D. Confirmation and Consummation Procedure	120

	E.	Securities Considerations	127
	F.	Alternatives to Confirmation and Consummation of the Plan.....	135
	G.	After the Restructuring.....	137
	H.	Support for the Restructuring.....	137
	I.	Estimated Fees and Expenses.....	137
	J.	Recommendation of the Restructuring.....	138
VIII.		CAPITALIZATION	139
	A.	Outstanding Common Stock	139
	B.	Outstanding Old Preferred Stock	139
	C.	Outstanding Notes.....	140
	D.	Secured Senior Credit Facility.....	140
IX.		DESCRIPTION OF SECURITIES TO BE ISSUED UNDER THE FL/TELMEX PLAN	141
	A.	Authorized Common Stock.....	141
	B.	New Class A Common Stock.....	143
	C.	New Class C Common Stock.....	143
	D.	New Class D Common Stock.....	144
	E.	New Class E Common Stock	144
X.		DESCRIPTION OF SECURITIES TO BE ISSUED UNDER THE STAND-ALONE PLAN	147
	A.	New Reorganization Common Stock.....	147
	B.	Exit Facility.....	148
	C.	New Junior Secured Loans.....	148
	D.	New Warrants.....	150
	E.	Rights Offering.....	153
XI.		RISK FACTORS	159
XII.		CERTAIN CHARTER AND BYLAW PROVISIONS	174
	A.	FL/Telmex Plan - Charter and Bylaw Provisions	174
	B.	Stand-Alone Plan - Charter and Bylaw Provisions	177
	C.	Indemnification of Directors and Officers	177
XIII.		THE SOLICITATION; VOTING PROCEDURE.....	179
	A.	Parties in Interest Entitled to Vote	179
	B.	Classes Impaired under the Plan.....	179
	C.	Voting Rules; Standards.....	179
	D.	Further Information; Additional Copies.....	181
XIV.		CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS.....	182
	A.	Tax Consequences to XO	183
	B.	Certain Tax Consequences to Holders of Certain Claims	186
	C.	Certain Consequences to Non-United States Holders.....	191
	D.	Information Reporting and Backup Withholding.....	192

XV.	ADDITIONAL INFORMATION AVAILABLE.....	192
XVI.	RECOMMENDATION AND CONCLUSION	193

Appendix A	- The Plan	A-1
Appendix B-1	- Financial Projections – FL/Telmex Plan	B-1-1
Appendix B-2	- Financial Projections – Stand-Alone Plan	B-2-1
Appendix C	- Chapter 7 Liquidation Analysis	C-1
Appendix D	- Pending Litigation	D-1
Appendix E	- Bank Plan Support Agreement	E-1
	Exhibit A – Investment Agreement	
	Exhibit B – Bank Amendment Term Sheet	
Appendix F	- The Bank Stand-Alone Support Letter and the Stand-Alone Term Sheet	F-1

I. INTRODUCTION

XO Communications, Inc., a Delaware corporation (“XO” or the “Debtor”, and together with XO’s subsidiaries, the “Company”), the debtor and debtor-in-possession in the above-referenced chapter 11 case, submits this disclosure statement (this “Disclosure Statement”) pursuant to section 1125 of the Bankruptcy Code for use in the solicitation of votes on the Third Amended Plan of Reorganization for XO Communications, Inc., dated July 22, 2002 (the “Plan”), proposed by the Debtor and filed with the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”). A copy of the Plan is annexed as Appendix A to this Disclosure Statement. On June 17, 2002, the Debtor commenced its case under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court, Case No. 02-12947 (AJG) (the “Chapter 11 Case”).

This Disclosure Statement sets forth certain information regarding the Debtor’s prepetition operating and financial history, the need to seek chapter 11 protection, significant events that are expected to occur during the Chapter 11 Case, and the anticipated organization, operations and financing upon successful emergence from chapter 11 of XO (after such date, “Reorganized XO” or “Reorganized Debtor”). This Disclosure Statement also describes terms and provisions of the Plan, including the two Alternatives (as defined below) that may be implemented pursuant to the Plan, certain effects of confirmation of the Plan, certain risk factors associated with securities to be issued under the Plan, and the manner in which distributions will be made under the Plan. In addition, this Disclosure Statement discusses the confirmation process and the voting procedures that Holders of Claims entitled to vote under the Plan must follow for their votes to be counted.

Under the Plan, XO will be reorganized either (a) through the consummation of the transactions contemplated by the Investment Agreement (as defined below) with the Forstmann Little Investors and Telmex (each as defined below), and the distribution of the proceeds thereof and New Common Stock (as defined below) pursuant to the Investment Agreement and the Plan (the “FL/Telmex Plan”), or (b) if a Termination Event (as defined below) occurs, then, on a stand-alone basis without consummation of the FL/Telmex Plan, through consummation of the transactions contemplated by the Stand-Alone Term Sheet (as defined below) and any related agreements and the Plan (the “Stand-Alone Plan”, together with the FL/Telmex Plan, the “Alternatives”). Holders of Claims against the Debtor who are entitled to vote on the Plan will have the right to vote to accept either or both the FL/Telmex Plan and the Stand-Alone Plan, and may vote for or against each of the Plans. At the Confirmation Hearing (as defined below), the Debtor will proceed with confirmation of either the FL/Telmex Plan or the Stand-Alone Plan in accordance with the provisions of the Plan.

Except as otherwise provided herein, capitalized terms not otherwise defined in this Disclosure Statement have the meanings ascribed to them in the Plan. Unless otherwise noted herein, all dollar amounts provided in this Disclosure Statement and in the Plan are given in United States dollars.

FOR A DESCRIPTION OF THE PLAN AND VARIOUS RISKS AND OTHER FACTORS PERTAINING TO THE PLAN AS IT RELATES TO HOLDERS OF CLASSES 1, 5 AND 6 CLAIMS, WHICH ARE ENTITLED TO VOTE ON THE PLAN, PLEASE SEE SECTION VII OF THIS DISCLOSURE STATEMENT, ENTITLED "THE PLAN" AND SECTION XI OF THIS DISCLOSURE STATEMENT, ENTITLED "RISK FACTORS". IF THE STAND ALONE EVENTS OCCUR, HOLDERS OF CLASS 5 AND 6 CLAIMS WILL NOT BE ENTITLED TO ANY RECOVERY UNDER THE STAND-ALONE PLAN. HOWEVER, BASED UPON NEGOTIATIONS AMONG THE DEBTOR, THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS AND A SUBSET OF THE SENIOR LENDERS COMMITTEE, UNDER THE STAND-ALONE PLAN HOLDERS OF CLASSES 5 AND 6 WILL RECEIVE A DISTRIBUTION OF CERTAIN NON-TRANSFERABLE RIGHTS AND, IF SUFFICIENT HOLDERS OF CLASS 5 OR CLASS 6 VOTE IN FAVOR OF THE STAND-ALONE PLAN, NEW REORGANIZATION COMMON STOCK AND NEW WARRANTS, OUT OF THE ENTITLED DISTRIBUTION OF THE SENIOR SECURED LENDERS.

HOLDERS OF CLASSES 7, 8, 9, 10 AND 11 CLAIMS ARE NOT ENTITLED TO ANY RECOVERY UNDER EITHER ALTERNATIVE UNDER THE PLAN, ARE DEEMED TO REJECT BOTH THE FL/TELMEX PLAN AND THE STAND-ALONE PLAN AND ARE NOT ENTITLED TO VOTE ON EITHER ALTERNATIVE UNDER THE PLAN. HOWEVER, BASED UPON NEGOTIATIONS AMONG THE DEBTOR, THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS AND A SUBSET OF THE SENIOR LENDERS COMMITTEE, UNDER THE STAND-ALONE PLAN HOLDERS OF CLASSES 7, 9 AND 10 WILL RECEIVE A CONTINGENT REDISTRIBUTION OF CERTAIN NON-TRANSFERABLE RIGHTS, IF ANY, OUT OF THE ENTITLED DISTRIBUTION OF THE SENIOR SECURED LENDERS.

THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN DOCUMENTS RELATING TO THE PLAN, CERTAIN EVENTS EXPECTED TO OCCUR IN THE CHAPTER 11 CASE AND CERTAIN FINANCIAL INFORMATION. ALTHOUGH THE DEBTOR BELIEVES THAT THE SUMMARIES OF THE PLAN AND RELATED DOCUMENT SUMMARIES ARE FAIR AND ACCURATE, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTOR, EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE DEBTOR DOES NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

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

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

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.

FOR FURTHER INFORMATION AND INSTRUCTIONS ON VOTING TO ACCEPT OR REJECT THE PLAN, SEE SECTION XIII OF THIS DISCLOSURE STATEMENT, ENTITLED "THE SOLICITATION; VOTING PROCEDURE."

II. PLAN VOTING INSTRUCTIONS AND PROCEDURES

A. Definitions

Except as otherwise defined herein, capitalized terms not otherwise defined in this Disclosure Statement have the meanings ascribed to them in the Plan.

B. Notice to Holders of Claims

This Disclosure Statement will be transmitted to Holders of Claims that are entitled under the Bankruptcy Code to vote on the Plan. See Section XIII for a discussion and listing of those Holders of Claims that are entitled to vote on the Plan and those Holders of Claims and Interests that are not entitled to vote on the Plan. The purpose of this Disclosure Statement is to provide adequate information to enable such Claim Holders to make a reasonably informed decision with respect to the Plan prior to exercising their right to vote to accept or reject an Alternative under the Plan.

The Bankruptcy Court has approved this Disclosure Statement as containing information of a kind and in sufficient and adequate detail to enable such Claim Holders to make an informed judgment with respect to acceptance or rejection of the Plan. THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE EITHER A GUARANTY OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN, A DETERMINATION BY THE BANKRUPTCY COURT ON THE MERITS OF THE PLAN OR AN ENDORSEMENT OF THE PLAN BY THE BANKRUPTCY COURT.

ALL HOLDERS OF CLAIMS AGAINST THE DEBTOR ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND ITS APPENDICES CAREFULLY AND IN THEIR ENTIRETY BEFORE DECIDING TO VOTE EITHER TO ACCEPT OR TO REJECT THE PLAN. This Disclosure Statement contains important information about the Plan, considerations pertinent to acceptance or rejection of the Plan, and developments concerning the Chapter 11 Case.

YOU SHOULD CONSULT WITH YOUR LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS AS TO ANY SUCH MATTERS CONCERNING THE SOLICITATION OF VOTES TO ACCEPT OR REJECT THE PLAN, THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY.

THIS DISCLOSURE STATEMENT IS THE ONLY DOCUMENT TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES ON THE PLAN. No solicitation of votes may be made except after distribution of this Disclosure Statement, and no person has been authorized to distribute any information concerning the Debtor other than the information contained herein.

CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BY ITS NATURE FORWARD LOOKING AND CONTAINS ESTIMATES, ASSUMPTIONS AND PROJECTIONS THAT MAY BE MATERIALLY DIFFERENT FROM ACTUAL, FUTURE RESULTS. Except with respect to the financial projections set forth in

Appendix B-1 (FL/Telmex Plan) and Appendix B-2 (Stand-Alone Plan) annexed hereto (collectively, the "Projections") and except as otherwise specifically and expressly stated herein, this Disclosure Statement does not reflect any events that may occur subsequent to the date hereof and that may have a material impact on the information contained in this Disclosure Statement. The Debtor does not intend to update the Projections; thus, the Projections will not reflect any subsequent events not already accounted for in the assumptions underlying the Projections. Further, the Debtor does not anticipate that any amendments or supplements to this Disclosure Statement will be distributed to reflect such occurrences. Accordingly, the delivery of this Disclosure Statement shall not under any circumstance imply that the information herein is correct or complete as of any time subsequent to the date hereof.

EXCEPT WHERE SPECIFICALLY NOTED, THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTING FIRM.

C. Solicitation Package

Along with the mailing of this Disclosure Statement, as part of the solicitation of acceptances of the Plan, the Debtor will send copies of (1) the Plan, included as Appendix A to this Disclosure Statement; (2) the order approving this Disclosure Statement, which, among other things, gives notice of the deadline for the submission of Ballots; (3) the voting procedures order, which, among other things, outlines the procedures for the submission of Ballots; (4) notice of the date, time and place of the Confirmation Hearing, and the time for filing objections to confirmation of the Plan; and (5) if you are the Holder of Claim(s) entitled to vote on the Plan, one or more Ballots (and return envelopes) to be used by you in voting to accept or to reject each of the Alternatives under the Plan.

D. Voting Procedures, Ballots, and Deadlines

After carefully reviewing the Plan, this Disclosure Statement and the detailed instructions accompanying your Ballot, please indicate your acceptance or rejection of each of the Alternatives under the Plan by voting in favor of or against each of the Alternatives under the Plan on the enclosed Ballot. You must complete and sign your original Ballot (copies will not be accepted) and return it in the envelope provided.

Each Ballot has been coded to reflect the Class of Claim it represents. Accordingly, in voting to accept or reject the Plan, you must use only the coded Ballot or Ballots sent to you with this Disclosure Statement.

IN ORDER FOR YOUR VOTE TO BE COUNTED, YOUR BALLOT MUST BE PROPERLY COMPLETED AS SET FORTH ABOVE AND IN ACCORDANCE WITH THE VOTING INSTRUCTIONS ON THE BALLOT AND RECEIVED NO LATER THAN AUGUST 19, 2002, AT 5:00 P.M. (EASTERN TIME) (THE "VOTING DEADLINE") BY BANKRUPTCY SERVICES LLC (THE "BALLOTING AGENT"). DO NOT RETURN ANY STOCK CERTIFICATES OR DEBT INSTRUMENTS WITH YOUR BALLOT.

If you are entitled to vote to accept or reject an Alternative under the Plan, a Ballot is enclosed for the purpose of voting on each of the Alternatives. Please vote and return your Ballot to the Balloting Agent, provided, however, that pursuant to the terms of the Plan, beneficial owners of Senior Notes who receive a Ballot from a bank or brokerage firm (or its agent) shall return the Ballot to such bank or brokerage firm (or its agent).

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.

If you are a Holder of a Claim entitled to vote on the Plan and you did not receive a Ballot, received a damaged Ballot or lost your Ballot, or if you have any questions concerning this Disclosure Statement, the Plan or the procedures for voting on the Plan, please call XO Balloting Center, c/o Bankruptcy Services LLC at (212) 376-8494.

If you have any questions about (1) the procedure for voting your Claim or with respect to the packet of materials that you have received or (2) the amount of your Claim, or if you wish to obtain, at your own expense, unless otherwise specifically required by Federal Rule of Bankruptcy Procedure 3017(d), an additional copy of the Plan, this Disclosure Statement or any appendices or exhibits to such documents, 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

FOR FURTHER INFORMATION AND INSTRUCTIONS ON VOTING TO ACCEPT OR REJECT THE PLAN, SEE SECTION XIII.

E. Rights Certificates and Deadlines under the Stand-Alone Plan

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

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

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

To purchase Rights Shares, you must properly complete the applicable Rights Certificate as set forth above and in accordance with the instructions thereon. Rights Certificates and payment for shares must be received by American Stock Transfer & Trust Company (the "Rights Agent") no later than 5:00 p.m. (eastern time) on the Nontransferable Rights Expiration Date or the final expiration date specified on the transferable rights certificate, as the case may be.

