as required under SFAS 141 "Business Combinations", ("SFAS No 141") The following are the estimated fair value of assets acquired and liabilities assumed as of the Closing Date (dollars in thousands)

Current assets	$ 51,618
Property and equipment	372,405
Goodwill	212,530
Other intangible assets	68,052
Other long-term assets	2,933
Total assets acquired	707,538
Current liabilities	(58,193)
Long-term liabilities	(12,790)
Total liabilities acquired	(70,983)
Purchase price	$ 636,555

Of the $68 1 million of acquired intangible assets, approximately $5 7 million was assigned to various trade names and are being amortized over four years and approximately $62 4 million was assigned to the Acquired Businesses' customer base, which has an estimated useful life of 3 years The values assigned in these financial statements are preliminary and represent management's best estimate of current values which are subject to revision due to changes in estimates of fair value as well as the pending claim discussed above The goodwill recorded from this acquisition was adjusted for impairment as discussed in note 3

The results of operations for the Acquired Businesses are included in the accompanying consolidated financial statements from the Closing Date through December 31, 2004 The following is unaudited pro forma financial information of the Company assuming the Allegiance acquisition had occurred at the beginning of the periods presented (dollars in thousands, except share and per share data):

	Year Ended December 31, 2004	Year Ended December 31, 2003
Revenue	$ 1,529,753	$ 1,630,042
Net loss applicable to common shares	$ (471,690)	$ (336,580)
Net loss per common share — basic and diluted	$ (2 60)	$ (2 39)
Weighted average shares — basic and diluted	181,457,087	141,012,858

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The Company's consolidated financial statements include all of the assets, liabilities and results of operations of subsidiaries in which the Company has a controlling interest All inter-company accounts and transactions among consolidated entities have been eliminated

(b) Use of Estimates and Assumptions

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period Management periodically assesses the accuracy of these estimates and assumptions Actual results could differ from those estimates

Certain reclassifications have been made to prior period amounts in order to conform to the current year presentation *(c) Cash and Cash Equivalents*

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents Cash equivalents consist primarily of money market accounts that are available on demand The carrying amount of these instruments approximates fair value due to their short maturities

(d) Marketable Securities and Other Investments

The Company's marketable securities currently consist of debt and equity investments in publicly traded companies The Company classifies its investments in equity securities as available-for-sale and records such investments at fair value The fair values are based on quoted market prices Other investments are recorded at cost, which approximates fair value Unrealized gains and losses on available-for-sale marketable securities are reported as a separate component of comprehensive income Realized gains and losses for available-for-sale securities are recognized in investment income

(e) Long-Lived Assets

Long-lived assets include property and equipment, broadband wireless licenses, and intangible assets to be held and used Long-lived assets, excluding intangible assets with indefinite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to SFAS No 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No 144") The criteria for determining impairment for such long-lived assets to be held and used is determined by comparing the carrying value of these long-lived assets to management's best estimate of future undiscounted cash flows expected to result from the use of the assets The Company believes that no impairment existed under SFAS No 144 as of December 31, 2004 In the event that there are changes in the planned use of the Company's long-lived assets or its expected future undiscounted cash flows are reduced significantly, the Company's assessment of its ability to recover the carrying value of these assets under SFAS No 144 could change

Intangible assets with indefinite useful lives are tested for impairment annually during the fourth quarter, or more frequently if an event indicates that the asset might be impaired, in accordance with SFAS No 142, "Goodwill and Other Intangible Assets" ("SFAS No 142") XO retained independent appraisers to perform a preliminary valuation of its assets and liabilities as of December 31, 2004 This valuation was necessary as XO's fair value as determined by its stock price, was less than its book value Based on this appraisal, XO recorded a $212 5 million non-cash impairment charge on its goodwill This report will be finalized in the first quarter of 2005, and could result in a change to this preliminary estimate The Company performed the required transitional impairment tests of goodwill primarily from the Concentric merger as of January 1, 2002, and determined that the goodwill was totally impaired Accordingly, in the first quarter of 2002 the Company recognized a $1,876 6 million charge as a cumulative effect of accounting change to write off all of its goodwill

(f) Property and Equipment

Additions to property and equipment during 2004 and 2003 are stated at cost. Property and equipment acquired prior to December 31, 2002 is stated at its fair value at January 1, 2003 Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets beginning in the month telecommunications networks and acquired bandwidth are substantially complete and available for use and in the month equipment and furniture are acquired Telecommunications networks and bandwidth include the deployment of fiber optic cable and telecommunications hardware and software for the expressed purpose of delivering telecommunications services Costs of additions and improvements are capitalized, and repairs and maintenance are charged to expense as incurred Direct costs of constructing property and equipment are capitalized including interest costs related to construction

Equipment held under capital leases is stated at the lower of the fair value of the asset or the net present value of the minimum lease payments at the inception of the lease For equipment held under capital leases, depreciation is provided using the straight-line method over the shorter of the estimated useful lives of the leased assets or the related lease term

The estimated useful lives of property and equipment are as follows

Telecommunications networks and acquired bandwidth	3-20 years
Furniture, fixtures, equipment, and other	5-7 years
Leasehold improvements	the shorter of the estimated useful lives or the terms of the leases

These useful lives are determined based on historical usage with consideration given to technological changes and trends in the industry, which could impact the network architecture and asset utilization Accordingly, in making this assessment, the Company considers its planned use of the assets, the views of experts within the Company and outside sources regarding the impact of technological advances and trends in the industry on the value and useful lives of its network assets The Company periodically evaluates the estimated useful lives used to depreciate its assets While the Company believes its estimate of useful lives are reasonable, significant differences in actual experience or significant changes in assumptions may affect future depreciation expenses

(g) Broadband Wireless Licenses and Other Intangibles

Broadband wireless licenses are stated at their fair values at January 1, 2003 The Company is amortizing these licenses over the portion of the original license term remaining after the license is placed into service, or 10 years, whichever is shorter. Amortization commences when commercial service using broadband wireless technology is deployed in the license's geographic area

Other intangible assets consist of customer relationships, internally developed technology and trade names Customer relationships and internally developed technology are amortized using the straight-line method over the estimated useful lives of three years The XO trade name was determined to have indefinite life and is not being amortized, but is reviewed at least annually for impairment in accordance with SFAS No 142 Other trade names are amortized over their estimated useful lives of four years

(h) Other Assets

Other assets consist primarily of a $25 0 million escrow as well as security deposits and pledged securities The escrow and security deposits and pledged securities are stated at cost, and their fair value approximates their carrying value

(i) Income Taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No 109, "Accounting for Income Taxes," ("SFAS No 109") which requires that deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of the enacted tax laws Valuation allowances are used to reduce deferred tax assets to the amount considered likely to be realized

(j) Class A Convertible Preferred Stock

The Company accretes changes in the redemption value of its Class A Convertible Preferred Stock as they occur and adjusts the carrying value of the security to equal the redemption value at the end of each reporting period The accretion is included in net income (loss) applicable to common shares in the Company's consolidated statement of stockholders equity *(k) Revenue Recognition*

Revenues from telecommunications services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed and determinable and collectibility is probable In circumstances when these criteria are not met, revenue recognition is deferred until resolution occurs

Service discounts and incentives related to telecommunication services are recorded as a reduction of revenue when granted or ratably over a contract period Fees billed in connection with service installations and other non-recurring charges are deferred and recognized ratably over the estimated customer life of three years

The Company establishes allowances for collection of doubtful accounts and other sales credit adjustments Allowances for sales credits are established through a charge to revenue, while allowances for doubtful accounts are established through a charge to selling, operating and general expense The Company assesses the adequacy of these reserves monthly by considering general factors, such as the length of time individual receivables are past due, historical collection experience, the economic and competitive environment, and changes in the creditworthiness of its customers The Company believes that the established valuation allowances are adequate If circumstances relating to specific customers change or economic conditions worsen such that the Company's past collection experience and assessment of the economic environment are no longer relevant, XO's estimate of the recoverability of its trade receivables could be further reduced

Revenue from the sale or lease of unlit network capacity is recognized upon consummation of the transaction and the acquirer's acceptance of the capacity in instances when the Company receives upfront cash payments and is contractually obligated to transfer title to the specified capacity at the end of the contract term If the transaction does not meet these criteria, revenue is recognized ratably over the contract term There were no sales of unlit capacity during the reported periods whereby revenue was recognized "up front" upon consummation of the transaction

(l) Cost of Service

Cost of service includes expenses directly associated with providing telecommunications services to customers, including, among other items, the cost of connecting customers to the Company's networks via leased facilities, the costs of leasing components of our network facilities and costs paid to third party providers for interconnect access and transport services All such costs are expensed as incurred The Company accrues for the expected costs of services received from third party telecommunications providers during the period the services are rendered Invoices received from the third party telecommunications providers are often disputed due to billing discrepancies

The Company accrues for all disputed invoiced amounts as these amounts represent contingent liabilities that are considered probable and measurable and typically must pay the invoiced amounts even while they're being disputed Disputes resolved in the Company's favor may reduce cost of service in the period the dispute is settled Because the period of time required to resolve these types of disputes often lapses over several quarters, any benefits associated with the favorable resolution of such disputes normally are realized in periods subsequent to the accrual of the disputed invoice

(m) Net Income (Loss) Per Share

Net income (loss) per common share, basic and diluted, is computed by dividing net income (loss) applicable to common shares by the weighted average number of common shares outstanding for the period In periods of net loss, the assumed common share equivalents for options and warrants are anti-dilutive

(n) Stock-Based Compensation

Effective January 1, 2003, the Company adopted the disclosure provisions of SFAS No 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," ("SFAS No 148") As allowed by SFAS No 148, the Company has chosen to continue to account for compensation cost associated with its employee stock plan in accordance with the intrinsic value method prescribed by APB No 25, "Accounting for Stock Issued to Employees," ("APB No 25") adopting the disclosure-only provisions of SFAS No 123 Under this method, no compensation expense is recorded if stock options are granted at an exercise price equal to or greater than the fair market value of the Company's stock on the grant date If the Company had adopted the fair value method of accounting for its stock awards, stock-based compensation would have been determined based on the fair value for all stock awards at the grant date using a Black-Scholes pricing model and the following weighted average assumptions

	2004	2003	Predecessor XO 2002
Expected volatility	61 0%	75 0%	125 0%
Risk free interest rate	3 14%	2 6%	4 0%
Dividend yield	0 0%	0 0%	0 0%
Expected life (range in years)	4 0	4 0	4 0
Fair value per share at grant date	$ 2 19	$ 2 95	$0 11

The Company's pro forma net loss applicable to common shares, and pro forma net loss per common share, basic and diluted, if the Company had used the fair value method would have been as follows (dollars in thousands, except per share data)

	December 31, 2004	December 31, 2003	Predecessor XO December 31, 2002
Net loss applicable to common shares, as reported	$ (405,543)	$ (102,554)	$ (3,350,362)
Add Stock-based employee compensation expense included in net loss applicable to common shares, as reported	406	708	28,928
Deduct Total stock-based employee compensation expense determined under fair value based methods for all stock awards	(7,966)	(16,189)	(1,462)
Pro forma net loss	$ (413,103)	$ (118,035)	$ (3,322,896)
Net loss per common share, basic and diluted			
Net loss per common share, basic and diluted — as reported	$ (2 57)	$ (1 07)	$ (7 58)
Net loss per common share, basic and diluted — pro forma	$ (2 58)	$ (1 23)	$ (7 52)

(o) Comprehensive Loss

Comprehensive loss includes the Company's net loss applicable to common shares, as well as net unrealized gains and losses on available-for-sale investments and, for any periods prior to the second quarter of 2002, foreign currency translation adjustments relating to the Company's European operations, which were disposed of in February 2002

(p) Concentration of Credit Risk

Other financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables Although the Company's trade receivables are geographically dispersed and include customers in many different industries, a portion of the Company's revenue is generated from services provided to other telecommunications service providers Several of these companies have filed for protection under Chapter 11 of the Bankruptcy Code while others have experienced business downturns The Company believes that its established valuation and credit allowances are adequate to cover these risks *(q) Fair Value of Financial Instruments*

SFAS No 107, "Disclosure about Fair Value of Financial Instruments" ("SFAS No 107"), requires disclosure of fair value information about financial instruments, for which it is practicable to estimate the value The carrying amounts for the majority of the Company's financial instruments classified as current assets and liabilities approximate their fair value due to their short maturities Marketable securities are recorded at fair value Amounts outstanding under long-term debt agreements approximate their estimated fair values as they accrue interest at rates that are variable every 3-6 months

(r) Recent Accounting Pronouncements

Statement No 123 (revised 2004), "Share-Based Payment" ("SFAS No 123R"), was issued in December 2004 Once effective this statement will require entities to recognized compensation cost for all equity-classified awards granted, modified or settled after the effective date using the fair-value measurement method In addition, public companies will recognize compensation expense for the unvested portion of awards outstanding as of the effective date based on their grant-date fair value as calculated under the original provisions of SFAS No 123 The effective date for public entities is June 15, 2005 The amount of compensation expense that XO records after the adoption of SFAS No 123R in 2005 and beyond, will depend on the amount, timing and pricing of stock option grants

4. MARKETABLE SECURITIES AND OTHER INVESTMENTS

The amortized cost, gross unrealized gains and losses and fair value of the investment securities available-for-sale as of December 31, 2004 and 2003, are in the following table Other investments consist of debt securities as of December 31, 2004 that mature in 2007 and 2008 (dollars in thousands)

	Fair Value	Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
As of December 31, 2004				
Equity securities	$ 6,417	$ 1,705	$ 4,712	$ —
Debt securities	10,883	10,883	—	—
Total marketable securities	$ 17,300	$ 12,588	$ 4,712	$ —
As of December 31, 2003				
Equity securities	$ 30,041	$ 28,663	$ 3,001	$ (1,623)
Debt securities	12,011	12,011	—	—
Total marketable securities	$ 42,052	$ 40,674	$ 3 001	$ (1,623)

As part of the purchase effort with Allegiance, XO acquired $92 5 million in face value of unsecured Allegiance debt securities for $36 4 million Consequently, XO is a claimant in Allegiance's bankruptcy The ATLT will eventually settle all outstanding claims against the Allegiance estate with cash or the XO common stock that was distributed to it on the Closing Date Based on our best estimate of XO's share of the net assets of the ATLT as disclosed in the latest report that the ATLT filed with the Bankruptcy Court, a $10 4 million impairment adjustment has been recorded as the decline in fair value was considered to be other than temporary It is difficult to assess how much of the claim XO will recover, or when the recovery will be paid This assessment could change based upon the total amount of claims the ATLT is directed to pay, the amount of administrative costs that it incurs and the value of its assets, including 45 4 million shares of XO's stock

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following components (dollars in thousands)

	December 31, 2004	December 31, 2003
Telecommunications networks and acquired bandwidth	$ 675,844	$ 382,854
Furniture, fixtures, equipment, and other	236,788	77,783
	912,632	460,637
Less accumulated depreciation	208,032	79,501
	704,600	381,136
Construction-in-progress and inventory	115,936	104,848
	$ 820,536	$ 485,984

During 2004, 2003 and 2002, depreciation expense was $140 1 million, $83 1 million, and $598 5 million, respectively During 2004, 2003 and 2002 the Company capitalized interest on construction costs of $4 0 million, $3 0 million, and $11 1 million, respectively Assets classified as construction-in-progress and inventory are not being depreciated as they are not currently ready for their intended use and have not yet been placed into service

6. BROADBAND WIRELESS LICENSES AND OTHER INTANGIBLES

Broadband wireless licenses and other intangible assets consisted of the following (dollars in thousands)

	December 31, 2004	December 31, 2003
Broadband wireless licenses	$ 59,508	$ 59,508
Customer relationships	112,366	49,987
Internally developed technology	9,521	9,521
Acquired tradenames	5,673	—
	187,068	119,016
Less accumulated amortization	(63,864)	(26,163)
	123,204	92,853
XO Trade name — indefinite life asset	16,662	16,662
	$ 139,866	$ 109,515

Amortization expense for the years ended December 31, 2004, 2003 and 2002 was $37 7 million, $26 2 million and $101 3 million, respectively As of December 31, 2004, approximately $23 5 million of broadband wireless licenses are not being amortized as commercial services have not been deployed in the license's geographic area Estimated amortization expense for the next five years is $48 4 million, $28 5 million, $17 7 million, $4 9 million and $0 1 million, respectively

7. ACCRUED LIABILITIES

Accrued liabilities consisted of the following components (dollars in thousands)

	December 31,	
	2004	2003
Accrued compensation	$ 54,405	$ 46,124
Deferred revenue	53,556	26,011
Accrued operating taxes	50,277	49,046
Accrued operating expenses	31,937	27,837
Accrued telecommunications costs	24,881	19,491
Accrued restructuring charges	13,776	20,046
Other accrued liabilities	12,700	19,798
	$ 241,532	$ 208,353

8. ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

The Company has various agreements in which it leases conduit space and pole attachment rights from governmental entities, public utilities, and other telecommunications service providers for its fiber Additionally, the Company has its telecommunications and data center equipment in various leased technical facilities In many cases, the Company has contractual obligations to remove the assets associated with these lease agreements upon termination of the agreements Accordingly, the Company has recorded a liability and asset for the present value of the estimated future capital expenditures associated with the related asset retirement obligations. The following table is a reconciliation of the beginning and ending asset retirement obligations (dollars in thousands)

Balance as of December 31, 2003	$ 12,855
Accretion	776
Revisions	(7,738)
Balance as of December 31, 2004	$ 5,893

The asset retirement obligations and associated asset are estimated based on several assumptions If information becomes known that is different than the assumptions in use, revisions are made using the more precise information If actual results differ from the assumptions used, the amount of the obligations will differ, perhaps significantly, from the amounts reflected in the accompanying consolidated financial statements

9. LONG-TERM DEBT

The Company has a secured credit facility (the "Credit Facility") which matures on July 15, 2009 There are no additional borrowings available under the Credit Facility At December 31, 2004, more than 90% of the underlying loans of the Credit Facility are held by an entity controlled by Mr Carl C Icahn, Chairman of the Company's Board of Directors ("Mr Icahn") At December 31, 2004, long-term debt consisted of $361 0 million in principal and $5 2 million of accrued interest that, if not paid, converts to principal The Company paid down the Credit Facility by $197 6 million in January 2004 There are no current debt service requirements since cash interest payments as well as automatic and permanent quarterly reductions on the principal amount outstanding do not commence until 2009 However, in the event that consolidated excess cash flow (as defined in the Credit Facility) for any fiscal quarter during the term of the agreement is greater than $25 0 million, at the request of the lender, the Company will pay an amount equal to 50% of such excess cash flow greater than $25 0 million toward the reduction of outstanding indebtedness In addition, if the ratio of XO's consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest expense for four consecutive quarters exceeds 4 1, XO would be required to pay cash interest, unless waived by the lenders

The security for the Credit Facility consists of all assets of XO including the stock of its direct and indirect subsidiaries, and substantially all the assets of those subsidiaries The Credit Facility limits additional indebtedness, liens, dividend payments and certain investments and transactions, and contains certain covenants with respect to EBITDA requirements, as the term EBITDA is defined in the Credit Facility, and maximum capital expenditures In addition, the Company was required to achieve a minimum consolidated EBITDA of not less than $62 0 million for the twelve-month period ended December 31, 2004, which requirement was not met by the Company On August 3, 2004 the lender waived the applicability of the minimum EBITDA covenant for each quarter from March 31, 2004 through December 31, 2005 The Credit Facility has various contractual financial covenants, which XO did not meet in 2004 and for which XO has obtained waivers through December 31, 2005 If XO is not able to do any of the following by May 10, 2005 (i) amend the Credit Facility covenants, (ii) obtain an extension on the current waivers to at least March 31, 2006, or (iii) repay the Credit Facility with a new debt or equity offering, so that XO is in compliance, under the current accounting guidelines, XO will be required to reclassify the $366 2 million amount outstanding from long term to short term in its March 31, 2005 Form 10-Q While the existing waivers prevent the lenders under the Credit Facility from demanding payment until March 31, 2006, this reclassification would cause a significant deterioration to XO's disclosed working capital and financial position The Company is also required under the terms of the Credit Facility to maintain an unrestricted cash balance of $25 0 million at the end of each fiscal quarter

The Company obtained on the Closing Date the waiver and consent of the lenders with respect to the following covenants contained in the Credit Facility and subject to XO providing updated collateral descriptions and legal opinions not later than November 22, 2004. (i) the $25 0 million limitation on the incurrence of permitted indebtedness, permitted equipment financings, acquired debt, and capital leases, (ii) the limitation on the incurrence of additional liens with respect to liens on the Allegiance assets that remained in place following the effective date of the Allegiance plan of reorganization, (iii) the restriction on making acquisitions in excess of $50 0 million, (iv) the requirement that accounts acquired as part of the Allegiance acquisition be subject to control agreements until November 22, 2004; and (v) any noncompliance arising from the entering into of an Operating Agreement with Allegiance.

As discussed above, the Company is not required to pay cash interest accrued on the principal amount under the Credit Facility until it meets certain financial ratios, however, the Company can elect to begin paying interest in cash prior to the required date. Loans under the Credit Facility bear interest, at the Company's option, at an alternate base rate, as defined, or a Eurodollar rate plus, in each case, applicable margins Once the Company begins to pay accrued interest in cash, the applicable margins are reduced At December 31, 2004, the annualized weighted average interest rate applicable to outstanding borrowings under the Credit Facility was 7 77%

10. CONVERTIBLE PREFERRED STOCK

On August 6, 2004, XO completed a private placement of 4 0 million shares of its 6% Class A Convertible Preferred Stock (the "Preferred Stock Offering") for net proceeds of $199 4 million Affiliates of Mr Icahn purchased 95% of the preferred shares sold in the Preferred Stock Offering, and an affiliate of Amalgamated Gadget, L P , holder of approximately 8% of XO's outstanding common stock, purchased the remaining five percent As of December 31, 2004, the liquidation and redemption value of the 6% Class A Convertible Preferred Stock was $204 4 million.

The Preferred Stock Offering was reviewed and approved by a special committee of XO's Board of Directors consisting of XO's three independent directors, Messrs Dell, Gradin and Knauss The special committee selected its own counsel and financial advisor The financial advisor advised the special committee that, subject to specified qualifications, assumptions and limitations, the material terms of the 6% Class A Convertible Preferred Stock were fair to XO, from a financial point of view, at the time of issuance. Proceeds of the Preferred Stock Offering will be used for general working capital purposes and to fund possible future acquisitions that would add additional scale and synergies to XO's business

The Class A Preferred Stock ranks senior to the Company's common stock Holders of the Class A Preferred Stock are not entitled to receive annual dividends, however, the liquidation preference of the Class A Preferred Stock automatically increases at a rate of 1 5% each quarter through the maturity date, January 15, 2010 The Company is required to redeem the then-outstanding shares of Class A Preferred Stock on the maturity date at 100% of their aggregate liquidation preference, including compounded accretion through that date, unless earlier redeemed or converted into common stock If all of the shares of Class A Preferred Stock were to remain outstanding on the maturity date, and assuming the accretion of all the required increases to the liquidation preference thereof, holders of the Class A Preferred Stock would be entitled to 59,868,561 shares of common stock and would have an aggregate liquidation preference of approximately $276 6 million The shares of Class A Preferred Stock are convertible into common stock based on a share price of $4 62, a premium of approximately 20% above the trading price of the common stock on the closing date of the Preferred Stock Offering The Company may also, at its sole option, redeem the Class A Preferred Stock at any time after the third anniversary of the issue date of such shares if the average market price of the Company's common stock for the 20 days prior to such redemption is equal to or greater than 250% of the conversion price of the Class A Preferred Stock Each holder of the Class A Preferred Stock is entitled to one vote for each share of common stock issuable upon the conversion of the shares of Class A Preferred Stock as of the record date for such stockholders vote Both the conversion ratio and the voting power of each share of Class A Preferred Stock will be automatically increased each quarter as the liquidation preference increases at the rate of 1 5% each quarter The holders of Class A Preferred Stock also have anti-dilution protection in the event that the Company issues shares of common stock at a price below the then-prevailing market price of the Company's common stock

11. STOCKHOLDERS' EQUITY

The Company initiated a rights offering (the "Rights Offering") during the fourth quarter of 2003 offering 40 0 million shares of its common stock at a price of $5 00 per share The Rights Offering closed on January 5, 2004 An aggregate of 39 7 million shares were issued, yielding net proceeds of $197 6 million

XO has warrants outstanding to purchase up to an additional 23 75 million shares of its common stock The warrants consist of·

- Series A Warrants to purchase 9 5 million shares of XO common stock at an exercise price of $6 25 per share,
- Series B Warrants to purchase approximately 7 1 million shares of XO common stock at an exercise price of $7.50 per share, and
- Series C Warrants to purchase approximately 7 1 million shares of XO common stock at an exercise price of $10 00 per share

The warrants were valued at issuance at approximately $44 9 million using a Black Scholes model and are included in XO's common stock in the accompanying consolidated balance sheet The warrants will expire 7 years after the date of issuance or in 2010 The exercise price applicable to each respective series of warrants is subject to adjustment in certain events

In addition to the outstanding warrants discussed above, the Company has a stock option plan that can further dilute investors if exercised This stock option plan is discussed further in note 13 See note 17 for related party disclosure on XO's stockholder's equity

12. INCOME TAXES

As of December 31, 2004, XO had net operating loss carryforwards of approximately $2 50 billion, of which $1 08 billion related to the acquisition of the Acquired Businesses The acquired net operating loss carryforwards expire between 2011 and 2023 The remainder of XO's net operating loss carryforwards expire between 2023 and 2024 Use of the Acquired Businesses net operating loss carryforward is significantly limited due to the limitations imposed under the ownership change rules in the U S Internal

Revenue Code XO's use of the surviving capital loss carryforward of $0 2 billion, which expires in 2005, is also subject to limitations imposed under the ownership change rules in the U S Internal Revenue Code The utilization of the expected tax benefit from property and equipment depreciation could also be impacted by the ownership change rules of the U S Internal Revenue Code

XO was a member of the affiliated group of corporations controlled by Mr Icahn in filing a consolidated federal income tax return from January 2003 through January 2004, when Mr Icahn's ownership percentage fell below the amount required by the Internal Revenue Code for the filing of consolidated returns As such, in January 2004, XO deconsolidated with Starfire Holding Corporation ("Starfire"), the Parent entity of the affiliated group of corporations controlled by Mr Icahn XO had entered into a Tax Allocation Agreement with Starfire in January 2003 which provides that while XO files on a consolidated basis with Starfire, Starfire will pay all consolidated federal income taxes on behalf of the consolidated group that includes XO, and XO will make payments to Starfire in an amount equal to the tax liability, if any, that it would have had if it were to file as a group separate and apart from Starfire Upon deconsolidation, the Tax Allocation Agreement generally provides that Starfire will reimburse XO each year going forward for the excess of XO's actual income tax expense over the income tax that XO would have owed if net operating losses or other tax attributes used in prior periods by the Starfire consolidated group were still available to XO XO's net operating loss carryforward has been reduced by the amount used by Starfire in 2003 No amount has been recorded for the potential reimbursements from Starfire under the Tax Allocation Agreement

The provisions of SFAS No 109 have been applied as if the Company were a separate taxpayer As reflected in the following table, XO established a valuation allowance against the deferred tax assets of $2,021 million and $1,541 million as of December 31, 2004 and 2003, respectively A majority of the $480 million valuation increase from 2003 to 2004 relates to the acquisition of net operating losses from the Acquired Businesses Valuation allowances are used to reduce deferred tax assets to the amounts considered likely to be realized Components of deferred tax assets and liabilities were as follows (dollars in thousands):

	December 31,	
	2004	2003
Deferred tax assets:		
Provisions not currently deductible	$ 108,959	$ 172,368
Property, equipment and other long-term assets (net)	820,885	893,957
Net operating loss and capital loss carryforwards	1,109,575	483,453
Total deferred tax assets	2,039,419	1,549,778
Valuation allowance	(2,021,103)	(1,540,612)
Net deferred tax assets	18,316	9,166
Deferred tax liabilities		
Other identifiable intangibles	(25,147)	(15,997)
Total deferred tax liabilities	(25,147)	(15,997)
Net deferred tax liability	$ (6,831)	$ (6,831)

A reconciliation of the U S federal and state tax rate to the Company's effective income tax rate is as follows

	XO	XO	Predecessor XO
	2004	2003	2002
Statutory U S federal rate	35 0%	35 0%	35 0%
State income taxes, net of federal benefit	6 0%	6 0%	6 0%
Valuation allowance for deferred tax assets	(22 6%)	(41 0%)	(18 3%)
Impairment	(18 4%)	—%	(22 7%)
Effective income tax rate	—%	—%	—%

13. STOCK COMPENSATION ARRANGEMENTS

The XO Communications, Inc 2002 Stock Incentive Plan ("the 2002 Stock Incentive Plan") was adopted in January 2003 Under the 2002 Stock Incentive Plan, the Company is authorized to issue awards for up to 17 6 million shares of its common stock in the form of restricted stock or options to purchase stock The 2002 Stock Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors, which has the discretionary authority to determine all matters relating to awards of stock options and restricted stock, including the selection of eligible participants, the number of shares of common stock to be subject to each option or restricted stock award, the exercise price of each option, vesting, and all other terms and conditions of awards Unless the Compensation Committee designates otherwise, all options expire on the earlier of (i) ten years after the date of grant, (ii) twelve months after termination of employment with XO due to death or complete and permanent disability, (iii) immediately upon termination of employment by XO for cause, or (iv) three months after termination of employment by the employee or by XO for other than cause

In June 2003, XO filed a registration statement covering the offer and sale of stock options and stock appreciation rights ("SARs") to be granted in conjunction with the 2003 Employee Retention and Incentive Plan (the "Retention Plan") for an aggregate award of 1 9 million shares of its common stock (the "Retention Plan Awards") The financial goals and the terms of the Retention Plan were established by the Company's Board of Directors The per share exercise price for the Retention Plan Awards was set at $5 84 Any compensation was recorded as deferred compensation and amortized to on a straight line basis expense based on the associated vesting period

The following two tables summarize information regarding option activity under the 2002 Stock Option Plan for the years ended December 31, 2003 and 2004

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2003	—	$ —
Granted	15,394,162	$ 5 09
Canceled	(3,697,068)	$ 5 02
Exercised	(1,274,139)	$ 5 01
Outstanding at December 31, 2003	10,422,955	$ 5 12
Exercisable, at December 31, 2003	2,424,903	$ 5 10
Outstanding at December 31, 2003	10,422,955	$ 5 12
Granted	3,577,382	$ 5 26
Canceled	(2,184,093)	$ 5 55
Exercised	(556,429)	$ 5 01
Outstanding at December 31, 2004	11,259,815	$ 5.09
Exercisable, at December 31, 2004.	3,726,298	$ 5 02

		Options Outstanding			Options Exercisable	
	Range of Exercise Prices	Options Outstanding at December 31,	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at December 31,	Weighted Average Exercise Price
2003	$ 4 80 – $7 05	10,422,955	9 1	$ 5 12	2,424,903	$ 5 10
2004	$ 4 80 – $7 05	11,259,815	8 6	$ 5 09	3,726,298	$ 5 02

14. SUPPLEMENTAL DISCLOSURE

Cash flows

Supplemental disclosure of the Company's cash flow information is as follows (dollars in thousands)

	Year Ended December 31, 2004	Year Ended December 31, 2003	Predecessor XO Year Ended December 31, 2002
Non-cash financing and investing activities were as follows:			
Stock issued for acquired businesses	$ 311,306	$ —	$ —
Assets and obligations acquired through capital leases	3,932	—	—
Conversion of accrued interest to long-term debt	28,746	29,901	—
Cash paid for interest	$ 2,481	$ 2,315	$ 11,681

Employee Savings and Retirement Plan

At December 31, 2004, the Company had a defined contribution plan, generally covering all full time employees in the United States The Company provides a match to all eligible employees based on certain plan provisions and the discretion of the Board of Directors The Company makes a 50% matching contribution up to 5% of the participant's compensation Company contributions net of forfeitures were $2 3 million, $4 8 million and $7 0 million during 2004, 2003 and 2002, respectively

15. OPERATING SEGMENTS

Reportable Segments

The Company operates its business as one telecommunications segment The Company's communications segment includes all of its services including voice services, data services and integrated voice and data services These services have similar network assets, operations, and technology requirements and are sold through similar sales channels to a similar targeted customer base Therefore, the Company manages these services as a single segment that are sold in geographic areas, or markets, within the United States

Products and Services

The Company classifies its services revenues offered by its telecommunications segment into voice services, data services and integrated voice and data services (dollars in thousands)

	Year Ended December 31, 2004	Year Ended December 31, 2003	Predecessor XO Year Ended December 31, 2002
Voice services	$ 673,318	$ 572,774	$ 659,558
Data services	414,782	392,742	472,247
Integrated voice and data services	212,320	144,967	128,048
Total revenue	$ 1,300,420	$ 1,110,483	$ 1,259,853

16. SELECTED QUARTERLY DATA (Unaudited)

Quarterly financial information is summarized in the table below (dollars in thousands, except per share data)

	Quarter ended 2004 (a)			
	March 31,	June 30,	September 30,	December 31,
Revenue	$ 260,945	$ 278,183	$ 391,885	$ 369,407
Cost of service	109,961	118,822	161,946	162,006
Loss from operations(c)	(43,266)	(34,853)	(36,227)	(255,946)
Net loss	(48,494)	(43,820)	(41,779)	(271,450)
Net loss applicable to common shares	(48,494)	(43,820)	(43,619)	(274,520)
Net loss per common share (basic and diluted)	(0 37)	(0 31)	(0 24)	(1 51)

	Quarter ended 2003			
	March 31,	June 30,	September 30,	December 31,
Revenue	$ 286,093	$ 283,918	$ 279,433	$ 261,039
Cost of service	107,506	104,898	106,935	102,790
Loss from operations	(14,015)	(13,260)	(35,878)	(48,705)
Net loss(b)	(20,488)	(19,836)	(40,787)	(21,443)
Net loss applicable to common shares	(20,488)	(19,836)	(40,787)	(21,443)
Net loss per common share (basic and diluted)(b)	(0 22)	(0 21)	(0 42)	(0 22)

(a) The 2004 results include the results of the Acquired Businesses from June 23, 2004 through December 31, 2004

(b) Fourth quarter of 2003 includes a $33 5 million realized investment gain

(c) Fourth quarter of 2004 includes a $212 5 million non-cash goodwill impairment charge

17. RELATED PARTY TRANSACTIONS

Various entities controlled by Mr Icahn hold the following interests in XO

	Outstanding Common Stock	Series A, B and C Warrants	Credit Facility	Preferred Stock
At December 31, 2004	Greater than 50%	Greater than 40%	Greater than 90%	95%

In August 2004, after the closing of the Preferred Stock Offering, Mr Icahn filed a schedule 13D amendment with the Securities and Exchange Commission disclosing that his beneficial ownership, as defined therein, was 60 7% of XO As a result of his majority ownership, Mr Icahn can elect all of XO's directors, who in turn appoint the members of the committees of XO's Board of Directors, appoint key members of XO's executive management team, and appoint XO's auditors Currently, Mr Icahn is Chairman of the Board of Directors and three employees of Icahn Associates also sit on the Board of Directors and various Committees of the Board of Directors Under applicable law and XO's Certificate of Incorporation and by-laws, certain action cannot be taken without the approval of holders of a majority of XO's voting stock, including, without limitation, mergers, acquisitions, the sale of substantially all XO's assets, and amendments to XO's Certificate of Incorporation and by-laws

Mr Icahn, through various entities that he controls, has the right to require XO to register, under the Securities Act of 1933, shares of XO's common stock held by such entities and to include shares of XO's common stock held by them in certain registration statements filed by XO