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

For a more detailed summary of the recipients and terms of the Rights Offering, see "X. Description of Securities to be Issued under the Stand-Alone Plan – E. Rights Offering". If you have any questions about (1) the procedure for exercising the Rights or with respect to the packet of materials that you have received or (2) the amount of Rights available to you, please contact the Rights Agent:

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

F. New Warrants and Exercise Procedures under the Stand-Alone Plan

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

- The New Series A Warrants will be exercisable at an exercise price of \$6.25 per share, representing a 25% premium to the pre-Rights Offering equity value of Reorganized XO assumed in the Stand-Alone Plan (\$475 million).
- The New Series B Warrants will be exercisable at an exercise price of \$7.50 per share, representing a 50% premium to the pre-Rights Offering equity value of Reorganized XO assumed in the Stand-Alone Plan (\$475 million).
- The New Series C Warrants will be exercisable at an exercise price of \$10.00 per share, representing a 100% premium to the pre-Rights Offering equity value of Reorganized XO assumed in the Stand-Alone Plan (\$475 million).

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

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

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

- (1) New Series A Warrants to purchase 9,500,000 shares of New Reorganization Common Stock representing 10% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan;
 - (2) New Series B Warrants to purchase 7,125,000 shares of New Reorganization Common Stock representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan;
 - (3) New Series C Warrants to purchase 7,125,000 shares of New Reorganization Common Stock representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan; or
- ii. if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, but the Official Committee of Unsecured Creditors has recommended a vote in favor of the Stand-Alone Plan, has not withdrawn such recommendation and the Debtor believes, in its reasonable judgment, that all of the members of such Committee have voted their Claims in favor of confirmation of the Stand-Alone Plan, New Series B Warrants to purchase 4,750,000 shares of New Reorganization Common Stock (representing 5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);

The New Warrants will be evidenced by a warrant certificate (the "Warrant Certificate") and will be issued pursuant to the Plan and subject to the terms and conditions of the Warrant Agreement¹, between Reorganized XO and American Stock Transfer & Trust Company, as warrant agent (the "Warrant Agent"), to be executed on the Effective Date of the Stand-Alone Plan.

New Warrants may be exercised at any time on or before 5:00 p.m., New York City time, on the expiration date listed on the Warrant Certificate. The holder of New Warrants evidenced by a Warrant Certificate may exercise them by surrendering a Warrant Certificate, with the form of election to purchase properly completed and executed, together with payment of the exercise price (the "Exercise Price") as specified in the Warrant Agreement at the principal corporate trust office of the Warrant Agent. In the event that upon any exercise of a New Warrant the number of shares of New Reorganization Common Stock to be issued shall be less

¹ The Warrant Agreement will be included in a Plan Supplement.

than the total number of shares of New Reorganization Common Stock evidenced thereby, there shall be issued to the holder thereof or his assignee a new Warrant Certificate evidencing the number of shares of New Reorganization Common Stock not issued. No adjustment shall be made for any dividends on any Common Stock issuable upon exercise of such New Warrant.

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

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

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

FOR FURTHER INFORMATION AND INSTRUCTIONS ON THE NEW WARRANTS, SEE "X. DESCRIPTION OF SECURITIES TO BE ISSUED UNDER THE STAND-ALONE PLAN – D. NEW WARRANTS".

G. Confirmation Hearing and Deadline for Objections to Confirmation

The Bankruptcy Court has scheduled a Confirmation Hearing for August 26, 2002, at 9:30 a.m. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the adjournment date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing. Objections to confirmation of the Plan must be filed with the Bankruptcy Court and served on the counsel listed below to ensure receipt by them not later than August 21, 2002, at 4:30 p.m.

Counsel on whom objections should be served are:

Counsel to the Debtor:

XO COMMUNICATIONS, INC.
11111 Sunset Hills Road,
Reston, Virginia 20190
Telephone: (703) 547-2000
Facsimile: (703) 547-2025
Attn: General Counsel

with copies to:

WILLKIE FARR & GALLAGHER
787 Seventh Ave
New York, NY 10019-6099
Telephone: (212) 728-8000
Facsimile: (212) 728-8111
Attn: Tonny K. Ho, Esq.
Bruce R. Kraus, Esq.
Matthew A. Feldman, Esq.
Carollynn H.G. Callari, Esq.

Counsel to the Forstmann Little Investors:

FRIED, FRANK, HARRIS, SHRIVER & JACOBSON
One New York Plaza
New York, NY 10004
Telephone: (212) 859-8000
Facsimile: (212) 859-4000
Attn: Brad Eric Scheler, Esq.
Stephen Fraidin, Esq.
Thomas W. Christopher, Esq.
George B. South, Esq.

Counsel to Telmex:

LATHAM & WATKINS
885 Third Avenue
New York, N.Y. 10022
Tel. No.: (212) 906-1200
Fax No.: (212) 751-4864
Attn: Robert Ticktin, Esq.
James Hanna, Esq.
Shari Siegel, Esq.

Counsel to the Senior Secured Lenders:

SKADDEN, ARPS, SLATE, MEAGHER, & FLOM LLP
Four Times Square
New York NY 10036
Tel. No.: (212) 735-2120
Fax No.: (917) 777-2120
Attn: Jay M. Goffman, Esq.
Alan J. Carr, Esq.

Counsel to the Official Committee of Unsecured Creditors:

AKIN, GUMP, STRAUSS, HAUER, & FELD, L.L.P.
590 Madison Avenue
New York, NY 10022
Tel. No.: (212) 872-8010
Fax No.: 212.872.1002
Attn: Daniel H. Golden, Esq.
David H. Botter, Esq.

III. OVERVIEW OF THE PLAN AND CHAPTER 11 CASE

The following introduction and summary is a general overview only, which is qualified in its entirety by, and should be read in conjunction with, the more detailed discussions, information and financial statements and notes thereto appearing elsewhere in this Disclosure Statement and the Plan. All capitalized terms not defined in this Disclosure Statement have the meanings ascribed to such terms in the Plan. A copy of the Plan is annexed hereto as Appendix A.

This Disclosure Statement contains, among other things, descriptions and summaries of provisions of the Plan being proposed by the Debtor. The Debtor reserves the right (subject to the rights of the Investors under the Investment Agreement) to modify the Plan consistent with section 1127 of the Bankruptcy Code and Bankruptcy Rule 3019.

Important: The Plan presented in this Disclosure Statement consists of two alternative restructuring plans: One which is contemplated by XO's Investment Agreement with the Forstmann Little Investors and Telmex, and another which is a standalone contingency plan supported by the steering committee of XO's senior secured lenders.

The transactions contemplated by the FL/Telmex Plan would produce superior recoveries for creditors as compared with the Stand-Alone Plan. Although the Investment Agreement remains in full force and effect at this time, consummation of the FL/Telmex Plan remains subject to the satisfaction of a number of conditions, and XO cannot be certain that those conditions will be met. The Investors have advised XO that they believe it is "virtually impossible" for all those conditions to be met, that strict compliance with all conditions to their obligations under the Investment Agreement will be required at the time of the closing and that the Investors do not intend to proceed if the conditions are not met. In particular, but without limitation, the Investors have informed XO that neither the Plan, the Bank Amendment Term Sheet nor the Shareholder Stipulation are satisfactory to them and the pending lawsuit brought by the Treasurer of the State of Connecticut is covered by the "litigation condition" of Section 5.2(u) of the Investment Agreement.

The Investors have also informed XO that in their opinion their right to terminate the Investment Agreement and collect the Break-Up Fee pursuant to Section 6.1(i) of the Investment Agreement may have already been triggered by actions taken by XO with respect to the Stand-Alone Plan. At present, however, the Investors have not terminated or purported to terminate the Investment Agreement. See "XI. Risk Factors --The Investors Do Not Believe the Closing Conditions Can be Met."

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

Holder 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.

A. The Debtor

XO is primarily a holding company, which owns, manages and controls, directly or indirectly, more than 60 Operating Subsidiaries that collectively provide high-quality telecommunications services to business customers in over 20 states and the District of Columbia, including 25 of the 30 largest metropolitan areas in the U.S. Services provided by the Company include local and long distance voice, Internet access, Virtual Private Networking ("VPN"), high-capacity data network services (including dedicated, wavelength and Ethernet services), website hosting and integrated voice and data services. XO's principal executive offices are located at 11111 Sunset Hills Road, Reston, Virginia 20190. Its telephone number is (703) 547-2000. For more information, see "IV. General Information – A. The Debtor."

B. Background

From 1996, when Federal legislation first was enacted to promote competition in local telecommunications markets, until 2001, most emerging competitive telecommunications companies, including XO and its predecessors, were able to access funding required by their businesses in the capital markets. Since inception, XO has raised billions of dollars in capital, including approximately \$840 million through sales of common stock² and \$1.7 billion through sales of preferred stock. In addition, XO has incurred substantial borrowings, of which approximately \$5.7 billion (including approximately \$557 million of Notes held by a subsidiary of XO) was outstanding as of April 30, 2002.

XO's consolidated debt as of April 30, 2002 included \$1 billion in principal amount of outstanding borrowings under its secured Senior Credit Facility, approximately \$4.2 billion in aggregate principal amount and accreted value of discount notes outstanding under ten issues of Senior Notes (including approximately \$557 million of Notes held by a subsidiary of XO) and \$517.5 million in principal amount outstanding under one issue of Subordinated Notes³. As of April 30, 2002, XO also had outstanding eight classes of preferred stock⁴, with an aggregate liquidation preference of approximately \$2.2 billion, approximately \$490 million of which is held by a subsidiary of XO. In addition, as of that date, XO had two classes of common stock, of which the largest holders, on an "as converted" basis, are Eagle River Investments, LLC ("Eagle River"), Wendy P. McCaw and Forstmann Little & Co. Equity Partnership-VI, L.P.

² Excludes proceeds from the sale of common stock through employee plans.

³ For a complete list of the issuances of Senior Notes and Subordinated Notes, see "VIII Capitalization - C. Outstanding Notes".

⁴ For a complete list of the issuances of this outstanding preferred stock, see "VIII Capitalization - B. Outstanding Old Preferred Stock.

Three partnerships sponsored by Forstmann Little & Co. ("Forstmann Little"), Forstmann Little & Co. Equity Partnership – VI, L.P., Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VII, L.P. and FL Fund, L.P. (such limited partnerships, collectively, the "Forstmann Little Partnerships"), each hold preferred stock that is convertible into, and votes on an "as converted" basis with, the common stock on all matters in which holders of common stock are entitled to vote other than the election of directors.

As of April 30, 2002, XO's unaudited stand-alone books and records reflected total assets of approximately \$8.7⁵ billion and total liabilities and long term obligations, including the debt and preferred stock obligations discussed above, of approximately \$8.5 billion. At June 30, 2002, the Company had approximately \$535.9 million in cash and marketable securities on hand (net of outstanding checks). XO wrote off the entire book value of its goodwill during the quarterly period ended March 31, 2002 as a result of its implementation of recently adopted generally accepted accounting principles.

In the third and fourth quarters of 2001, market valuations of the debt and equity securities of telecommunications companies, especially emerging providers such as the Company, experienced very significant declines, leading to a wave of bankruptcies throughout the industry. Although the Company implemented stringent measures designed to conserve cash and reduce operating expenses and capital expenditures in response to these conditions, the Company remains in need of a significant cash infusion to fund the operating expenses, capital expenditures and debt service necessary to bring its operations to profitability on a company-wide basis. In light of these circumstances, the Company engaged in discussions with Forstmann Little, Eagle River and several other prospective investors regarding possible investment and restructuring opportunities.

After these discussions failed to result in any significant financing proposals, in October 2001, XO retained Houlihan Lokey Howard & Zukin Capital ("Houlihan Lokey") as its outside financial advisor to assist it in exploring a variety of investment and deleveraging alternatives, including stand-alone restructuring and third-party investment scenarios. As the market conditions in the telecommunications sector continued to decline during the fourth quarter of 2001, the alternatives under consideration were expanded to include restructuring and investment scenarios that could be implemented in bankruptcy.

At the Company's request, Houlihan Lokey prepared solicitation materials and, beginning in November 2001, contacted over fifty additional potential investors, both strategic and financial, in an effort to raise new capital. To assure proper focus, Houlihan Lokey approached potential third-party investors that had previously made investments in the telecommunications industry and/or had the financial wherewithal to make at least a \$500 million investment in the Company on their own or in connection with one or more financial partners. In addition, Houlihan Lokey and the Company continued to engage in discussions with the other previously identified prospective investors who conducted due diligence reviews in which the Company provided information relating to the Company and its operations.

⁵ Approximately \$8.2 million of these assets represent intercompany investments and receivables.

On November 21, 2001, Forstmann Little, on behalf of Forstmann Little & Co. Equity Partnership-VII, L.P., a Delaware limited partnership, and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VIII, L.P., a Delaware limited partnership (such limited partnerships collectively, the "Forstmann Little Investors") submitted a draft term sheet contemplating a \$700 million equity investment in the Company by the Forstmann Little Investors and a then-unnamed third-party investor (later to be identified as Teléfonos de México, S.A. de C.V. ("Telmex" and, together with the Forstmann Little Investors, the "Investors"), conditioned on, among other things, a substantially deleveraged balance sheet.

Because of the Forstmann Little Partnerships' board representation, and the possibility that Eagle River might participate in or submit an alternative financing proposal with respect to this financing proposal, the Board of Directors established a subcommittee of non-management directors unaffiliated with either Forstmann Little or Eagle River to evaluate the merits of this proposal in consultation with Houlihan Lokey and the Company's legal advisors.

Houlihan Lokey continued its search for potential alternate investors. At the same time, XO and its financial and legal advisors, under the supervision of the Board's subcommittee, engaged in extensive discussions and negotiations with the Forstmann Little Investors with respect to the terms of its proposed investment, and, through this process, were able to obtain terms more favorable to XO and its creditors.

On November 28, 2001, XO entered into a non-binding term sheet (the "Term Sheet") with the Investors, with respect to an \$800 million investment in XO (the "Investment") and the following morning announced publicly the material terms and conditions of the proposed investment. Meanwhile, Houlihan Lokey continued its search for potential alternative investors, including other third parties who became aware of the Investors' proposed investment through publicly available information. Following the execution of the Term Sheet, and in anticipation of the related restructuring transactions, XO ceased making all cash interest and dividend payments on its unsecured debt obligations and preferred stock that were due on or after December 1, 2001.

On January 15, 2002, after extensive discussion and negotiation with the Investors, and having received no investment proposals from any other prospective investor despite intensive solicitations, XO entered into a Stock Purchase Agreement, dated January 15, 2002, by and among XO, the Forstmann Little Investors and Telmex (the "Investment Agreement," included as Exhibit A to the Bank Plan Support Agreement, attached hereto as Appendix D), which was subject to, among other things, obtaining certain concessions from the Senior Secured Lenders.

In January and February of 2002, Forstmann Little and Telmex engaged in extensive negotiations with an informal committee of certain Senior Secured Lenders (the "Senior Lenders Committee") relating to a detailed term sheet (the "Bank Amendment Term Sheet"), specifying substantial concessions from the Senior Lenders Committee as requested by the Investors in connection with the transactions contemplated by the Investment Agreement. The Bank Amendment Term Sheet is included as Exhibit B to the Bank Plan Support Agreement, attached hereto as Appendix E. Subsequently, at the request of the Investors, counsel for the Senior Lenders Committee distributed to the Holders of Senior Secured Lenders

Claims a lock-up agreement supporting the transactions contemplated by the Investment Agreement, in a form approved by the Investors, together with the Bank Amendment Term Sheet, and a request that those Holders execute the lock-up agreement. As of March 2002, Holders of more than two-thirds of the Senior Secured Lender Claims had executed a lock-up agreement. However, these lock-up agreements were never executed by the Investors or the Company and have been superseded by the Bank Plan Support Agreement.