Dixon Properties, LLC ("Dixon"), which is controlled by Mr Icahn, owns the building in which XO's headquarters is located XO currently leases approximately 170,000 square feet of space in that building Pursuant to the lease agreement, XO has paid $3 5 million in lease rent to Dixon for the year ended December 31, 2004 and XO is obligated to pay approximately $12 1 million to Dixon through the expiration of the initial term of the lease, which is November 30, 2007

XO has entered into a Tax Allocation Agreement with an Icahn affiliate, that is more fully discussed in note 12

The Company provides certain telecommunications services to companies affiliated with Mr Icahn For the year ended December 31, 2004, the total revenue recognized on such services affiliated with Mr Icahn was approximately $2 0 million The Company has purchased approximately $0 6 million in services from Icahn affiliates during 2004 During 2004, XO purchased approximately $1 0 million in hardware and services from Dell Computers, Inc Mr Adam Dell, an XO director, is the brother of Mr Michael Dell, the Chairman of Dell, Inc

XO provided telecommunications services to Allegiance from February 18, 2004 through the Closing Date Total revenue recognized for those services was approximately $1 7 million In addition, XO provided Allegiance management services under an Operating Agreement between April 13, 2004 and the Closing Date XO believes it is owed monies under the terms of the Operating Agreement and this is part of the total claim that is discussed in note 2 Based on the contingent nature of this claim, it is not recorded in the accompanying consolidated financial statements

On June 8, 2004 XO entered into a Registration Rights Agreement with the ATLT, holder of approximately 24 9% of XO's outstanding common stock, pursuant to which XO agreed to utilize its best efforts to register for public resale, the 45,380,000 shares of XO common stock issued as part of the acquisition of the Acquired Businesses XO has not filed such registration statement

On November 2, 2004, XO entered into an Indemnification Agreement with each of Mr Dell, Robert L Knauss and Fredrik Gradin, each of whom is an independent member of XO's Board of Directors, pursuant to which XO has agreed to indemnify each of such directors for any personal liability and costs that he may incur in connection with the performance of services as a director of XO, and advance to each such director any expenses that he may incur in connection with any litigation or actions related to such services

18. COMMITMENTS AND CONTINGENCIES

Operating Commitments

The Company is leasing premises under various noncancelable operating leases for administrative space, building access, and other leases, which, in addition to rental payments, require payments for insurance, maintenance, property taxes and other executory costs related to the leases The lease agreements have various expiration dates and renewal options through 2029 The Company also has various noncancelable long-term contractual obligations associated with maintenance and service agreements

Future minimum lease commitments required under noncancelable operating leases and contractual obligations are as follows (dollars in thousands)

Year Ending December 31,	Operating lease obligations	Other long-term contractual obligations
2005	$ 70,822	$ 61,273
2006	66,657	52,521
2007	61,527	48,806
2008	51,394	47,524
2009	43,257	33,679
Thereafter	168,235	95,787
Total minimum commitments	$ 461,892	$ 339,590

Rent expense for cancelable and noncancelable leases totaled approximately $57 4 million, $53 7 million, and $76 4 million for the years ended December 31, 2004, 2003, and 2002, respectively The minimum lease payments noted above have not been reduced for sublease income totaling approximately $0 7 million for the year ended December 31, 2004

Capital Leases

Network assets under capital leases totaled approximately $9 3 million and $1 4 million as of December 31, 2004 and 2003, respectively, and are included in telecommunications networks in property and equipment Depreciation on leased assets of $0 4 million for each of the years ended December 31, 2004 and 2003 is included in depreciation expense Future minimum lease payments under capital lease obligations as of December 31, 2004 are as follows (dollars in thousands):

Year Ending December 31,	
2005	$ 4,789
2006	4,537
2007	3,854
2008	2,398
2009	1,770
Thereafter	13,681
Total minimum capital lease payments	31,029
Less imputed interest	(10,814)
Less current portion of capital lease obligations	(2,820)
Long-term portion of capital lease obligation	$ 17,395

The Company provides intercity transport primarily through five year leases of wavelength capacity that were paid for at the beginning of the term The first of these leases expires in 2006 At that time, XO will either renew these leases or light its intercity fiber network, either of which will be a substantial capital commitment

Legal Proceedings

In addition to the litigation disclosed in note 2, XO is involved in lawsuits, claims, investigations and proceedings consisting of commercial, regulatory, securities, tort, and employment matters, which arise in the ordinary course of business In addition, disputes with respect to general unsecured claims and one administrative expense claim in the amount of approximately $2 1 million, remain pending from the Company's Chapter 11 proceedings In accordance with SFAS No 5, "Accounting for Contingencies," XO makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated XO believes it has adequate provisions for any such matters XO reviews these provisions at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case Litigation is inherently unpredictable. However, XO believes that it has valid defenses with respect to legal matters pending against it Nevertheless, it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies

19. RESTRUCTURING CHARGES AND ASSET WRITE-DOWNS

During 2003, the Company recorded restructuring charges from the reduction of its work force and estimated losses associated with restructured leases A restructuring charge was recorded during the first half of 2002 when the Company implemented a plan to restructure certain of its business operations The restructuring plan included divesting its European operations and reducing the Company's discretionary spending, capital expenditures and workforce

As of December 31, 2004, the remaining restructuring accrual was \$43.7 million, which relates primarily to payments due to landlords on exited leased facilities The restructuring accrual has decreased from \$60 0 million as of December 31, 2003, mainly due to \$13.3 million in payments associated with exited leased facilities

20. REORGANIZATION

On January 16, 2003 (the "Effective Date"), XO's holding company ("XO Parent") consummated its Plan of Reorganization and emerged from its Chapter 11 reorganization proceedings with a significantly restructured balance sheet The consummation of the Plan of Reorganization resulted in the following changes in XO Parent's capital structure

- The conversion of \$1 0 billion of loans under its pre-petition secured credit facility into \$500 0 million of outstanding principal amount under an amended and restated credit agreement,
- The extinguishment of all amounts due under its pre-petition unsecured senior and subordinated notes and certain general unsecured obligations;
- The cancellation of all outstanding shares and interests in its pre-petition preferred stock and pre-petition common stock, and
- The issuance of approximately 95 0 million shares of common stock of the reorganized Company and warrants to purchase up to an additional 23 75 million shares of the common stock of the reorganized Company

The Company adopted the fresh start accounting provisions ("fresh start") of SOP 90-7 "Financial Reporting by Entities in Reorganization under the Bankruptcy Code", ("SOP 90-7") during the first quarter of 2003. Due to the immateriality of the results of operations for the period between January 1, 2003 and the Effective Date, the Company accounted for the consummation of the Plan of Reorganization as if it had occurred on January 1, 2003 and implemented fresh start reporting as of that date Fresh start requires that the Company adjust the historical cost of its assets and liabilities to their fair value The fair value of the reorganized Company of approximately \$1 3 billion was determined based on the negotiated sum of the reorganized Company's liabilities and equity that were issued and outstanding after final negotiations and Bankruptcy Court approval These included \$500 0 million of debt outstanding under the Credit Facility, \$475 0 million of XO's common stock, and \$373 1 million of other liabilities that were not eliminated or discharged under the Plan of Reorganization

Fresh start requires that the reorganization value be allocated to the entity's net assets in conformity with procedures specified by SFAS No 141 The Company engaged an independent appraiser to assist in the allocation of the reorganization value to the reorganized Company's assets and liabilities by determining the fair market value of its property and equipment, intangible assets and certain obligations related to its facility leases. A reconciliation of the adjustments recorded in connection with effecting the Plan of Reorganization and adopting fresh start accounting is presented below (dollars in thousands)

	Predecessor XO December 31, 2002	Reorganization	Fresh Start Adjustments(d)	Reorganized XO January 1, 2003
ASSETS				
Current assets				
Cash and cash equivalents	$ 314,038	$ —	$ —	$ 314,038
Marketable securities	246,945	—	—	246,945
Accounts receivable, net	116,541	—		116,541
Other current assets	83,480	—	(48,288)	35,192
Total current assets	761,004	—	(48,288)	712,716
Property and equipment, net	2,780,589	—	(2,304,001)	476,588
Broadband wireless licenses and other intangibles, net	984,614	—	(848,936)	135,678
Other assets, net	59,289	—	(36,181)	23,108
Total assets	$ 4,585,496	$ —	$ (3,237,406)	$ 1,348,090
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY				
Current liabilities				
Accounts payable	$ 63,729	$ —	$ 3,539	$ 67,268
Accrued liabilities	266,102	—	(30,910)	235,192
Current liabilities subject to compromise	5,497,207	(5,466,667)(a)	(30,540)	—
Total current liabilities	5,827,038	(5,466,667)	(57,911)	302,460
Long-term debt	—	500,000(b)	—	500,000
Other long-term liabilities	75,242	—	(4,612)	70,630
Long-term liabilities subject to compromise	7,182	—	(7,182)	—
Total liabilities	5,909,462	(4,966,667)	(69,705)	873,090
Predecessor XO redeemable preferred stock — subject to compromise	1,708,316	(1,708,316)(a)	—	—
Stockholders' (deficit) equity				
Predecessor XO common stock	4,628,139	—	(4,628,139)	—
Reorganized XO common stock and warrants	—	475,000(c)	—	475,000
Deferred compensation	(8,500)	—	8,500	—
Accumulated other comprehensive income	2,512	—	(2,512)	—
Accumulated deficit	(7,654,433)	6,199,983(e)	1,454,450	—
Total stockholders' (deficit) equity	(3,032,282)	6,674,983	(3,167,701)(e)	475,000
Total liabilities and stockholders' (deficit) equity	$ 4,585,496	$ —	$ (3,237,406)	$ 1,348,090

(a) To record the discharge of pre-petition indebtedness, including a $1 0 billion credit facility, $4 2 billion of senior and convertible subordinated notes, $245 2 million of accrued interest, and the elimination of $1 7 billion of pre-petition redeemable preferred stock and $50 6 million of accrued dividends, all in accordance with the Plan of Reorganization

(b) To record the outstanding principal under the Credit Agreement, in accordance with the Plan of Reorganization

(c) To record the issuance of 95 0 million shares of New Common Stock and warrants in accordance with the Plan of Reorganization Participation in the Rights Offering was recorded in the first quarter of 2004

(d) To adjust the carrying value of assets, liabilities and stockholders' equity to fair value, in accordance with fresh start

(e) Net reorganization gain on January 1, 2003 consisted of the following (dollars in thousands)

Net gain resulting from reorganization of debt, preferred stock and equity	$ 6,199,983
Net loss resulting from fresh start fair value adjustments to assets and liabilities	(3,167,701)
Total reorganization gain, net	$ 3,032,282

21. SUBSEQUENT EVENTS (Unaudited)

On March 16, 2005, McLeodUSA Inc. ("McLeod") announced that it is looking into financial restructuring options due to its on-going cash requirements XO currently holds McLeod debt securities that are included in marketable securities and other investments It is too early to conclude what type of restructuring option McLeod will choose, or if any will be approved by their creditors and how that would impact our investment Based on this announcement, there is a risk that the carrying value of $10 8 million will be impaired, and require adjustment in 2005

XO Communications, Inc.

Schedule II — Consolidated Valuation and Qualifying Accounts
For The Years Ended December 31, 2004, 2003 and 2002

(dollars in thousands)	Beginning Balance	Reorganization Adjustments	Additions/ Reductions charged to expense	Reductions	Ending Balance
Allowance for doubtful accounts					
2002	$ 32,492	$ —	$ 53,631	$ (49,093)	$ 37,030
2003	$ 37,030	$ —	$ 29,998	$ (34,042)	$ 32,986
2004	$ 32,986	$ —	$ 34,898	$ (28,903)	$ 38,981
Restructuring accrual					
2002 (a)	$ 125,773	—	$ 480,168	$ (526,951)	$ 78,990
2003 (b)	$ 38,725	$ 26,809	$ 11,618	$ (17,176)	$ 59,976
2004	$ 59,976	$ —	$ (2,971)	$ (13,349)	$ 43,656

(a) Only $49 7 million of the reduction in 2002 restructuring accrual was for cash payments The balance was associated with the non-cash asset write down resulting from an agreement with Level 3 to amend various agreements relating to XO's Level 3 intercity fiber network facilities

(b) The beginning balance was adjusted to its fair value when we implemented fresh start

Exhibit 10 4

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT, dated as of June 23, 2004, between Allegiance Telecom, Inc , ("Allegiance"), Allegiance Telecom Company Worldwide ("Allegiance Worldwide"), Allegiance Telecom Liquidating Trust (the "Trust", and together with Allegiance and Allegiance Worldwide, the "Allegiance Parties") and XO Communications, Inc , a Delaware corporation (the "Company")

RECITALS

WHEREAS, the Trust will acquire shares of Common Stock, par value $ 01 per share, of the Company (the "Common Stock") to be issued pursuant to that certain Asset Purchase Agreement (the "Purchase Agreement"), dated as of February 18, 2004, between the Company and Allegiance as debtor-in-possession and Allegiance Worldwide as debtor-in-possession,

WHEREAS, pursuant to their Joint Plan of Reorganization of, confirmed by order of the Bankruptcy Court for the Southern District of New York on June 23, 2004, Allegiance and Allegiance Worldwide will transfer the Common Stock to the Trust established thereunder to hold, sell or distribute to their pre-petition creditors in accordance with its terms, and

WHEREAS, the Company has agreed, pursuant to the Stipulation and Order, entered on June 23, 2004, to grant the Trust registration rights upon the
terms and subject to the conditions hereinafter set forth; and

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the parties hereby agree as follows

SECTION 1 DEFINITIONS. As used in this Agreement, the following terms have the respective meanings set forth below:

COMMISSION. shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act,

EXCHANGE ACT: shall mean the Securities Exchange Act of 1934, as amended,

MARKET STAND-OFF PERIOD has the meaning defined in Section 5(a)

PERSON: shall mean an individual, partnership,joint-stock company, corporation, trust or unincorporated organization, and a government or agency or political subdivision thereof;

REGISTER, REGISTERED and REGISTRATION shall be deemed to refer to registration effected by preparing and filing a registration statement in compliance with the Securities Act (and any post-effective amendments filed or required to be filed) and the declaration or ordering of effectiveness of such registration statement, REGISTRABLE SECURITIES shall mean (A) shares of Common Stock issued pursuant to the Purchase Agreement held by the Trust and (B) any stock of the Company issued as a dividend or other distribution with respect to, or in exchange for or in replacement of, the shares of the Common Stock referred to in clause (A) held by the Trust,

REGISTRATION EXPENSES shall mean all expenses incurred by the Company in compliance with Section 2(a), (b) and (c) hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company (other than blue sky fees and expenses), and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company, which shall be paid in any event by the Company),

SECURITY, SECURITIES shall have the meaning set forth in Section 2(1) of the Securities Act;

SECURITIES ACT shall mean the Securities Act of 1933, as amended, and

SELLING EXPENSES shall mean all underwriting discounts and selling commissions applicable to the sale of Registrable Securities and all fees and disbursements of counsel for the Trust, blue sky fees and expenses, including blue sky fees and expenses of counsel for the Company

SECTION 2 INVESTMENT REPRESENTATIONS

(A) PRIVATE PLACEMENT EXEMPTION Each of the Allegiance Parties understands that the Common Stock has not been registered under the Securities Act, nor qualified under any state securities laws, and that it has been offered and sold pursuant to an exemption from such registration and qualification based in part upon the representations of each of the Allegiance Parties contained herein

(b) KNOWLEDGE OF OFFER Each of the Allegiance Parties is familiar with the business and operations of the Company and has been given the opportunity to obtain from the Company all information that it has requested regarding its business plans and prospects

(c) KNOWLEDGE AND EXPERIENCE, Ability to Bear Economic Risks Each of the Allegiance Parties has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its investment in the Company Each of the Allegiance Parties is able to bear the economic risk of its investment in the Company (including a complete loss of its investment)

(d) LIMITATIONS ON DISPOSITION Each of the Allegiance Parties understands that it must bear the economic risk of this investment indefinitely unless its Common Stock is registered pursuant to the Securities Act or an exemption from such registration is available, and unless the disposition of such Common Stock is qualified under applicable state securities laws or an exemption from such qualification is available Each of the Allegiance Parties further understands that there is no assurance that any exemption from the Securities Act will be available, or, if available, that such exemption will allow it to transfer any or all of the Common Stock, in the amounts, or at the time such Allegiance Party might propose

(e) INVESTMENT PURPOSE Each of the Allegiance Parties is acquiring the Common Stock solely, for its own account for investment and not with a view toward the resale, transfer, or distribution thereof, nor with any present intention of distributing the Common Stock No other Person has any right with respect to the Stock received by any of the Allegiance Parties, nor has any of the Allegiance Parties agreed to give any Person any such shares of Common Stock or right in the future

(f) ACCREDITED INVESTOR Each of the Allegiance Parties is an "accredited investor" as such term is defined in Rule 501 (a) promulgated under the Securities Act and was not formed for the sole and specific purpose of making the investment contemplated by this Agreement

(g) CAPACITY Each of the Allegiance Parties has the requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated by this Agreement The execution and delivery of this Agreement by each of the Allegiance Parties and the consummation by each such party of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of each such Allegiance Party This Agreement has been duly executed and delivered by each of the Allegiance Parties and, assuming this Agreement constitutes the valid and binding obligation of the Company, constitutes the valid and binding obligation of each of the Allegiance Parties, enforceable against each such Allegiance Party in accordance with its terms

SECTION 3 REGISTRATION RIGHTS

(a) FORM S-3 REGISTRATION The Company represents and warrants that it currently qualifies for registration on Form S-3 for secondary sales, and covenants and agrees that, during the Shelf Period (as defined below), it will continue to file all reports required by the Exchange Act necessary to maintain such qualification So long as the Company remains qualified for the use of Form S-3 for secondary sales, the Company shall use its best efforts to prepare, file and cause the effectiveness of a Registration Statement on Form S-3 for all of the Registrable Securities (provided that the Trust shall have informed the Company in writing of its intended method of disposition of the Registrable Securities), and (provided that Rule 415, or any successor rule under the Securities Act, at the time permits an offering on a continuous or delayed basis, and provided further that applicable rules under the Securities Act governing the obligation to file a post-effective amendment permit, in lieu of filing a post-effective amendment which (y) includes any prospectus required by Section 10(a) of the Securities Act or (z) reflects facts or events representing a material or fundamental change in the information set forth in the registration statement, the incorporation by reference of information required to be included in (y) and (z) above to be contained in periodic reports filed pursuant to Section 12 or 15(d) of the Exchange Act in the registration statement) the Company will use its best efforts to maintain the effectiveness of such registration for three years following the Closing under the Asset Purchase Agreement, or until such time as all such Registrable Securities are sold or are otherwise eligible for sale without registration (such period, the "Shelf Period"), provided, however, that (A) such three year period shall be extended for a period of time equal to the period during which the Trust refrains from selling any securities included in such registration in accordance with provisions in Section 3 and 5(a) and for any time necessary to make corrections to the applicable prospectus pursuant to Section 6(b), provided that the Company shall not be obligated to effect, or take any action to effect or maintain the effectiveness of, any such registration pursuant to this Section 3(a)

(i) during a Market Stand-Off Period, or

(ii) In any jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act or applicable rules or regulations thereunder

(b) S-1 REGISTRATION In the event that the Company becomes ineligible to use Form S-3 and cannot certify its reasonable, good faith expectation that it will regain such eligibility within 90 days, upon request of the Trust, the Company will as soon as practicable, use its best efforts to effect a registration of sales of the Registrable Securities on another appropriate form (including, without limitation, the execution of an undertaking to file post-effective amendments, appropriate qualification under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act) as would permit or facilitate the sale and distribution of all or such portion of such Registrable Securities in such manner as the Trust shall specify to the Company in writing, provided that the Company shall not be obligated to effect, or take any action to effect, any such registration pursuant to this Section 3(b)

(i) In any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act or applicable rules or regulations thereunder, or

(ii) After the Company has effected three (3) such registrations pursuant to this Section 3(b) and such registrations have been declared or ordered effective and the sales of such Registrable Securities shall have closed, or

(iii) During a Market Stand-Off Period

(iv) The Company will use its best efforts to keep such registration effective for a period of one hundred twenty (120) days or until the Trust has completed the distribution described in the registration statement relating thereto, whichever first occurs, provided however, that such 120-day period shall be extended for a period of time equal to the period during which the Trust refrains from selling any securities included in such registration in accordance with provisions in Section 3 and 5(a) and for any time necessary to make corrections to the applicable prospectus pursuant to Section 6(b) Notwithstanding the foregoing, if the Company's ineligibility to use Form S-3 for secondary offerings is the result of a breach of the first sentence of Section 3(a), and (provided that Rule 415, or any successor rule under the Securities Act, at the time permits an offering on a continuous or delayed basis) the Company will use its best efforts to maintain the effectiveness of such registration for three years following the Closing under the Asset Purchase Agreement, or until such time as all such Registrable Securities are sold or are otherwise eligible for sale without registration (such period, the "Shelf Period"), provided that the Company shall not be obligated to effect, or take any action to effect or maintain the effectiveness of, any such registration under the conditions set forth in Section 3(a)(i) and (ii), provided, further, that (A) such three year period shall be extended for a period of time equal to the period during which the Trust refrains from selling any securities included in such registration in accordance with provisions in Section 3 and 5(a) and for any time necessary to make corrections to the applicable prospectus pursuant to Section 6(b)

(v) The registration statement filed pursuant to the request of the Trust may, subject to the provisions of Section 3(b)(vii) below, include other securities of the Company which are held by Persons (not including the Company or any of its officers, directors or other entities controlled by Mr Carl Icahn) who, by virtue of agreements with the Company, are entitled to include their securities in any such registration ("Other Stockholders")

(vi) If Other Stockholders request such inclusion, the Trust shall offer to include the securities of such Other Stockholders in the underwriting and may condition such offer on their acceptance of the further applicable provisions of this Section 3 The Trust and the Company shall (together with all Other Stockholders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the representative of the underwriter or underwriters selected for such underwriting by the Trust and reasonably acceptable to the Company Notwithstanding any other provision of this Section 3(b), if the representative advises the Trust in writing that marketing factors require a limitation on the number of shares to be underwritten, the number of shares included in the registration by the Trust and each Other Stockholder shall be reduced on a pro rata basis (based on the number of shares held by the Trust and Other Stockholder), by such minimum number of shares as is necessary to comply with such request No Registrable Securities or any other securities excluded from the underwriting by reason of the underwriter's marketing limitation shall be included in such registration. If any Other Stockholder who has requested inclusion in such registration as provided above disapproves of the terms of the underwriting, such Person may elect to withdraw therefrom by written notice to the Company, the underwriter and the Trust The securities so withdrawn shall also be withdrawn from registration If the underwriter has not limited the number of Registrable Securities or other securities to be underwritten, the Company and officers and directors of the Company may include its or their securities for its or their own account in such registration if the representative so agrees and if the number of Registrable Securities and other securities which would otherwise have been included in such registration and underwriting will not thereby be limited

(c) EXPENSES OF REGISTRATION All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to this Section 3 shall be borne by the Company All Selling Expenses shall be borne by the Trust.

(d) TERMINATION The registration rights set forth in this

Section 3 shall not be available to the Trust if, (i) in the opinion of counsel to the Company, all of the Registrable Securities then owned by the Trust could be sold in any 90-day period pursuant to Rule 144 (without giving effect to the provisions of Rule 144(k)) or (ii) all of the Registrable Securities held by the Trust have been sold in a registration pursuant to the Securities Act or pursuant to Rule 144

SECTION 4 RULE 144 REPORTING With a view to making available the benefits of certain rules and regulations of the Commission which may permit the sale of restricted securities to the public without registration, the Company agrees to

(a) make and keep public information available as those terms are understood and defined in Rule 144 under the Securities Act ("Rule 144"), at all times,

(b) use its best efforts to file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act at any time after it has become subject to such reporting requirements, and

(c) so long as the Trust owns any Registrable Securities, furnish to the Trust upon request, a written statement by the Company as to its compliance with the reporting requirements of Rule 144, and of the Securities Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed as the Trust may reasonably request in availing itself of any rule or regulation of the Commission allowing the Trust to sell any such securities without registration

SECTION 5 COVENANTS

(a) MARKET STAND-OFF Each of the Allegiance Parties agrees that it will not sell or otherwise transfer or dispose of any Registrable Securities held by such Allegiance Party during the period referred to below (a "Market Stand-Off Period")

(i) in connection with an underwritten offering of equity or equity-linked securities (such as convertible securities or warrants, but not including a registration of securities in a Rule 145 transaction or with respect to an employee benefit plan)) of the Company, as requested by the Company and the Company's underwriter for a period starting with the date of filing of, and ending on the date 90 days immediately following the effective date of, the applicable registration statement, provided that (i) the executive officers (as defined for purposes of Rule 16a-1 under the Exchange Act) and all the directors of the Company enter into similar agreements and (ii) the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective The Company may only delay or suspend an offering pursuant to this Section 5(a)(i) for a period of not more than sixty (60) days, if a filing of any other registration statement is not made within that period and the Company may only exercise that right once in any twelve (12) month period

(ii) if the Company determines in its good faith judgment that the filing of a registration statement under Section 3 or the use of any related prospectus would require the disclosure of material information that the Company has a bona fide business purpose for preserving as confidential or the disclosure of which would impede the Company's ability to consummate a significant transaction, and that the Company is not otherwise required by applicable securities laws or regulations to disclose, upon written notice of such determination by the Company, until the date upon which the Company notifies the Allegiance Parties in writing that suspension of such rights for the grounds set forth in this Section 5(a)(ii) is no longer necessary, provided that (A) (x) the Company may not declare more than three Market Stand-Off Periods in any 12month period pursuant to this clause (ii), (y) the aggregate Market Stand-Off Period pursuant to this clause (ii) in any 12-month period shall not exceed 90 days, and (z) the Market Stand-Off Period pursuant to this clause (ii) may not be used to extend the 90-day period contemplated by clause (i) above to a total continuous Market Stand-Off period exceeding 150 days in the aggregate and (B) unless the registration statement in question is a shelf registration statement for a delayed or continuous offering, then if the Company declares a Market Stand-Off period during the first 60 days following the effectiveness thereof, each day of such Market Stand-Off period will be counted as 1 1/2 days against the 90-day period contemplated by clause (i) above The Company agrees to give such notice as promptly as practicable following the date that such suspension of rights is no longer necessary

(b) SUPPLEMENTAL UNDERTAKING If requested by the underwriters, the Allegiance Parties shall execute a separate agreement to the effect set forth in Section 5(a)(i) The Company may impose stop-transfer instructions with respect to the shares (or securities) subject to the foregoing restriction until the end of said 180-day period The provisions of this Section 5(b) shall be binding upon any transferee who acquires Registrable Securities

(c) RESTRICTIONS ON TRANSFER Each of the Allegiance Parties agrees that none of the Registrable Securities shall be transferred, sold, assigned, pledged, hypothecated, or otherwise disposed or encumbered, either voluntarily or involuntarily, directly or indirectly, except pursuant to an effective registration under the Securities Act, or in a transaction which, in the opinion of counsel experienced in such matters and reasonably satisfactory to the Company, qualifies as an exempt transaction under the Securities Act and the rules and regulations promulgated thereunder

(d) INFORMATION SUPPLIED BY THE TRUST The Trust shall furnish to the Company information regarding itself and the distribution proposed by such Trust as the Company may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in Section 3

SECTION 6 REGISTRATION PROCEDURES In the case of each registration effected by the Company pursuant to Section 3, the Company will keep the Trust advised in writing as to the initiation of each registration and as to the completion thereof At its own expense, the Company will

(a) furnish such number of prospectuses and other documents incident thereto as the Trust from time to time may reasonably request,

(b) notify the Trust when a prospectus relating to the registration statement is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and

(c) furnish, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (1) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory the Trust, addressed to the underwriters, if any, and to the Trust and (2) a letter, dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to the Trust, addressed to the underwriters, if any, and if permitted by applicable accounting standards, to the Trust

SECTION 7 INDEMNIFICATION

(a) The Company will indemnify the Trust, as applicable, each of its officers, directors and partners, and each Person controlling the Trust, with respect to each registration which has been effected pursuant to Section 3, and each underwriter, if any, and each person who controls any underwriter, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or the Exchange Act or any rule or regulation thereunder applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and will reimburse the Trust, each of its officers, directors and partners, and each Person controlling the Trust, each such underwriter and each Person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating and defending any such claim, loss, damage, liability or action, provided that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by the Trust or underwriter and stated to be specifically for use therein

(b) The Trust will indemnify the Company, each of its directors and officers and each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the Company or such underwriter, each Other Stockholder and each of their officers, directors, and partners, and each person controlling such Other Stockholder against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document made by the Trust, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements by the Trust therein not misleading, and will reimburse the Company and such Other Stockholders, directors, officers, partners, persons, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by the Trust and stated to be specifically for use therein, provided, however, that the obligations of the Trust hereunder shall be limited to an amount equal to the net proceeds to the Trust of securities sold as contemplated herein

(c) Each party entitled to indemnification under this Section 7 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld) and the Indemnified Party may participate in such defense at such party's expense (unless the Indemnified Party shall have reasonably concluded that there may be a conflict of interest between the Indemnifying Party and the Indemnified Party in such action, in which case the fees and expenses of counsel shall be at the expense of the Indemnifying Party), and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 7 unless the Indemnifying Party is materially prejudiced thereby No Indemnifying Party, in the defense of any such claim or litigation shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with the defense of such claim and litigation resulting therefrom

(d) If the indemnification provided for in this Section 7 is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to any loss, liability, claim, damage or expense referred to herein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and of the Indemnified Party on the other in connection with the statements or omissions which resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue (or alleged untrue) statement of a material fact or the omission (or alleged omission) to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission

(e) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with any underwritten public offering contemplated by this Agreement are in conflict with the foregoing provisions, the provisions in such underwriting agreement shall be controlling

(i) The foregoing indemnity agreement of the Company and the Trust is subject to the condition that, insofar as they relate to any loss, claim, liability or damage arising out of a statement made in or omitted from a preliminary prospectus but eliminated or remedied in the amended prospectus on file with the Commission at the time the registration statement in question becomes effective or the amended prospectus filed with the Commission pursuant to Commission Rule 424(b) (the "Final Prospectus"), such indemnity or contribution agreement shall not inure to the benefit of any underwriter or the Trust if a copy of the Final Prospectus was furnished to the underwriter and was not furnished to the Person asserting the loss, liability, claim or damage at or prior to the time such action is required by the Securities Act.

SECTION 8 MISCELLANEOUS

(a) DIRECTLY OR INDIRECTLY Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person

(b) GOVERNING LAW This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State

(c) SECTION HEADINGS The headings of the sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute a part thereof

(d) NOTICES

(i) All communications under this Agreement shall be in writing and shall be delivered by hand or facsimile or mailed by overnight courier or by registered or certified mail, postage prepaid

(1) if to the Company, to 11111 Sunset Hills Road Reston, Virginia 20190 (facsimile (703) 547-2479), Attention General Counsel, or at such other address as it may have furnished in writing to the Allegiance Parties, with a copy to Willkie Farr & Gallagher LLP, 787 Seventh Avenue, New York, NY 10019 (facsimile (212) 728-8111), Attention Bruce R Kraus, Esq.

(2) if to the Allegiance or Allegiance Worldwide, to [____________________] or at such other address or facsimile number as may have been furnished the Company in writing

(3) if to the Trust, to [__________________], or at such other address or facsimile number as may have been furnished the Company in writing

(ii) Any notice so addressed shall be deemed to be given if delivered by hand or facsimile, on the date of such delivery, if mailed by overnight courier, on the first business day following the date of such mailing, and if mailed by registered or certified mail, on the third business day after the date of such mailing

(e) REPRODUCTION OF DOCUMENTS This Agreement and all documents relating thereto, including, without limitation, any consents, waivers and modifications which may hereafter be executed may be reproduced by the Allegiance Parties by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and the Allegiance Parties may destroy any original document so reproduced The parties hereto agree and stipulate that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by the Allegiance Parties in the regular course of business) and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence

(f) SUCCESSORS AND ASSIGNS Except as otherwise provided in this Agreement, no party hereto shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other parties hereto and any such attempted assignment without such prior written consent shall be void and of no force and effect This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties The rights of the Trust under this Agreement may be assigned to no more than 10 purchasers of Registrable Securities, provided that each such assignee shall promptly execute and deliver to the Company a written undertaking assuming the obligations of the Trust under this Agreement, and provided further that if, at any time, there is more than one holder of Registrable Securities, demands, requests and determinations otherwise made by the Trust shall be made by the holders of a majority of the Registrable Securities at the time outstanding

(g) ENTIRE AGREEMENT, AMENDMENT AND WAIVER This Agreement constitutes the entire understanding of the parties hereto and supersedes all prior understanding among such parties This Agreement may be amended, and the observance of any term of this Agreement may be waived, with (and only with) the written consent of the Company and the Trust.

(h) SEVERABILITY In the event that any part or parts of this Agreement shall be held illegal or unenforceable by any court or administrative body of competent jurisdiction, such determination shall not affect the remaining provisions of this Agreement which shall remain in full force and effect

(i) COUNTERPARTS This Agreement may be executed in two or more counterparts (including by facsimile), each of which shall be deemed an original
and all of which together shall be considered one and the same agreement

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first set forth above

XO COMMUNICATIONS, INC.

By /s/ William Garrahan
Name William Garrahan
Title Acting CFO

ALLEGIANCE TELECOM, INC.,
as debtor-in-possession

By /s/ Mark B Tresnowski
Name Mark B Tresnowski
Title Executive Vice President

ALLEGIANCE TELECOM COMPANY WORLDWIDE,
as debtor-in-possession

By /s/ Mark B Tresnowski
Name Mark B Tresnowski
Title Executive Vice President

ALLEGIANCE TELECOM LIQUIDATING TRUST

By /s/ Eugene I Davis
Name Eugene I Davis
Title Plan Administrator

Exhibit 21 1

Subsidiaries of XO Communications, Inc

Name	Jurisdiction of Incorporation
Allegiance of Colorado, Inc	Delaware
Allegiance of Florida, Inc.	Delaware
Allegiance of Illinois, Inc	Delaware
Allegiance of Texas, Inc	Delaware
LHP Equipment, Inc	Delaware
Telecommunications of Nevada LLC	Delaware
V&K Holdings, Inc	Delaware
XO Asia Limited	Hong Kong
XO California, Inc	Washington
XO Colorado, Inc	Washington
XO Communications Services, Inc	Delaware
XO Florida, Inc	Washington
XO Global Communications, Inc	Delaware
XO Illinois, Inc	Washington
XO Interactive, Inc	Delaware
XO Intercity Holdings No 1 LLC	Washington
XO International Holdings, Inc	Delaware
XO LMDS Holdings, Inc	Nevada
XO Management Services, Inc	Washington
XO Nevada Merger Sub, Inc	Delaware
XO One, Inc	Delaware
XO Services, Inc	Delaware
XO Texas, Inc	Washington
XO Virginia LLC	Washington

Subsidiaries of XO Communications Services, Inc

XO Intercity Holdings No 1 LLC	Washington
Mindshare LLC	Delaware

Subsidiaries of XO International Holdings, Inc

XO International, Inc	Delaware
Nextlink Global ASP (Denmark)	Denmark

Subsidiaries of XO Management Services, Inc

XO Management Services — Nevada, Inc	Washington

Subsidiaries of XO Intercity Holdings No 1 LLC

XO Intercity Holdings No 2 LLC	Washington
XO Data Services LLC	Delaware

Subsidiaries of XO Nevada Merger Sub, Inc

Telecommunications of Nevada LLC (50%)	Delaware

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
XO Communications, Inc

We consent to the incorporation by reference in the registration statements (No 333-103428 and No 333-106302) on Form S-8 of XO Communications, Inc of our reports dated March 18, 2005, with respect to the consolidated balance sheets of XO Communications, Inc as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2004 and for the period from January 1, 2003 to December 31, 2003 (XO period) and for the portion of January 1, 2003, related to Predecessor XO's reorganization gain (Predecessor XO period), and the related consolidated financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 and the effectiveness of internal control over financial reporting as of December 31, 2004, which reports appear in the December 31, 2004 annual report on Form 10-K of XO Communications, Inc

On June 23, 2004, XO completed the acquisition of all of the telecommunications services assets of Allegiance Telecom, Inc (Allegiance), and management excluded from its assessment of the effectiveness of XO's internal control over financial reporting as of December 31, 2004, Allegiance's internal control over financial reporting associated with total revenues of approximately $217 2 million included in the consolidated financial statements of XO for the year ended December 31, 2004 Our audit of internal control over financial reporting of XO also excluded an evaluation of Allegiance's internal control over financial reporting

As discussed in Note 20 to the consolidated financial statements, on January 16, 2003, XO Communications, Inc emerged from bankruptcy The consolidated financial statements of XO Communications, Inc reflect the impacts of adjustments to reflect the fair value of assets and liabilities under fresh start reporting, which was applied effective January 1, 2003 As a result, the consolidated financial statements of XO Communications, Inc are presented on a different basis than those of Predecessor XO and, therefore, are not comparable in all respects

/s/ KPMG LLP

McLean, VA
March 18, 2005

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Forms S-8 Nos 333-103428 and No 333-106302) pertaining to the 2002 Stock Incentive Plan of XO Communications, Inc , of our report dated February 28, 2003, with respect to the consolidated financial statements and schedule of XO Communications, Inc for the year ended December 31, 2002 included in the Annual Report (Form 10-K) for the year ended December 31, 2004

Baltimore, MD

March 15, 2005

Exhibit 31 1

CERTIFICATIONS

I, Carl J. Grivner, certify that

1 I have reviewed this annual report on Form 10-K of XO Communications, Inc ;

2 Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report,

3 Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report,

4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared,

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation, and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and

5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function).