Concurrently with the negotiation of the terms of the Investment Agreement, certain Holders of Senior Notes formed an informal committee (the "Senior Note Committee") to discuss the terms of the proposed restructuring with XO and the Investors and retained Akin, Gump, Strauss, Hauer & Feld as its legal counsel, and Jefferies & Company, Inc. as its financial advisor. From January 2002 through March 2002, XO and the Investors held discussions with representatives of the Senior Note Committee, its legal counsel and financial advisors in an effort to develop the terms of a restructuring proposal that would be acceptable to the Investors and members of the Senior Note Committee. After extensive negotiations, the Investors and the Senior Note Committee were not able to reach agreement on terms that the Senior Noteholders would support.

On March 8, 2002, in connection with the rejection by the Senior Note Committee of an offer by the Investors to increase the consideration to Senior Noteholders contemplated by the Investment Agreement, certain Senior Noteholders made a preliminary investment and restructuring proposal contemplating a \$500 million investment in exchange for secured and unsecured debt of XO in lieu of the transactions contemplated by the Investment Agreement. After careful review and analysis, the Board of Directors concluded that this preliminary proposal was not a feasible alternative and rejected the proposal, but the parties continued further discussions concerning alternative investment and capital restructuring proposals.

On March 22, 2002, XO received a preliminary term sheet from Chelonian Corp., an affiliate of Mr. Carl Icahn (the "Icahn Group"), and the Senior Note Committee contemplating a \$500 million equity investment in the Company for an indirect 50% equity ownership interest in the Company as an alternative to the transactions contemplated by the Investment Agreement. XO's Board of Directors, with the assistance of its financial and legal advisors, carefully reviewed this proposal and concluded that it represented an inferior proposal to the Investment Agreement. On March 27, 2002, XO delivered a letter to the Icahn Group and the Senior Note Committee containing the terms and conditions necessary before a proposal could be viewed as superior to the investment contemplated by the Investment Agreement.

After further discussions among XO, its advisors, the Icahn Group and the Senior Note Committee, on April 1, 2002 the Icahn Group submitted a revised draft term sheet, which the Icahn Group represented to XO had the support of the Senior Note Committee, contemplating an investment of \$550 million in cash equity (the proposal contemplated by such term sheet, as modified to reflect the discussions among the various parties subsequent to its delivery, the "Icahn Proposal") and a plan of reorganization that would provide for, among other things, an equity distribution to the holders of Senior Notes, as such, and holders of rejection damage claims of approximately 45% of the post-transaction equity interest in Reorganized XO, as well as certain board representation and other rights. No other third party proposals were

received during this period, although Houlihan Lokey and XO continued to respond to inquiries and due diligence requests.

The investment and corporate reorganization transactions contemplated by the Icahn Proposal would have been contingent upon the approval of the Senior Secured Lenders, including their consent to longer maturities and extension of prepayment dates, as well as significant modifications to their rights, including changes in a number of financial and operational covenants.

Throughout April and into May 2002, XO, the Icahn Group and the Senior Note Committee engaged in the negotiations and prepared the documentation necessary for the investment and corporate reorganization transactions contemplated by the Icahn Proposal. Concurrently with these negotiations, XO and the Icahn Group also engaged in negotiations with the Senior Lenders Committee to amend the Senior Credit Facility in a manner that would permit and facilitate the investment proposed by the Icahn Group. In early May 2002, these negotiations ended without an agreement.

Subsequently, the Senior Lenders Committee asked XO to prepare a modified business plan contemplating a stand-alone investment that assumed no receipt of additional third-party equity capital. While management of XO revised its business plan to reflect a stand-alone restructuring with no third-party equity capital, representatives for the Senior Lenders Committee conducted due diligence and Houlihan Lokey continued to search for other potential investors. In late May 2002, XO and the Senior Lenders Committee held discussions on a standalone restructuring plan under which \$500 million principal amount of senior secured loans would be converted into all of the equity of Reorganized XO, subject to dilution by certain "gifts" from the Senior Secured Lenders including a \$200 million Rights Offering to junior security holders, New Warrants to be distributed to the Holders of Senior Note Claims and General Unsecured Claims in certain events and New Options to be granted to management and other employees with the remaining \$500 million of senior secured loans (plus accrued interest) converted into \$500 million in principal amount of Junior Secured Loans with cash interest required to be paid by Reorganized XO only if Reorganized XO achieves specified financial targets. To the extent the Rights Offering raised less than \$200 million, a senior secured Exit Facility of up to \$200 million was also contemplated.

Recognizing both the superior financial recovery offered by the transactions contemplated by the Investment Agreement and the uncertainty engendered by conditions thereto, the Company concluded that the most appropriate course of action would be to advance a plan of reorganization which addressed two different scenarios: (i) the transactions contemplated by the Investment Agreement and (ii) the restructuring contemplated by the Stand-Alone Term Sheet (defined below), the latter which would be used if the Investment Agreement were to be terminated, or if XO were to conclude that the Investors will not comply with their obligation to close under the Investment Agreement upon satisfaction of the applicable conditions thereunder. In furtherance of the Plan, on May 24, 2002, the Senior Lenders Committee circulated bank plan support agreements in the form attached hereto as Appendix E (the "Bank Plan Support Agreements") to the senior secured lenders providing for them to support the FL/Telmex Plan, with a view to delivering them to the Company on May 31st.

On May 31, 2002, however, the Senior Lenders Committee informed XO that the Bank Plan Support Agreement had not been executed due to a request by Forstmann Little that XO delay its anticipated chapter 11 bankruptcy filing for a seven to ten day period to permit another round of due diligence on the part of Forstmann Little and discussions between the Senior Lenders Committee and Forstmann Little with respect to a less conditional investment transaction at a lower valuation.

On June 6, 2002, the Investors informed XO and the Senior Lenders Committee that it would not submit a revised proposal, and later that evening counsel for the Investors delivered a letter addressed to counsel for XO stating that they considered it "virtually impossible" that the conditions to the Investment Agreement would ever be satisfied and asking the Company to release the Investors from their obligations under the Investment Agreement. On June 7, 2002, XO replied that it had made substantial progress in satisfying the conditions to the Investment Agreement. XO advised the Investors that, under the circumstances, XO saw no reason to believe that the closing conditions could not be satisfied, did not believe the Investors had any right to terminate their obligations unilaterally, and was not in a position to release the Investors from their obligations under the Investment Agreement without substantial consideration. Subsequently, the Investors have reiterated their belief that the conditions to closing the Investment Agreement will be "virtually impossible" to satisfy.

On June 13, 2002, holders of a majority of outstanding loans under the Senior Credit Facility delivered Bank Plan Support Agreements to XO binding them to vote to accept a plan that provides them with the treatment agreed to in the amendments to the Senior Credit Facility. On July 16, 2002, XO received a letter from Toronto Dominion (Texas), Inc., the administrative agent under the Senior Credit Facility (the "Administrative Agent") confirming the Senior Lenders Committee's willingness to support the transactions contemplated by Stand-Alone Term Sheet (defined below) if the Investment Agreement does not close for any reason. (the "Bank Stand-Alone Support Letter"), which is attached hereto as Appendix F.

The Debtor has developed a proposed plan of reorganization (as the same may be amended, the "Plan") and this related disclosure statement, the former of which is being filed with the Court contemporaneously herewith with the input and support of the Senior Lenders Committee. The FL/Telmex Plan implements the terms of the Investment Agreement and the Stand-Alone Plan implements the terms of the stand-alone term sheet (the "Stand-Alone Term Sheet") attached as Appendix F hereto, as a contingency plan. Under the FL/Telmex Plan, the Debtor will be reorganized through the consummation of the Investment Agreement with the Investors. In the event (a) the Investment Agreement is terminated by the Investors or XO or (b) XO, after discussions with the Administrative Agent, concludes that the Investors will not consummate the transactions contemplated by the Investment Agreement and delivers the Stand-Alone Notice to the Administrative Agent, with a copy of such notice to be delivered to each of the Investors (each of the forgoing events, a "Termination Event"), XO will file a notice with the Bankruptcy Court, after discussions with the Administrative Agent, stating (a) either (i) that the Investment Agreement has been terminated by the Investors or XO or (ii) that XO has concluded that the Investors will not consummate the transactions contemplated by the Investment Agreement (either because one or more conditions to the Investors' obligations have not been satisfied or otherwise), and (b) XO's intention to proceed with the Stand-Alone Plan (the "Stand-Alone Notice"), unless a superior alternative is presented to XO.

Although the Investment Agreement remains in full force and effect at this time, consummation of the FL/Telmex Plan remains subject to the satisfaction of a number of conditions, and could be terminated if certain conditions are not met. The Investors have advised XO that they intend to avail themselves of any available conditions to their obligations under the Investment Agreement applicable at the time of the closing. In particular, but without limitation, the Investors have informed XO that neither the Plan, the Bank Amendment Term Sheet nor the Shareholder Stipulation are satisfactory to them and the pending lawsuit brought by the Treasurer of the State of Connecticut is covered by the "litigation condition" of Section 5.2(u) of the Investment Agreement.

The Investors have also informed XO that in their opinion their right to terminate the Investment Agreement and collect the Break-Up Fee pursuant to Section 6.1(i) of the Investment Agreement may have already been triggered by actions taken by XO with respect to the Stand-Alone Plan. At present, however, the Investors have not terminated or purported to terminate the Investment Agreement. See "XI. Risk Factors --The Investors Do Not Believe the Closing Conditions Can be Met." If the Investment Agreement is terminated, or XO concludes that the Investors will not comply with their obligations to close thereunder upon satisfaction of the applicable conditions, XO presently intends to file the Stand-Alone Notice with the Bankruptcy Court, unless a superior alternative is presented to XO.

All claims against and interests in XO that exist on the Petition Date are divided into eleven classes. The Holders of Other Secured Claims (Class 2), the Non-Tax Priority Claims (Class 3) and Convenience Claims (Class 4) will be unimpaired.

Under the FL/Telmex Plan, the Senior Secured Lender Claims (Class 1) will remain outstanding subject to the terms of the Senior Credit Facility, as amended and restated by the Amended and Restated Senior Credit Facility. The Note Common Stock and \$200 million will be distributed to the class of Holders of Allowed General Unsecured Claims (Class 5) and Senior Note Claims (Class 6). Holders of Subordinated Note Claims (Class 7), Securities Claims (Class 8), Old Preferred Stock Interests (Class 9), Old Common Stock Interests (Class 10) and Other Old Equity Interests (Class 11) will receive no distribution if the FL/Telmex Plan is consummated.

If a Termination Event occurs, and XO files the Stand-Alone Notice with the Bankruptcy Court and consummates the transactions contemplated by the Stand-Alone Term Sheet (collectively, the "Stand-Alone Events"), Holders of the Senior Secured Lender Claims (Class 1) will receive \$500 million in aggregate principal amount of New Junior Secured Loans, (a) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation, 90,250,000 shares of the New Reorganization Common Stock representing 95% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date, or (b) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, 95,000,000 shares of the New Reorganization Common Stock representing 100% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date (in each case subject to dilution resulting from the exercise of the New Warrants, if any, allocated to the Senior Note Claims and General

Unsecured Claims, issuance of shares pursuant to the Rights Offering and the exercise of New Options under the Management Incentive Program, all gifted by the Holders of the Senior Secured Lender Claims out of their entitled distribution); and certain residual rights under the Rights Offering.

Holders of Class 5 and Class 6 are not entitled to receive any Distribution under the Stand-Alone Plan. However, based upon negotiations among the Debtor, the Official Committee of Unsecured Creditors and a subset of the Senior Lender Committee, (a) Nontransferable Rights to purchase up to \$200 million (subject to increase in certain events) of common equity in Reorganized XO; (b) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation, 4,750,000 shares of the New Reorganization Common Stock (representing 5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date), New Series A Warrants to purchase 9,500,000 shares of New Reorganization Common Stock (representing 10% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date), New Series B Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date), New Series C Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date) and 10% of the FL/Telmex Recovery; and (c) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, but the Official Committee of Unsecured Creditors has recommended a vote in favor of the Stand-Alone Plan, has not withdrawn such recommendation and the Debtor believes, in its reasonable judgment, that all of the members of such Committee have voted their Claims in favor of confirmation of the Stand-Alone Plan, New Series B Warrants to purchase 4,750,000 shares of New Reorganization Common Stock (representing 5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date), will be distributed to such class of Holders of Allowed General Unsecured Claims (Class 5) and/or Senior Note Claims (Class 6) out of the entitled distribution of the Senior Lenders. Holders of Subordinated Note Claims (Class 7), Old Preferred Stock Interests (Class 9) and Old Common Stock Interests (Class 10) are not entitled to receive any Distribution under the Stand-Alone Plan. However, based upon negotiations among the Debtor, the Official Committee of Unsecured Creditors and a subset of the Senior Lenders Committee, Holders of Classes 7, 9 and 10 will receive a contingent redistribution of Nontransferable Rights, if any, out of the entitled distribution of the Senior Secured Lenders, subject to the priority and allocation rules described in Section X.E. herein under "Rights Offering".

In order to preserve value in the Company and enhance its long-term viability and continued success, the Company, with the support of the Senior Lenders Committee, determined that the restructuring of its obligations as contemplated by the Plan could best be achieved through a chapter 11 filing and, accordingly, has filed this Chapter 11 Case. Numerous communications companies have sought bankruptcy protection recently, which together with the substantial quantity of communications network facilities held by communications companies in operation, has severely depressed -- or in some cases eliminated -- the market for telecommunication assets, making this a wholly unfavorable environment for liquidation.

Consequently, and in light of the significant revenues that the Company's operations generate, the Company believes that restructuring its capitalization by either the FL/Telmex Plan or the Stand-Alone Plan will generate substantially more value (and thus greater recoveries for its creditors) than would a liquidation.

C. The Plan of Reorganization

Under both of the Alternatives under the Plan, all Claims and Interests that existed on June 17, 2002 are divided into Classes, exclusive of amounts outstanding with subsidiaries of XO and certain Claims, including Administrative Claims and Priority Tax Claims, which are not required to be classified.

1. Summary of the Classification and Treatment under the Plan of the Principal Claims and Interests.

a. Summary of the Classification and Treatment under the Plan of the Principal Claims and Interests XO.

<u>Class</u>	<u>Status Under Both Alternatives</u>	<u>Voting Rights</u>	<u>Estimated Amount of Claims/Interests</u>
Class 1 (Senior Secured Lender Claims in XO)	Impaired	Entitled to Vote	\$1,008,000,000
Class 2 (Other Secured Claims in XO)	Unimpaired	Not entitled to Vote	\$16,086,000
Class 3 (Non-Tax Priority Claims in XO)	Unimpaired	Not entitled to Vote	\$5,000
Class 4 (Convenience Claims in XO)	Unimpaired	Not entitled to Vote	\$385,000
Class 5 (General Unsecured Claims in XO)	Impaired	Entitled to Vote	\$19,554,000
Class 6 (Senior Note Claims in XO)	Impaired	Entitled to Vote	\$3,871,500,000 ⁶

⁶ Does not include approximately \$557 million of the total amount of these Notes held by a subsidiary of XO that is not entitled to any distribution under the Plan.