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information, and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date March 18, 2005

/s/ CARL J GRIVNER

Carl J Grivner
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, William Garrahan, certify that

1 I have reviewed this annual report on Form 10-K of XO Communications, Inc ,

2 Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report,

3 Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report,

4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared,

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and

5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function)

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information, and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date March 18, 2005

/s/ WILLIAM GARRAHAN

William Garrahan
Senior Vice President and
Acting Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2004 of XO Communications, Inc (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carl J Grivner, Chief Executive Officer of the Company, certify, pursuant to 18 U S C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge

1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U S C 78m or 78o(d)), and

2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company

Date March 18, 2005

/s/ CARL J GRIVNER

Carl J Grivner
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2004 of XO Communications, Inc (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William Garrahan, Senior Vice President and Acting Chief Financial Officer of the Company, certify, pursuant to 18 U S C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge

1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U S C. 78m or 78o(d)), and

2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company

Date, March 18, 2005

/s/ WILLIAM GARRAHAN

William Garrahan
Senior Vice President and
Acting Chief Financial Officer
(Principal Financial Officer)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 0-30900

XO COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	54-1983517
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**

11111 Sunset Hills Road
Reston, Virginia 20190
(Address of principal executive offices, including zip code)

(703) 547-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.01 per share
(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Registration S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☑

Indicate by check mark whether the Registrant is an accelerated filer (as defined by Rule 12b-2 of the Act.). YES ☑ NO ☐

The aggregate market value of the common stock held by non-affiliates of the Registrant, based upon the closing sale price of the common stock on June 30, 2003 (which is the last business day of the Registrant's second fiscal quarter), as reported on the Nasdaq Over-the-Counter Bulletin Board, was approximately $139 million. Shares of common stock held by each executive officer and director and by certain persons who own 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court YES ☑ NO ☐

Number of shares of common stock outstanding as of February 20, 2004: 136,510,535

DOCUMENTS INCORPORATED BY REFERENCE

Part III — Portions of the registrant's definitive proxy statement to be issued in conjunction with registrant's annual stockholders' meeting to be held on May 27, 2004.

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PART I

Item 1. Business

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of XO Communications, Inc. or XO Parent and its consolidated subsidiaries or XO to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any projections of earnings, revenue, synergies, accretion, margins, costs or other financial items, any statements of the plans, strategies and objectives of management for future operations, including the execution of integration and restructuring plans; any statement concerning proposed new products, services, developments or industry comparisons; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties and assumptions referred to above include the performance of contracts by vendors and customers; employee management issues; the challenge of managing asset levels, including inventory, the difficulty of aligning expense levels with revenue changes; and other risks that are described herein and that are otherwise described from time to time in XO's Securities and Exchange Commission reports including but not limited to the items discussed in "Business — Factors that Could Affect Future Results". XO assumes no obligation and does not intend to update these forward-looking statements.

Introduction

XO Communications, Inc., a Delaware corporation, is a leading independent broadband telecommunications services provider that markets a comprehensive array of telecommunications services, including local and long distance voice, Internet access, private data networking and hosting services.

The initial predecessor entity of XO Parent was formed as a Washington limited partnership in 1994. In 1995, that entity merged into a Washington limited liability company that became known as "NEXTLINK Communications, L.L.C." In January 1997, NEXTLINK Communications, L.L.C. merged into NEXTLINK Communications, Inc., a Washington corporation, which in June 1998 reincorporated in Delaware under the same name. On June 16, 2000, in connection with the acquisition of Concentric Network Corporation, NEXTLINK Communications, Inc. merged with and into a new corporation and that corporation, as the surviving corporation in the merger, changed its name to NEXTLINK Communications, Inc. On September 25, 2000, NEXTLINK Communications, Inc. began doing business as "XO Communications" and, on October 25, 2000, changed its name to XO Communications, Inc. We conduct our business primarily through the more than 70 subsidiaries that XO Parent owns and manages.

On June 17, 2002, XO Parent filed for protection under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. On November 15, 2002, the Bankruptcy Court confirmed XO Parent's plan of reorganization, and, on January 16, 2003, XO Parent consummated the plan of reorganization and emerged from its Chapter 11 reorganization proceedings with a significantly restructured balance sheet.

In December 2001, XO Parent voluntarily delisted its pre-petition class A common stock from the Nasdaq National Market, which was traded under the symbol "XOXO", and, on December 17, 2001, began trading on the Over-the-Counter Bulletin Board, or OTCBB. As of January 16, 2003, XO Parent's pre-petition class A common stock stopped trading on the OTCBB and all interests in XO Parent's pre-petition class A common stock were terminated pursuant to the plan of reorganization. The shares of common stock issued by the reorganized XO Parent pursuant to its plan of reorganization began trading in January 2003 on the OTCBB and in the Pink Sheets under the symbol "XOCM.OB" shortly after the first distribution of common stock pursuant to its plan of reorganization.

Our principal executive and administrative offices are located at 11111 Sunset Hills Road, Reston, Virginia 20190 and our telephone number is (703) 547-2000 Our Internet address is www.xo.com, where, under "About XO-Investor Center", you can find copies of our annual report on Form 10-K as of and for the year ended December 31, 2003, and our quarterly reports on Form 10-Q and current reports on Form 8-K, all of which we make available as soon as reasonably practicable after the report is filed with the Securities and Exchange Commission, or the Commission.

Overview of Our Company

The Telecommunications Act of 1996, or the "Telecom Act", which substantially revised the Communications Act of 1934, established the regulatory framework for the introduction of competition for local telecommunications services throughout the United States by new competitive independent entrants such as us. Prior to the passage of the Telecom Act, states typically granted an exclusive franchise in each local service area to a single dominant carrier — often a former subsidiary of AT&T known as a Regional Bell Operating Company ("RBOC") — which owned the entire local exchange network and operated a virtual monopoly in the provision of most local exchange services in most locations in the United States. The RBOCs, following some recent consolidation, now consist of the following companies: BellSouth, Verizon, Qwest Communications and SBC Communications.

We provide business customers with a comprehensive array of telecommunications services, including local and long distance voice, Internet access, private data networking and hosting services. Our services are designed to be provided through our network assets, which are capable of carrying high volumes of all types of telecommunications traffic. We market our services primarily to business customers, including small and middle-market businesses, Fortune 500 companies, and carrier and wholesale customers. Although our services benefit businesses of all sizes, we believe them to be of particular benefit to multi-location businesses that desire to improve telecommunications among their locations, whether within a single metropolitan area or across the country. Our services include the following:

1) Voice services:

- Local and long distance services, other voice-related services such as conferencing, domestic and international toll free services and voicemail, and transaction processing services for prepaid calling cards; and
- Hosted interactive voice response, or IVR, systems that we develop, host and manage that enable our customers' end-users to order products and services, collect and receive information, seek assistance, facilitate bill payment and a host of other capabilities over the telephone using natural language speech recognition and systems that enable persons to access web-based information over the telephone;

2) Data services:

- Internet access:
    - Dedicated Internet access for customers with large, high-speed Internet access requirements;
    - Digital subscriber line, or DSL, services for businesses that require high-speed Internet access over existing copper wire telephone lines; and
    - Dial access, which allows remote users to connect to XO's network;
- Private data networking:
    - Dedicated transmission capacity on our network, including dedicated circuits and the lease of one or more dedicated wavelengths on a fiber optic cable, to customers that desire high-bandwidth links between locations,
    - Virtual private network, or VPN, services, which provide customers with a managed, private data service over the public Internet, designed for medium and large businesses

that want to create secure, wide-area networks for users at various and remote locations; and

- Ethernet services, which are designed to connect the local area networks, or LANs, of medium and large customers within and between metropolitan areas at speeds of up to one gigabit per second;

- Hosting services:

  - Web site services, which allow a customer to establish a Web presence;

  - Web hosting, including hosting and web site traffic management tools, for Internet-centric businesses, and streamed media services designed for small and middle-market businesses; and

  - Server collocation and management and customer support to manage a customer's hosting needs; and

3) Integrated voice and data services

- Integrated, flat rate service packages that we refer to as XOptions. These packages eliminate the separation between local and long-distance telecommunications services, and combine our "all distance" telephone services with high-speed Internet access and web hosting services, all for one flat monthly rate.

- Shared tenant services, which are telecommunications management services provided to groups of small and middle-market business located in the same office building.

We believe that a significant factor considered by business customers in making the decision to purchase telecommunications services is the quality of service and customer support offered by the service provider. We focus on proactive resolution of customer issues by training our customer care representatives extensively on the services that we offer and promoting accountability of the customer care team. We also have developed a secure, on-line business center, through which many customers can access information about their accounts and track requests, review services, analyze trends, make decisions and pay bills.

To serve our customers' broad and expanding telecommunications needs, we utilize network assets located across the United States, substantially all of which we own or control through indefeasible exclusive rights or other leasing arrangements, making us a facilities-based carrier. Indefeasible exclusive rights are contracts with the owners of fiber optic cables that allow us to use a specified amount of capacity on a specified fiber on those cables for terms ranging from 10 to 25 years. Our network assets incorporate state-of-the-art fiber optic cable, dedicated wavelengths of transmission capacity on fiber optic networks and transmission equipment capable of carrying high volumes of data, voice, video and Internet traffic. We are able to provide a comprehensive array of telecommunications services primarily or entirely over our integrated network, from the initiation of the voice or data transmission to the point of termination. This capability enables us to provide "end-to-end" telecommunications services between customers connected to our network, and among a customer's multiple locations, primarily or entirely over our integrated network.

Our network consists of metro fiber networks located in the U.S. metropolitan areas that we serve, connected by our intercity network. Our metro fiber networks consist of rings of fiber optic cables encircling the central business districts of numerous metropolitan areas. We operate 37 metro fiber networks in 22 states and the District of Columbia, including 25 of the 30 largest metropolitan areas in the U.S. We have constructed, acquired or leased our metro fiber networks, each of which consists of up to 432 strands of fiber optic cable and, in some cases, empty conduits through which additional fiber optic cable can be deployed.

Our metro fiber networks are connected primarily by dedicated wavelengths of transmission capacity that we have obtained on intercity fiber optic cables, which we refer to as our intercity network. To deploy our intercity network, we have leased dedicated, high-capacity wavelengths of transmission capacity on fiber optic cables, onto which we have deployed our own switching, routing and optical equipment. We also hold indefeasible exclusive rights to use 18 fiber optic strands on the routes served by our intercity networks pursuant to arrangements with Level 3, substantially all of which are not currently in use, referred to in our industry as unlit. As a result, we have the ability to utilize significant additional network capacity as our business grows.

We hold licenses for 1,150 to 1,300 MHz of local multipoint distribution services, or LMDS, spectrum in 59 cities Our licenses also include·

- 150 MHz of LMDS spectrum in 14 other cities;
- 150 MHz of LMDS spectrum in the five boroughs that comprise New York City (300 MHz total); and
- 400 MHz of LMDS spectrum in Denver.

We also hold ten broadband wireless licenses in the 39 GHz (gigahertz) frequency band, of which five provide from 100 to 300 additional MHz in two cities where we hold a 150 MHz LMDS license, plus 100 MHz in Denver and 200 MHz of spectrum in Las Vegas, where we do not hold a LMDS license.

Our Reorganization

From 1996 through 2001, XO Parent accumulated outstanding indebtedness in excess of $5 billion in connection with the financing and acquisition of our network. Following the decline in the market valuations of emerging telecommunications companies in 2001, we were unable to obtain additional funding for our operations and to support our outstanding indebtedness. As a result, despite reductions in our operating expenses, including a reduction in our workforce in 2001 from 7,400 to 6,712 employees, and the implementation of other cost control measures, we concluded that our cash on hand would not be sufficient to fund operations, capital expenditures and debt service until such time as we expected our operations to become profitable and we determined that a restructuring of our business was necessary.

On June 17, 2002, XO Parent filed for protection under the Bankruptcy Code. On November 15, 2002, the Bankruptcy Court confirmed XO Parent's plan of reorganization, and, on January 16, 2003, XO Parent consummated the plan of reorganization and emerged from its Chapter 11 reorganization proceedings with a significantly restructured balance sheet.

Implementation of the Plan of Reorganization

On January 16, 2003, our Effective Date, XO Parent consummated its Plan of Reorganization and emerged from its Chapter 11 reorganization proceedings with a significantly restructured balance sheet. The consummation of the Plan of Reorganization resulted in the following changes in XO Parent's capital structure:

- The conversion of $1.0 billion of loans under our pre-petition secured credit facility into $500.0 million of outstanding principal amount under an amended and restated secured credit agreement;
- The extinguishment of all amounts due under our pre-petition unsecured senior and subordinated notes and certain general unsecured obligations;
- The cancellation of all outstanding shares and interests in our pre-petition preferred stock and pre-petition common stock; and
- The issuance of approximately 95 0 million shares of new common stock in reorganized XO and warrants to purchase up to an additional 23 75 million shares of New Common Stock of reorganized XO.

The following table shows the distribution each party of interest impacted by XO Parent's bankruptcy was entitled to. As certain claims are still being reviewed by the Bankruptcy Court, certain proportional distributions have not yet been made and can not occur until the court rules (dollars in thousands, except share data).

Party of Interest	Shares of New Common Stock	Series A Warrants	Series B Warrants	Series C Warrants	Credit Facility	Cash
$1 Billion senior secured credit facility	90,250,001	—	—	—	$500,000	$ —
Senior unsecured notes	4,715,344	9,430,689	7,073,015	7,073,015	—	1,600
Subordinated notes	—	—	—	—	—	616
General unsecured creditors	34,656	69,309	51,980	51,980	—	403
Total entitlement	95,000,001	9,499,998	7,124,995	7,124,995	$500,000	$2,619
Not yet distributed	1,230,638	2,461,743	1,846,151	1,846,151	—	1,612
Total issued or paid	93,769,363	7,038,255	5,278,844	5,278,844	$500,000	$1,007

As part of our Plan of Reorganization, we agreed to initiate a Rights Offering that allowed certain holders of claims and interests in XO Parent as of the November 15, 2002 record date to subscribe for up to 40.0 million shares of New Common Stock at $5 00 per share. The Rights Offering closed on January 5, 2004. An aggregate of 39.7 million shares were issued, yielding net proceeds of $197.6 million. Subsequent to closing, these proceeds were used to pay down our Credit Facility from $536.8 million at December 31, 2003 to approximately $339.2 million.

Interests Held by Entities Controlled by Mr. Carl C. Icahn

Various entities controlled by Mr. Carl C. Icahn, Chairman of XO Parent, hold the following interests in reorganized XO:

	Common Stock	Series A, B and C Warrants	Credit Facility
At December 31, 2003	Greater than 80%	Greater than 40%	Greater than 90%
At January 31, 2004	Greater than 60%	Greater than 40%	Greater than 90%

In addition entities controlled by Mr. Icahn have acquired an option to purchase 6.25 million additional shares of common stock from Franklin Mutual Advisors, LLC at a strike price of $4.25 per share which expires June 21, 2004. After closing our rights offering in January 2004, Mr. Icahn's ownership interest in our outstanding common stock was reduced to over 60%. On January 27, 2004, Icahn and Associates filed a Form 13D with the Securities and Exchange Commission stating they held beneficial ownership as defined therein of 69% of XO Parent.

Accounting Impact

As a result of the consummation of the Plan of Reorganization, XO Parent was required to implement the fresh start accounting provisions of SOP 90-7 "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" to its financial statements The fresh start accounting provisions required that we establish a "fair value" basis for the carrying value of the assets and liabilities for Reorganized XO.

For further discussion of the effects of our implementation of the Plan of Reorganization on our financial condition and results of operations, see "Our Chapter 11 Reorganization" and "Liquidity and Capital Resources" in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Acquisition of Assets of Allegiance Telecom, Inc.

On February 19, 2004, the United States Bankruptcy Court for the Southern District of New York approved the Asset Purchase Agreement by and between XO Parent and Allegiance Telecom, Inc., or Allegiance, pursuant to which we have agreed to acquire substantially all of the assets of Allegiance for approximately $311.0 million in cash and approximately 45.4 million shares of our New Common Stock. We anticipate we will receive the required governmental approval prior to or shortly after the beginning of the second quarter of 2004. At that point in time, we will operate under a management agreement whereby the combined management team will exercise day to day operating control over the assets and operations to be acquired from Allegiance. We anticipate that our acquisition of the Allegiance assets will be consummated during the third quarter of 2004 after all other federal and state regulatory approvals are obtained.

The Allegiance assets consist primarily of:

- switching and routing equipment, located both in current Allegiance facilities and in facilities operating by one or more incumbent local exchange carriers;
- physical points of presence in the form of network operations centers, data centers, central offices, and sales offices located in 36 major metropolitan areas;
- customer and sales agreements that constitute a majority of Allegiance's voice and data revenues;
- leased intercity and metro fiber network capacity that is both redundant to and expansive of our current network; and
- billing, provisioning, and other back-office information technology platforms.

With the acquisition of substantially all of Allegiance's network assets and customer base, XO will become one of the nation's largest competitive independent providers of national local telecommunications and broadband services with approximately 250,000 customers and approximately $1.6 billion in annual revenues. We will own one of the largest network of nationwide connections to the RBOC's networks, and will double our Points of Presence (PoPs) within the 36 metropolitan areas where both XO and Allegiance operate. XO believes that this extensive network will allow XO to (i) improve delivery of service to customers (ii) reduce network costs (iii) improve operating results and (iv) improve our ability to compete with other companies in the nationwide local telecommunications services market. In addition, the combination of XO and Allegiance will enhance the strength and depth of the combined human resource team by combining the sales, technical and management expertise of both companies.

Based on information made available to us by Allegiance, we estimate the annual revenue associated with the operations that we will acquire will exceed $500 0 million. Allegiance's filings with the Securities and Exchange Commission can be found on their web site www.allegiancetelecom.com. We believe that we will be able to realize network operations and selling, operating, and administrative synergies over time of approximately $160.0 million annually. By reducing expenses, and achieving the operational benefits noted above, we believe that the combined entity will move to profitability more quickly than XO would have had we not entered into the Allegiance asset acquisition.

Our acquisition of substantially all of the assets of Allegiance, although approved by the U.S. Bankruptcy Court, remains contingent upon the fulfillment of a variety of covenants contained in the definitive documentation pursuant to which we anticipate acquiring the Allegiance assets. Such contingencies include, without limitation, our obtaining regulatory clearances, such as Hart-Scott-Rodino and approval of the Federal Communication Commission, or FCC, and state public utility commissions. While we believe the approvals will be forthcoming, there can be no assurance that we will obtain the governmental approvals and clearances required to consummate our acquisition of the Allegiance assets.

Services

We provide business customers with a comprehensive array of data and voice telecommunications services, which include voice, Internet access, private data networking and hosting services. We have designed these telecommunications services to meet the needs of all sizes of commercial business customers, from small and medium businesses to multi-location businesses, large enterprises, as well as carrier and wholesale customers.

Voice Services

Local and Long Distance Voice Services

We offer a variety of voice applications and services as an alternative to comparable local services from the Incumbent Local Exchange Carriers, or ILECs. These voice services include:

- local standard dial tone, including touch-tone dialing, 911 access and operator assisted calling;
- local multi-trunk dial tone services, including direct inward dialing, and direct outward dialing;
- long distance services, including 1, toll free, calling card and operator services;
- voice messaging with personalized greetings, send, transfer, reply and remote retrieval capabilities;
- conferencing services, including voice and web conferencing services; and
- directory listings and assistance.

In each of our markets, we have negotiated and entered into interconnection agreements with the ILEC and certain independent carriers, and implemented permanent local number portability, which allows customers to retain their telephone numbers when changing telephone service providers.

Hosted Interactive Voice Response

We develop and manage hosted interactive voice response, or IVR, systems for customers that enable end users to order products and services, collect and receive information, seek assistance, facilitate bill payments, and a host of other capabilities over the telephone Our hosted IVR capabilities utilize a wide range of technologies, from standard touch-tone/push-button dialing to natural language speech recognition and extensible markup language, or XML, and VoiceXML technologies, which are sophisticated systems that enable persons to access Web-based information over the telephone. We customize for our clients' particular needs telephony-based software applications and technologies developed by third parties to create IVR systems We integrate these IVR systems with our clients' other business systems, such as information databases and customer relationship management systems. We host and maintain the IVR systems in data centers and deploy them to clients across a network, thereby alleviating the need for our clients to purchase, own, install, or maintain these applications. Clients pay for the use of these customized solutions through a combination of "upfront" payments for development and recurring fees based on transaction volume. We also host and manage personal identification number, or PIN, management systems for customers, which consist of primarily pre-paid calling card systems, including providing transaction processing services relating to prepaid calling card services provided by other telecommunications carriers.

Data Services

Internet Access

Our Internet access offerings include dedicated access services targeted at businesses that desire single or multipoint high-speed, dedicated connections to the Internet. Our Dedicated Internet Access service provides service guarantees for internet speeds ranging from 56 kilobits per second, or kbps, to 1 Gigabit per second, or Gbps. Our digital subscriber line, or DSL, service also includes a wide range of dedicated access speeds for Small and Medium Business, or SMBs. We are a tier-1 Internet backbone provider in the U.S., with over 200 public and private peering arrangements with other Internet backbones.

Private Data Networking

We provide dedicated transmission capacity on our networks to customers that desire high-bandwidth links between locations. We offer special access and point-to-point circuits to long distance carriers and other high volume customers, which are used as both primary and back-up circuits. In addition, fiber optic technology that enables signals to be transmitted at different wavelengths on a single fiber allows us to lease one or more dedicated wavelengths to customers that desire high-bandwidth links between locations. We currently offer these services with connections of up to 9 6 gigabits per second, a transmission rate that is described in our industry as OC-192. This service supports a variety of transmission protocols, including Asynchronous Transfer Mode or ATM. Frame Relay and Synchronous Optical Network, or SONET.

Our virtual private network, or VPN, services enable customers to deploy tailored, Internet Protocol-based mission-critical business applications for secure internal enterprise, business-to-business and business-to-customer data communications among geographically dispersed locations, while also affording high-speed access to the Internet. VPN services also provide secure access for remote users, such as traveling employees and employees working from home or a remote location, which is not possible using private line and frame relay services. We also offer managed firewall services.

Finally, we offer a suite of Ethernet services, including Gigabit Ethernet, or GigE, in most of our U.S. markets, as well as intercity Ethernet services between our markets. Our Ethernet services are designed to provide high-speed, high-capacity connections between customers' local area networks, or LANs, within and between metropolitan areas, while eliminating the need for ongoing configuration, management and acquisition of equipment by the customer. These services are designed to provide private networking data speeds ranging from 10 or 100 megabits per second to one gigabit per second connections, to simplify customers' network connections, and to significantly reduce their costs.

Hosting Services

We offer a range of applications hosting services that can manage a customer's web-based infrastructure and operational needs, allowing customers to focus on their web-based content. In addition, we provide server management tools and services to manage customers' larger computers (which are known as servers) for them.

To provide this service, we have equipped our data centers and have configured the central offices of our network backbone with electrical and environmental controls and 24-hour maintenance and technical support, to provide an attractive location for our customers to locate their servers or from which they can run important applications on servers that we maintain.

Our hosting services include:

- **Web Hosting:** support for customers' websites, including design, maintenance and telecommunications services;
- **Server Collocation:** collocation of customers' servers in our data centers; and
- **Application Hosting:** running our customers' enterprise-wide applications at our data centers and distributing them as needed over our network or servers to ensure uniformity, reduce costs and implement upgrades on a continuous and immediate basis.

As part of some of our XOptions integrated packages of telecommunications services, we offer web hosting with Microsoft's bCentral web-based tools and applications, which enables customers to conduct targeted email marketing, register their web site with hundreds of Internet search engines and directories, build catalogues and sell products over the web, and coordinate meetings and appointments online. We also offer a suite of hosting outsourcing services that provides customers web-based access to email, group distribution lists, calendaring, contacts databases management and file sharing. Hosting can be "shared", in which we own the equipment and provide the underlying services, or "dedicated," in which we provide some or all of the hosting and services from our data centers using the customer's own equipment.

Integrated Voice and Data Services

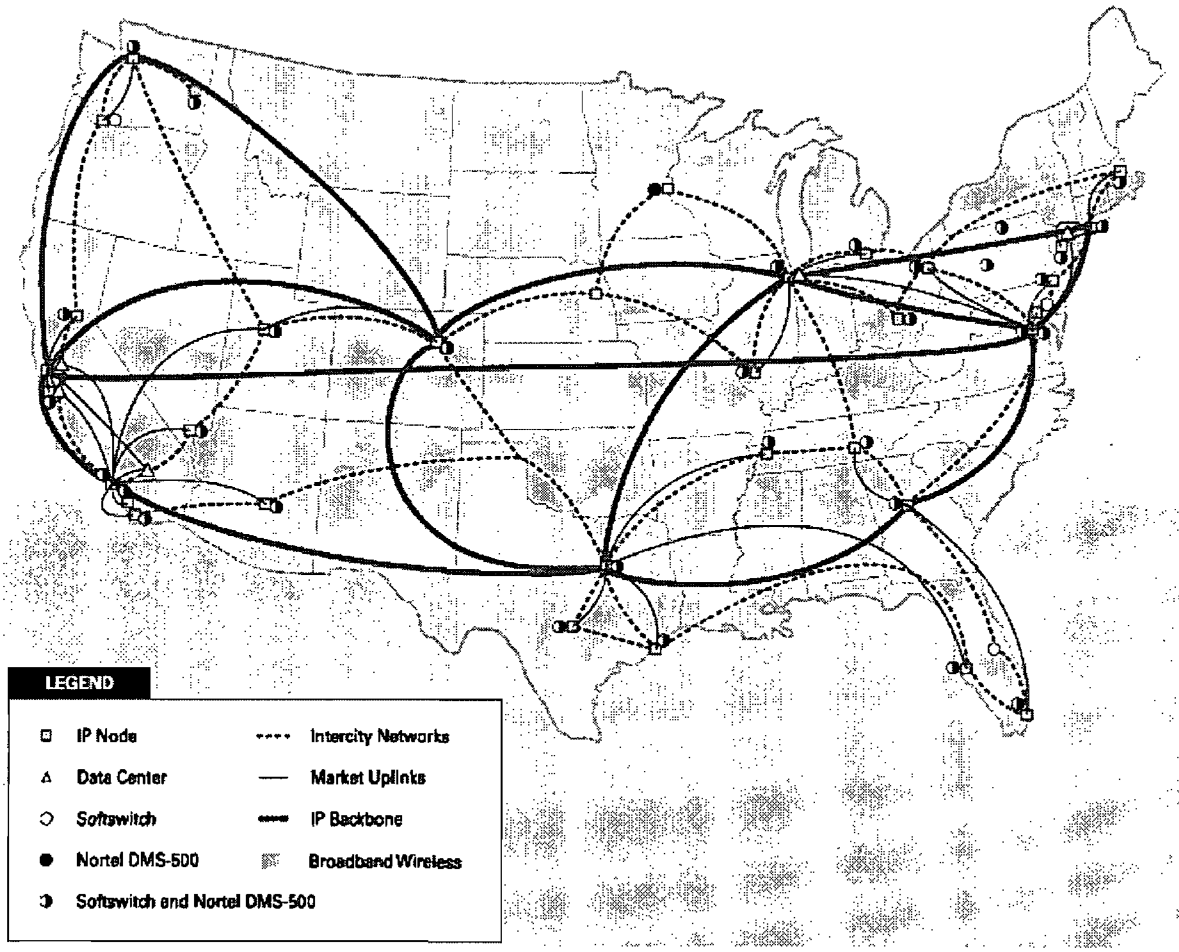
We offer bundled packages of voice and data products, known as XOptions, to small and middle-market businesses that include integrated, flat-rate packages for specified amounts of certain services, including local and long distance voice services, Internet access and web hosting services. These services include a variety of service packages designed to accommodate different sized customers with anywhere from 10 to 100 employees per location. XOptions eliminates the complexity of working with multiple service providers for installation, maintenance and billing, and also can result in significant savings over the average cost of buying these services from separate competitive voice and data providers We also offer Integrated Access Services, which can reduce telecommunications costs by combining local voice, long distance, and dedicated Internet access on a single facility

In 2002, we introduced a number of new XOptions packages designed to meet the needs of larger customers, specifically, those with small offices at multiple locations, those desiring to pool hosting and email accounts across multiple locations under a single account, and those that rely heavily on voice communications services. We also introduced XOptions packages that combine the benefits of XOptions' local and long distance voice, Internet access and web hosting with Microsoft's bCentral web-based tools and applications.

Our integrated services also include shared tenant services, which are telecommunications management services provided to groups of small and middle-market businesses located in the same office building. This service enables businesses too small to justify hiring their own telecommunications managers to benefit from the efficiencies, including volume discounts, normally available only to larger enterprises. We install an advanced telecommunications system throughout each building we serve, leasing space for on-site sales and service, and offer tenants products and services such as telephones, voice mail, local calling lines, discounted long distance and high-speed Internet connections, all on a single, detailed invoice.

XO's Networks

The following diagrams depict the physical components of our nationwide networks and technology. There are additional maps located on our web site at www.xo.com.



Metro Fiber Networks

The core of each of our metro fiber networks is a ring of fiber optic cable in a city's central business district that connects to our central offices. These central offices contain the switches and routers that direct data and voice traffic to their destinations, and also have the space to house the additional equipment necessary for future telecommunications services. Whenever we can, we build and own these metro fiber networks ourselves or obtain indefeasible rights to use fiber so that we can control the design and technology used to best meet our customers' needs. We operate 37 metro fiber networks serving the markets noted below:

State	Metro Fiber Network Location	Service Market
AZ	Phoenix	Phoenix*
CA	Los Angeles	Los Angeles*
CA	Orange County	Anaheim*
		Costa Mesa*
		Fullerton*
		Garden Grove*
		Huntington Beach*
		Inglewood*
		Irving*
		Long Beach*
		Orange*
		Santa Ana*
CA	Sacramento	Sacramento*
CA	San Diego	San Diego*
CA	San Francisco	San Francisco*
		Oakland*
		Fremont*
		Milpitas*
		Mountain View*
		Palo Alto*
		Santa Clara*
		Sunnyvale*
CA	San Jose	San Jose*
CO	Denver	Denver*
		Boulder-Longmont
DC/VA	Washington DC/ No VA	Washington, DC-MD-VA-WV*
FL	Ft Lauderdale	Ft Lauderdale*
FL	Miami	Miami*
		West Palm Beach-Boca Raton*
FL	Orlando	Orlando
FL	Tampa	Tampa-St Petersburg-Clearwater*
GA	Atlanta	Atlanta*
		Marietta*
IL	Chicago	Chicago*
MA	Boston	Boston, MA-NH*
		Brockton
		Lawrence, MA-NH*
		Lowell, MA-NH*
		Worcester, MA-CT
MD	Baltimore	Baltimore*
MI	Detroit	Detroit*
MN	Minneapolis	Greater Minneapolis/St Paul*
MO	St Louis	St Louis*
NJ	New Jersey	Bergen/Passaic*
		Middlesex-Somerset-Hunterdon
		Newark*
		Jersey City*
		Monmouth-Ocean
		Trenton
NV	Las Vegas	Las Vegas
NY	New York	Manhattan*
		Nassau-Suffolk*
OH	Cleveland/Akron	Cleveland-Lorain-Elyria*
		Akron
		Canton-Massillon
OH	Columbus	Columbus
OR	Portland	Portland-Vancouver, OR-WA
PA/DE	Central PA	Allentown-Bethlehem-Easton*
		Harrisburg-Lebanon-Carlisle
		Lancaster
		Reading
		Scranton-Wilkes-Barre-Hazleton
		York
		Wilmington-Newark, DE-MD
		Dover*
PA	Philadelphia	Philadelphia, PA-NJ*
TN	Memphis	Memphis, TN-AR-MS
TN	Nashville	Nashville
TX	Austin	Austin-San Marco*
TX	Dallas/Ft Worth	Dallas*
TX	Houston	Fort Worth-Arlington*
		Houston*
TX	San Antonio	San Antonio*
UT	Salt Lake City	Salt Lake City-Ogden
		Orem/Provo
WA	Seattle	Seattle-Bellevue-Everett*
WA	Spokane	Spokane
		Lewiston
		Clarkston
		Coeur d'Alene

* Indicates markets with Allegiance service presence. In addition, Allegiance has a service presence in Pittsburgh, PA and White Plains, NY

We built our high capacity metro fiber networks using a backbone density typically ranging between 72 and 432 strands of fiber optic cable. Fiber optic cables have the capacity, or bandwidth, to carry tens of thousands of times the amount of traffic as traditionally-configured copper wire. We believe that installing high-count fiber strands will allow us to offer a higher volume of broadband and voice services without incurring significant additional construction costs. To enhance our ability to economically connect customers to our networks and services, we design our networks to serve both core downtown areas and other metropolitan and suburban areas where business development supports the capital required for the network construction.

Intercity Network

We provide intercity transport primarily through five year leases of wavelength capacity from Level 3 on routes linking our metro fiber networks to one another and onto which we have deployed transmission and routing equipment to create a single, end-to-end network. The first of these leases will expire in 2006. We expect to either renew the leases for wavelengths or to light our intercity fiber network discussed below based on the most cost effective approach. We have designed and installed much of the equipment we use to route traffic and control our intercity wavelengths so that we can easily transfer voice and data traffic from leased wavelength capacity onto our intercity fiber network as portions of that network are lit. By using our own transmission and routing equipment, we maximize the capacity and enhance the performance of the network as needed to meet our customers' current and future broadband data and other telecommunications needs.

Using Level 3 leased wavelength capacity and our own routers and transport equipment, we also operate an OC-192 capacity Internet backbone, onto which a substantial amount of our Internet-related services and customer traffic runs. This backbone provides our customers with improved network redundancy, security and performance, and enables us to offer customers services that take advantage of future Internet Protocol technologies.

In addition to our Level 3 leased wavelength capacity, we have intercity fiber network assets primarily consisting of an exclusive interest in 18 fibers in a shared, filled conduit in the Level 3 North American network, substantially all of which are unlit. These fibers are part of a fiber network that traverses over 16,000 miles and connects more than 60 cities in the United States and Canada, including most of the major metropolitan markets served by our metro networks.

To conserve capital, we delayed "lighting" much of our intercity fiber network. In order to light a segment of our intercity fiber network, we would install optical network equipment at our facilities that would allow for the transmission and routing of network traffic over that fiber segment. In the aggregate, the capital expenditures that would be required to light our entire intercity network would be approximately $45 million. Given the level of traffic in relationship to capacity and the current availability of intercity wavelength capacity that is available to us at cost-efficient lease rates, to date it has generally been more cost-effective to lease the required intercity wavelength capacity rather than light our own intercity network.

However, along specific segments of our intercity network where the demand for telecommunications capacity justifies the required capital expenditures, we have proceeded with lighting those specific segments. Due to the need for additional, cost efficient capacity along the segment that runs from Los Angeles to San Diego, we lit this segment in June 2003, and we lit the Denver to Salt Lake City segment in November 2003. Additionally, we previously lit fiber acquired from Metromedia Fiber Network, Inc. that runs from New York to Washington, D.C. to provide an additional route to the lit intercity fiber network along that segment and we have also lit fiber in Texas. As discussed above, as leases for segments of wavelength capacity expire, we will either renew the leases for wavelengths or light our intercity fiber segment based on the most cost effective approach.

In August 2002, we entered into a Master Agreement with Level 3 Communications, Inc., which amends various agreements related to our acquisition of fiber networks in the United States from Level 3 and the recurring maintenance charges relating to those networks. Beginning on January 1, 2003 and continuing through the remaining term of the initial agreement ending 2018, Level 3 has reduced the operating and maintenance fees as well as fiber relocation charges from approximately $17.0 million annually to a fixed rate of $5.0 million annually. In exchange for this reduction and certain other concessions, we surrendered our indefeasible right to use an empty conduit and our indefeasible right to use six of the 24 fibers previously acquired from Level 3 and recorded a one-time charge of approximately $477.3 million in connection therewith. We believe that the 18 fibers that we retained from Level 3 in connection with the execution of the Master Agreement will be sufficient capacity to expand our business.

Connecting Customers to Our Networks

We connect our customers directly to our networks when it is economical and technologically feasible to do so. We connect customers to our networks by using fiber optic cable and, in limited circumstances, broadband wireless spectrum. We believe that by deploying direct connections to our customers, rather than connecting through the ILECs' facilities, we will reduce our costs and be better positioned to meet our customers' telecommunications requirements and to more rapidly deploy our service.

In most cases, we are required to lease facilities from an ILEC to connect a customer to our network. By building our metro fiber networks in central business districts, in many cases we have minimized the distance from our network to a potential customer. By reducing the distance between our customers and our network, we have minimized the costs associated with the facilities we lease from the ILECs because the cost of those facilities is generally based, on the distance of the leased connection.

Fiber Optics. In cases where the anticipated revenues justify the construction cost, we will install a new fiber optic extension from our network to the customer's premises. Whether it is economical to construct a fiber optic extension depends, among other things, on:

- the existing and potential revenue base located in the building in question;
- the building location relative to our network and our ability to access the communications equipment in that building, and
- local permit requirements and construction costs.

Even if we initially determine that it is not economical to construct a fiber connection to a building, we will continually reexamine the costs and benefits of a fiber connection and may, at a later date, determine that construction of one is justified.

Broadband Wireless Spectrum. In cases where construction of a fiber optic connection is not practical or economical, in limited cases we have deployed a high-bandwidth wireless connection between an antenna on the roof of the customer's premises and an antenna attached to our metro fiber network. In those limited cases, we and/or our customers must secure roof and other building access rights, including access to conduits and wiring from the owners of each building or other structure on which we propose to install our equipment, and may need to obtain construction, zoning, franchise or other governmental permits.

DSL Technology. We have also deployed DSL technology to meet the high-bandwidth needs of many customers located less than three miles from the ILEC's central office and whose customer connection remains over copper wire. DSL technology reduces the bottleneck in the transport of information, particularly for data services, by increasing the data carrying capacity of copper telephone lines. We believe that, for many small and middle-market businesses within the geographic areas that can be served by DSL technology, existing copper connections using DSL technology from customer buildings to our metro fiber networks offers a lower cost alternative for high-quality broadband services than fiber or broadband wireless connections.

We offer DSL services in numerous markets in the U.S., mainly through wholesale arrangements with the ILECs and other DSL service providers. We have introduced our own DSL equipment and services at many collocation sites, including central offices of the ILECs that serve a significant number of business customers.

Network Technology

Overview

The wires, cables and spectrum that comprise the physical layer of our networks can support a variety of communications technologies. We seek to offer customers a set of technology options that can support services that meet their changing needs and introduce new technologies as necessary. Specifically, we believe that a service platform based on Internet Protocol, or IP, will provide us with significant future opportunities, because it will enable data, voice and video to be carried inexpensively over our end-to-end, facilities-based network. Consequently, we have supplemented our current data and voice switching technology with IP equipment.

Over the past few years, both optical and IP-based networking technologies have undergone rapid innovation. These technological developments enable us to offer our customers numerous high-speed data services. Many of these innovations have the effect of increasing the efficiency of the physical components of our network by increasing the effective capacity of networks for these types of applications. In the future, we expect that IP-based technology will become the preferred technology for voice calls and facsimile transmission as well. We plan to remain flexible in our use of technology, so that, as underlying telecommunications technology changes, we will have the ability to take advantage of and implement new technologies that best meet our network requirements and customers' needs.

Fiber Optic Technology

To enhance the capacity of our metro fiber networks, we are incorporating dense wavelength division multiplexing technology, which makes it possible to simultaneously transmit data at more than one wavelength. This capability allows the transmission of multiple signals through the same fiber at different wavelengths. When utilized with the optical fiber deployed in many of our metro fiber networks and in our intercity network, this technology can significantly increase the capacity of those metro fiber networks.

Switching Technology

There are two commonly used switching technologies currently deployed in most telecommunications networks: circuit switched-based systems and packet switched-based systems. Circuit switch-based systems are currently used on a majority of telecommunications networks. Circuit switch-based systems establish a dedicated channel for each telecommunication signal (such as a telephone call for voice or fax), maintain the channel for the duration of the call, and disconnect the channel at the conclusion of the call.

Packet switch-based telecommunications systems, which format the information to be transmitted into a series of shorter digital messages called "packets," are the preferred means of data transmission. Each packet consists of a portion of the complete message plus the addressing information to identify the destination and return address. A key feature that distinguishes Internet architecture from the public telephone network is that on the packet-switched Internet, a single dedicated channel between telecommunication points is not required.

Packet switch-based systems offer several advantages over circuit switch-based systems, particularly the ability to commingle packets from several telecommunications sources together simultaneously onto a single channel. For most telecommunications, particularly those with bursts of information followed by periods of "silence," the ability to commingle packets provides for superior network utilization and efficiency, resulting in more information being transmitted through a given telecommunication channel

IP technology, an open protocol that allows unrelated computer networks to exchange data, is the technological basis of the Internet The Internet's explosive growth in recent years has focused intensive efforts worldwide on developing IP-based networks and applications. In contrast to protocols like ATM, which was the product of elaborate negotiations between the world's monopoly telephone companies, IP is an open standard, subject to continuous improvement.

We believe that a form of IP-based switching will eventually replace both ATM and circuit switched technologies, and will be the foundation of integrated networks that treat all transmissions — including voice, fax and video — simply as forms of data transmission. Although not always the case, voice over IP, or VoIP, technology now incorporates the quality of service necessary for commercial deployments, but the pricing of equipment that must be installed at customer locations in order to implement VoIP applications is not yet cost-effective for widespread application. We expect that, over time, improved technology and the manufacture of sufficient volumes of equipment will make customer adoption of VoIP applications more cost-effective.

We have constructed IP points of presence in all of our major markets using high-capacity IP routers, through which we offer Internet-related services. We currently connect these points of presence with our intercity fiber network, which serves as our OC-192 IP backbone.

We have deployed a number of newly-developed packet-based switching technologies, including soft-switch, optical and Ethernet switching technologies. The soft-switch is a distributed computer system that performs the same functions as a circuit switch. It can route and switch information at an extremely fast rate. Initially, we will use soft-switch technology to complement and relieve traffic from our circuit switches. We have deployed optical switching, routing and transmission equipment on our intercity network to create an all-optical network. This technology is designed to make significant amounts of bandwidth available to our customers. It also is designed to enable us to more effectively and efficiently manage our customers' transmissions and to enhance our deployment of dense wavelength division multiplexing technology. Optical switching will support all transmission protocols, including IP, ATM, and frame relay. We also are deploying Ethernet switching technology to support and expand our Ethernet services.

Broadband Wireless Technology

We hold 91 local multipoint distribution service or LMDS licenses and ten 39 GHz licenses. There are additional holders in some of the cities where we hold licenses. The following tables shows (i) the license number, (ii) the metropolitan areas and frequency band for each area covered by the license, (iii) the estimated population for each area, (iv) the amount of spectrum for each area, and (v) the expiration date for each license. This makes us the licensee of the largest US footprint of fixed wireless spectrum.

License Number	City	State	Population	A Band	B Band	39 GHz Chanls	License Renewal
WPOL286	New York (PMSA of 5 boroughs & 3 counties)	NY	8,546,846	A3			2/1/2006
WPLM417	Atlanta	GA	3,197,171		B		6/17/2008
WPLM412	Austin	TX	899,361		B		6/17/2008
WPLM416	Baltimore	MD	2,430,563		B		6/17/2008
WPLM430	Birmingham	AL	1,200,336	A			6/17/2008
WPLM413	Boston	MA	4,133,895		B		6/17/2008
WPLM418	Chattanooga	TN	510,860	A			6/17/2008
WPLM405	Chicago	IL	8,182,076		B		6/17/2008
WPLM424	Cincinnati	OH	1,990,451		B		6/17/2008
WPLM422	Cleveland-Akron	OH	2.894,133		B		6/17/2008
WPLM410	Columbia	SC	568,754	A			6/17/2008
WPLM438	Columbus	OH	1,477,891		B		6/17/2008
WPON926	Denver	CO	2,073,952	A1 (part)			6/17/2008
WPLM408	Detroit	MI	4,705,164		B		6/17/2008
WPLM398	Hartford	CT	1,123,678		B		6/17/2008
WPLM411	Hickory-Lenoir-Morganton	NC	292,409	A			6/17/2008
WPLM431	Huntsville	AL	439,832	A			6/17/2008
WPLM435	Indianapolis	IN	1,321,911		B		6/17/2008
WPLM436	Kansas City	MO	1,839,569		B		6/17/2008
WPLM434	Klamath Falls	OR	74,566		B		6/17/2008
WPLM420	Lakeland-Winterhaven	FL	405,382		B		6/17/2008

License Number	City	State	Population	A Band	B Band	39 GHz Chanls	License Renewal
WPLM429	Lexington	KY	816,101	A			6/17/2008
WPLM401	Los Angeles*	CA	14.549,810	A			6/17/2008
WPLM428	Louisville	KY	1.352.955	A			6/17/2008
WPLM423	Mansfield	OH	221,514		B		6/17/2008
WPLM433	Medford-Grants Pass	OR	209,038		B		6/17/2008
WPOH970	Milwaukee	WI	1.751,525	A			6/17/2008
WPLM419	Minneapolis-St Paul	MN	2,840,561	A			6/17/2008
WPOH945	New Haven-Waterbury-Meriden	CT	978.311		B		6/17/2008
WPLM400	New London-Norwich	CT	357,482		B		6/17/2008
WPLM397	New York (whole BTA)	NY	18,050,615		B		6/17/2008
WPLM421	Ocala	FL	194.833		B		6/17/2008
WPLM432	Portland	OR	1,690,930	A			6/17/2008
WPOH956	Providence-Pawtucket. New Bedford-Fall River	RI,MA	1,509,789	A			6/17/2008
WPLM437	Rochester	NY	1,118,963		B		6/17/2008
WPLM407	Sacramento	CA	1,656,581	A			6/17/2008
WPLM402	San Diego	CA	2,498,016		B		6/17/2008
WPLM406	San Francisco-Oakland-San Jose	CA	6.420,984		B		6/17/2008
WPLM404	San Luis Obispo	CA	217,162	A			6/17/2008
WPLM403	Santa Barbara-Santa Maria	CA	369,608	A			6/17/2008
WPLM427	Seattle-Tacoma	WA	2,708,949	A			6/17/2008
WPLM425	St Louis	MO	2,742,114		B		6/17/2008
WPLM409	Toledo	OH	782,184		B		6/17/2008
WPLM415	Washington	DC	4,118.628		B		6/17/2008
WPOH677	Albuquerque	NM	688,612	A			9/1/2008
WPOH679	El Paso	TX	649,860	A			9/1/2008
WPOH676	Tucson	AZ	666,880	A			9/1/2008
WPOH683	Lawton-Duncan	OK	177,830	A			9/1/2008
WPOH682	Oklahoma City	OK	1,305,472	A			9/1/2008
WPOH684	Omaha	NE	905.991	A			9/1/2008
WPOH676	Tulsa	OK	836,559	A			9/1/2008
WPHOH944	Albany-Schenectady	NY	1,028,615	A			10/6/2008
WPOH963	Atlanta	GA	3,197,171	A			10/6/2008
WPOH954	Austin	TX	899,361	A			10/6/2008
WPOH962	Baltimore	MD	2,430,563	A			10/6/2008
WPOH955	Boston	MA	4,133.895	A			10/6/2008
WPOH955	Buffalo-Niagara Falls	NY	1 231,795	A			10/6/2008
WPOH950	Charlotte-Gastonia	NC	1,671,037	A			10/6/2008
WPOH948	Chicago	IL	8,182.076	A			10/6/2008
WPOH953	Dallas	TX	4.329.924	A			10/6/2008
WPOH975	Des Moines	IA	728,830	A			10/6/2008
WPOH949	Detroit	MI	4,705,164	A			10/6/2008
WPOH952	Greenville-Spartanburg	NC	788,212	A			10/6/2008
WPOH943	Hartford	CT	1,123,678	A			10/6/2008
WPOH966	Houston	TX	4,054.253	A			10/6/2008
WPOH974	Indianapolis	IN	1.321,911	A			10/6/2008
WPOH979	Jacksonville	FL	1,114,847	A			10/6/2008
WPOH981	Knoxville	TN	948,055	A			10/6/2008
WPOH947	Los Angeles	CA	14,549,810		B		10/6/2008
WPOH959	Manchester-Nashua-Concord	NH	540,704	A			10/6/2008
WPOH973	Memphis	TN	1,396.390	A			10/6/2008
WPOH967	Miami-Ft Lauderdale	FL	3.270,606	A			10/6/2008
WPLM426	Milwaukee	WI	1,751,525		B		10/6/2008
WPOH964	Minneapolis-St Paul	MN	2,840,561		B		10/6/2008
WPOH980	Nashville	TN	1,429.309	A			10/6/2008

License Number	City	State	Population	A Band	B Band	39 GHz Chanls	License Renewal
WPLM399	New Haven-Waterbury-Meriden	CT	978,311	A			10/6/2008
WPOH942	New York (unencumbered by PMSA) Philadelphia, Wilmington (DE), Trenton	NY	9,503,769	A			10/6/2008
WPOH960	(NJ)	PA	5 899,345	A			10/6/2008
WPOH971	Pittsburgh Providence-Pawtucket, New Bedford-Fall	PA	2,507,839	A			10/6/2008
WPLM414	River	RI,MA	1,509,789		B		10/6/2008
WPOH951	Raleigh-Durham	NC	1,089,423	A			10/6/2008
WPOH972	Richmond-Petersburg	VA	1,090,869	A			10/6/2008
WPOH978	Rochester	NY	1,118,963	A			10/6/2008
WPOH976	San Antonio	TX	1,530,954	A			10/6/2008
WPOH958	Springfield-Holyoke	MA	672,970	A			10/6/2008
WPOH969	St. Louis	MO	2,742,114	A			10/6/2008
WPOH946	Syracuse	NY	791,140	A			10/6/2008
WPOH965	Tampa-St. Petersburg-Clearwater	FL	2,249,405	A			10/6/2008
WPOH961	Washington	DC	4,118,628	A			10/6/2008
WPOH968	West Palm Beach-Boca Raton	FL	893,145	A			10/6/2008
WPOH957	Worcester-Fitchburg-Leominster	MA	709,705	A			10/6/2008
WPQT938	Denver-Boulder-Greeley	CO	2,073,952			B	10/18/2010
WPQT942	Las Vegas	NV	857,856			E	10/18/2010
WPQT946	Las Vegas	NV	857,856			G	10/18/2010
WPQT939	San Diego	CA	2,498,016			B	10/18/2010
WPQT944	San Diego	CA	2,498,016			F	10/18/2010
WPQT947	San Diego	CA	2,498,016			N	10/18/2010
WPQT940	San Francisco	CA	6,420,984			D	10/18/2010
WPQT945	San Francisco	CA	6,420,984			F	10/18/2010
WPQT941	Toledo	OH	782,184			E	10/18/2010
WPQT943	Toledo	OH	782,184			F	10/18/2010

Legend

A	27,500 to 28,350 MHz, 29,100 to 29,250 GHz, 31,075 to 31,225 GHz 1,150 MHz
A1	27,500 to 28,350 MHz 850 MHz
A3	31,075 to 31,225 GHz 150 MHz
B	31,000 to 31,075 MHz, 31 225 to 31,300 MHz 150 MHz
39 GHz B	38,650 to 38,700 MHz, 39,350 to 39,400 100 MHz
39 GHz E	38,800 to 38,850 MHz, 39,500 to 39,550 100 MHz
39 GHz G	38,900 to 38,950 MHz, 39,600 to 39,650 100 MHz
39 GHz F	38,850 to 38,900 MHz, 39,550 to 39,600 100 MHz
39 GHz N	39,250 to 39,300 MHz, 39,950 to 40,000 100 MHz
39 GHz D	38,750 to 38,800 MHz, 39,450 to 39,500 100 MHz

The higher the frequency, the higher the attenuation (loss). For the same amount of transmission power, a lower frequency signal will propagate farther

The spectrum under the licenses we hold is not suitable for mobile telephones, but can transmit voice, data or video signals from one fixed antenna to one or many others. As the word "local" in the local multipoint distribution service name implies, the radio links provided using LMDS frequencies are of limited distance, typically five miles or less, due to the degradation of these high-frequency signals over greater distances. This also is true of the 39 GHz spectrum.

A wireless connection typically consists of paired antennas placed at a distance of up to 5 miles from one another with a direct, unobstructed line of sight. The antennas are typically installed on rooftops, towers or windows. This technology works by connecting the end user through fixed wireless access to points of presence on our metro fiber network, thus eliminating the need for the RBOC's last mile of infrastructure. This third generation fixed wireless broadband access, in conjunction with our intercity and metro fiber network, allows us to offer a wide range of metro, national and global connectivity solutions.

There are additional holders in some of the cities where we hold licenses. There are also competitors who are licensed broadband fixed wireless operators in the 39 GHz spectrum bands. Examples include First Avenue Networks and AT&T Business Services. There are existing users of the 39 GHz spectrum that may require XO as a new user of the spectrum to coordinate its use to avoid interference with an existing user. We do not believe that the coordination process will significantly limit our ability to make use of the spectrum.

The term of the licenses for our broadband wireless spectrum generally is ten years Although the licenses are renewable for an additional ten year term, renewal is conditioned on our ability to satisfy utilization requirements established by the FCC. During 2003 we had successful trials in our San Diego and Irvine, California markets and deployed services at approximately 20 customers. We continue to evaluate recent improvements in the price and performance of fixed wireless equipment, and have plans to meet the FCC's "substantial service" test before the licenses are due for renewal proceedings. In the event that we do not meet the FCC's substantial service test at the end of the license expiration date, we may request an extension of time or waiver of license forfeiture from the FCC.

Sales, Network Services and Customer Care

Sales Overview

Our sales organization includes a direct field sales force and indirect sales channels. Our direct sales force includes two sales organizations, one that addresses the needs of commercial customers and one that services carrier accounts. Our commercial sales organization focuses on all retail customers, growing businesses within a market, developing multi-market accounts and targeting national accounts. Our carrier sales organization focuses solely on servicing telecommunications providers who, in combination with other capabilities, provide telecommunications services under their own brand.

Our market research indicates that commercial customers prefer a single source for all of their telecommunications requirements, including products, billing, installation, maintenance, and customer service. By offering these customers our local, long distance or data services individually or through our XOptions packages, which combine local and long distance voice services, Internet access and web hosting services, we believe we provide our customers a level of convenience that generally is unavailable in the telecommunications marketplace.

We market and sell our products to other telecommunications providers through our carrier services organization. These customers benefit from our national network, our data service capabilities, our broad range of services and our cost effective solution design.

Direct Sales Force

We have established a highly motivated and experienced direct sales forces. Our strategy is to design the structure of our sales efforts so that our sales personnel are able to develop a direct and personal relationship with our customers. We seek to recruit salespeople with strong sales and telecommunications backgrounds, including salespeople from long distance companies, telecommunications equipment manufacturers, network systems integrators and the ILECs. Our salespeople are offered incentives through a commission structure that generally targets 40% to 50% of a salesperson's total compensation to be based on performance. Our direct sales and sales support organization consisted of approximately 1,700 employees at December 31, 2003, up from approximately 1,100 employees at December 31, 2002. As part of the performance review process and to reduce expenses, the sales organization declined to approximately 1,200 in March 2004. We will continue to evaluate sales performance and revenue growth in the most cost effective manner.

Indirect Sales Channels

We have complemented our direct sales force by developing an indirect sales channels to distribute the increasing number of products and services available to our customer base. These channels include numerous third party sales agents. We currently have distribution arrangements with a number of national, regional and local agents and agency firms, whose representatives market a broad range of XO services. As of December 31, 2003, we had staff of approximately 60 employees who manage our agent relationships and more than 700 indirect sales agents in markets throughout the United States. During the fourth quarter of 2003, approximately 20% of new sales were generated by indirect agents.

Network Services

Our network services organization consists of 2,100 employees whose main objective is to deliver superior service and to enhance the customers' experience. Network service employees are located in all of our markets. Their main objectives include the design, deployment, maintenance and when necessary, repair of our network assets. In addition, they are responsible for installing customer premise equipment and activating new customers as well as maintaining and when necessary, repairing any service outages our customers might experience. We maintain a very competitive median repair time.

Customer Care

Once a customer's services have been installed, our customer care operations support customer retention and satisfaction. Our goal is to provide customers with a customer care group that has the ability and resources to respond to and resolve customer questions and issues as they arise. In 2003, although we conducted much of our customer care operations from three call centers, we also provided locally-based care for many large customers. Because we believe that a more centralized care structure not only takes advantage of economies of scale, but also enables us to provide better customer service, we closed one of our care facilities in 2003. The size of our customer care organization has remained constant from December 31, 2002 to December 31, 2003, with approximately 700 employees.

Regulatory Overview

Overview

The Telecommunications Act of 1996, or the "Telecom Act", which substantially revised the Communications Act of 1934, established the regulatory framework for the introduction of competition for local telecommunications services throughout the United States by new competitive independent entrants such as us. Prior to the passage of the Telecom Act, states typically granted an exclusive franchise in each local service area to a single dominant carrier — often a former subsidiary of AT&T known as an RBOC — which owned the entire local exchange network and operated a virtual monopoly in the provision of most local exchange services in most locations in the United States. The RBOCs, following some recent consolidation, now consist of the following companies: BellSouth, Verizon, Qwest Communications and SBC Communications.

Among other things, the Telecom Act preempts state and local governments from prohibiting any entity from providing telecommunications service, which has the effect of eliminating prohibitions on entry that existed in almost half of the states at the time the Telecom Act was enacted. At the same time, the Telecom Act preserved state and local jurisdiction over many aspects of local telephone service and, as a result, we are subject to varying degrees of federal, state and local regulation. Consequently, federal, state, and local regulation, and other legislative and judicial actions relating to the telecommunications industry could significantly affect our business.

We believe that the Telecom Act provided the opportunity to accelerate the development of competition at the local level by, among other things, requiring the incumbent carriers to cooperate with competitors' entry into the local exchange market. We have developed our business and designed and constructed our networks to take advantage of the features of the Telecom Act that require cooperation from the incumbent carriers, and believe that the continued viability of the pro-competitive statutory provisions is critical to the success of the competitive framework contemplated by the Telecom Act.

Although the Telecom Act and the related rules governing competition issued by the FCC, as well as pro-competitive policies already developed by state regulatory commissions, have enabled new entrants like us to capture a portion of the incumbent carriers' market share of local services, there have been numerous attempts to limit or eliminate the basic framework for competition in the local exchange services market through a combination of federal legislation, adoption of new rules by the FCC, and RBOC challenges to existing and proposed regulations. We expect these efforts to limit the benefits of the Telecom Act to continue. Successful implementation of our business plan is predicated on the assumption that the basic competitive framework will remain in place.

Federal Regulation

The FCC exercises jurisdiction over our telecommunications facilities and services. We have authority from the FCC for the installation, acquisition and operation of our wireline network facilities to provide facilities-based domestic interstate and international services. In addition, we have obtained FCC authorizations for the operation of our LMDS and 39 GHz broadband wireless facilities. Unlike incumbent carriers, we are not currently subject to price cap or rate of return regulation, which leaves us free to set our own pricing policies for end user services subject only to the general federal guidelines that our charges for interstate and international services be just, reasonable, and non-discriminatory. The FCC allows us to file interstate tariffs for interstate access services (rates charged by carriers for access to their networks). The FCC, however, required that, with only minor exception, we withdraw our tariffs for interstate domestic long distance services and international long distance services. We, however, are still required to make the terms, conditions and rates of the detariffed services available to the public on our Company web page, and such terms, conditions, and rates are located at http://www.xo.com/legal/.

The following is a summary of the interconnection and other rights granted by the Telecom Act that are important for effective local service competition and our belief as to the effect of the requirements, if properly implemented:

- Interconnection with the networks of incumbents and other carriers, which permits our customers to exchange traffic with customers connected to other networks;
- Local loop and transport unbundling, which allows us to selectively gain access to incumbent carriers' facilities and wires that connect the incumbent carriers' central offices and/or customer premises, thereby enabling us to serve customers not directly connected to our networks;
- Reciprocal compensation, which mandates arrangements for local traffic exchange between us and both incumbent and competitive carriers and compensation for terminating local traffic originating on other carriers' networks, thereby improving our margins for local service;
- Number portability, which allows customers to change local carriers without changing telephone numbers, thereby removing a significant barrier for a potential customer to switch to our local voice services,
- Access to phone numbers, which mandates assignment of new telephone numbers to our customers, thereby enabling us to provide telephone numbers to new customers on the same basis as incumbent carriers; and
- Collocation of telecommunications equipment in incumbent carrier central offices, which enables us to have direct access to unbundled loops and other network elements and facilitates for efficient integration with our switching and other network facilities.

In January 1999, the U.S. Supreme Court, in a decision that was generally favorable to competitive telephone companies such as us, upheld key provisions of the FCC rules implementing the Telecom Act. In finding that the FCC has general jurisdiction to implement the Telecom Act's local competition provisions, the Court confirmed the FCC's role in establishing national telecommunications policy, and thereby created greater certainty regarding the rules governing local service competition on a going forward basis.

Although the rights established in the Telecom Act are a necessary prerequisite to the introduction of full local competition, they must be properly implemented and enforced to permit competitive telephone companies like us to compete effectively with the incumbent carriers. Discussed below are several FCC and court proceedings relating to the application of certain FCC rules and policies that are significant to and directly impact our operations as well as the nature and scope of industry competition.

Unbundling of Incumbent Network Elements

In the January 1999 Supreme Court decision discussed above, the Court affirmed the FCC's interpretation of matters related to unbundling of incumbent carriers' network elements. It held that the FCC correctly interpreted the meaning of the term "network element", which defines the parts of an incumbent carrier's operations that may be subject to the "unbundling" requirement of the Telecom Act. The Court, however, also held that the FCC did not correctly determine which network elements must be unbundled and made available to competitive telephone companies such as us. In November 1999, the FCC released its "UNE (unbundled network element) Remand Order", which addressed the deficiencies in the FCC's original ruling cited by the Court. The order generally was viewed as favorable to us and other competitive carriers because it ensured that incumbent carriers would be required to continue to make available those network elements, including unbundled loops, that are crucial to our ability to provide local and other services. The UNE Remand Order subsequently was appealed by the incumbent carriers.

On May 24, 2002, the United States Court of Appeals for the D.C. Circuit released an opinion remanding the UNE Remand Order to the FCC for further consideration.

In response to the Court of Appeals' decision, and as part of its statutorily required periodic review of its list of unbundled elements, the FCC initiated its "Triennial Review" proceeding.

On August 21, 2003, the FCC released its Triennial Review Order ("TRO"). Under the TRO, our ability to obtain access to certain unbundled network elements and incumbent network upgrades may be curtailed or more costly in the future. Interconnection agreements that we have in place with the ILECs need to be amended to incorporate many of the TRO changes. We have started the negotiation process to complete these interconnection agreement amendments and anticipate that the agreements will be finalized during the second quarter of 2004. At this time, we cannot predict the full effect of the implementation of the TRO. Also, the TRO has delegated to the states the overall responsibility for deciding whether certain unbundled elements should remain available to competitors like us in local markets of each of the respective states. Delegation of these determinations creates the risk that some states may decide to limit or eliminate certain unbundled elements to which we have access today and that we will be faced with different sets of rules and costs if states issue inconsistent decisions.

The following Triennial Review Order matters directly impact us and many of our competitors:

- Curtailed Access to Broadband: The TRO adopted new rules that, for certain very small customers, restrict competitive carriers from leasing as unbundled elements certain upgrades that the incumbent carriers make to their networks, such as the deployment of new optical fiber or upgrades from copper to optical fiber. For example, a new fiber loop to a very small customer that replaces an existing copper loop could be exempt from unbundling, except that incumbents must continue to unbundle the pre-existing copper loop or provide a voice channel for us on the new fiber loops that is equivalent to the old copper loop. Although the imposition of any restrictions on our access to the incumbents' broadband networks is not a favorable development for us, we believe that the adverse impact is partially mitigated by the fact that incumbents are required to continue to provide us with basic access to those facilities that we currently lease from them to serve many of our customers.
- Unbundled Local Loops: The Order made a general, national finding that, with the exception of optical carrier ("OC") level loops, competitive carriers should have access to unbundled loops of the incumbent carriers. The states, however, may remove competitive carriers' access to certain

non-OC level high capacity and unlit capacity loops based on the results of specified competitive analyses. Incumbent carriers will no longer be required to provide competitive carriers with access to OC level loops. We believe that the net result of these changes will not have a significant impact on us because the access to the vast majority of unbundled loops that we use today will be preserved.

- Unbundled Dedicated Transport: The TRO has changed the definition of "dedicated transport" in such a way that competitive carriers have to purchase certain transport facilities at higher rates. The TRO maintained unbundled access to many types of transport between incumbent facilities, such as transport between incumbent central offices, but it redefines dedicated transport to eliminate the unbundling of other transport. The TRO also sets forth a test that the states must follow in considering whether certain non-OC level high capacity transport should be available in local markets within the states. The FCC also ruled that OC level transport would no longer be available as an unbundled element and that shared transport would be unavailable as an unbundled element in most business markets. We believe that it is likely that this determination will raise our costs for transport services in the future.
- Enhanced Extended Links and Co-Mingling: The TRO enhance the ability of competitive carriers like us to obtain a combination of unbundled loop and transport elements known as "enhanced extended links", provided that the underlying loop and transport elements are individually available on an unbundled basis. The FCC created new rules that permit competitive carriers to mix services that they lease from the incumbent carriers. We will now be able to mix incumbent carrier unbundled network elements with services purchased from the wholesale tariff (e.g., switched and special access services) instead of being required to artificially segregate unbundled network elements from such wholesale services. Because we currently lease both wholesale services and unbundled network elements from the incumbent carriers, we believe that these developments will result in cost savings for us.
- Calculation of Unbundled Element Rates. The TRO will allow incumbent carriers to utilize a higher cost of capital and shorter depreciation lives to establish rates for unbundled elements. We believe that these modifications could raise our costs for leasing unbundled network elements in the future.

Although the rules adopted by the FCC in the Triennial Review Order became effective on October 2, 2003, many of the requirements imposed by the FCC in the TRO were not self-executing Accordingly, the FCC made clear that carriers must follow the change of law procedures in their applicable interconnection agreements to implement any TRO requirements that are not self-executing and that carriers must follow the procedures et forth in section 252(b) of the Telecom Act to modify interconnection agreements that are silent as to implementation of changes in law.

Several carriers and other entities appealed the FCC's TRO decision. On March 2, 2004, the U.S. Court of Appeals for the D.C. Circuit in Washington, D.C. issued its opinion in United States Telecom Associations v. FCC, No. 00-1012 ("USTA Decision"). In the USTA Decision, the court reversed and vacated many of the conclusions of the TRO. Specifically, the court found that the FCC improperly delegated to the states the overall responsibility for deciding whether certain unbundled elements should remain available to competitive carriers in each of the respective states. The FCC's determination in the TRO that competitive carriers should have access to switching platform services as a UNE ("UNE-P") was vacated by the court. The court also vacated the portions of the TRO which held that competitive carriers should have access to all forms of non-OC level unbundled dedicated transport.

XO does not rely on ILEC facilities to switch the majority of its customers' traffic and, therefore, will not be affected by the court's decision pertaining to UNE-P service, nor its likely impact on UNE-P providers if this decision is not reversed or stayed. Additionally, with the pending acquisition of Allegiance and its hundreds of collocation sites, we believe XO will lease less unbundled dedicated transport facilities from the ILECs. We expect these factors to mitigate the effects of any potential increases in the costs of leasing transport capacity.

The USTA Decision is stayed until May 1, 2004. Parties will seek review of the USTA Decision at the Supreme Court and will also seek a further stay of the decision. If the USTA Decision does go into effect and reverses and vacates large portions of the TRO, our ability to obtain access to certain unbundled network elements and incumbent network upgrades may be curtailed or more costly in the future In addition, many incumbent carriers will continue to seek to institute follow-on administrative proceedings with the FCC and state regulatory agencies, and lobby the United States Congress, all in an effort to affect laws and regulations in a manner even more favorable to them and against the interests of competitive carriers. At the same time, we anticipate that competitive carriers will endeavor to improve their positions and access to the incumbents' networks through similar means. The final outcome of the appellate review and implementation process remains unknown at this time but it is possible that further changes to the rules could adversely affect our cost of doing business by increasing the cost of purchasing or leasing network facilities from the incumbent carriers.

Collocation in Incumbent Central Offices

Collocation regulations promulgated by the FCC specify in greater detail obligations that the Telecom Act imposes upon the incumbent carriers to open their local networks to competition by providing competitors space to locate their equipment in incumbent central offices and remote terminals for the purpose of interconnection. This allows the competitive carriers to provide local telephone services and to use portions of the incumbent carriers' existing networks to offer new and innovative services. Over the past four years, the FCC's collocation regulations have been the subject of very contentious proceedings at the FCC and litigation before several courts. On remand from a March 2000 decision by the U.S. Court of Appeals for the D C. Circuit, the FCC issued a decision that revised its rules in a manner that permits incumbent companies to exercise more discretion in determining the placement of competitors' equipment in their central offices, and does not require the incumbents to allow competitors to install and maintain cross-connections between other collocated competitors, but requires the incumbent carriers to provide this as part of their collocation services. In June, 2002, the U S Court of Appeals for the D.C. Circuit affirmed the FCC's Remand Order, and the FCC has since clarified that incumbent carriers should make their cross-connection service available in the physical collocation tariffs they file with the FCC.