<u>Class</u>	<u>Status Under Both Alternatives</u>	<u>Voting Rights</u>	<u>Estimated Amount of Claims/Interests</u>
Class 7 (Subordinated Note Claims in XO)	Impaired	Not entitled to Vote	\$545,272,000
Class 8 (Securities Claims in XO)	Impaired	Not entitled to Vote	Undetermined
Class 9 (Old Preferred Stock Interests in XO)	Impaired	Not entitled to Vote	\$1,754,000,000 ⁷
Class 10 (Old Common Stock Interests in XO)	Impaired	Not entitled to Vote	\$18,573,000 ⁸
Class 11 (Other Old Equity Interests in XO)	Impaired	Not entitled to Vote	\$236,000

b. Description of Claims and Interests in XO

Class 1 (Senior Secured Lender Claims in XO)	<p>The Senior Secured Lender Claims in XO are Allowed as secured claims under 11 U.S.C. §§ 506(a) and 507(b) pursuant to the Plan in the aggregate amount of \$1 billion plus accrued and unpaid interest and Administrative Agent Fee Claims through the Effective Date. Class 1 is impaired by the Plan, and is entitled to vote on the Plan. Subject to Section 3.7 of the Plan, Holders of Senior Secured Lender Claims shall receive the following treatment:</p> <p>Under the FL/Telmex Plan:</p> <p>on the Effective Date, all Allowed Senior</p>
--	--

⁷ Does not include approximately 6.4 million shares of Old Preferred Stock with \$490 million in liquidation preference held by a subsidiary of XO that is not entitled to any distribution under the Plan.

⁸ Values Old Common Stock Interests at the per share price of \$0.042, the closing price on the OTC bulletin board for Old Class A Common Stock on June 14, 2002.

	<p>Secured Lender Claims (including all applicable security interests) would remain outstanding subject to the terms of the Amended and Restated Senior Credit Facility. All interest that accrued prior to and remains unpaid as of the Effective Date (other than \$20 million to be paid to settle litigation that would otherwise have constituted a condition to the obligations of the Investors) would be paid in Cash on the Effective Date or as soon as reasonably practicable thereafter.</p> <p>XO estimates the recovery for these Claims is 98.1%.</p> <p>Under the Stand-Alone Plan:</p> <p>on the Effective Date each Holder of an Allowed Senior Secured Lender Claim would receive its pro rata share of:</p> <p>(a) the New Junior Secured Loans;</p> <p>(b) (x) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation, 90,250,000 shares of the New Reorganization Common Stock representing 95% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date,</p> <p>or</p> <p>(y) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, 95,000,000 shares of the New Reorganization Common Stock representing 100% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date (in each case subject to dilution resulting from the exercise of the New Warrants, if any, allocated to the</p>
--	---

	<p>Senior Note Claims and General Unsecured Claims, issuance of shares pursuant to the Rights Offering and the exercise of New Options under the Management Incentive Program);</p> <p>(c) the Nontransferable Rights, all of which are to be redistributed as a gift to other classes pursuant to the Plan; and</p> <p>(d) the Transferable Rights.</p> <p>XO estimates the recovery for these Claims, if the events contemplated by paragraph (b)(x) above occur, is 88.4% or, if the events contemplated by paragraph (b)(y) above occur, is 93.4%, in each case depending on the level of participation in the Rights Offering.</p>
<p>Class 2 (Other Secured Claims in XO) and Class 3 (Non-Tax Priority Claims in XO)</p>	<p>Class 2 and Class 3 are unimpaired by the Plan and consist of Other Secured Claims and Non-Tax Priority Claims, respectively. Allowed Claims for these classes shall be Reinstated on the Effective Date of the Plan, and therefore Holders thereof are not entitled to vote on the Plan.</p> <p>XO estimates the recovery for these Claims is 100%.</p>
<p>Class 4 (Convenience Claims in XO)</p>	<p>Class 4 is unimpaired by the Plan and consists of Claims that otherwise would be Allowed General Unsecured Claims in an amount (a) equal to or less than \$5,000, or (b) greater than \$5,000 but which is reduced to be equal or less than \$5,000 by an irrevocable written election of the holder of such Claim made on a validly executed and timely delivered Ballot. Holders of an Allowed Convenience Claim in Class 4 shall be paid in Cash 100% of their Allowed Convenience Claim amount in full satisfaction of any Claims against the Debtor or the Estate. Holders of Convenience Claims in XO are not entitled to vote on the Plan.</p> <p>XO estimates the recovery for these Claims is 100% of</p>

	their Allowed Convenience Claim amount.
Class 5 (General Unsecured Claims in XO) and Class 6 (Senior Note Claims in XO)	<p>Class 5 and Class 6 are impaired by the Plan and consist of General Unsecured Claims and Senior Note Claims, respectively. Holders of such Claims, as of the Voting Record Date, are entitled to vote on the Plan.</p> <p>In order to give effect to the contractual subordination provisions of the Indentures, which reallocate to the Senior Note Claims the amounts that would have otherwise been payable with respect to the Subordinated Note Claims, the proportion of the total amounts available to these two classes to be distributed with respect to the Senior Notes (the "Senior Note Claim Portion") will be a fraction, the numerator of which is the sum of the Face Amounts of (i) Senior Note Claims and (ii) Subordinated Note Claims and denominator is the sum of the Face Amounts of (x) General Unsecured Claims, (y) Senior Note Claims and (z) Subordinated Note Claims.</p> <p>The proportion of the total amounts available to these two classes to be distributed with respect to the General Unsecured Claims (the "General Unsecured Claim Portion") is a fraction equal to one minus the Senior Note Claim Portion. The Senior Note Claim Portion and the General Unsecured Claim Portion are sometimes hereinafter referred to as the "applicable Portion" with respect to Senior Note Claims and General Unsecured Claims, as the case may be.</p> <p>Under the FL/Telmex Plan:</p> <p>On or as soon as reasonably practicable after the Distribution Date, each Holder of an Allowed Class 5 or Class 6 Claim would receive its pro rata share of the applicable Portion of :</p> <p>(a) 36,000,000 shares of New Class A Common Stock representing 18% of the total equity of Reorganized XO, without giving effect to the New Employee Option Plan;</p>

	<p>and</p> <p>(b) \$200,000,000 in cash.</p> <p>The estimated recoveries for Class 5 and Class 6 Claims are approximately 8.6% and 9.8%, respectively, based upon the assumed amount of such claims and before any appreciation in New Class A Common Stock.</p> <p>Under the Stand-Alone Plan:</p> <p>On or as soon as reasonably practicable after the Distribution Date, each Holder of an Allowed Class 5 or Class 6 Claim would receive as a gift from the entitled distribution of Holders of Senior Secured Lender Claims its pro rata share of the applicable Portion of :</p> <p>(a) the Nontransferable Rights; and</p> <p>(b) (x) if two-thirds or more of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve it, and the Official Committee of Unsecured Creditors has recommended a vote in favor of confirmation of the Stand-Alone Plan and not withdrawn such recommendation,</p> <p>(1) 4,750,000 shares of the New Reorganization Common Stock representing 5% of all issued and outstanding shares of New Reorganization Common Stock on the Effective Date (subject to dilution resulting from the exercise of the New Warrants, if any, allocated to the Senior Note Claims and General Unsecured Claims, issuance of shares pursuant to the Rights Offering and the exercise of New Options under the Management Incentive Program);</p> <p>(2) New Series A Warrants to purchase 9,500,000 shares of New Reorganization Common Stock (representing 10% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the</p>
--	---