In October 2002, Verizon filed an application with the FCC requesting authority to discontinue providing new orders for federally-tariffed physical collocation services. Verizon asked the FCC to require its competitors instead to order collocation services going forward solely pursuant to terms and conditions approved by state public service commissions. Verizon's application was granted on October 22, 2003. This discontinuance will potentially make it more costly and difficult for competitors such as us to obtain new collocation services because the rates set by state public service commissions are typically significantly higher than those approved by the FCC, and may require competitors such as us to engage in costly and lengthy negotiations in different states.

Regulation of the RBOCs' Ability to Provide Long Distance Service

The FCC has primary jurisdiction over the implementation of Section 271 of the Telecom Act, which provides that the RBOCs cannot offer in-region long distance services until they have demonstrated that:

- they have entered into an approved interconnection agreement with a facilities-based competitive telephone company or that no such competitive telephone company has requested interconnection as of a statutorily determined deadline;
- they have satisfied a 14-element checklist designed to ensure that the RBOC is offering access and interconnection to all local exchange carriers on competitive terms; and
- the FCC has determined that allowing the RBOC to offer in-region, long distance services is consistent with the public interest, convenience and necessity.

As of December 15, 2003, the FCC has granted all of the RBOCs the authority to provide long distance service in every state in which they operate. All of the RBOCs now have the authority to bundle in-region long distance services with in-region local services. RBOC authorization to provide in-region long distance services could have an adverse effect on our ability to compete if effective post-approval safeguards are not enforced to ensure that the RBOCs continue to comply with the market-opening requirements.

Provision of Broadband Telecommunications Services and Information Services

Current federal and state regulation places certain restrictions and conditions on the provision of advanced telecommunications services, or broadband services, such as data and DSL services, by the RBOCs. Furthermore, the network elements that RBOCs must make available under the FCC's unbundling rules to competitors may be used for the provision of broadband services However, at the urging of the RBOCs and other incumbent carriers, the FCC, in the TRO, appears to have greatly curtailed the extent to which the incumbents must unbundle the broadband portion of their networks for their competitors. The RBOCs continue to push for further deregulation through federal and state legislative efforts. In addition, it is anticipated that deregulatory legislation will be pursued by the RBOCs in Congress. In addition to possible legislation, the FCC has initiated another pending proceeding that could relax incumbent carriers' obligation to make unbundled network elements that are used for certain broadband or information services available to us. The FCC has issued a Notice of Proposed Rulemaking entitled "Appropriate Framework for Broadband Access to the Internet Over Wireline Facilities" that requests comments on the proper classification of broadband access services as either regulated telecommunications services or unregulated information services. The TRO decision, in conjunction with a decision in this proceeding, a legislative change or a court ruling further broadening the definition of what constitutes unregulated information services could have the effect of allowing RBOCs to provide terms, conditions and pricing to their own affiliates that provide data or information services that are better than those made available to competitive carriers such as us. Such developments could also be expected to adversely affect our cost of doing business by increasing the cost of purchasing or leasing such facilities from the RBOCs.

Universal Service

In 1997, the FCC established a significantly expanded federal telecommunications subsidy regime known as "universal service". Specifically, the FCC established new subsidies for services provided to qualifying schools and libraries and rural health care providers, and expanded existing subsidies to low income consumers. Most telecommunications companies, including us, must pay for these programs based on their share of interstate and international telecommunications end user revenues. On December 4, 2003, the Wireline Competition Bureau released a public notice announcing that the proposed universal service contribution factor for the first quarter of 2004 is 8.7 percent compared to 9.5 percent for the third quarter of 2003 and 9.2 percent for the fourth quarter of 2003. The FCC has taken further steps to modify the system for assessment and recovery of universal service funds. In a December 2002 Notice of Proposed Rulemaking, the FCC asked many broad-ranging questions regarding universal service, including whether to change its method of assessing contributions due from carriers by basing it on the number and capacity of connections they provide, rather than on interstate and international end user revenues they earn At this time, we are unable to predict whether the FCC's rulemaking or legislative initiatives will increase the size of our subsidy payments, the scope of the subsidy program, or our costs of calculating, collecting and remitting the universal service related payments.

Intercarrier Compensation Reform

Currently, telecommunications carriers are required to pay other carriers for interstate access charges and local reciprocal compensation charges. These two forms of Intercarrier compensation have been under review by the FCC since 2001. The FCC continues to consider a broad order reforming the Intercarrier compensation system and the following specific proceedings also impact Intercarrier compensation issues for us.

Access Charges. Long distance carriers pay local facilities-based carriers, including us, interstate access charges for both originating and terminating the interstate calls of long distance customers on the local carriers' networks. Historically, the incumbent carriers set access charges higher than cost and justified this pricing to regulators as a subsidy to the cost of providing local telephone service to higher cost customers. With the establishment of an explicit and competitively neutral universal service subsidy mechanism, however, the FCC is under increasing pressure to revise the current access charge regime to bring the charges closer to the actual cost of providing access. In response, the FCC issued a decision in 2001 setting interstate rates that competitive local carriers charge to long distance carriers at a level that will gradually decrease over three years from a maximum of $0.025 per minute to the rates charged by incumbent carriers. As long as we are in compliance with the FCC's rate schedule, the FCC's order forbids long distance carriers from challenging our interstate access rates. Although this FCC decision lowering access charges will reduce our access charge revenues over time, we do not expect that such a reduction will have a material impact on our total revenues or financial position. In 2001, the FCC also issued a declaratory ruling that commercial mobile radio service ("CMRS") providers are not permitted to collect switched access charges from long distance carriers absent a contract between the parties that imposes a payment obligation on the long distance carrier. In November 2003, the United States Court of Appeals for the District of Columbia denied petitions for review of the FCC's declaratory ruling on CMRS access charges. Sprint PCS and AT&T are currently litigating in federal district court in Missouri the issue of whether, in the absence of a written contract, Sprint PCS can charge AT&T for switched access services. We are unable to determine how the court will ultimately rule; however, if Sprint PCS prevails in this lawsuit against AT&T, it may encourage CMRS providers to attempt to collect switched access charges from us even in the absence of a written contract.

AT&T Declaratory Ruling Re: VoIP. AT&T has petitioned the FCC to find that voice over Internet protocol ("VoIP") services, including phone to phone services, are exempt from switched access charges. This proceeding has broad implications for the future of IP-based services because a ruling in favor of the AT&T petition will create incentives to deploy VoIP technology for the origination and termination of long distance and other calls A ruling against the AT&T petition could place VoIP services in the same regulatory category as traditional telecommunications services and, therefore, subject VoIP services to access charges and other regulatory obligations including Universal Service fees. Like a growing number of carriers, we utilize Internet protocol technology for the transmission of a portion of our network traffic. The FCC has indicated on several occasions that such services are exempt from interstate access charges but, until the FCC issues its ruling in the current proceeding, it is unclear how such traffic will be treated for intercarrier compensation purposes. Additionally, several state commissions are in the process of addressing whether to regulate VoIP services, and this development could result in the emergence of inconsistent rules for intrastate VoIP services.

Vonage Petition. On September 22, 2003, Vonage Holdings, Inc. ("Vonage") filed a petition requesting that the FCC preempt an order of the Minnesota Public Utilities Commission ("PUC") requiring Vonage to comply with state laws governing providers of telephone service. The Minnesota PUC decision has been overturned by a Minnesota state court and now Vonage is seeking Federal preemption so that no future rulings of the Minnesota PUC can subject Vonage to state regulation. Vonage provides VoIP origination services to its customers and Vonage claims that it is therefore a provider of information services and not subject to traditional common carrier regulations. Specifically, Vonage asks that the FCC find that certain specific E911 requirements imposed by the Minnesota PUC are in conflict with federal policies. Further, Vonage states that preemption is necessary because of the impossibility of separating the Internet, or any service offered over it, into intrastate and interstate components. Until the FCC issues its ruling, it is unclear how VoIP offerings by XO and other companies will be regulated.

Level(3) Forbearance Petition. On December 23, 2003, Level(3) filed a petition for forbearance requesting the FCC to forbear from application of interstate or intrastate access charges on Internet protocol (IP) traffic that originates or terminates on the public switched telephone network (PSTN). IF the FCC were to rule in Level(3)'s favor, we would expect that there would be reductions in network and regulatory costs associated with the termination of certain IP-to-PSTN and PSTN-to-IP traffic.

Pulver.Com Ruling. On February 12, 2004, the FCC ruled that Pulver.Com's Free World Dialup (FWD) offering will remain a minimally regulated VoIP service. The Pulver.com Order made clear that IP-to-IP calls that do not transit over any portion of the PSTN will be largely free of regulation. Almost all of the calls carried by XO do transit some portion of the PSTN.

FCC VoIP NPRM. On February 12, 2004, the FCC initiated a major proceeding seeking public comment on a variety of issues based on the premise that Internet services and VoIP should remain largely free of regulatory burdens. In connection with this proceeding, the FCC will address VoIP-related Communications Assistance for Law Enforcement (CALEA) issues to address the technical aspects of enabling law-enforcement access to IP-enabled services. At this time it is unclear how, if at all, the FCC will regulate IP-enabled service including VoIP.

Local Reciprocal Compensation Charges. Local telephone companies such as us that originate traffic that is terminated on the network of other carriers typically compensate the other local carriers for terminating that traffic. These payments flow in both directions between any two carriers. First, when we terminate traffic for another local carrier to a customer on our network, we collect compensation Second, when we send our customers' traffic to another carrier for termination, we pay compensation. Some competitors, however, have a customer base that generates many more minutes of terminating traffic from other carriers than originating traffic destined for other carriers. For example, a competitor that has a customer base that has many information service providers typically will have a large amount of compensation being paid to it by other carriers, while it will owe very little reciprocal compensation to other carriers. The FCC revamped the local reciprocal compensation structure in 2001 on an interim basis for three years to eliminate or reduce the opportunity for carriers to take advantage of an imbalance of originating and terminating traffic flows due to traffic terminated to information service providers. The FCC also initiated a rulemaking to examine inter-carrier compensation more comprehensively. Under the decision, at the election of the incumbent carrier, terminating traffic that is out-of-balance by a ratio of more than 3 to 1 can be compensated at a lower rate, or in some cases, at no charge. This ruling allows us to continue to collect reciprocal compensation payments from other carriers since we have an imbalance in the amount of traffic we terminate versus the amount we originate. Going forward, an adverse ruling in the general intercarrier compensation reform proceeding could end reciprocal compensation payments and eliminate this line of revenue for us.

TELRIC Proceeding. On September 10, 2003, the FCC initiated a new proceeding to consider significantly revamping the current Total Element Long Run Incremental Cost ("TELRIC") methodology used for the pricing of unbundled network elements. An adverse ruling in the new proceeding will allow the incumbent carriers to increase unbundled network element rates and this would raise our costs for leasing unbundled network elements in the future. A decision is expected sometime in 2004. Several State Commissions have also initiated proceedings to review the rate levels that the incumbent carriers charge for unbundled network elements. An adverse ruling in these proceedings would allow the incumbent carriers to increase unbundled network element rates in the applicable state and this would raise our costs for leasing unbundled network elements in the future.

LMDS Auction. On July 28, 2004, the FCC plans to initiate an auction of spectrum in the 24 GHz band. The 24 GHz band consists of the bands 24.25-24.45 GHz and 25.05-25.25 GHz Five licenses, each with two paired 40 MHz blocks, will be offered in each of 176 geographic areas. Stations in the 24 GHz Service may render any kind of digital fixed communications service. Auction winners will be required to protect incumbent licensees. Virtually all of the incumbent licenses are held by Teligent, Inc. in a variety of areas throughout the country. The winning bidder for the 24 GHz service may use these stations to provide services in competition with those offered by XO, although the 24 GHz bands consist of less spectrum than that for which XO is licensed to provide LMDS service.

Nasdaq Listing

On February 4, 2004, we announced our intention to begin the process of applying for the listing of shares of our New Common Stock on The Nasdaq National Market. Shares of our New Common Stock will continue to be quoted on the OTCBB until the Nasdaq application is approved. See Item 5 "Market for Registrant's Common Equity and Related Stockholder Matters."

If our shares become listed on the Nasdaq National Market, we will be required to comply with the Nasdaq Marketplace Rules, which, as required by the Sarbanes-Oxley Act of 2002, contain corporate governance requirements in addition to those contemplated by the Delaware General Corporation Law and the Federal Securities Laws, including requirements related to:

- Distribution of interim reports
- Solicitation of proxies
- Independent directors
- Audit committees
- Shareholder approval
- Stockholder voting rights
- Auditor peer review

Employees

As of December 31, 2003 we employed approximately 5,100 people, including full-time and part-time employees. In March 2004, our headcount was approximately 4,500 as we managed costs out of the business. Overall, we consider our employee relations to be good. None of our employees are covered by a collective bargaining agreement.

Risk Factors

Risks Related to Our Operations

The failure of our operations support systems, including the systems for sales tracking, order entry and provisioning, and billing that we are currently in the process of updating and replacing, to perform as we expect could impair our ability to retain customers and obtain new customers, or provision their services, or result in increased capital expenditures, which would adversely affect our revenues or capital resources.

Our operations support systems are an important factor in our operations. Critical information systems used in daily operations perform sales and order entry, provisioning, billing and accounts receivable functions, and cost of service verification and payment functions, particularly with respect to facilities leased from ILECs. If any of these systems fail or do not perform as expected, such failures would impact our ability to process orders and provision sales, and to bill for services efficiently and accurately, which could, in turn, cause us to suffer customer dissatisfaction, loss of business or the inability to add new customers or additional services to existing customers in a timely basis, any of which would adversely affect our revenues. In additional, system failure or performance issues could impact our ability to effectively audit and dispute invoicing and provisioning data provided by service providers from whom we lease facilities.

We believe that our Disaster Recovery framework to control and address systems risks is not fully redundant, and we may incur the costs, delays and customer complaints associated with system failures. In addition, our ability to efficiently and accurately provision new orders for services on a timely basis is necessary for us to begin to generate revenue related to those services. We have experienced, and may continue to experience, delays and related problems in processing service orders, provisioning sales and billing in connection with the transition to these new systems. If the delays or related problems continue, or if any unforeseen problems emerge in connection with our migration to the new provisioning software and systems, delays and errors may occur in the provisioning process, which could significantly increase the time until an order for new service can begin to generate revenue, which could have a material adverse effect on our operations.

Our rights to the use of the unlit capacity that make up our network may be affected by the financial health of our fiber providers.

We possess the right to use the unlit capacity that is included in our network, particularly in our intercity network, through long-term leases or indefeasible right of use agreements. A bankruptcy or financial collapse of one of these fiber providers could result in a loss of our rights under such leases and agreements with the provider, which in turn could have a negative impact on the integrity of our network, our ability to expand the capacity of our network as our business grows, and ultimately on our results of operations. For example, we lease or have indefeasible rights of use on networks owned and maintained by Level 3 Communications. If Level 3 were to encounter financial difficulties, we may not be able to maintain, or protect our rights in important components of our intercity network. In such an event, there can be no assurance that we will be able to lease comparable strands of unlit capacity if we are not able to retain our rights to use the existing unlit capacity we have obtained from Level 3, nor that we will be able to lease such strands from another provider at competitive or economical rates.

We may not be able to continue to connect our network to the incumbent carrier's network or maintain Internet peering arrangements on favorable terms, which would impair our growth and performance.

We are required to be a party to interconnection agreements with the incumbent carrier and certain independent carriers or ILECs in order to connect our customers to the public telephone network. If we are unable to renegotiate or maintain interconnection agreements in all of our markets on favorable terms, it could adversely affect our ability to provide services in the affected markets.

Peering agreements with Internet service providers allow us to access the Internet and exchange transit with these providers. Depending on the relative size of the carriers involved, these exchanges may be made without settlement charge. Recently, many Internet service providers that previously offered peering have reduced or eliminated peering relationships or are establishing new, more restrictive criteria for peering and an increasing number of these service providers are seeking to impose charges for transit. Increases in costs associated with Internet and exchange transit could have a material adverse effect on our margins for our products that require Internet access. We may not be able to renegotiate or maintain peering arrangements on favorable terms, which would impair our growth and performance.

If our selection of IP technology is incorrect, ineffective or unacceptably costly, implementation of our business strategy could be delayed, which would adversely affect our growth and operating results.

We rely on IP technology as the basis for our metro and intercity networks. Integrating this technology into our network may prove difficult and may be subject to delays. In addition, affordable IP customer premise equipment may not become available in a timely fashion, if at all. If the technology choices we make prove to be incorrect, ineffective or unacceptably costly, our strategy of meeting our customer's demand for existing and future telecommunications services using IP technology could fail, which would adversely affect our growth and operating results.

We may be unable to adequately protect our intellectual property or rights to licenses for use of third-party intellectual property, and may be subject to claims that we infringe the intellectual property of others, which could substantially harm our business.

We rely on a combination of patents, copyrights, and other proprietary technology that we license from third parties We have been issued several United States and foreign trademarks and may consider abandoning some trademarks and/or filing for additional trademarks in the future. We have also been issued one United States patent and may consider filing for additional patents in the future, however, we cannot assure you that any additional patents or trademarks will issue or that our issued patent or trademarks will be upheld in all cases. We cannot guarantee that these and other intellectual property protection measures will be sufficient to prevent misappropriate of our trademark or technology or that our competitors or licensors will not independently develop technologies that are substantially equivalent to or superior to ours. In addition, the legal systems in many other countries do not protect intellectual property rights to the same extent as the legal system of the United States. If we are unable to adequately protect our proprietary interests and business information or our present license arrangements, our business, financial condition and results of operations could be materially adversely affected. Further, the dependence of the communications industry on proprietary technology has resulted in frequent litigation based on allegations of the infringement of patents and other intellectual property. In the future, we may be subject to litigation to defend against claimed infringement of the rights of others or to determine the scope and validity of the proprietary rights of others. Future litigation also may be necessary to enforce and protect our trade secrets and other intellectual property rights. Any intellectual property litigation could be costly and cause diversion of our management's attention from the operation of our business. Adverse determinations in any litigation could result in the loss of proprietary rights, subject us to significant liabilities or require us to seek licenses from third parties that may be available on commercially reasonable terms, if at all. We could also be subject to court orders preventing us from providing certain services in connection with the delivery of our services to our customers.

Risks Related to Liquidity, Financial Resources, and Capitalization

We incurred a substantial net loss in 2003 and, in the near term, will not generate funds from operations sufficient to meet all of our cash requirements.

For each period since inception, we have incurred substantial net losses. For 2003, we posted a net loss attributable to common stockholders of approximately $102.6 million. In the near term, we expect to use cash to fund our expected operating losses, and our ongoing capital expenditure requirements.

As a result of our commitment to purchase substantially all of the assets of Allegiance, we have committed to expend a majority of the cash reflected on our balance sheet as of December 31, 2003, and, as a result, we may be required to seek additional capital to fund our operations.

As discussed above, we have committed to purchase substantially all of the assets of Allegiance for an aggregate purchase price that includes approximately $311.0 million in cash If the Allegiance asset acquisition had been consummated immediately prior to the end of our most recently ended fiscal year, we would have had approximately $209.6 million in cash, cash equivalents and marketable securities on our balance sheet as of December 31, 2003. We believe that, upon the consummation of the Allegiance asset acquisition, our remaining cash and cash equivalents as of that date will be significantly less than that figure based upon our need to fund our ongoing losses from operations. If we are required to use a significant amount of our remaining cash to repay some or all of our outstanding debt or to fund any unforeseen, necessary capital expenditures, we may lack sufficient cash to continue to fund our losses from operations We cannot assure you that we will be able to obtain additional financing. Even if we could obtain additional financing, we cannot assure you that it would be on terms that are favorable to us. If we cannot obtain additional financing when needed, this would have a material adverse effect on us.

The covenants in our Credit Agreement restrict our financial and operational flexibility, which could have an adverse affect on our results of operations.

Our Credit Agreement contains covenants that restrict, among other things, the amount of our capital expenditures, our ability to borrow money, grant additional liens on our assets, make particular types of investments or other restricted payments, sell assets or merge or consolidate. A company controlled by Mr. Carl Icahn holds more than 90% of the principal amount of the loans outstanding under the Credit Agreement. Because amendments to or waivers of covenants under the Credit Agreement generally require the approval or consent of holders of only a majority of the outstanding principal amount under the Credit Agreement, decisions whether to amend or waive compliance with such covenants by the holders of loans under the Credit Agreement can be made by Mr. Icahn, whether or not the other holders agree.

The security for the Credit Agreement consists of substantially all of the assets of XO Parent and our subsidiaries. A default under the Credit Agreement could adversely affect our rights under other commercial agreements.

The Credit Agreement and the existence of the loans under the Credit Agreement also could affect our financial and operational flexibility, as follows:

- they may impair our ability to obtain additional financing in the future;
- they may limit our flexibility in planning for or reacting to changes in market conditions; and
- they may cause us to be more vulnerable in the event of a downturn in our business.

Risks Related to the Acquisition of the Allegiance Assets

We may not successfully consummate the acquisition of the Allegiance assets.

Our acquisition of substantially all of the assets of Allegiance, although approved by the U.S. Bankruptcy Court, remains contingent upon fulfillment of a variety of covenants contained in the definitive documentation pursuant to which we anticipate acquiring the Allegiance assets. Such contingencies include, without limitation, our obtaining regulatory clearances, such as Hart-Scott-Rodino clearance and approval of the FCC and state public utility commissions. There can be no assurance that we will obtain the governmental approvals and clearances required to consummate our acquisition of the Allegiance assets. If we are not able to consummate the acquisition of the Allegiance assets, then we will not be able to realize the improvements in our network infrastructure and resulting competitive advantages associated with our ownership of the Allegiance assets.

We may not realize the network and selling, operating, and administrative synergies that we estimate in connection with the acquisition of the Allegiance assets.

While we are confident that we have correctly estimated the potential network and selling, operating, and administrative synergies that we can realize in connection with the acquisition of the Allegiance assets, it is possible that our estimates could prove to be incorrect. For example, we may discover during the process of integrating the Allegiance assets into our network and business infrastructures that some of the acquired assets require greater maintenance or earlier replacement than originally anticipated. In addition, unanticipated growth in our business as a result of the acquisition of the Allegiance assets may require that some facilities or support functions that we currently anticipate will be combined or reduced may be necessary to retain for us to maintain our operations. The synergies that we anticipate to realize are also dependent on our ability to combine the Allegiance assets with our own network infrastructure in a manner that permits us to realize those synergies. If we have not estimated the potential synergies correctly, or if we are not able to integrate the Allegiance assets into our network infrastructure effectively, we may not realize any synergies in connection with the acquisition of the Allegiance assets, or such synergies may take longer to realize.

Risks Related to Competition and Our Industry

Technological advances and regulatory changes are eroding traditional barriers between formerly distinct telecommunications markets, which could increase the competition we face and put downward pressure on prices, which could impair our results.

New technologies, such as voice-over-IP, and regulatory changes — particularly those permitting incumbent local telephone companies to provide long distance services — are blurring the distinctions between traditional and emerging telecommunications markets. In addition, the increasing importance of data services has focused the attention of most telecommunications companies on this growing sector. As a result, a competitor in any of our business areas is potentially a competitor in our other business areas, which could impair our prospects, put downward pressure on prices and adversely affect our operating results.

We face competition in each of our markets principally from the incumbent carrier in that market, but also from recent and potential market entrants, including long distance carriers seeking to enter, reenter or expand entry into the local exchange marketplace and incumbent carriers seeking to enter into the long distance market as they are granted the regulatory authority to do so. This competition places downward pressure on prices for local and long distance telephone service and data services, which can adversely affect our operating results. In addition, we could face competition from other companies, such as other competitive carriers, cable television companies, microwave carriers, wireless telephone system operators and private networks built by large end-users. We are much smaller in size and resources than many of our competitors. If we are not able to compete effectively with these industry participants, our operating results could be adversely affected.

Our company and industry are highly regulated, which restricts our ability to compete in our target markets and imposes substantial compliance costs on us that adversely impact our results.

We are subject to varying degrees of regulation from federal, state and local authorities. This regulation imposes substantial compliance costs on us. It also restricts our ability to compete. For example, in each state in which we desire to offer our services, we are required to obtain authorization from the appropriate state commission. If any required authorization for any of our markets or services is revoked or otherwise terminated, our ability to operate in the affected markets would be adversely affected.

Attempts to limit the basic competitive framework of the Telecom Act could interfere with the successful implementation of our business plan.

Successful implementation of our business plan is predicated on the assumption that the basic framework for competition in the local exchange services market established by the Telecom Act will remain in place. We expect that there will be attempts to limit or eliminate this basic framework through a combination of federal legislation, new rulemaking by the FCC and challenges to existing and proposed regulations by the RBOCs. It is not possible to predict the nature of any such action or its impact on our business and operations.

Risks Related to Our New Common Stock

An entity owned and controlled by Mr. Carl C. Icahn is our majority stockholder.

An entity owned and controlled by Mr. Carl C. Icahn, Chairman of our board of directors, has filed a Form 13D with the Securities and Exchange Commission indicating that it owns over 60% of our outstanding New Common Stock as of January 31, 2004. As a result, Mr. Icahn has the power to elect all of our directors. Under applicable law and our certificate of incorporation and by-laws, certain actions cannot be taken without the approval of holders of a majority of our voting stock including, without limitation, mergers and the sale of substantially all of our assets and amendments to our certificate of incorporation and by-laws. We anticipate that Mr. Icahn will continue to control a majority of our outstanding capital stock following the issuance of XO Parent shares in connection with our acquisition of Allegiance assets and consequently will continue to have these governance rights.

Future sales of our New Common Stock could adversely affect its price and/or our ability to raise capital.

Future sales of substantial amounts of New Common Stock, or the perception that such sales could occur, could adversely affect the prevailing market price of the New Common Stock and our ability to raise capital.

As of February 20, 2004, there were 136,510,535 shares of New Common Stock outstanding. The shares of New Common Stock owned by an entity owned and controlled by Mr. Icahn, are restricted shares that may be sold only under a registration statement or an exemption from federal securities registration requirements. Mr Icahn, through various entities that he owns or controls, has the right to require XO to register, under the Securities Act of 1933, shares of New Common Stock held by such entities and to include shares of New Common Stock held by them in certain registration statements filed by XO, pursuant to a Registration Rights Agreement approved by the Bankruptcy Court in connection with the Company's Chapter 11 proceedings.

Pursuant to our Plan of Reorganization, we have issued three series of warrants to purchase up to an aggregate of approximately 9.5 million, 7.1 million and 7.1 million additional shares of New Common Stock, at exercise prices of $6.25, $7.50 and $10.00 per share, respectively The warrants will expire on January 16, 2010.

We have options outstanding to purchase approximately 9 5 million shares of New Common Stock outstanding under our 2002 Stock Incentive Plan as of February 20, 2004. Unless surrendered or cancelled earlier under the terms of the stock incentive plan, those options will expire beginning in 2013. In addition, our stock incentive plan authorizes future grants of options to purchase New Common Stock, or awards of restricted New Common Stock, with respect to an additional 6.3 million shares of New Common Stock in the aggregate.

Other Risks

There may be risks related to our use of Arthur Andersen as our independent auditors for the year ended December 31, 2001 and prior periods.

Arthur Andersen, LLP, our former independent public accountants, which audited our financial statements for the year ended December 31, 2001, was found guilty on June 15, 2002 of federal obstruction of justice charges in connection with the federal government's investigation of Enron Corp. Arthur Andersen ceased practicing before the SEC effective August 31, 2002. Based on our understanding of Arthur Andersen's financial condition, it may be unable to satisfy any claims that arise out of its provision of auditing and other services to us, including claims that may arise out of Arthur Andersen's audits of our consolidated financial statements in years prior to 2002. The SEC has said that it will continue to accept financial statements audited or reviewed by Arthur Andersen in compliance with applicable rules and orders issued by the SEC in March 2002 in connection therewith.

Forward-Looking Statements

Our forward-looking statements are subject to a variety of factors that could cause actual results to differ significantly from current beliefs.

Some statements and information contained in this Annual Report on Form 10-K are not historical facts, but are "forward-looking statements," as such term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "plans," "may," "will," "would," "could," "should," or "anticipates" or the negative of these words or other variations of these words or other comparable words, or by discussions of strategy that involve risks and uncertainties. Such forward-looking statements include, but are not limited to, statements regarding:

- our services, including the development and deployment of data products and services based on IP, Ethernet and other technologies and strategies to expand our targeted customer base and broaden our sales channels;
- the operation of our network, including with respect to the development of IP protocols;
- liquidity and financial resources, including anticipated capital expenditures, funding of capital expenditures and anticipated levels of indebtedness, and
- trends related to and expectations regarding the results of operations in future periods, including but not limited to those statements set forth in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations below.

All such forward-looking statements are qualified by the inherent risks and uncertainties surrounding expectations generally, and also may materially differ from our actual experience involving any one or more of these matters and subject areas. The operation and results of our business also may be subject to the effect of other risks and uncertainties, in addition to the relevant qualifying factors identified in the above "Risk Factors" section and elsewhere in this annual report and in the documents incorporated by reference in this annual report, including, but not limited to:

- general economic conditions in the geographic areas that we are targeting for communications services;
- the ability to achieve and maintain market penetration and average per customer revenue levels sufficient to provide financial viability to our business;
- the quality and price of similar or comparable communications services offered or to be offered by our current or future competitors; and
- future telecommunications-related legislation or regulatory actions.

Item 2. Properties

We own or lease, in our operating territories, telephone property which includes: fiber optic backbone and distribution network facilities; point-to-point distribution capacity; central office switching equipment; connecting lines between customers' premises and the central offices; and customer premise equipment. Our central office switching equipment includes electronic switches and peripheral equipment.

The fiber optic backbone and distribution network and connecting lines include aerial and underground cable, conduit, poles and wires. These facilities are located on public streets and highways or on privately-owned land. We have permission to use these lands pursuant to consent or lease, permit, easement, or other agreements.

We, and our subsidiaries, lease facilities for our and their administrative and sales offices, central switching offices, network nodes and warehouse space. The various leases expire in years ranging from 2004 to 2029. Most have renewal options.

Our headquarters are located in Reston, Virginia, where we are currently leasing approximately 170,000 square feet of space. In February 2003, Dixon Properties, LLC, which is owned by Mr. Carl Icahn, acquired ownership of the building in which our headquarters is located in a transaction that was approved by the Bankruptcy Court in our Chapter 11 proceedings.

Item 3. Legal Proceedings

XO is involved in lawsuits, claims, investigations and proceedings consisting of commercial, securities, tort, and employment matters, which arise in the ordinary course of business. In addition, disputes with respect to general unsecured claims and two administrative claims against XO Parent in the aggregate amount of approximately \$23.0 million remain pending from the XO Parent Chapter 11 proceedings. In accordance with SFAS No. 5, "Accounting for Contingencies," XO makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. XO believes it has adequate provisions for any such matters. XO reviews these provisions at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. However, XO believes that it has valid defenses with respect to legal matters pending against it. Nevertheless, it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our New Common Stock began trading shortly after our Effective Date and is quoted on the OTCBB under the symbol "XOCM.OB." According to the records of our transfer agent, we had 68 stockholders of record as of February 20, 2004. The majority of our shares that are held by non-affiliates are held in approximately 9,000 customer accounts held by brokers and other institutions on behalf of stockholders. However, we believe that the total number of non-affiliated stockholders is less than 9,000 due to stockholders with accounts at more than one brokerage. During 2002, our pre-petition stock traded on Nasdaq under the symbol "XOXO." The following table sets forth the low and high sale price of our common stock, based on the last daily sale, in each of our last eight fiscal quarters.

	2003		2002	
	High	Low	High	Low
First Quarter	\$4 00	\$0.35	\$0 19	\$0.04
Second Quarter	\$7 80	\$3 90	\$0.07	\$0.02
Third Quarter	\$8.33	\$5 60	\$0 08	\$0 02
Fourth Quarter	\$5 80	\$4 97	\$0 15	\$0 02

All of the 2003 over-the-counter market quotations set forth in this table reflect inter-dealer quotations, without retail mark-up, mark-down, or commission and may not necessarily reflect actual transactions. Our secured Credit Facility prohibits the payment of cash dividends.

Information pertaining to XO's equity compensation plans is set forth in XO's Proxy Statement, to be filed within 120 days after XO's year end of December 31, 2003, which information is incorporated herein by reference.

Item 6. Selected Financial Data

Because the Plan of Reorganization was not consummated and effective until January 16, 2003, the predecessor selected consolidated financial data below as of and for the years ended December 31, 2002, 2001, 2000, and 1999 does not include the effects of the fresh start accounting provisions of SOP 90-7. The reorganized selected consolidated financial data as of and for the year ended December 31, 2003 reflects the impact of adopting fresh start and is not comparable to that of predecessor XO. Fresh start required that XO adjust the historical cost of its assets and liabilities to their fair values as determined by the reorganization value of the Company. We engaged an independent appraiser to assist in the allocation of the reorganization value to the reorganized Company's assets and liabilities by determining the fair market value of its property and equipment, intangible assets and certain obligations related to its facility leases. Although the effective date of the Plan of Reorganization was January 16, 2003, due to the immateriality of the results of operations for the period between January 1, 2003 and the effective date, XO has accounted for the consummation of the Plan of Reorganization as if it had occurred on January 1, 2003 and implemented fresh start as of that date. The accounting impact from adopting fresh start follows immediately after the selected financial data table (dollars in thousands, except share data).

	Reorganized XO	Predecessor XO			
	Year Ended December 31,	Year Ended December 31,			
	2003	2002	2001	2000(a)	1999
Statement of Operations Data:					
Revenue	$1,110,483	$ 1,259,853	$ 1,258,567	$ 723,826	$ 274,324
Loss from operations (b)	(111,858)	(1,208,898)	(1,949,891)	(1,011,652)	(366,530)
Net loss (c)	(102,554)	(3,386,818)	(2,086,125)	(1,101,299)	(558,692)
Net loss applicable to common shares (c) (d)	(102,554)	(3,350,362)	(1,838,917)	(1,247,655)	(627,881)
Net loss per common share, basic and diluted (e)	(1 07)	(7 58)	(4 55)	(3 87)	(2.51)
Statement of Cash Flow Data:					
Net cash provided by (used in) operating activities	$ 6,301	$ 17,602	$ (560,877)	$ (559,414)	$ (349,192)
Net cash provided by (used in) investing activities	153,036	57,582	(708,598)	(1,464,495)	(1,050,344)
Net cash (used in) provided by financing activities	5,185	(6,079)	1,019,647	1,648,663	1,948,503
Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 520,612	$ 560,983	$ 755,167	$ 1,860,963	$ 1,881,764
Property and equipment, net	485,984	2,780,589	3,742,577	2,794,105	1,180,021
Broadband wireless licenses and other intangibles, net (c)	109,515	984,614	2,977,575	3,912,209	1,017,817
Total assets (c)	1,265,165	4,585,496	7,930,465	9,085,375	4,597,108
Total long-term debt and accrued interest payable (f)	536,791	5,165,718	5,109,503	4,396 596	3,733,342
Redeemable preferred stock, net of issuance costs (d)	—	1,708,316	1,781,990	2,097,016	612,352
Total stockholders' equity (deficit) (f)	380,425	(3,032,282)	297,416	1,838,401	(13,122)

(a) The selected consolidated financial data includes the accounts and activities of Concentric Network Corporation since June 16, 2000, the date that we merged with Concentric

(b) In 2002, loss from operations included non-cash charges totaling $477 3 million in connection with the amendment to the terms of fiber acquisition and maintenance arrangements with Level 3 Communications, and the return of previously acquired intercity fiber in connection therewith In 2001, loss from operations included restructuring charges totaling $509 2 million associated with the restructuring of certain aspects of our business operations Loss from operations in 1999 included restructuring charges totaling $30 9 million associated with relocating our Bellevue, Washington headquarters to Reston, Virginia

(c) In 2003, net loss included a $33 5 million gain on investment sales In 2002, net loss and total assets reflects a $1,876 6 million impairment charge to write-off all of our goodwill as a cumulative effect of accounting change, pursuant to SFAS No 142 In 2001, net loss included a gain of $345 0 million resulting from the repurchase of certain of our senior notes In 2000 net loss included a $225 1 million net gain from the sale of an equity investment

(d) The comparability of net loss applicable to common shares is impacted by the transactions discussed in c above In 2001, net loss applicable to common shares includes a gain of $376 9 million resulting from the repurchase of certain of our preferred stock

(e) The net loss per share data for the years ended December 31, 2002, 2001, 2000, and 1999 has been calculated based on the shares outstanding of our class A and class B common stock prior to the consummation of our Plan of Reorganization Effective January 16, 2003, the effective date of the Plan of Reorganization, all interests in our class A and class B common stock were terminated and all outstanding shares were cancelled For further discussion of our Plan of Reorganization, see "Business — Our Reorganization" The net loss per share data for the years ended December 31, 2000 and 1999 has been adjusted for the splits of our class A and class B common stock effected in 2000

(f) In January 2004, we completed a rights offering as part of our Plan of Reorganization An aggregate of 39 7 million shares were issued in the offering, yielding net proceeds of $197 6 million These proceeds were used to pay down our long-term debt and accrued interest payable

Fresh start accounting adjustments

A reconciliation of the adjustments recorded in connection with our reorganization and the adoption of fresh start is presented below (dollars in thousands):

	Predecessor XO December 31, 2002	Reorganization	Fresh Start Adjustments (d)	Reorganized XO January 1, 2003
ASSETS				
Current assets:				
Cash and cash equivalents	$ 314,038	$ —	$ —	$ 314,038
Marketable securities	246,945	—	—	246,945
Accounts receivable, net	116,541	—	—	116,541
Other current assets	83,480	—	(48,288)	35,192
Total current assets	761,004	—	(48,288)	712,716
Property and equipment, net	2,780,589	—	(2,304,001)	476,588
Broadband wireless licenses and other intangibles, net	984,614	—	(848,936)	135,678
Other assets, net	59,289	—	(36,181)	23,108
Total assets	$ 4,585,496	$ —	$(3,237,406)	$1,348,090
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY				
Current liabilities				
Accounts payable	$ 63,729	$ —	$ 3,539	$ 67,268
Accrued liabilities	266,102	—	(30,910)	235,192
Current liabilities subject to compromise	5,497 207	(5,466,667) (a)	(30 540)	—
Total current liabilities	5,827,038	(5,466,667)	(57,911)	302,460
Long-term debt	—	500,000 (b)	—	500,000
Other long-term liabilities	75,242	—	(4,612)	70,630
Long-term liabilities subject to compromise	7,182	—	(7,182)	—
Total liabilities	5,909,462	(4,966,667)	(69,705)	873,090
Predecessor XO redeemable preferred stock — subject to compromise	1,708,316	(1,708,316) (a)	—	—
Stockholders' (deficit) equity				
Predecessor XO common stock	4,628 139	—	(4,628 139)	—
Reorganized XO common stock and warrants	—	475,000 (c)	—	475,000
Deferred compensation	(8,500)	—	8,500	—
Accumulated other comprehensive income	2,512	—	(2,512)	—
Accumulated deficit	(7,654,433)	6,199,983 (e)	1,454,450	—
Total stockholders' (deficit) equity	(3,032,282)	6,674,983	(3,167,701) (e)	475,000
Total liabilities and stockholders' (deficit) equity	$ 4,585,496	$ —	$(3,237,406)	$1,348,090

(a) To record the discharge of pre-petition indebtedness including a $1 0 billion credit facility, $4 2 billion of senior and convertible subordinated notes, $245 2 million of accrued interest and the elimination of $1 7 billion of pre-petition redeemable preferred stock and accrued dividends, all in accordance with the Plan of Reorganization

(b) To record the outstanding principal under the Credit Agreement, in accordance with the Plan of Reorganization

(c) To record the issuance of 95 0 million shares of New Common Stock and warrants in accordance with the Plan of Reorganization Participation in the Rights Offering was recorded in the first quarter of 2004

(d) To adjust the carrying value of assets, liabilities and stockholders equity to fair value

(e) Net reorganization gain on January 1, 2003 consisted of the following (dollars in thousands)

Net gain resulting from reorganization of debt, preferred stock and equity	$ 6,199,983
Net loss resulting from fresh start fair value adjustments to assets and liabilities	(3,167,701)
Total reorganization gain, net	$ 3,032,282

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview of Our Business

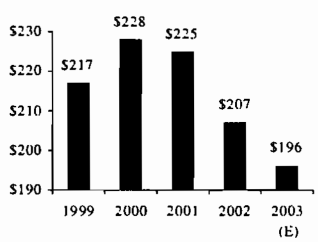
State of the Telecommunications Industry

In general, growth in the telecommunications industry has been sluggish for the past three years. Demand for some services, such as wireless and integrated product offerings have increased, but for many other products and services price compression and lower demand have resulted in year over year revenue declines for many telecommunication companies. The weakened US economy caused our industry to experience:

- Reduced new customer demand and/or reductions in existing customer services,
- High number of bankruptcies in the telecommunications industry and the economy in general,
- Continued competitive pressures, including price cutting in some product lines,
- Reduced FCC mandated rates.

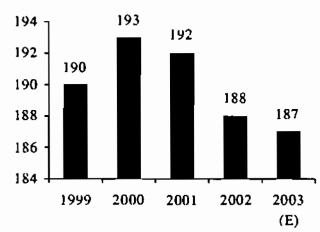
The telecommunications industry annual revenues peaked for wireline services in 2000 at $228 billion, and are estimated to be approximately $196 billion in 2003. Associated lines have declined from 193 million in 2000 to an estimated 187 million in 2003.

Wireline Revenue ($ Billions)



Source *Local Competition Report* (FCC, 2004)

Local Access Lines (Millions)



Source *Trends in Telephone Service* (FCC, 8/03)

As a result of over-investment, increased debt-loads, and financial downturn, the telecommunications industry saw record numbers of bankruptcies in 2001 and 2002. Some companies survived and emerged with much smaller debt loads, while others were liquidated.

We were one of the companies that successfully emerged from bankruptcy at the beginning of 2003 with a much smaller debt load. We believe that our revenue decline from 2002 to 2003 is consistent with that of other competitive local exchange carriers. In addition to the loss of customers and related revenues, excess capacity and competitive pricing pressures caused us to reduce prices when selling certain long distance voice services Excess long haul capacity has not, however, caused similar pricing pressures when selling other services. There has also been an increasing displacement of basic wireline services due to growth in wireless phone usage. This trend is expected to increase in 2004.

Business Overview

We provide a comprehensive array of voice and data communications services to business customers. These services are offered to a variety of customers, including small, middle-market and large commercial businesses, and carrier or wholesale customers in over 70 U.S. markets. Our voice services include local and long distance services, both bundled and standalone, other voice-related services such as conferencing, calling card, domestic and international toll free services, advanced directory services, Hosted IVR and transactions processing services for prepaid calling cards. Our data services include Internet access, including Dedicated Internet Access, DSL and dial access, private data networking, including Ethernet service, Wavelength service, MultiTransport Networking Service and managed security solutions including Virtual Private Network and firewall services, and web hosting services. We also combine many of these services in flat rate service packages.

Key Performance Indicators

Management uses various key performance indicators or KPIs to assess operational effectiveness in certain areas. These include:

- Sales activity — This KPI tracks the dollar value of sales bookings and quota attainment per sales representative. Management reviews this metric to assess the effectiveness of our sales force, and to track the sales backlog to be installed.

- Customer attrition or churn — This KPI tracks the financial impact of customer attrition, or churn, in comparison to new sales. Management reviews this KPI to judge the effectiveness of operational measures intended to promote customer satisfaction with our services, and the net impact on revenue.

- Number and average dollar of customer orders processed — This KPI tracks the quantity and size of customer installations, changes or disconnects that we have processed in a particular period.

System Conversions

As noted in the liquidity section below, we are investing significant capital into the continued development and implementation of our information systems to support and enhance the provisioning and billing of new and existing customers. There are four major components to our customer management and billing systems: (i) sales ordering and customer management (sometimes referred to as CRM); (ii) provisioning support system; (iii) billing systems; and (iv) integration of the above systems. Integration is the ability to automate the flow of information between systems, resulting in fewer errors, reduced intervals and lower headcount costs to order, install and manage the customer base. We installed the provisioning system in 2003. In early 2004, we installed a new CRM system. We expect to install a new billing system in 2004 and complete an integration release to provisioning in the second quarter of 2004, and an integration release to billing in the third quarter of 2004. If we are successful at implementing these systems we will experience operating efficiencies starting in the second half of 2004 and into 2005.

Our Chapter 11 Reorganization

The Reorganization Proceedings

On January 16, 2003, XO Parent consummated its Plan of Reorganization and emerged from its Chapter 11 reorganization proceedings with a significantly restructured balance sheet. The consummation of the Plan of Reorganization resulted in the following changes in XO Parent's capital structure:

- The conversion of $1 0 billion of loans under our pre-petition secured credit facility into $500.0 million of outstanding principal amount under an amended and restated credit agreement;

- The extinguishment of all amounts due under our pre-petition unsecured senior and subordinated notes and certain general unsecured obligations;

- The cancellation of all outstanding shares and interests in our pre-petition preferred stock and pre-petition common stock, and

- The issuance of approximately 95.0 million shares of new common stock in reorganized XO and warrants to purchase up to an additional 23.75 million shares of new common stock of reorganized XO.

The following table shows the distribution each party of interest impacted by XO Parent's bankruptcy was entitled to. As certain claims are still being reviewed by the Bankruptcy Court, certain proportional distributions have not yet been made and can not occur until the court rules (dollars in thousands, except share data).

Party of Interest	Shares of New Common Stock	Series A Warrants	Series B Warrants	Series C Warrants	Credit Facility	Cash
$1 Billion senior secured credit facility	90,250,001	—	—	—	$500,000	$ —
Senior unsecured notes	4,715,344	9,430,689	7,073,015	7,073,015	—	1,600
Subordinated notes .	—	—	—	—	—	616
General unsecured creditors	34,656	69,309	51,980	51,980	—	403
Total entitlement	95,000,001	9,499,998	7,124,995	7,124,995	$500,000	$2,619
Not yet distributed	1,230,638	2,461,743	1,846,151	1,846,151	$ —	$1,612
Total issued or paid	93,769,363	7,038,255	5,278,844	5,278,844	$500,000	$1,007

See Notes 13 and 14 in Part IV for additional disclosure on our equity and debt instruments.

As part of our Plan of Reorganization, we agreed to initiate a Rights Offering that allowed certain holders of claims and interests in XO Parent as of the November 15, 2002 record date to subscribe for up to 40.0 million shares of New Common Stack at $5.00 per share. The Rights Offering closed on January 5, 2004. An aggregate of 39.7 million shares were issued, yielding net proceeds of $197.6 million. We used the proceeds from the Rights Offering to pay down our Credit Facility to $339.2 million in January 2004.

Interests Held by Entities Controlled by Mr Carl C. Icahn

Various entities controlled by Mr. Icahn hold the following interests in reorganized XO:

	Common Stock	Series A, B and C Warrants	Credit Facility
At December 31, 2003	Greater than 80%	Greater than 40%	Greater than 90%
At January 31, 2004	Greater than 60%	Greater than 40%	Greater than 90%

In addition entities controlled by Mr. Icahn have acquired an option to purchase 6.25 million additional shares of common stock from Franklin Mutual Advisors, LLC at a strike price of $4 25 per share which expires June 21, 2004. After closing our rights offering in January 2004, Mr. Icahn's ownership interest in our outstanding common stock was reduced to over 60%.

As a result of this majority ownership position, Mr. Icahn can elect all of our directors, appoint the members of the committees of our Board of Directors, appoint key members of our executive management team, and appoint our auditors. Currently, Mr. Icahn is Chairman of the Board of Directors and three employees of Icahn Associates sit on our Board of Directors as well as various Committees of our Board of Directors. Under applicable law and our Certificate of Incorporation and by-laws, certain actions cannot be taken without the approval of holders of a majority of our voting stock, including, without limitation, mergers, acquisitions, the sale of substantially all our assets, and amendments to our Certificate of Incorporation and by-laws. We anticipate that Mr. Icahn will continue to control a majority of our outstanding capital stock following the issuance of XO Parent shares in connection with our acquisition of Allegiance assets and consequently will continue to have these governance rights.

Liquidity and Capital Resources

Capital Resources and Liquidity Assessment

Our operating, investing and financing activities during 2003 provided net cash of $6.3 million, $153 0 million and $5.2 million, respectively. Cash and cash equivalents increased to $478.6 million at December 31, 2003 from $314 0 million at December 31, 2002. However, our balance of cash and marketable securities decreased to $520.6 million at December 31, 2003 from $561.0 million at December 31, 2002. As discussed further in Item I, "Business", we expect that, in the near term, our business will use existing cash of approximately $311.0 million in cash and that we will issue approximately 45.4 million shares of our New Common Stock to acquire Allegiance's assets. In addition, we will use cash for capital expenditures and net working capital requirements. We expect that the majority of our planned capital expenditure requirements will be "success-based" in that they will be used to purchase and install customer-related equipment and electronics in connection with growing revenue by adding new customers or increasing the amount of services provided to existing customers. Much of the non-success based planned capital expenditures will be for the continued development and implementation of our information systems to support and enhance the provisioning and billing of new and existing customers in a more cost efficient manner. Part of our net working capital requirements are commitments under lease and contractual obligations for software licenses and ongoing support of software for IT and network applications and are disclosed in the table below.

There are no additional borrowings available under our Credit Facility. We raised net proceeds of $197.6 million in January 2004 upon the consummation of our Rights Offering, and applied these proceeds to the outstanding balance on the credit facility, reducing the amount outstanding from $536.8 million as of December 31, 2003 to $339.2 million. We have no current debt service requirements since cash interest payments as well as automatic and permanent quarterly reductions of the principal amount outstanding under the Credit Facility do not commence until 2009. However, in the event that consolidated excess cash flow (as defined in the Credit Facility) for any fiscal quarter during the term of the agreement is greater than $25 million, at the request of the lender, XO will pay an amount equal to 50% of such excess cash flow greater than $25 million toward the reduction of outstanding indebtedness. In addition, if the ratio of our consolidated earnings before interest, taxes depreciation and amortization for the four consecutive quarters exceeds 4:1, we would be required to pay cash interest, unless waived by the lenders.

The following table summarizes our payment obligations under various operating and financing agreements as of December 31, 2003 (dollars in thousands):

Year Ending December 31.	Credit Facility	Operating lease obligations	Other long-term contractual obligations	Capital lease obligations	Total obligations
2004	$ —	$ 60,623	$ 53,974	$2,809	$ 117,406
2005	—	57,974	33,768	2,668	94,410
2006	—	53 269	24,484	2,416	80,169
2007	—	49,159	23.451	1,733	74,343
2008	—	38,823	23,048	277	62,148
Thereafter	536,791	188,084	96,811	—	821,686
Total minimum commitments	$536,791	$447,932	$255,536	$9,903	$1,250,162

We used the proceeds from the Rights Offering to pay down our Credit Facility to $339.2 million in January 2004. As discussed in Part I, Item 1, Business, we lease wavelength capacity from Level 3 for intercity network capacity. The first of these leases expires in 2006. At that time, we will either renew these leased wavelengths or install our own optical equipment and light our intercity fiber network, either of which will be a substantial capital expenditure.

We expect that our current cash balance will be sufficient to fund our acquisition of Allegiance, net working capital and capital expenditure requirements and allow us to successfully execute our current business plan However, if we are unsuccessful at integrating the assets acquired from Allegiance in a timely and/or cost effective manner, this expectation could be incorrect and cause us to issue additional equity and/or debt securities. Additionally, current economic conditions of the telecommunications industry may create opportunities for XO to bid on other companies or portions of companies at attractive prices. We expect to continue to pursue the acquisition of additional telecommunication companies or assets throughout 2004. We do not know what the terms of any such transactions would be. Any other offers involving cash consideration could significantly and adversely affect our liquidity. To support further business expansion, including investments in or acquisitions of other companies or portion of other companies, we may issue additional equity and/or debt securities.

Other 2003 Transactions and Developments

Announcement of Chief Executive Officer Appointment

On April 28, 2003, we announced that we had hired Carl J. Grivner as our new Chief Executive Officer effective May 15, 2003. Effective May 1, 2003, Mr. Grivner joined XO as a member of the newly created Office of the Chairman Mr. Grivner's career in the telecommunications and technology industries spans more than 25 years. He most recently served as Chief Operating Officer of Global Crossing, Ltd. Prior to joining Global Crossing in June 2000, Mr. Grivner served as Chief Executive Officer of Worldport Communications and, before that, he served as Chief Executive Officer, Western Hemisphere, of Cable & Wireless PLC. Additionally, Mr. Grivner has held various senior executive positions at Advanced Fiber Communications and Ameritech.

Comparison of Financial Results

As a consequence of the Chapter 11 reorganization, the financial results for the year ended December 31, 2003 have been separately presented under the label "Reorganized XO" and are not comparable with prior year results. The reorganized Company has adopted the policy of expensing customer installation costs and internal labor directly associated with network construction in the period in which the costs are incurred. The predecessor Company capitalized and amortized these costs. In accordance with SOP 90-7, the reorganized Company was required to implement newly issued accounting pronouncements that would require adoption within twelve months of applying fresh start.

The operational results for the year ended December 31, 2003 are discussed below. The projected trends are for XO operations as we exit 2003, and do not include the impact of any revenue or cost synergies from the Allegiance acquisition, or any other acquisitions that might occur in 2004.

Reorganized XO Year Ended December 31, 2003 Compared to Predecessor XO Year Ended December 31, 2002

Revenue. Total revenue for the year ending December 31, 2003 decreased 11.8% to $1,110.5 million from $1,259.9 million for the year ending December 31, 2002. Customer churn, of approximately 2.4% in 2003, exceeded acquisition revenue particularly in the carrier, stand alone, DSL and dial-up customer base. The majority of this decline is driven by major reductions in the carrier revenue stream due to bankruptcies, downsizing network requirements, as well as competitive pricing pressures. Additionally, year-over-year revenue decreased in ancillary stand alone products such as Dial Up and DSL Internet access, and Hosting due to XO focusing on more profitable offerings. The commercial offerings to middle market businesses, however, remained relatively stable as revenue acquisition kept pace with attrition.

We anticipate that the negative trends within the carrier revenue stream will stabilize during the first half of 2004 as customer churn improved during 2003 from 2.6% during the first three quarters of 2003 to 1.9% during the fourth quarter of 2003. Therefore, XO estimates that the first half of 2004 revenue will be relatively consistent with the fourth quarter 2003 exit run rate. Additionally, we estimate that sequential year-over-year, 2003 revenue versus 2004, should remain relatively constant.

Revenue was earned from providing the following services (dollars in thousands):

	Reorganized XO Year Ended December 31,		Predecessor XO Year Ended December 31,		
	2003	% of 2003 Revenue	2002	% of 2002 Revenue	% Change
Voice services	$ 572,774	51 6%	$ 659,558	52 3%	(13 2%)
Data services	392,742	35 4%	472,247	37 5%	(16 8%)
Integrated voice and data services	144,967	13 0%	128,048	10.2%	13.2%
Total revenue	$1,110,483	100 0%	$1,259,853	100 0%	(11 8%)

Voice services revenue includes revenue from local and long distance voice services, prepaid calling card processing, and other voice telecommunications based services, interactive voice response services and stand-alone long distance services. Voice services revenue for the year ended December 31, 2003 decreased to $572.8 million from $659 6 million for the same period of 2002. The decrease is attributable to reduced FCC mandated rates, price reductions in long distance services due to reduced cost of service due to technological improvements, and customer disconnects and usage reductions arising from customers' downsizing due to the state of the domestic economy.

Data services revenue includes revenue from Internet access, network access and web applications hosting services. Data services revenue for the year ended December 31, 2003 decreased to $392.7 million from $472.2 million for the same period of 2002. The decline was attributable to an increase in customer bankruptcies, and customer disconnects, and a lower demand from large customers due to reductions in those customers' data capacity needs.

Integrated voice and data services revenue is generated largely from our XOptions service offerings, a flat-rate bundled package offering a combination of voice and data services. Integrated voice and data services revenue for the year ended December 31, 2003 increased to $145.0 million from $128.0 million for the same period in 2002. The increase is due to the continued acceptance in the marketplace of our XOptions service offering.

Costs and expenses. The table below provides costs and expenses by classification and as a percentage of revenue (dollars in thousands):

	Reorganized XO Year Ended December 31,		Predecessor XO Year Ended December 31,		
	2003	% of 2003 Revenue	2002	% of 2002 Revenue	% Change
Costs and expenses					
Cost of service	$ 422,129	38 0%	$ 522,924	41 5%	(19.3%)
Selling, operating and general	679,286	61.2%	765,853	60 8%	(11 3%)
Depreciation and amortization	109,308	9.9%	699,806	55 5%	(84 4%)
Restructuring and asset write-downs	11,618	1.1%	480,168	38 1%	(97.6%)
Total	$1,222,341		$2,468,751		(50 5%)

Cost of service. Cost of service includes expenses directly associated with providing telecommunications services to our customers. Cost of service includes, among other items, the cost of connecting customers to our networks via leased facilities, the costs of leasing components of our network facilities and costs paid to third party service providers for interconnect access and transport services. Cost of service for the year ended December 31, 2003 decreased in absolute dollars and as a percentage of revenue compared to the same period in 2002. The year over year decline as a percentage of revenue was due primarily to cost optimization programs which reduced expenses by transferring traffic from third party facilities onto our owned or controlled facilities, and favorable resolutions of disputed third party costs. The decline was partially offset by our adoption of an accounting policy during the first quarter of 2003, to expense rather than defer costs associated with the installation of customer services and the revenue reductions in carrier long-distance services due to the excess long haul capacity in the sector.

We estimate that cost of service as a percentage of revenue will increase slightly when compared to 2003 results due to the loss of higher margin private line carrier revenue. It may also fluctuate quarter-to-quarter based on trends in revenue, product mix, the impact of customer bankruptcies, regulatory decisions and our ability to continue favorable resolution of third party billing disputes.

Selling, operating and general. Selling, operating and general expense includes expenses related to sales and marketing, internal network operations and engineering, information systems, general corporate office functions and collection risks. Selling, operating and general expense for the year ended December 31, 2003 was $679.3 million or 61.2% of revenue versus $765.9 million or 60 8% of revenue for the year ended December 31, 2002. Selling, operating and general expense decreased in absolute dollars due to our reorganization that resulted in reduced headcount, contract rejections and renegotiations, and fair value adjustments to our long term contractual commitments and property as required by fresh start accounting which resulted in expense reductions in various contracted services, rent and property taxes. These reductions were partially offset by our adoption of the policy of expensing internal labor costs directly associated with customer installation and the construction of our network. The increase in selling, operating and general expense as a percentage of revenue for the year ended December 31, 2003 when compared to 2002 results is due to the large reduction of revenues due to bankruptcies and price declines discussed above, with no associated offsetting direct expense reduction.

We expect selling, operating and general expense to decrease in absolute dollars and to remain relatively stable as a percentage of revenue in the near term. With the headcount reduction in early 2003 and management's focus on selling larger dollar, more profitable services, we are projecting that selling, operating, and general expenses as a percentage of revenue will decrease as a percentage or revenue in the second half of 2004. We further believe that the Allegiance acquisition will contribute to this trend.

Depreciation and amortization. As discussed above, we implemented fresh start on January 1, 2003 and adjusted the carrying value of our property and equipment and other intangibles to their fair value which resulted in a significant reduction of the aggregate historical carrying value. Consequently, depreciation and amortization expense decreased to $109.3 million for the year ended December 31, 2003, versus $699 8 million for the year ended December 31, 2002.

We expect depreciation and amortization expense during 2004 to increase slightly as additional assets are placed into service. As of December 31, 2003, we had approximately $80.0 million of construction-in-progress plus $23.5 million of broadband wireless licenses that have not yet been placed into service and, accordingly, are not currently being depreciated or amortized.

Restructuring and asset write-downs. Restructuring and asset write-downs decreased to $11.6 million for the year ended December 31, 2003 from $480.2 million for the year ended December 31, 2002. Restructuring charges in 2003 include costs for a reduction in our workforce by approximately 550 employees, primarily employed in network operations, sales and marketing and information technology and estimated losses associated with restructured leases.

The 2002 restructuring charges primarily include a $477.3 million non-cash asset write-down during the third quarter of 2002 as a result of returning intercity assets to Level 3 in exchange for reduced future maintenance expenses beginning in 2003.

Investment income (loss), net. Investment income (loss), net includes interest income as well as any realized gains or losses from the sale of investments. Investment income (loss), net was a gain of $46.2 million for 2003 and a gain of $16.3 million in 2002. The 2003 balance is primarily for a gain on the sale of an investment.

Interest expense, net. Interest expense, net includes interest expense on debt and capital leases, less any amounts capitalized for construction efforts. The majority of interest expense in 2003 is non-cash as the Credit Facility allows for accrued interest to be converted into principal if unpaid. Interest expense, net for the years ended December 31, 2003 and 2002 was $36.8 million and $226.5 million, respectively. During 2003 and 2002, XO capitalized interest on construction costs of $3.0 million and $11.1 million, respectively. Contractual interest was $501.1 million for the year ended December 31, 2002. The significant reduction for 2003 was caused by the cancellation of our pre-petition senior notes and pre-petition convertible subordinated notes and the reduction in the amount outstanding under our Credit Facility upon consummation of our Plan of Reorganization. We expect interest expense to decline further in 2004 due to the pay down of the Credit Facility with the proceeds of the Rights Offering in January 2004.

Predecessor XO Year Ended December 31, 2002 Compared to Predecessor XO Year Ended December 31, 2001

Revenue. Total revenue in 2002 of $1,259.9 million was consistent with total revenue in 2001 of $1,258.6 million. The weakened economy and the perceived uncertainties in the market regarding XO Parent's Chapter 11 proceedings had a negative impact on our ability to generate new sources of revenue. Consequently, we were not able to maintain the level of growth that we had historically achieved. We experienced a high level of customer disconnects in 2002 due to reduced demand from other telecommunications companies and increased customer bankruptcies in the telecommunications and dot-com industries.

Revenue was earned from providing the following services (dollars in thousands):

	Predecessor XO				
	Year Ended December 31,				
	2002	% of 2002 Revenue	2001	% of 2001 Revenue	% Change
Voice services	$ 659,558	52 3%	$ 609,885	48 4%	8 0%
Data services	472,247	37 5%	596,664	47 5%	(20.9%)
Integrated voice and data services	128,048	10 2%	52,018	4 1%	146 2%
Total revenue	$1,259,853	100 0%	$1,258,567	100 0%	0 1%

Voice services revenue includes revenue from bundled local and long distance voice services, prepaid calling card processing, and other voice communications based services, interactive voice response services and stand-alone long distance services. Voice services revenue in 2002 increased to $659.6 million from $609.9 million in 2001. The increase was primarily due to more sales to larger business customers, including the impact of the rollout of our carrier long distance service.

Data services revenue includes revenue from Internet access, network access and web applications hosting services. Data services revenue in 2002 decreased to $472.2 million from $596.7 million in 2001. This decline was attributable primarily to customer bankruptcies affecting some large network access customers, increased levels of customer disconnects, and a lower demand from large customers due to reductions in those customers' data and fiber capacity needs. The sale of our European operations in February 2002 also contributed to this decline.

Integrated voice and data services revenue is generated largely from our XOptions service offerings, a flat-rate bundled package offering a combination of voice and data services. Integrated voice and data services revenue in 2002 increased to $128.0 million from $52.0 million in 2001. The increase is primarily attributed to an increase in the number of customers to whom we provide X Options service.

Costs and expenses. The table below provides costs and expenses by classification and as a percentage of revenue (dollars in thousands):

	Predecessor XO				
	Year Ended December 31,				
	2002	% of 2002 Revenue	2001	% of 2001 Revenue	% Change
Costs and expenses					
Cost of service	$ 522,924	41 5%	$ 527,698	41 9%	(0 9%)
Selling, operating and general	765,853	60.8%	1,008,887	80 2%	(24 2%)
Depreciation and amortization	699,806	55 5%	1,162,671	92 4%	(39 8%)
Restructuring and asset write-downs	480,168	38 1%	509,202	40 5%	(5 7%)
Total	$2,468,751		$3,208,458		(23 1%)

Cost of service. Cost of service includes expenses directly associated with providing telecommunications services to our customers. Cost of service includes, among other items, the cost of connecting customers to our networks via leased facilities, the costs of leasing components of our network facilities and costs paid to third party providers for interconnect access and transport services. Cost of service in 2002 was $522.9 million or 41.5% of revenue compared to $527.7 million or 41.9% of revenue in 2001. The 2002 decline was due primarily to cost optimization programs to reduce expenses by transferring traffic from leased facilities onto facilities owned or controlled by us. These cost reductions were offset, to some extent, by increased costs of service that were attributable to the increase in voice and integrated services revenue as a percentage of our total revenue These revenues generally carry lower margins when compared to data services because voice and integrated services are more likely to utilize leased versus owned network facilities to terminate calls.

Selling, operating and general. Selling, operating and general expense includes expenses related to sales and marketing, internal network operations and engineering, information systems, general corporate office functions and expenses relating to collection risks. Selling, operating and general expense in 2002 was $765.9 million compared to $1,008.9 million in 2001. Selling, operating and general expense decreased both in absolute dollars and as a percentage of revenue in 2002 when compared to 2001 due to efficiencies resulting from the centralization of and process improvements in many functions and cost reduction and restructuring initiatives that included significant headcount reductions and savings from the planned exit of certain leased facilities, as well as the February 2002 sale of our European operations.

Depreciation and amortization. We have constructed an integrated facilities-based network in the United States. Primarily in late 2001 and early 2002, we expanded our services in existing markets, placed more assets into service, and increased our obsolescence expense, all of which caused depreciation expense to increase to $598.5 million in 2002 from $447.0 million in 2001. In 2003, in conjunction with our implementation of fresh start accounting, we adjusted the carrying value of our property and equipment to its estimated fair value of $502.2 million from a net carrying value of $2,780.6 million at December 31, 2002. Accordingly, depreciation expense has decreased significantly during 2003 and in future periods when compared to depreciation expense for periods prior to the effective date of the Plan of Reorganization.

Amortization expense includes the amortization of broadband wireless licenses and other intangibles assets with definite lives and, for 2001, also includes the amortization of goodwill. Amortization expense decreased to $101.3 million in 2002 from $715.7 million in 2001. The significant decrease is primarily due to our implementation of SFAS No. 142 and the resulting write-off of all our goodwill as of January 1, 2002. In conjunction with our implementation of fresh start accounting in 2003, we reduced the $911.8 million December 31, 2002 carrying value of our broadband wireless licenses to their estimated fair value of approximately $60.0 million, and increase the $72.8 million December 31, 2002 net carrying value of other intangible assets to their estimated fair value of approximately $76.0 million. Accordingly, amortization expense decreased in 2003 and in future periods when compared to amortization expense for periods prior to the effective date of the Plan of Reorganization.

As of December 31, 2002, our balance sheet reflected approximately $731 0 million of long-lived assets, including construction-in-progress and certain broadband wireless licenses that had not been placed into service and, accordingly, were not being depreciated or amortized. As discussed above, these long-lived assets were written down to their estimated fair values when we applied fresh start accounting during the first quarter of 2003.

Restructuring and asset write-downs. Restructuring and asset write-downs were $480.2 million in 2002 and $509.2 million in 2001. During 2001, restructuring charges primarily related to the implementation of our plan to restructure certain of our business operations. The restructuring plan included divesting certain assets and businesses, and reducing our discretionary spending, capital expenditures and workforce, based on our assessment of current and future market conditions. The 2001 restructuring charges include a $366.8 million write-down for the excess of carrying value of assets to be sold or abandoned, including our European business unit, and a $134.4 million restructuring charge relating to the consolidation and exiting of domestic facility leases, which was determined based on the future minimum rent commitments for the buildings that management intended to exit less estimated sublease rental streams. The 2001 restructuring charges also included an $8.0 million restructuring charge related to involuntary termination severance costs with respect to 700 persons whose employment was terminated in connection with a workforce reduction, the majority of whom were terminated by December 31, 2001.

During 2002, we continued to restructure our operations and reduced our workforce by approximately 350 additional employees, the majority of whom were employed in network operations, sales and marketing and information technology, and recorded a $2.9 million restructuring charge related to the involuntary termination severance costs. In addition, we recorded a $477.3 million non-cash asset write-down during the third quarter of 2002 as a result of returning intercity assets to Level 3 in exchange for reduced future maintenance expenses beginning in 2003.

Investment income (loss), net. Investment income (loss), net in 2002 was net income of $16.3 million versus a net loss of $15 8 million in 2001. Investment income, net is mostly interest income in 2002 while the 2001 net (loss) includes an $89 0 million write down for an other than temporary decline in the value of certain investments.

Interest expense, net. Interest expense, net in 2002 decreased to $226.5 million from $465.4 million in 2001, as we ceased accruing interest and penalties on our pre-petition senior unsecured, subordinated notes and Pre-Petition Facility as of the petition date, in accordance with SOP 90-7. The contractual interest amounts of $501.1 million reflected on the consolidated statement of operations represents the interest expense that would have been accrued under the relevant financing agreements had we not ceased accruing interest as described above.

Gain on repurchase of debt. Gain on repurchase of debt in 2001 was $345.0 million related to our repurchase of $557.1 million of senior notes at a substantial discount from their respective face values

Reorganization gain (expense), net. Reorganization gain, net of $3,032.3 million at January 1, 2003 include gains from our debt and preferred stock cancellations upon our emergence from bankruptcy less the loss recorded in adjusting our long-term assets and liabilities to fair value upon our application of the fresh start accounting required by SOP 90-7. Reorganization expense in 2002 was $91.1 million and included the (i) non-cash charges relating to the write off of issuance costs, discounts and purchase accounting adjustments to adjust the historical carrying amounts of our debt to the allowed claim amount by the Bankruptcy Court, (ii) professional fees associated with our Plan of Reorganization, (iii) the penalties from the rejection of contracts, (iv) adjustments to unpaid pre-petition accounts payable and accrued expenses to the claim amounts allowed by the bankruptcy court, and (v) the net gain resulting from payments received by XO Parent in connection with the settlement and termination of the proposed investment transaction that was the basis for the first restructuring alternative contemplated by the Plan of Reorganization, less amounts paid to settle certain stockholder claims.

Cumulative effect of accounting change. We performed the transitional impairment tests of goodwill as required by SFAS No. 142 as of January 1, 2002. Based on these tests, we recorded a $1,876.6 million impairment charge to write-off all of our goodwill as a cumulative effect of accounting change during the first quarter of 2002.

Recognition of preferred stock modification fee, net — reorganization item. In order to adjust the historical carrying amount of our preferred stock to the amount allowed by the Bankruptcy Court, we recognized the unamortized balance of a deferred modification fee with respect to our preferred stock as of the petition date and wrote off certain unamortized issuance costs and recognized certain purchase accounting adjustments related to the preferred stock which netted a $78.7 million gain during 2002.

Gain on repurchases of preferred stock, net. In 2001, we recorded a net gain totaling $376.9 million related to our repurchase of $472 6 million in liquidation preference of our preferred stock at a substantial discount from the respective carrying amounts.

Preferred stock dividends and accretion of preferred stock redemption obligation, net. As our preferred stock was deemed subject to compromise under SOP 90-7, we ceased accruing dividends and accreting the redemption obligation on all of our outstanding preferred stock as of our petition date. As a result, we recorded $42.2 million of preferred stock dividends during 2002 as compared to $129.7 million in such dividends in 2001. The contractual dividend amount of $98.8 million reflected on the accompanying consolidated statement of operations represents the dividends that would have been accrued under the terms of our preferred stock had we not ceased accruing such dividends as described above.