	<p>Stand-Alone Plan);</p> <p>(3) New Series B Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan);</p> <p>(4) New Series C Warrants to purchase 7,125,000 shares of New Reorganization Common Stock (representing 7.5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan); and</p> <p>(5) 10% of the FL/Telmex Recovery</p> <p>or</p> <p>(y) if less than two-thirds of the Unaffiliated Senior Note Claims voting with respect to the Stand-Alone Plan vote to approve its confirmation, but the Official Committee of Unsecured Creditors has recommended a vote in favor of the Stand-Alone Plan, has not withdrawn such recommendation and the Debtor believes, in its reasonable judgment, that all of the members of such Committee have voted their Claims in favor of confirmation of the Stand-Alone Plan, New Series B Warrants to purchase 4,750,000 shares of New Reorganization Common Stock (representing 5% of the New Reorganization Common Stock (but excluding any Rights Shares) issued and outstanding on the Effective Date of the Stand-Alone Plan).</p> <p>XO estimates the recoveries for Class 5 and Class 6 if the events contemplated by paragraph (b)(x) above occur are approximately 1.4% and 1.5%, respectively, or if the events contemplated by paragraph (b)(y) occur are approximately 0.2% and 0.2%, respectively, in each case based upon the assumed amount of</p>
--	---

	<p>such Claims and assuming at least a majority of each class accepts the Stand-Alone Plan, but before (i) any appreciation in any exercised Rights or in any shares issued pursuant to New Warrants and (ii) any estimation for the FL/Telmex Recovery.</p>
	<p>Each Holder of an Allowed General Unsecured Claim not exceeding \$100,000 may elect on or before the Voting Deadline to have its Claim treated as a \$5,000 Convenience Claim in Class 4 (Convenience Class) under either Alternative under the Plan in lieu of treatment as a Class 5 Claim.</p> <p>Recoveries, if any, to Holders of Senior Note Claims under the Plan shall be subject to the Note Trustee Charging Lien, which may reduce recoveries.</p> <p>The foregoing is subject to the provisions of Section 7.2 of the Plan, which governs disputed claims.</p>
<p>Class 7 (Subordinated Note Claims in XO)</p>	<p>Class 7 is impaired under the Plan and consists of Subordinated Notes Claims. Pursuant to 11 U.S.C. § 510(b), all contractual subordination provisions in the Indentures shall be enforced for the purposes of all distributions under the Plan.</p> <p>Under the FL/Telmex Plan:</p> <p> Holders of Subordinated Note Claims shall not receive or retain any distribution under the Plan and the Subordinated Note Claims will be cancelled and/or discharged.</p> <p> Holders of Claims in this Class are deemed to have rejected the FL/Telmex Plan. Therefore, Class 7 is not entitled to vote to accept or reject the FL/Telmex Plan. XO estimates the recovery for these Claims is 0%.</p> <p>Under the Stand-Alone Plan:</p> <p> Holders of Subordinated Note Claims shall not receive or retain any distribution under the Plan and the Subordinated Note Claims will be cancelled and/or discharged; <u>provided, however,</u></p>

	<p>that each Holder of an Allowed Subordinated Note Claim shall be entitled to receive and retain as a redistribution gift from the Senior Secured Lenders its pro rata share of Nontransferable Rights allocable to Holders of the Subordinated Note Claims.</p> <p>Recoveries, if any, to Holders of Subordinated Note Claims under the Plan shall be subject to the Note Trustee Charging Lien, which may reduce recoveries.</p> <p>Holders of Claims in this Class are deemed to have rejected the Stand-Alone Plan. Therefore, Class 7 is not entitled to vote to accept or reject the Stand-Alone Plan. XO estimates the recovery for these Claims is approximately 0% before any appreciation in any exercised Rights.</p>
<p>Class 8 (Securities Claims in XO)</p>	<p>Class 8 consists of Securities Claims. On the Effective Date of the Plan, such Securities Claims shall be discharged and the Holders of Securities Claims shall not receive or retain any distribution on account of such Securities Claims under the Plan. Holders of Claims in this Class are deemed to have rejected both Alternatives under the Plan. Therefore, Class 8 is not entitled to vote to accept or reject the FL/Telmex Plan or the Stand-Alone Plan.</p> <p>XO estimates the recovery for these Claims is 0%.</p>
<p>Class 9 (Old Preferred Stock Interests in XO)</p>	<p>Class 9 consists of Old Preferred Stock Interests.</p> <p>Under the FL/Telmex Plan:</p> <p>on the Effective Date of the Plan, Holders of Old Preferred Stock Interests shall not receive or retain any distribution under the Plan and the Old Preferred Stock Interests will be cancelled and/or discharged. Holders of Old Preferred Stock Interests in this Class are deemed to have rejected the FL/Telmex Plan. Therefore, Class 9 is not entitled to vote to accept or reject the FL/Telmex Plan. XO estimates the recovery for</p>

	<p>these Interests is 0%.</p> <p>Under the Stand-Alone Plan:</p> <p> Holders of Old Preferred Stock Interests shall not receive or retain any distribution under the Plan and the Old Preferred Stock Interest will be cancelled and/or discharged; <u>provided, however</u>, that each Holder of an Allowed Old Preferred Stock Interest shall be entitled to receive and retain as a redistribution gift from the Senior Secured Lenders its pro rata share of the Nontransferable Rights allocable to the Holders of Old Preferred Stock Interests. Holders of Old Preferred Stock Interests in this Class are deemed to have rejected the Stand-Alone Plan. Therefore, Class 9 is not entitled to vote to accept or reject the Stand-Alone Plan.</p> <p>XO estimates the recovery for these Interests is 0% before any appreciation in any exercised Rights.</p>
<p>Class 10 (Old Common Stock Interests in XO)</p>	<p>Class 10 consists of Old Common Stock Interests. Subject to the provisions of Section 3.7 of the Plan, Holders of Interests in Class 10 shall be treated as follows:</p> <p>Under the FL/Telmex Plan:</p> <p>on the Effective Date of the Plan, such Old Common Stock Interests will be cancelled and/or discharged and the Holders of Old Common Stock Interests shall not receive or retain any distribution on account of such Old Common Stock Interests under the Plan.</p> <p> Holders of Old Common Stock Interests in this Class are deemed to have rejected the FL/Telmex Plan. Therefore, Class 10 is not entitled to vote to accept or reject the FL/Telmex Plan. XO estimates the recovery for these Interests is 0%.</p> <p>Under the Stand-Alone Plan:</p> <p> Holders of Old Common Stock Interests would</p>

	<p>not receive or retain any distribution under the Plan and the Old Common Stock Interests would be cancelled and/or discharged; <u>provided, however</u>, that each Holder of an Allowed Old Common Stock Interests would be entitled to receive and retain as a redistribution gift from the Senior Secured Lenders its pro rata share of the Nontransferable Rights allocable to the Holders of Old Common Stock Interests.</p> <p>Holders of Old Common Stock Interests in this Class are deemed to have rejected the Stand-Alone Plan. Therefore, Class 10 is not entitled to vote to accept or reject the Stand-Alone Plan. XO estimates the recovery for these Interests is 0% before any appreciation in any exercised Rights.</p>
<p>Class 11 (Other Old Equity Interests in XO)</p>	<p>Class 11 is impaired under the Plan and consists of Other Old Equity Interests. On the Effective Date of the Plan, such Other Old Equity Interests will be cancelled and/or discharged and the Holders of Other Old Equity Interests shall not receive or retain any distribution on account of such Other Old Equity Interests under the Plan.</p> <p>Holders of Other Old Equity Interests in this Class are deemed to have rejected both Alternatives under the Plan. Therefore, Class 11 is not entitled to vote to accept or reject the FL/Telmex Plan or the Stand-Alone Plan. XO estimates the recovery for these Interests is 0%.</p>

For a complete description of the Rights Offering and the allocation of Rights under the Plan, see "X. Description of Securities to be Issued Under the Stand-Alone Plan – E. Rights Offering".

D. Support for the Restructuring

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

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

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

E. Recommendation of the Restructuring

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

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

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