Critical Accounting Policies and Estimates

As of January 1, 2003, we adopted the policy of expensing customer installation costs and internal labor directly associated with network construction in the period in which the costs are incurred as this labor effort is not specific to any large segregated project, but rather to ordinary course business operations. During 2002 we capitalized and amortized these costs. During 2002, the net decrease to cost of sales and to selling, operating and general expenses as a result of capitalization and amortizing these costs was approximately $14.3 million and $9.5 million, respectively.

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Management uses historical experience and all available information to make these judgments and estimates and actual results could differ from those estimates and assumptions that are used to prepare our financial statements at any given time. Despite these inherent limitations, management believes that Management's Discussion and Analysis and the accompanying consolidated financial statements and footnotes provide a meaningful and fair perspective of our financial condition and our operating results for the current period. Management believes the following critical accounting policies represent the more significant judgments and estimates used in the preparation of our audited consolidated financial statements included in this form 10-K.

Fresh-Start Adjustments

Fresh start required that XO adjust the historical cost of its assets and liabilities to their fair values as determined by the reorganization value of the Company. Fresh start requires that the reorganization value be allocated to the entity's net assets in conformity with procedures specified by SFAS No. 141, "Business Combinations," ("SFAS No. 141"). We engaged an independent appraiser to assist in the allocation of the reorganization value to the reorganized Company's assets and liabilities by determining the fair market value of its property and equipment, intangible assets and certain obligations related to its facility leases. Many estimates, projections and assumptions are used to assess the fair value of long term assets and liabilities. We review these estimates quarterly to determine if actual results are consistent with our assumptions Any adjustments are recorded in the quarterly results. The accounting impact from adopting fresh start is included in Part II, Item 6, Selected Financial Data.

Long-Lived Assets

Our long-lived assets include property and equipment, broadband wireless licenses, and identifiable intangible assets to be held and used. The estimated useful lives of telecommunications networks and acquired bandwidth are 3 to 20 years and 5 to 7 years for furniture fixtures, equipment and other. These useful lives are determined based on historical usage with consideration given to technological changes and trends in the industry that could impact the network architecture and asset utilization. This latter assessment is significant because we operate within an industry in which new technological changes could render some or all of our network related equipment obsolete requiring application of a shorter useful life or, in certain circumstances, a write-off of the entire value of the asset. Accordingly, in making this assessment, we consider our planned use of the assets, the views of experts both from internal and outside sources regarding the impact of technological advances and trends in the industry on the value and useful lives of our network assets.

Investments in broadband wireless licenses acquired prior to December 31, 2002 were recorded at their fair values at January 1, 2003, as required by fresh start. We are amortizing these over the license period of 10 years as determined by the Federal Communications Commission. In order to receive an extension on the original license term from the FCC, we are required to show substantial service in the license area within ten years of being licensed. Failure to meet this requirement could result in forfeiture of the license. Approximately $23.5 million in book value of these licenses have not yet been placed into service. Had these licenses been in service during all of 2003, amortization expense would have increased by approximately $4.4 million. If we fail to show substantial service in the licensed geographic area at the end of the original ten year period and fail to negotiate an extension from the FCC, we would forfeit the right to offer such services in that market, and write-off the impaired asset. XO is evaluating recent improvements in the price and performance of broadband wireless equipment, and is developing a plan to meet the FCC's substantial service test in all its licensed areas before the licenses are due for renewal proceedings.

Revenue Recognition

Revenues from telecommunications services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed and determinable and collectibility is probable. In circumstances when these criteria are not met, revenue recognition is deferred until resolution occurs. For example, if a customer files for protection under bankruptcy, we believe the probability of collection is weakened. Consequently, under such circumstances, although we continue to bill the customer for all services provided, we do not recognize revenue until cash is received. In addition, telecommunications customers often dispute the amounts that we invoice them due to regulatory issues, late payment fees, and early termination charges based on differences of opinion regarding contract terms or service levels. Accordingly, as these billings are not considered fixed and determinable and collection of such amounts is not considered probable while these amounts are disputed, revenue recognition is deferred until the dispute is resolved and the cash is collected.

Service discounts and incentives related to telecommunications services are recorded as a reduction of revenue when granted or ratably over a contract period. Fees billed in connection with customer installations and other non-recurring fees are deferred and recognized ratably over the estimated customer life. The estimated customer life is calculated by analyzing customer disconnects as a percentage of revenue. This calculation is reviewed every quarter.

We establish an allowance for collection of doubtful accounts and other sales credit adjustments. Allowances for sales credits are established through a charge to revenue, while allowances for doubtful accounts are established through a charge to selling, operating and general expenses. We assess the adequacy of these reserves monthly by considering general factors, such as the length of time individual receivables are past due, historical collection experience, the economic and competitive environment, and changes in the credit worthiness of our customers. As considered necessary, we also assess the ability of specific customers to meet their financial obligations to us and establish specific valuation allowances based on the amount we expect to collect from these customers. We can and have experienced material changes to our reserve requirements on a month to month basis as significant customers have in the past unexpectedly filed for bankruptcy or otherwise became insolvent. We believe that our established valuation allowances were adequate as of December 31, 2003. If circumstances relating to specific customers change or economic conditions worsen such that our past collection experience and assessment of the economic environment are no longer valid, our estimate of the recoverability of our trade receivables could be changed. If this occurs, we would adjust our valuation allowance in the period the new information is known.

Cost of Service

Cost of service includes expenses directly associated with providing telecommunications services to customers, including, among other items, the cost of connecting customers to our networks via leased facilities, the costs of leasing components of our network facilities and costs paid to third party providers for local access and transport services. All such costs are expensed as incurred. We accrue for the expected costs of services received from third party telecommunications providers during the period the services are rendered. Invoices received from the third party telecommunications providers are often disputed due to billing discrepancies. We accrue for all invoiced amounts, even amounts in dispute, as these amounts represent contingent liabilities that are considered probable and measurable. Disputes resolved in our favor may reduce cost of service in the period the dispute is settled and typically reflect costs paid in prior periods. Because the period of time required to resolve these types of disputes often lapses over several quarters, the benefits associated with the favorable resolution of such disputes normally are realized in periods subsequent to the accrual of the disputed invoice.

Off-Balance Sheet Arrangements

We are not currently engaged in the use of off-balance sheet derivative financial instruments, to hedge or partially hedge interest rate exposure nor do we maintain any other off-balance sheet arrangements for the purpose of credit enhancement, hedging transactions, or other financial or investment purposes.

Recent Accounting Pronouncements Implemented in 2003

In June 2001, the Financial Accounting Standards Board, issued SFAS No. 143, "Accounting for Asset Retirement Obligations," ("SFAS No. 143"), which requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which a legal or contractual removal obligation is incurred if a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, SFAS No. 143 requires the liability to be recognized when a reasonable estimate of the fair value can be made. As required by SOP 90-7, we implemented SFAS No. 143 on January 1, 2003, in conjunction with the implementation of fresh start and recorded an estimated asset retirement obligation of $12.0 million.

Effective January 1, 2003, we adopted SFAS No. 145, "Rescission of the Financial Accounting Standards Board Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002", which eliminates the requirement to report material gains or losses from debt extinguishments as an extraordinary item, net of any applicable income tax effect, in an entity's statement of operations. SFAS No. 145 instead requires that a gain or loss recognized from a debt extinguishment be classified as an extraordinary item only when the extinguishment meets the criteria of both "unusual in nature" and "infrequent in occurrence" as prescribed under APB Opinion No 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". Upon adopting SFAS No. 145, the Company reclassified a 2001 $345.0 million gain from debt repurchases from extraordinary to recurring.

Effective January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which requires that costs, including severance costs, associated with exit or disposal activities be recorded at their fair value when a liability has been incurred. Under previous guidance, certain exit costs, including severance costs, were accrued upon managements' commitment to an exit plan, which is generally before an actual liability has been incurred. The adoption of SFAS No. 146 did not have a material effect on the Company's consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, which amends SFAS No. 123, to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. As discussed and disclosed in Note 5, SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28. As allowed by SFAS No. 148, we have chosen to continue to account for compensation cost associated with our employee stock plans in accordance with the intrinsic value method prescribed by APB No. 25.

In May 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities,", which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003 The adoption of SFAS No. 149 did not have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,", which establishes standards for how companies classify and measure certain financial instruments with characteristics of both liabilities and equity. It requires companies to classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No 150 is effective beginning with the second quarter of fiscal 2003 The adoption of SFAS No. 150 did not have a material impact on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" ("FIN 46"). FIN 46 applies to any business enterprise that has a controlling interest, contractual relationship or other business relationship with a variable interest entity ("VIE") and establishes guidance for the consolidation of VIEs that function to support the activities of the primary beneficiary. In December 2003, the FASB completed its deliberations regarding the proposed modification to FIN 46 and issued Interpretation Number 46R, "Consolidation of Variable Interest Entities-an Interpretation of ARB No. 51". The decision reached included a deferral of the effective date and provisions for additional scope exception for certain type of variable interests. Application of FIN 46R is required in financial statements of public entities that have interests in VIEs or potential VIEs commonly referred to as special-purpose entities for period ending after December 15, 2003. Application by public entities (other than small business issuers) for all other types of entities is required in financial statements for periods ending after March 15, 2004. The Company does not believe that the adoption of FIN 46R will have any effect on the Company's consolidated financial statements.

In November 2002, the FASB's Emerging Issues Task Force reached a final consensus on Issue No. 00-21. "Accounting for Revenue arrangements with Multiple Deliverables", which is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Under the EITF 00-21, revenue arrangements with multiple deliverables are required to be divided into separate units of accounting under certain circumstances. The adoption of EITF 00-21 did not have a material effect on the Company's consolidated financial statements.

In December 2003, the SEC issued Staff Accounting Bulletin No. 104, "Revenue Recognition", which updates the guidance in SAB No. 101, integrates the related set of Frequently Asked Questions, and recognizes the role of EITF 00-21. The adoption of SAB No. 104 did not have a material effect on the Company's consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

As of December 31, 2003, our Credit Facility was comprised of $529.9 million in secured loans and $6.9 million of accrued interest. We raised net proceeds of $197.6 million in January 2004, and applied these proceeds to the outstanding balance of the Credit Facility, reducing the total amount outstanding from $536 8 million to $339.2 million. Currently, we do not pay cash interest on the Credit Facility and accrued interest converts to principal ratably throughout the loan period. As interest accrues at variable rates, our Credit Facility subjects us to interest rate risks. Interest rate risk as of December 31, 2003 is illustrated in the following table (dollars in millions).

	Annual Interest Expense Given an Interest Rate decrease of X Basis Points			No Change in Interest Rates	Annual Interest Expense Given an Interest Rate increase of X Basis Points		
Interest Rate Risk	**(150 BPS)**	**(100 BPS)**	**(50 BPS)**	**Fair Value**	**50 BPS**	**100 BPS**	**150 BPS**
Credit Facility	$20 6	$22 3	$24 0	$25 7	$27 4	$29 1	$30 8

The sensitivity analysis provides only a limited, point in time view of the market risk sensitivity of the loans under our Credit Facility. The actual impact of market interest rate changes may differ significantly from those shown in the above sensitivity analysis.

Marketable securities, available for sale, at December 31, 2003 consist primarily of investments in equity and debt securities of publicly traded companies. The fair value of our investment in equity and debt securities exposes us to market risk. These investments are subject to changes in the market price of the securities. The table that follows summarizes the fair values of our marketable securities and provides a sensitivity analysis of the estimated fair value of these financial instruments assuming a 5%, 10% and 15% increase or decrease in market price (dollars in millions).

	Fair value assuming the following percentage increase in equity price			No Change in Fair Value	Fair value assuming the following percentage decrease in equity price		
Market Risk	**15%**	**10%**	**5%**	**0%**	**5%**	**10%**	**15%**
Market price	$35.8	$37 9	$40.0	$42.1	$44 2	$46 3	$48.4

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements are filed under this Item, beginning on page F-1 of this Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On September 24, 2003, we notified our independent auditors, Ernst & Young LLP that our Audit Committee of our Board of Directors had decided to change auditors. On September 30, 2003, the Audit Committee of XO's Board of Directors appointed KPMG LLP to serve as its new independent auditors for the year ending December 31, 2003. The change was effective immediately. Ernst & Young LLP's report on XO's consolidated financial statements as of and for the year ended December 31, 2002 did not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal year ending December 31, 2002, there were: (i) no disagreements with Ernst & Young on any matter of accounting principle or practice, financial statement disclosure or auditing scope or procedure which, if not resolved to Ernst & Young's satisfaction, would have caused them to make reference to the subject matter in connection with their report on our financial statements for such years; and (ii) there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

During each of the years ended December 31, 2002 and December 31, 2001 and through the date of their appointment, we did not consult KPMG LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, or any other matters or reportable events listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

On May 15, 2002, we dismissed our independent auditors, Arthur Andersen LLP, and appointed Ernst & Young LLP to serve as our new independent auditors for the year ending December 31, 2002. Our Board of Directors approved this decision. We filed a current report on Form 8-K with the Commission on May 16, 2002, which included a notification that the change was effective on May 15, 2002. Arthur Andersen's report on the Company's financial statements for the fiscal year ending December 31, 2001 included an explanatory paragraph that discussed the substantial doubt concerning our ability to continue as a going concern During the fiscal year ending December 31, 2001, there were: (i) no disagreements with Arthur Andersen on any matter of accounting principle or practice, financial statement disclosure or auditing scope or procedure which, if not resolved to Arthur Andersen's satisfaction, would have caused them to make reference to the subject matter in connection with their report on our financial statements for such years; and (ii) there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

During the year ending December 31, 2001 and through the date of their appointment, we did not consult Ernst & Young with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Principal Executive Officer and our Principal Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation they have concluded that, as of the end of such period the controls and procedures were effective at ensuring that required information was disclosed on a timely basis in our report filed under the Exchange Act.

Changes in Internal Controls over Financial Reporting

We maintain a system of internal accounting controls that are designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. For the year ended December 31, 2003, there were no changes to our internal controls or in other factors that could significantly affect our internal controls over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item is incorporated by reference from our definitive proxy statement for the 2004 Annual Meeting of Stockholders to be held on May 27, 2004 to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our 2003 fiscal year.

Code of Ethics

We have adopted a Code of Ethics within the meaning of Item 406(b) of Regulation S-K. This Code of Ethics applies to our principal executive officer, our principal financial officer and principal accounting officer, as well as all other employees. This Code of Ethics is publicly available on our website at www.xo com. If we make substantive amendments to this Code of Ethics or grant any waiver, including any implicit waiver, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K within five days of such amendment or waiver.

Audit Committee Financial Expert

Our Board of Directors has determined Vincent J Intrieri is an "audit committee financial expert" as defined under Item 401(h) of Regulation S-K. The Board of Directors has based its determination on the fact the Mr Intrieri is a certified public accountant, and was a partner at the Arthur Andersen accounting firm.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference from the information provided under the heading "Executive Compensation" of our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information required by this Item with respect to Securities Authorized for Issuance under Equity Compensation Plans is incorporated herein by reference from the information provided in the proposal to approve the amendment of our Directors' Stock Option Plan under the heading "Equity Compensation Plan" of our Proxy Statement.

Information required by this Item with respect to Stock Ownership of Certain Beneficial Owners and Management is incorporated herein by reference from the information provided under the heading "Stock Ownership of Certain Beneficial Owners and Management" of our Proxy Statement.

Item 13. Certain Relationships and Related Transactions

Various entities controlled by Mr. Icahn hold the following interests in XO:

	Outstanding Common Stock	Series A, B and C Warrants	Credit Facility
At December 31, 2003	Greater than 80%	Greater than 40%	Greater than 90%
At January 31, 2004	Greater than 60%	Greater than 40%	Greater than 90%

In addition, entities controlled by Mr. Icahn have acquired an option to purchase 6.25 million additional shares of our common stock from Franklin Mutual Advisors, LLC at a strike price of $4.25 per share which expires June 21, 2004. After closing the Rights Offering in January 2004, Mr. Icahn's ownership interest in our outstanding common stock was reduced to over 60%

As a result of his majority ownership, Mr. Icahn can elect all of our directors, appoint the members of the committees of our Board of Directors, appoint key members of our executive management team, and appoint our auditors. Currently, Mr. Icahn is Chairman of our Board of Directors and three employees of Icahn Associates sit on our Board of Directors and various Committees of the Board of Directors. Under applicable law and our Certificate of Incorporation and by-laws, certain action cannot be taken without the approval of holders of a majority of our voting stock, including, without limitation, mergers, acquisitions, the sale of substantially all our assets, and amendments to our Certificate of Incorporation and by-laws.

Mr. Icahn, through various entities that he owns or controls, has the right to require us to register, under the Securities Act of 1933, shares of New Common Stock held by such entities and to include shares of our New Common Stock held by them in certain registration statements filed by us, pursuant to a Registration Rights Agreement approved by the Bankruptcy Court in connection with XO Parent's Chapter 11 proceedings.

In February 2003, Dixon Properties, LLC ("Dixon"), which is controlled by Mr. Icahn, acquired ownership of the building in which our headquarters is located in a transaction that was approved by the Bankruptcy Court. We currently lease approximately 170,000 square feet of space in that building.

Pursuant to the assumed lease agreement, we have paid $3.3 million in lease expense to Dixon for the year ended December 31, 2003 and we are obligated to pay approximately $15.6 million to Dixon through the expiration of the initial term of the lease, which is November 30, 2007.

We have entered into a Tax Allocation Agreement, dated January 16, 2003, between us and Starfire Holding Corporation, the parent entity of the affiliated group of corporations controlled by Mr. Icahn. We and Starfire intend to file consolidated returns during the period in which Mr. Icahn's ownership of XO is equal to or greater than 80%, as required by the Internal Revenue Code The Tax Allocation Agreement provides that Starfire will pay all consolidated federal income taxes on behalf of the Icahn consolidated group that includes us, and we will make payments to Starfire in an amount equal to the tax liability, if any, that it would have incurred if it were to file its own consolidated return separate and apart from Starfire. Upon the closing of the Rights Offering in January 2004, Mr. Icahn's ownership percentage fell below 80%. Consequently we will no longer file as part of Icahn's consolidated group after January 2004. Upon deconsolidation, the Tax Allocation Agreement generally provides that Starfire will reimburse us each year going forward for the excess of our actual income tax expense over the income tax that would have been owed if the net operating losses or other tax attributes used in prior periods by the Starfire consolidated group excluding us, if any, were still available to us.

The Company provides certain telecommunications services to companies affiliated with Mr. Icahn. For the year ended December 31, 2003, the total revenue recognized on such services affiliated with Mr. Icahn was approximately $0.4 million. We have purchased approximately $0.3 million in services from Icahn affiliates during 2003. During 2003, we purchased approximately $1.1 million in hardware and services from Dell Computers, Inc. Mr. Adam Dell, an XO director, is Mr. Michael Dell's, the Chief Executive Officer of Dell Computers, brother.

Item 14. Principal Accounting Fees and Services

Information with respect to fees paid to our principal accountant and our audit committee's pre-approval policies and procedures are incorporated herein by reference to the Proxy Statement to be filed pursuant to Regulation 14A.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) and (2) Financial Statements and Schedule:

XO Communications, Inc.

(3) List of Exhibits — Refer to Exhibit Index, which is incorporated herein by reference.

(b) Reports on Form 8-K:

1. On October 7, 2003. XO filed a Current Report on Form 8-K disclosing the announcement by XO of preliminary financial results for the third quarter of 2003.

2. On October 16, 2003, XO filed a Current Report on Form 8-K disclosing the announcement by XO that XO commenced as of such date the first stage of a two stage rights offering of between 40,000,000 and 43,333,333 shares of XO common stock pursuant to XO's Chapter 11 reorganization that was confirmed by the Bankruptcy Court on November 15, 2002.

3. On November 19, 2003, XO filed a Current Report on Form 8-K disclosing the announcement by XO that XO received approximately $162.5 million in paid subscriptions for approximately 32 5 million shares of its common stock in the initial stage of its rights offering that concluded on November 14, 2003.

4. On November 25, 2003, XO filed a Current Report on Form 8-K disclosing the correction of certain erroneous administrative entries recorded by an external service provider in connection with XO's rights offering.

5. On December 8, 2003, XO filed a Current Report on Form 8-K disclosing the announcement by XO that it commenced the second stage of its rights offering as of such date in which XO would offer rights to purchase approximately 7.8 million shares of its new common stock.

6. On December 16, 2003, XO filed a Current Report on Form 8-K disclosing the announcement by XO that it received $192.0 million in value, consisting of $164.8 million in cash and $27 2 million of Global Crossing common stock (based on the closing price of $33 per share of Global Crossing common stock as of December 12, 2003), in exchange for the $158.5 million XO Communications paid to acquire approximately 34% of pre-petition senior debt of Global Crossing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XO Communications, Inc.

Date: March 15, 2004

By. /s/ CARL J. GRIVNER

Carl J. Grivner
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 15, 2004 by the following persons on behalf of the Registrant and in the capacities indicated:

Name	Title
/s/ CARL J. GRIVNER Carl J. Grivner	President and Chief Executive Officer (Principal Executive Officer)
/s/ WAYNE M. REHBERGER Wayne M. Rehberger	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ CARL C. ICAHN Carl C. Icahn	Chairman of the Board of Directors
/s/ ANDREW R. COHEN Andrew R. Cohen	Director
/s/ ADAM DELL Adam Dell	Director
/s/ VINCENT J. INTRIERI Vincent J. Intrieri	Director
/s/ KEITH MEISTER Keith Meister	Director

EXHIBIT INDEX

2.1 Third Amended Plan of Reorganization of XO Communications, Inc., dated July 22, 2002, (Incorporated herein by reference to exhibit 2.1 filed with the Current Report on Form 8-K/A of XO Communications, Inc., filed on November 26, 2002).

2.2 Plan Supplement, dated October 23, 2003, to the Third Amended Plan of Reorganization of XO Communications, Inc., dated July 22, 2002 (Incorporated herein by reference to exhibit 2.2 filed with the Current Report on Form 8-K/A of XO Communications, Inc., filed on November 26, 2002).

2.3 Order Confirming Third Amended Plan of Reorganization, dated November 15, 2002 (Incorporated herein by reference to exhibit 99 1 filed with the Current Report on Form 8-K/A of XO Communications, Inc., filed on November 26, 2002).

2.4 Asset Purchase Agreement, dated as of February 18, 2004, by and among XO Communications, Inc., Allegiance Telecom, Inc , and Allegiance Telecom Company Worldwide (Incorporated herein by reference to exhibit 10.1 filed with the Current Report on Form 8-K of XO Communications, Inc. filed on February 24, 2004).

2.5 Amended and Restated Certificate of Incorporation of XO Communications, Inc (Incorporated herein by reference to exhibit 3.1 filed with the Registration Statement on Form 8-A of XO Communications, Inc., filed on February 7, 2003, pursuant to the Securities Exchange Act).

3.1 Amended and Restated Bylaws of XO Communications, Inc.

4.1 Form of Stock Certificate of New Common Stock (Incorporated herein by reference to exhibit 4.1 filed with the Annual Report on Form 10-K of XO Communications, Inc. for the year ended December 31, 2002, filed on March 21, 2003).

4.2 Series A Warrant Agreement, dated as of January 16, 2003, by and between XO Communications, Inc. and American Stock Transfer & Trust Company (Incorporated herein by reference to exhibit 10.1 filed with the Current Report on Form 8-K of XO Communications, Inc., filed on January 30, 2003).

4.3 Series B Warrant Agreement, dated as of January 16, 2003, by and between XO Communications, Inc. and American Stock Transfer & Trust Company (Incorporated herein by reference to exhibit 10.2 filed with the Current Report on Form 8-K of XO Communications, Inc., filed on January 30, 2003).

4.4 Series C Warrant Agreement, dated as of January 16, 2003, by and between XO Communications, Inc and American Stock Transfer & Trust Company (Incorporated herein by reference to exhibit 10 3 filed with the Current Report on Form 8-K of XO Communications, Inc., filed on January 30, 2003).

10.1 XO Communications, Inc. 2002 Stock Incentive Plan (Incorporated herein by reference to exhibit 10.1.1 to the Annual Report on Form 10-K of XO Communications, Inc. for the year ended December 31, 2002, filed on March 21, 2003).

10.2 XO Communications, Inc. Retention Bonus and Incentive Plan (Incorporated herein by reference to exhibit 10.1 2 to the Annual Report on Form 10-K of XO Communications, Inc. for the year ended December 31, 2002, filed on March 21, 2003).

10.3 Registration Rights Agreement, dated as of January 16, 2003, between XO Communications, Inc. and High River Limited Partnership and Meadow Walk Limited Partnership (Incorporated herein by reference to exhibit 10.4 filed with the Current Report on Form 8-K of XO Communications, Inc., filed on January 30, 2003).

10.4 Tax Allocation Agreement, dated as of January 16, 2003, between XO Communications, Inc. and Starfire Holding Corporation (Incorporated herein by reference to exhibit 10.5 filed with the Current Report on Form 8-K of XO Communications, Inc., filed on January 30, 2003).

10.5 Employment Term Sheet, dated as of April 30, 2003, delivered by XO Communications, Inc. to Carl J. Grivner, President and Chief Executive Officer of XO Communications, Inc. (Incorporated herein by reference to exhibit 10.1 filed with the Quarterly Report on Form 10-Q of XO Communications, Inc. for the three months ended March 31, 2003, filed on May 15, 2003).

10.6	Change in Control Agreement by and between XO Communications, Inc. and Carl J. Grivner, President and Chief Executive Officer of XO Communications, Inc. (Incorporated herein by reference to exhibit 10.2 filed with the Quarterly Report on Form 10-Q of XO Communications, Inc. for the three months ended March 31, 2003, filed on May 15, 2003).
10.7	Employment Agreement, dated as of January 3, 2000, by and between Nathaniel A. Davis and NEXTLINK Communications, Inc. (predecessor to XO Communications, Inc) (Incorporated herein by reference to exhibit 10.11 filed with the Annual Report on Form 10-K of NEXTLINK Communications, Inc. and NEXTLINK Capital, Inc., for the year ended December 31, 1999, filed on March 30, 2000.)
10.8	Employment Agreement by and between John Jacquay and XO Communications, Inc. dated as of November 20, 2002.
10.9	Employment Agreement, dated as of November 20, 1999, by and between Gary Begeman and XO Communications, Inc.
10.10	Employment Agreement, effective as of September 25, 2000, by and between Wayne M. Rehberger and XO Communications, Inc.
10.11	Cost Sharing and IRU Agreement, dated July 18, 1998, between Level 3 Communications, LLC and XO Intercity Holdings No. 2, LLC (f/k/a INTERNEXT LLC) (Incorporated herein by reference to exhibit 10.8 filed with the quarterly report on Form 10-Q for the quarterly period ended September 30, 1998 of NEXTLINK Communications, Inc. and NEXTLINK Capital, Inc., filed on November 16, 1998).
10.12	Master Agreement, dated August 8, 2002, between Level 3 Communications, Inc. and XO Communications, Inc. (Incorporated herein by reference to exhibit 10.4.2 filed with the Annual Report on Form 10-K of XO Communications, Inc for the year ended December 31, 2002, filed on March 21, 2003).
10.13	Amended and Restated Credit and Guaranty Agreement, dated as of January 16, 2003, among XO Communications, Inc., certain subsidiaries of XO Communications, Inc., the Lenders party thereto from time to time, and Mizuho Corporate Bank, as Administrative Agent (Incorporated herein by reference to exhibit 10.5 filed with the Annual Report on Form 10-K of XO Communications, Inc. for the year ended December 31, 2002, filed on March 21, 2003).
14.1	XO Communications, Inc. Code of Ethics
16.1.1	Letter from Arthur Andersen LLP to the Securities and Exchange Commission, dated May 15, 2002 (Incorporated herein by reference to exhibit 16 filed with the Current Report on Form 8-K of XO Communications Inc. filed on May 16, 2002).
21.1	Subsidiaries of XO Communications, Inc.
23.1	Consent of KPMG LLP
23.2	Consent of Ernst & Young LLP
23.3	Notice Regarding Lack of Consent of Arthur Andersen
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

REPORT OF KPMG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
XO Communications, Inc.:

We have audited the accompanying consolidated balance sheet of XO Communications, Inc. and subsidiaries as of December 31, 2003 (Reorganized XO), and the related consolidated statements of operations, stockholders' equity and cash flows for the periods from January 1, 2003 to December 31, 2003 (Reorganized XO period) and for the portion of January 1, 2003, related to the Predecessor's reorganization gain (Predecessor XO period). In connection with our audit of the Reorganized XO 2003 consolidated financial statements, we also have audited the 2003 financial statement schedule as listed in the accompanying index. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. The 2001 consolidated financial statements and financial statement schedule of Predecessor XO, as listed in the accompanying index, were audited by other auditors who have ceased operations. Those auditors' report, dated February 6, 2002, on those financial statements and financial statement schedule was unqualified, before the restatement described in Note 6 to the consolidated financial statements, and included an explanatory paragraph that discussed the substantial doubt about Predecessor XO's ability to continue as a going concern.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the Reorganized XO 2003 consolidated financial statements referred to above present fairly, in all material respects, the financial position of XO Communications, Inc. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the Reorganized XO period in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the Predecessor XO 2003 consolidated financial statements referred to above present fairly, in all material respects, the results of their operations and their cash flows for the portion of January 1, 2003 related to the Predecessor's reorganization gain in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related 2003 financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed above, the 2001 consolidated financial statements of XO Communications, Inc. as listed in the accompanying index, were audited by other auditors who have ceased operations. As described in Note 5(d), those consolidated financial statements have been restated to conform to Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections", which was adopted on January 1, 2003. We audited the adjustments described in Note 5(d) that were applied to restate the 2001 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of XO Communications, Inc. other than with respect to such adjustments, and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

As discussed in Notes 1, 2, and 3, to the consolidated financial statements, on January 16, 2003, XO Communications, Inc. emerged from bankruptcy. The consolidated financial statements of Reorganized XO reflect the impact of adjustments to reflect the fair value of assets and liabilities under fresh start reporting, which was applied effective January 1, 2003. As a result, the consolidated financial statements of Reorganized XO are presented on a different basis than those of Predecessor XO and, therefore, are not comparable in all respects.

/s/ KPMG LLP

McLean, VA
March 8, 2004

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Board of Directors of XO Communications, Inc..

We have audited the accompanying consolidated balance sheet of XO Communications, Inc. (the "Company") as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index at item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit. The consolidated financial statements and schedule of the Company for the year ended December 31, 2001, were audited by other auditors who have ceased operations, and whose report dated February 6, 2002, expressed an unqualified opinion on those consolidated financial statements and schedule before the restatement adjustments described in Note 5 and included an explanatory paragraph that discussed the substantial doubt about the Company's ability to continue as a going concern.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the consolidated financial position of XO Communications, Inc. at December 31, 2002, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 6 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets".

As discussed in Note 1 to the consolidated financial statements, effective January 16, 2003, the Company was reorganized under a plan of reorganization confirmed by the United States Bankruptcy Court for the Southern District of New York. In connection with its reorganization, the Company will apply fresh start accounting in the first quarter of 2003.

As discussed above, the financial statements of XO Communications, Inc. for the year ended December 31, 2001 were audited by other auditors who have ceased operations. As described in Note 5, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, which was adopted by the Company as of January 1, 2002. Our audit procedures with respect to the disclosures in Note 6 with respect to 2001 included (a) agreeing the previously reported net loss to the previously issued financial statements and the adjustments to reported net loss representing amortization expense recognized in those periods related to goodwill and intangible assets that are no longer being amortized to the Company's underlying records obtained from management, and (b) testing the mathematical accuracy of the reconciliation of adjusted net loss to reported net loss, and the related loss-per-share amounts. In our opinion, the disclosures for 2001 in Note 6 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any form of assurance on the 2001 financial statements taken as a whole.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 28, 2003

The following report is a copy of a report previously issued by Arthur Andersen LLP ("Andersen"), whose report has not been reissued by Andersen. Certain financial information in the period ended December 31, 2001, was not reviewed by Andersen and includes additional disclosures to conform with new accounting pronouncements and SEC rules and regulations issued during such fiscal year, see Item 1, Business, for discussion of risks.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of XO Communications, Inc :

We have audited the accompanying consolidated balance sheets of XO Communications, Inc. ("XO Parent," a Delaware corporation) and subsidiaries (collectively the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001 These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XO Communications, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred recurring operating losses and negative cash flows from operating activities, has defaulted on its debt obligations and has begun to implement a proposed recapitalization that contemplates XO Parent filing a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code. These matters, among others, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might otherwise be necessary should the Company be unable to continue as a going concern.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

Vienna, VA

February 6, 2002

XO Communications, Inc.

Consolidated Balance Sheets
(Dollars in thousands, except for share and per share data)

	Reorganized XO December 31, 2003	Predecessor XO December 31, 2002
ASSETS		
Current assets		
Cash and cash equivalents	$ 478,560	$ 314,038
Marketable securities	42,052	246,945
Accounts receivable, net of allowance for doubtful accounts of $32,986 and $37,030 at December 31, 2003 and 2002, respectively	93,958	116,541
Other current assets	12,421	83,480
Total current assets	626,991	761,004
Property and equipment, net	485,984	2,780,589
Broadband wireless licenses and other intangibles, net	109,515	984,614
Other assets, net	42,675	59,289
Total assets	$1,265,165	$ 4,585,496
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable	$ 63,064	$ 63,729
Accrued liabilities	208,353	266,102
Current liabilities subject to compromise	—	5,497,207
Total current liabilities	271,417	5,827,038
Long-term debt and accrued interest payable	536,791	—
Other long-term liabilities	76,532	—
Long-term liabilities not subject to compromise	—	75,242
Long-term liabilities subject to compromise	—	7,182
Total liabilities	884,740	5,909,462
Predecessor XO redeemable preferred stock par value $0 01 per share, 25,000,000 shares authorized 7,856,918 shares issued and outstanding, aggregate liquidation preference of $1,693,293, subject to compromise	—	1,708,316
Commitments and contingencies Stockholders' equity (deficit)		
Reorganized XO preferred stock par value $0 01 per share, 200,000,000 shares authorized, none issued	—	—
Reorganized XO warrants and common stock, par value $0 01 per share, 1,000,000,000 shares authorized 96,274,140 and 95,000,001 shares issued and outstanding on December 31, 2003 and January 1, 2003, respectively	482,440	—
Reorganized XO subscription rights exercised, 32,503,234 shares authorized none issued and outstanding	162,516	—
Reorganized XO subscription rights receivable, 32,503,234 shares authorized none issued and outstanding	(162,516)	—
Predecessor XO common stock, par value $0 02 per share, Class A, 1,000,000,000 shares authorized, 331,033,219 shares issued and outstanding, Class B, 120,000,000 shares authorized, 104,423,158 shares issued and outstanding	—	4,628,139
Deferred compensation	(839)	(8,500)
Accumulated other comprehensive income	1,378	2,512
Accumulated deficit	(102,554)	(7,654,433)
Total stockholders' equity (deficit)	380,425	(3,032,282)
Total liabilities and stockholders' equity (deficit)	$1,265,165	$ 4,585,496

See accompanying notes to the consolidated financial statements.

XO Communications, Inc.

Consolidated Statements of Operations
(Dollars in thousands, except for share and per share data)

	Reorganized XO Year Ended December 31, 2003	Predecessor XO January 1, 2003	Predecessor XO Year Ended December 31, 2002	Predecessor XO Year Ended December 31, 2001
Revenue	$ 1,110,483	$ —	$ 1,259,853	$ 1,258,567
Costs and expenses:				
Cost of service (excludes depreciation and amortization)	422,129	—	522,924	527,698
Selling, operating and general	679,286	—	765,853	1,008,887
Depreciation and amortization	109,308	—	699,806	1,162,671
Restructuring and asset write-downs	11,618	—	480,168	509,202
Total costs and expenses	1,222,341	—	2,468,751	3,208,458
Loss from operations	(111,858)	—	(1,208,898)	(1,949,891)
Investment income (loss), net	46,152	—	16,278	(15,843)
Interest expense, net (contractual interest was $501,118 for the year ended December 31, 2002)	(36,848)	—	(226,451)	(465,401)
Gain on repurchase of debt	—	—	—	345,010
Reorganization gain (expense), net	—	3,032,282	(91,121)	—
Net (loss) income before cumulative effect of accounting change	(102,554)	3,032,282	(1,510,192)	(2,086,125)
Cumulative effect of accounting change	—	—	(1,876,626)	—
Net (loss) income	(102,554)	3,032,282	(3,386,818)	(2,086,125)
Recognition of preferred stock modification fee, net — reorganization item	—	—	78,703	—
Gain on repurchases of preferred stock, net	—	—	—	376,879
Preferred stock dividends and accretion of preferred stock redemption obligation, net (contractual dividend was $98,768 for the year ended December 31, 2002)	—	—	(42,247)	(129,671)
Net (loss) income applicable to common shares	$ (102,554)	$ 3,032,282	$ (3,350,362)	$ (1,838,917)
Net (loss) income per common share, basic and diluted				
Net (loss) income before cumulative effect of accounting change	$ (1.07)	$ 6.86	$ (3.42)	$ (5.16)
Cumulative effect of accounting change	—	—	(4.24)	—
Net (loss) income	(1.07)	6.86	(7.66)	(5.16)
Recognition of preferred stock modification fee, net — reorganization item	—	—	0.18	—
Gain on repurchases of preferred stock, net	—	—	—	0.93
Preferred stock dividends and accretion of preferred stock redemption obligation, net	—	—	(0.10)	(0.32)
Net (loss) income per common share, basic and diluted	$ (1.07)	$ 6.86	$ (7.58)	$ (4.55)
Weighted average shares, basic and diluted	95,632,859	441,964,342	441,964,342	403,882,956

See accompanying notes to consolidated financial statements.

XO Communications, Inc.

Consolidated Statements of Stockholders' Equity (Deficit)
(Dollars in thousands, except share data)

Predecessor Company	Common Stock Shares Class A	Common Stock Shares Class B	Common Stock Amount	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at December 31, 2000	262 010.715	105,414.226	$ 4,392.646	$(72,050)	$(17,041)	$(2.465,154)	$ 1.838.401
Issuance of common and restricted stock in acquisitions	11 211,416	—	29,055	—	—	—	29,055
Issuance of compensatory stock options	—	—	2.551	(2,551)	—	—	
Compensation attributable to stock options and restricted stock vesting	—	—	—	37,173	—	—	37,173
Issuance of common stock through employee benefit plans	11,939,685	—	30.899	—	—	—	30.899
Conversion of Class B common stock into Class A common stock	991.068	(991.068)	—	—	—	—	—
Conversion of 6½% redeemable cumulative preferred stock into Class A common stock	1,621.320	—	17,700	—	—	—	17,700
Issuance of common stock related to equity investment net of offering costs	50 000,000	—	155,658	—	—	—	155,658
Comprehensive loss							
Net loss	—	—	—	—	—	(2,086,125)	(2.086.125)
Gain on repurchases of preferred stock, net	—	—	—	—	—	376.879	376.879
Preferred stock dividends and accretion of preferred stock redemption obligation, net	—	—	—	—	—	(129.671)	(129.671)
Other comprehensive income — net unrealized holding gains and foreign currency translation adjustments	—	—	—	—	22,556	—	22,556
Realized net losses transferred to current period earnings	—	—	—	—	4.891	—	4,891
Total comprehensive loss	—	—	—	—	—	—	(1.811.470)
Balance at December 31, 2001	337,774,204	104,423,158	$ 4,628,509	$(37,428)	$ 10,406	$(4 304,071)	$ 297,416
Compensation attributable to stock options and restricted stock vesting	—	—	—	28,928	—	—	28.928
Issuance of common stock through employee benefit plans	85 854	—	24	—	—	—	24
Conversion of 6½% redeemable cumulative preferred stock into Class A common stock	3,173	—	35	—	—	—	35
Conversion of Preferred Stock	23.570	—	—	—	—	—	—
Refund of Employee Stock Purchase Plan funds withheld after cancellation (a)		—	(429)	—	—	—	(429)
Cancellation of Craig McCaw's Class A common stock	(6 853,582)	—	—	—	—	—	—
Comprehensive loss							
Net loss	—	—	—	—	—	(3.386,818)	(3.386.818)
Recognition of preferred stock modification fee, net - reorganization item	—	—	—	—	—	78,703	78 703
Preferred stock dividends and accretion of preferred stock redemption obligation, net	—	—	—	—	—	(42,247)	(42,247)
Realized net losses and foreign currency translation adjustments transferred to current period earnings	—	—	—	—	(7 894)	—	(7,894)
Total comprehensive loss	—	—	—	—	—	—	(3,358.256)
Balance at December 31, 2002	331,033,219	104 423,158	4,628,139	(8.500)	2.512	(7,654,433)	(3.032,282)
Cancellation of predecessor common sock, deferred compensation, accumulated deficit and accumulated other comprehensive income under Plan of Reorganization	(331,033.219)	(104,423,158)	(4.628,139)	8.500	(2.512)	7 654,433	3,032.282
Balance at January 1, 2003	—	—	$ —	$ —	$ —	$ —	$ —

(a) In the latter half of 2001, the Company's Employee Stock Purchase Plan was cancelled, however employee salary deferrals continued in December 2001, and were subsequently refunded in early 2002

See accompanying notes to consolidated financial statements.

XO Communications, Inc.

Consolidated Statements of Stockholders' Equity
(Dollars in thousands, except share data)

	Common Stock		Subscription Rights Exercised		Subscription Receivable		Deferred Compensation	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Reorganized Company										
Balance at January 1, 2003	—	$ —	—	$ —	—	$ —	$ —	$ —	$ —	$ —
Issuance of common stock under Plan of Reorganization	95,000,001	475,000	—	—	—	—	—	—	—	475,000
Rights offering	—	—	32,503,234	162,516	(32,503,234)	(162,516)	—	—	—	—
Issuance of common stock through employee benefit plans, net	1,274,139	7,440	—	—	—	—	(839)	—	—	6,601
Comprehensive loss										
Net loss	—	—	—	—	—	—	—	(102,554)	—	(102,554)
Other comprehensive income - unrealized holding gains arising during the year	—	—	—	—	—	—	—	—	1,378	1,378
Total comprehensive loss	—	—	—	—	—	—	—	—	—	(101,176)
Balance at December 31, 2003	96,274,140	$482,440	32,503,234	$162,516	(32,503,234)	$(162,516)	$(839)	$(102,554)	$1,378	$ 380,425

See accompanying notes to consolidated financial statements.

XO Communications, Inc.

Consolidated Statements of Cash Flows
(Dollars in thousands)

	Reorganized XO Year Ended December 31, 2003	Predecessor XO January 1, 2003	Predecessor XO Year Ended December 31, 2002	Predecessor XO Year Ended December 31, 2001
OPERATING ACTIVITIES:				
Net (loss) income	$(102,554)	$ 3,032,282	$(3,386,818)	$(2,086,125)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities				
Depreciation and amortization	109,308	—	699,806	1,162,671
Accrual of interest	36,791	—	—	—
Stock-based compensation	708	—	28,928	37,173
Non-cash gain on sale of investments	(27,224)	—	—	—
Non-cash restructuring charges and asset write-downs	6,765	—	477,250	598,541
Non-cash reorganization expense, net	—	(3,032,282)	89,448	—
Other income, gain on repurchases of debt, net	—	—	—	(345,010)
Cumulative effect of accounting change	—	—	1,876,626	—
Changes in assets and liabilities, net of effects from acquisitions				
Accounts receivable	22,583	—	85,514	(43,254)
Other assets	1,317	—	(21,572)	(66,566)
Accounts payable	(7,568)	—	—	—
Accrued liabilities	(33,825)	—	—	—
Other liabilities subject to compromise	—	—	195,904	—
Other liabilities not subject to compromise	—	—	(27,484)	181,693
Net cash provided by (used in) operating activities	6,301	—	17,602	(560,877)
INVESTING ACTIVITIES:				
Capital expenditures, net	(82,346)	—	(208,713)	(1,554,752)
Net releases of pledged securities	—	—	3,161	150
Sales of marketable securities and investments	473,423	—	364,069	2,912,454
Purchases of marketable securities and investments	(238,041)	—	(103,935)	(2,041,247)
Cash received from (paid for) divestitures (acquisitions)	—	—	3,000	(25,203)
Net cash provided by (used in) investing activities	153,036	—	57,582	(708,598)
FINANCING ACTIVITIES:				
Proceeds from borrowings under senior secured credit facility and issuance of notes	—	—	—	1,142,500
Net proceeds from sale of common stock and modification of preferred stock agreement	—	—	—	248,657
Proceeds from issuance of common stock under employee benefit plans	6,452	—	—	30,899
Repurchases of senior notes and redeemable preferred stock	—	—	—	(290,307)
Repayments of capital lease and other obligations	(1,267)	—	(6,079)	(44,124)
Dividends paid on convertible preferred stock	—	—	—	(53,778)
Costs incurred in connection with financing activities	—	—	—	(14,200)
Net cash (used in) provided by financing activities	5,185	—	(6,079)	1,019,647
Effect of exchange rate changes on cash	—	—	(1,256)	3,013
Net increase (decrease) in cash and cash equivalents	164,522	—	67,849	(246,815)
Cash and cash equivalents, beginning of year	314,038	314,038	246,189	493,004
Cash and cash equivalents, end of year	$ 478,560	$ 314,038	$ 314,038	$ 246,189

See accompanying notes to consolidated financial statements.

XO Communications, Inc.

Notes to Consolidated Financial Statements
December 31, 2003, 2002 and 2001

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Overview

XO Communications Inc., a Delaware corporation ("XO Parent"), through its subsidiaries, owns and operates an integrated metropolitan and nationwide fiber optic network that provides broadband communication services, local and long distance voice communication services and a wide array of data and integrated data services to business customers in many United States markets. Voice services include local and long distance services, calling card and interactive voice response systems. Data services include Internet access, private data networking and hosting services. XO Parent, through its subsidiaries, also offers integrated combined voice and data services in flat rate "bundled" packages.

Organization

The consolidated financial statements include the accounts and activities of XO Parent, and its subsidiaries (collectively referred to as the "Company" or "XO"). As further discussed in Note 2, on June 17, 2002 (the "Petition Date"), XO Parent filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") On January 16, 2003 (the "Effective Date"), XO Parent emerged from the Bankruptcy Court proceedings pursuant to the terms of its third amended plan of reorganization (the "Plan of Reorganization"). Accordingly, the accompanying consolidated financial statements have been prepared in accordance with Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code," ("SOP 90-7"). As discussed in Note 3, the Company implemented fresh start accounting under the provisions of SOP 90-7. Under the fresh start accounting provisions of SOP 90-7, the fair value of the reorganized Company was allocated to its assets and liabilities, and its accumulated deficit was eliminated. Predecessor financial statements are not comparable to the financial statements of the Reorganized Company.

On February 19, 2004, the United States Bankruptcy Court for the Southern District of New York approved the Asset Purchase Agreement by and between XO Parent and Allegiance Telecom, Inc., or Allegiance, pursuant to which XO Parent has agreed to acquire substantially all of the assets of Allegiance for approximately $311.0 million in cash and approximately 45.4 million shares of XO's common stock. XO anticipates that the acquisition of the Allegiance assets will close during the third quarter of 2004. See Note 22 for additional disclosure.

2. REORGANIZATION

On the Effective Date, XO Parent consummated its Plan of Reorganization and emerged from its Chapter 11 reorganization proceedings with a significantly restructured balance sheet. The consummation of the Plan of Reorganization resulted in the following changes in XO Parent's capital structure:

- The conversion of $1.0 billion of loans under its pre-petition secured credit facility into $500.0 million of outstanding principal amount under an amended and restated credit agreement (the "Credit Facility");
- The extinguishment of all amounts due under its pre-petition unsecured senior and subordinated notes and certain general unsecured obligations;
- The cancellation of all outstanding shares and interests in its pre-petition preferred stock and pre-petition common stock; and

- The issuance of approximately 95.0 million shares of common stock of the reorganized Company ("New Common Stock") and warrants to purchase up to an additional 23.75 million shares of New Common Stock of the reorganized Company.

The following table shows the distribution each party of interest impacted by XO Parent's bankruptcy was entitled to As certain claims are still being reviewed by the Bankruptcy Court, proportional distributions have not yet been made and cannot be made until the court rules (dollars in thousands except share data).

Party of Interest	Shares of New Common Stock	Series A Warrants	Series B Warrants	Series C Warrants	Credit Facility	Cash
$1 Billion senior secured credit facility	90,250,001	—	—	—	$500,000	$ —
Senior unsecured notes	4,715,344	9,430,689	7,073,015	7,073,015	—	1,600
Subordinated notes	—	—	—	—	—	616
General unsecured creditors	34,656	69,309	51,980	51,980	—	403
Total entitlement	95,000,001	9,499,998	7,124,995	7,124,995	$500,000	$2,619
Not yet distributed	1,230,638	2,461,743	1,846,151	1,846,151	—	1,612
Total issued or paid	93,769,363	7,038,255	5,278,844	5,278,844	$500,000	$1,007

See notes 13 and 14 for further disclosure on our equity and debt instruments

In accordance with the Plan of Reorganization, XO Parent issued to certain holders of claims of interest in XO Parent, who held such claims and/or interests as of the November 15, 2002 record date, rights to subscribe for up to 40.0 million shares of New Common Stock, at $5.00 per share, through a rights offering, (the "Rights Offering"). The first stage of the Rights Offering closed on November 14, 2003 whereby $162.5 million in cash for 32.5 million shares was placed into escrow until the conclusion of the second stage. On January 5, 2004, XO Parent concluded the second stage of its Rights Offering. An aggregate of 39.7 million shares were issued in the offering, yielding net proceeds of $197.6 million. These proceeds were used to pay down the Credit Facility. The following unaudited pro forma information shows the impact to XO's historical balance sheet as of December 31, 2003 as a result of these transactions (dollars in thousands):

	December 31, 2003	Rights Offering Adjustments	Pro forma December 31, 2003
		(Unaudited)	(Unaudited)
Long-term debt	$ 536,791	$(197,612)	$ 339,179
Total liabilities	884,740	(197,612)	687,128
Total stockholders' equity (deficit)	380,425	197,612	578,037
Total liabilities and stockholders' equity (deficit)	$1,265,165	$ —	$1,265,165

3. FRESH START ACCOUNTING

The Company adopted the fresh start accounting provisions ("fresh start") of SOP 90-7 during the first quarter of 2003. Under SOP 90-7, the implementation of fresh start reporting is triggered in part by the emergence of XO Parent from its Chapter 11 proceedings. Although the Effective Date of the Plan of Reorganization was January 16, 2003, due to the immateriality of the results of operations for the period between January 1, 2003 and the Effective Date, the Company accounted for the consummation of the Plan of Reorganization as if it had occurred on January 1, 2003 and implemented fresh start reporting as of that date. Fresh start requires that the Company adjust the historical cost of its assets and liabilities to their fair value. The fair value of the reorganized Company, or the reorganization value, of approximately $1.3 billion was determined based on the negotiated sum of the reorganized Company's liabilities and equity that were issued and outstanding after final negotiations and Bankruptcy Court approval. These included $500.0 million of debt outstanding under the Credit Agreement, $475.0 million of New Common Stock, and $373.1 million of other liabilities that were not eliminated or discharged under the Plan of Reorganization.

Fresh start requires that the reorganization value be allocated to the entity's net assets in conformity with procedures specified by SFAS No. 141, "Business Combinations," ("SFAS No. 141"). The Company engaged an independent appraiser to assist in the allocation of the reorganization value to the reorganized Company's assets and liabilities by determining the fair market value of its property and equipment, intangible assets and certain obligations related to its facility leases. A reconciliation of the adjustments to be recorded in connection with effecting the Plan of Reorganization and adopting fresh start accounting is presented below (dollars in thousands):

	Predecessor XO December 31, 2002	Reorganization	Fresh Start Adjustments(d)	Reorganized XO January 1, 2003
ASSETS				
Current assets.				
Cash and cash equivalents	$ 314,038	$ —	$ —	$ 314,038
Marketable securities	246,945	—	—	246,945
Accounts receivable, net	116,541	—	—	116,541
Other current assets	83,480	—	(48,288)	35,192
Total current assets	761,004	—	(48,288)	712,716
Property and equipment, net	2,780,589	—	(2,304,001)	476,588
Broadband wireless licenses and other intangibles, net	984,614	—	(848,936)	135,678
Other assets, net	59,289	—	(36,181)	23,108
Total assets	$ 4,585,496	$ —	$(3,237,406)	$1,348,090
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY				
Current liabilities				
Accounts payable	$ 63,729	$ —	$ 3,539	$ 67,268
Accrued liabilities	266,102	—	(30,910)	235,192
Current liabilities subject to compromise	5,497,207	(5,466,667) (a)	(30,540)	—
Total current liabilities	5,827,038	(5,466,667)	(57,911)	302,460
Long-term debt —	—	500,000 (b)	—	500,000
Other long-term liabilities	75,242	—	(4,612)	70,630
Long-term liabilities subject to compromise	7,182	—	(7,182)	—
Total liabilities	5,909,462	(4,966,667)	(69,705)	873,090
Predecessor XO redeemable preferred stock — subject to compromise	1,708,316	(1,708,316) (a)	—	—
Stockholders' (deficit) equity				
Predecessor XO common stock	4,628,139	—	(4,628,139)	—
Reorganized XO common stock and warrants	—	475,000 (c)	—	475,000
Deferred compensation	(8,500)	—	8,500	—
Accumulated other comprehensive income	2,512	—	(2,512)	—
Accumulated deficit	(7,654,433)	6,199,983 (c)	1,454,450	—
Total stockholders' (deficit) equity	(3,032,282)	6,674,983	(3,167,701) (e)	475,000
Total liabilities and stockholders' (deficit) equity.	$ 4,585,496	$ —	$(3,237,406)	$1,348,090

(a) To record the discharge of pre-petition indebtedness, including a $1 0 billion credit facility, $4 2 billion of senior and convertible subordinated notes, $245 2 million of accrued interest, and the elimination of $1 7 billion of pre-petition redeemable preferred stock and $50 6 million of accrued dividends, all in accordance with the Plan of Reorganization

(b) To record the outstanding principal under the Credit Agreement, in accordance with the Plan of Reorganization

(c) To record the issuance of 95 0 million shares of New Common Stock and warrants in accordance with the Plan of Reorganization Participation in the Rights Offering was recorded in the first quarter of 2004

(d) To adjust the carrying value of assets, liabilities and stockholders' equity to fair value, in accordance with fresh start

(e) Net reorganization gain on January 1, 2003 consisted of the following (dollars in thousands)

Net gain resulting from reorganization of debt, preferred stock and equity	$ 6,199,983
Net loss resulting from fresh start fair value adjustments to assets and liabilities	(3,167,701)
Total reorganization gain, net	$ 3,032,282

4. ACCOUNTING IMPACT OF CHAPTER 11 FILING

Liabilities subject to compromise reflected in the accompanying consolidated financial statements for Predecessor XO and the XO Parent stand-alone financial statements represent the liabilities of XO Parent incurred prior to the Petition Date. In accordance with SOP 90-7, liabilities subject to compromise were recorded at the amount allowed on pre-petition claims in the Chapter 11 proceedings. Other obligations that were not subject to compromise retained their historical balance sheet classifications and amounts. Liabilities subject to compromise consisted of the following as of December 31, 2002 (dollars in thousands):

Long-term debt	$5,165,718
Accrued interest and preferred stock dividends	295,820
Pre-petition accounts payable and accrued liabilities	33,640
Capital lease obligations	9,211
Total liabilities subject to compromise	5,504,389
Less long-term liabilities subject to compromise	7,182
Current liabilities subject to compromise	$5,497,207

In order to record its debt instruments at the amount allowed by the Bankruptcy Court in accordance with SOP 90-7, as of the Petition Date, XO Parent wrote off all of its debt issuance costs and discounts related to debt (collectively the "Deferred Financing Fees") as a component of reorganization expense. Reorganization expense also included professional fees incurred in connection with the Chapter 11 proceedings, as well as gains or penalties from the settlement or rejection of liabilities subject to compromise and the net gains from the investment termination payment received as a settlement during the bankruptcy process Reorganization expenses for the year ended December 31, 2002 consisted of the following (dollars in thousands):

Net loss from the settlement or rejection of liabilities subject to compromise	$ 14,916
Net gain from investment termination payment	(16,667)
Deferred Financing Fees	56,270
Professional fees	36,602
Total reorganization expense, net	$ 91,121

Under SOP 90-7, XO Parent was required to accrue interest expense during the Chapter 11 proceedings only to the extent that such interest was expected to be paid pursuant to the proceedings. Under the Plan of Reorganization, there were no cash payments of interest on the loans outstanding under the $1.0 billion pre-petition credit facility or XO Parent's unsecured notes. Therefore, XO Parent ceased accruing interest on the pre-petition credit facility and on its unsecured notes from the Petition Date through the Effective Date.

In accordance with SOP 90-7, XO Parent recorded its preferred stock at the amount allowed by the Bankruptcy Court. Accordingly, as of the Petition Date, XO Parent recognized a gain equal to the remaining $81.5 million unamortized balance of a deferred modification fee and wrote off all issuance costs and discounts related to its preferred stock, which resulted in a charge of $2.8 million. In addition, the Company stopped accruing preferred stock dividends subsequent to the Petition Date.

XO Parent Stand-Alone Financial Statements

In accordance with SOP 90-7, stand-alone financial statements of XO Parent are presented below. Such financial statements have been prepared using standards consistent with the Company's consolidated financial statements without eliminating intercompany transactions and without consolidating controlled subsidiaries (dollars in thousands).

XO Communications, Inc.
(XO Parent)
Debtor in Possession
Stand-Alone Balance Sheet
As of December 31, 2002
(Unaudited)

ASSETS	
Current assets.	
Pledged securities	$ 1,100
Other current assets	66,764
Total current assets	67,864
Property and equipment, net	65,654
Broadband wireless licenses, net	67,039
Other intangibles, net	79,711
Investment in and notes receivable from subsidiaries, net	8,542,749
Other assets, net	43,638
Total assets	$ 8,866,655
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities not subject to compromise	$ 50,422
Debt and accrued interest payable to subsidiary subject to compromise	620,389
Current liabilities subject to compromise	5,497,207
Total current liabilities	6,168,018
Long-term liabilities not subject to compromise	62,633
Long-term liabilities subject to compromise	7,182
Total liabilities	6,237,833
Redeemable preferred stock held by and payable to a subsidiary subject to compromise	514,640
Redeemable preferred stock subject to compromise	1,708,316
Stockholders' equity:	
Common stock	4,628,139
Deferred compensation	(8,149)
Accumulated deficit	(4,214,124)
Total stockholders' equity	405,866
Total liabilities and stockholders' equity	$ 8,866,655

XO Communications, Inc.
(XO Parent)
Debtor in Possession
Stand-Alone Statement of Operations
(Unaudited)

	Period from the Petition Date of June 17, 2002 through December 31, 2002
Revenue	$ —
Costs and expenses:	
Selling, operating, and general (excludes stock based compensation)	75,000
Stock-based compensation	12,352
Depreciation and amortization	47,584
Total costs and expenses	134,936
Loss from operations	(134,936)
Reorganization expense, net	(91,121)
Interest income on notes receivable from subsidiaries	286,202
Interest expense	(3,468)
Net income	56,677
Recognition of preferred stock modification fee, net - reorganization item	78,703
Net income applicable to common shares	$ 135,380

XO Communications, Inc.
(XO Parent)
Debtor in Possession
Stand-Alone Statement of Cash Flows
(Unaudited)

	Period From the Petition Date of June 17, 2002 through December 31, 2002
OPERATING ACTIVITIES:	
Net income	$ 56,677
Adjustments for non-cash items.	
Depreciation and amortization	47,584
Reorganization expense	91,121
Stock-based compensation	12,352
Interest income on notes receivable from subsidiaries	(286,202)
Interest expense	3,468
Changes in assets and liabilities:	
Notes receivable from subsidiaries, net	75,000
Net cash used in operating activities	—
Net increase (decrease) in cash and cash equivalents	—
Cash and cash equivalents, beginning of the period	—
Cash and cash equivalents, end of period	$ —

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Review of Significant Accounting Policies

As discussed in Note 3, the Company adopted fresh start as of January 1, 2003, creating, in substance, per SOP 90-7, a new reporting entity The reorganized Company has adopted the policy of expensing customer installation costs and internal labor directly associated with network construction in the period in which the costs are incurred as this labor effort is not specific to any large segregated project, but rather to ordinary course business operations. The predecessor Company capitalized and amortized these costs. In accordance with SOP 90-7, the reorganized Company was also required to implement newly issued accounting pronouncements that would require adoption within twelve months of applying fresh start.

(b) Principles of Consolidation

The Company's consolidated financial statements include all of the assets, liabilities and results of operations of subsidiaries in which the Company has a controlling interest. All inter-company accounts and transactions among consolidated entities have been eliminated.

(c) Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management periodically assesses the accuracy of these estimates and assumptions. Actual results could differ from those estimates.

Certain reclassifications have been made to prior period amounts in order to conform to the current year presentation. Such reclassifications had no effect on net loss or total stockholders' equity.

(d) Adoption of SFAS No 145

Effective January 1, 2003, the Company adopted SFAS No. 145, "Rescission of the Financial Accounting Standards Board Statements No 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002" ("SFAS No. 145"), which eliminates the requirement to report material gains or losses from debt extinguishments as an extraordinary item, net of any applicable income tax effect, in an entity's statement of operations. SFAS No. 145 instead requires that a gain or loss recognized from a debt extinguishment be classified as an extraordinary item only when the extinguishment meets the criteria of both "unusual in nature" and "infrequent in occurrence" as prescribed under APB Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB No. 30"). Upon adopting SFAS No. 145, the Company reclassified a 2001 $345.0 million gain from debt repurchases from extraordinary to recurring.

(e) Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents consist primarily of money market accounts that are available on demand. The carrying amount of these instruments approximates fair value due to their short maturities.

(f) Marketable Securities

Substantially all of the Company's marketable securities currently consist of investments in publicly traded companies. The Company classifies investments in equity securities as available-for-sale and records such investments at fair value. The fair values are based on quoted market prices. Investments in debt securities are recorded at cost, which approximates fair value, as the debt trades in a thin market. Unrealized gains and losses on available-for-sale marketable securities are reported as a separate component of comprehensive income. Realized gains and losses for available-for-sale securities are recognized in investment income.

(g) Long-Lived Assets

Long-lived assets include property and equipment, broadband wireless licenses, and intangible assets to be held and used. Long-lived assets, excluding intangible assets with indefinite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS No. 144"). The criteria for determining impairment for such long-lived assets to be held and used is determined by comparing the carrying value of these long-lived assets to management's best estimate of future undiscounted cash flows expected to result from the use of the assets. The Company believes that no impairment existed under SFAS No. 144 as of December 31, 2003. In the event that there are changes in the planned use of the Company's long-lived assets or its expected future undiscounted cash flows are reduced significantly, the Company's assessment of its ability to recover the carrying value of these assets under SFAS No. 144 could change.

Intangible assets with indefinite useful lives are tested for impairment annually during the fourth quarter, or more frequently if an event indicates that the asset might be impaired in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." The Company believes that there was no impairment of its intangible assets with indefinite useful lives as of December 31, 2003.

(h) Property and Equipment

Property and equipment acquired prior to December 31, 2002 is stated at its fair value at January 1, 2003, as required by fresh start. Additions to property and equipment during 2003 are stated at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets beginning in the month telecommunications networks and acquired bandwidth are substantially complete and available for use and in the month equipment and furniture are acquired. Telecommunications networks and bandwidth include the deployment of fiber optic cable and telecommunications hardware and software for the expressed purpose of delivering telecommunications services. Costs of additions and improvements are capitalized, and repairs and maintenance are charged to expense as incurred. Direct external costs of constructing property and equipment are capitalized including interest costs related to construction. The reorganized Company has adopted the policy of expensing internal labor directly associated with network construction in the period in which the costs are incurred as this labor effort is not specific to any large segregated project.

Equipment held under capital leases is stated at the lower of the fair value of the asset or the net present value of the minimum lease payments at the inception of the lease. For equipment held under capital leases, depreciation is provided using the straight-line method over the shorter of the estimated useful lives of the leased assets or the related lease term.

The estimated useful lives of property and equipment are as follows:

Telecommunications networks and acquired bandwidth	3-20 years
Furniture, fixtures, equipment, and other	5-7 years
Leasehold improvements	the shorter of the estimated or the terms of the leases useful lives

These useful lives are determined based on historical usage with consideration given to technological changes and trends in the industry, which could impact the network architecture and asset utilization. Accordingly, in making this assessment, the Company considers its planned use of the assets, the views of experts within the Company and outside sources regarding the impact of technological advances and trends in the industry on the value and useful lives of its network assets. The Company periodically evaluates the estimated useful lives used to depreciate its assets. While the Company believes its estimate of useful lives are reasonable, significant differences in actual experience or significant changes in assumptions may affect future depreciation expenses.

(i) Broadband Wireless Licenses and Other Intangibles

Broadband wireless licenses were stated at their fair values at January 1, 2003, as required by fresh start. The reorganized Company is amortizing these licenses over an estimated useful life of 10 years based on the initial license term granted by the Federal Communications Commission. Amortization commences when commercial service using broadband wireless technology is deployed in the license's geographic area.

Other intangibles of the Company are valued at fair value as required by the provisions of fresh start and SFAS No. 141 and consist of customer relationships, internally developed technology and XO's trade name. The customer relationships and internally developed technology are being amortized using the straight-line method over their estimated useful lives of three years. The XO trade name was determined to have an indefinite life Accordingly, it is not subject to amortization.

(j) Goodwill

Goodwill consisted primarily of goodwill from the Concentric merger. Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). The Company performed the required transitional impairment tests of goodwill as of January 1, 2002, and determined that the goodwill was totally impaired. Accordingly, in the first quarter of 2002 the Company recognized a $1,876.6 million charge as a cumulative effect of accounting change to write off all of its goodwill.

(k) Other Assets

Other assets consist primarily of escrow and security deposits and pledged securities. The escrow and security deposits and pledged securities are stated at cost, and their fair value approximates their carrying value.

(l) Income Taxes

The Company accounts for income taxes in accordance with the provisions of SFAS No 109, "Accounting for Income Taxes," ("SFAS No. 109") which requires that deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of the enacted tax laws Valuation allowances are used to reduce deferred tax assets to the amount considered likely to be realized. The provisions of SFAS No. 109 have been applied as if the Company were a separate tax payer.

(m) Revenue Recognition

Revenues from telecommunications services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed and determinable and collectibility is probable. In circumstances when these criteria are not met, revenue recognition is deferred until resolution occurs.

Service discounts and incentives related to telecommunication services are recorded as a reduction of revenue when granted or ratably over a contract period. Fees billed in connection with service installations and other non-recurring charges are deferred and recognized ratably over the estimated customer life.

The Company establishes allowances for collection of doubtful accounts and other sales credit adjustments. Allowances for sales credits are established through a charge to revenue, while allowances for doubtful accounts are established through a charge to selling, operating and general expense. The Company assesses the adequacy of these reserves monthly by considering general factors, such as the length of time individual receivables are past due, historical collection experience, the economic and competitive environment, and changes in the creditworthiness of its customers. The Company believes that the established valuation allowances were adequate as of December 31, 2003. If circumstances relating to specific customers change or economic conditions worsen such that the Company's past collection experience and assessment of the economic environment are no longer relevant, XO's estimate of the recoverability of its trade receivables could be further reduced.

Revenue from the sale or lease of unlit network capacity is recognized upon consummation of the transaction and the acquirer's acceptance of the capacity in instances when the Company receives upfront cash payments and is contractually obligated to transfer title to the specified capacity at the end of the contract term. If the transaction does not meet these criteria, revenue is recognized ratably over the contract term. There were no sales of unlit capacity during the reported periods whereby revenue was recognized "up front" upon consummation of the transaction.

(n) Cost of Service

Cost of service includes expenses directly associated with providing telecommunications services to customers, including, among other items, the cost of connecting customers to the Company's networks via leased facilities, the costs of leasing components of our network facilities and costs paid to third party providers for interconnect access and transport services. All such costs are expensed as incurred. The Company accrues for the expected costs of services received from third party telecommunications providers during the period the services are rendered. Invoices received from the third party telecommunications providers are often disputed due to billing discrepancies. The Company accrues for all invoiced amounts, even amounts in dispute, as these amounts represent contingent liabilities that are considered probable and measurable. Disputes resolved in the Company's favor may reduce cost of service in the period the dispute is settled and typically reflect costs paid in the prior periods. Because the period of time required to resolve these types of disputes often lapses over several quarters, the benefits associated with the favorable resolution of such disputes normally are realized in periods subsequent to the accrual of the disputed invoice.

(o) Net Income (Loss) Per Share

Net income (loss) per common share, basic and diluted, is computed by dividing net income (loss) applicable to common shares by the weighted average number of common shares outstanding for the period. In periods of net loss, the assumed common share equivalents for options and warrants are anti-dilutive.

(p) Stock-Based Compensation

Effective January 1, 2003, the Company adopted the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure," ("SFAS No. 148"). This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS No. 123"), to provide for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure provisions of SFAS No. 123 and APB No 28, "Interim Financial Reporting," ("APB No. 28") to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements.

As allowed by SFAS No. 148, the Company has chosen to continue to account for compensation cost associated with its employee stock plan in accordance with the intrinsic value method prescribed by APB No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") adopting the disclosure-only provisions of SFAS No. 123. Under this method, no compensation expense is recorded if stock options are granted at an exercise price equal to or greater than the fair market value of the Company's stock on the grant date. If the Company had adopted the fair value method of accounting for its stock awards, stock-based compensation would have been determined based on the fair value for all stock awards at the grant date using a Black-Scholes pricing model and the following weighted average assumptions:

	Reorganized XO 2003	Predecessor XO 2002	Predecessor XO 2001
Expected volatility	75.0%	125.0%	125.0%
Risk free interest rate	2.6%	4.0%	4.3%
Dividend yield	0.0%	0.0%	0.0%
Expected life (range in years)	4.0	4.0	4.0
Fair value per share at grant date	$2.95	$ 0.11	$ 5.10

The Company's pro forma net loss applicable to common shares, and pro forma net loss per common share, basic and diluted, if the Company had used the fair value method would have been as follows (dollars in thousands, except per share data):

	Reorganized XO December 31, 2003	Predecessor XO December 31, 2002	Predecessor XO December 31, 2001
Net loss applicable to common shares, as reported	$(102,554)	$(3,350,362)	$(1,838,917)
Add: Stock-based employee compensation expense included in net loss applicable to common shares, as reported	708	28,928	37,173
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all stock awards, net of related tax effects	(16,189)	(1,462)	(44,138)
Pro forma net loss	$(118,035)	$(3,322,896)	$(1,845,882)
Net loss per common share, basic and diluted			
Net loss per common share, basic and diluted - as reported	$ (1.07)	$ (7.58)	$ (4.55)
Net loss per common share, basic and diluted - pro forma	$ (1.23)	$ (7.52)	$ (4.57)

(q) Comprehensive Loss

Comprehensive loss includes the Company's net loss applicable to common shares, as well as net unrealized gains and losses on available-for-sale investments and, for any periods prior to the second quarter of 2002, foreign currency translation adjustments relating to the Company's European operations, which were disposed of in February 2002.

(r) Concentration of Credit Risk

Other financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade receivables. Although the Company's trade receivables are geographically dispersed and include customers in many different industries, a portion of the Company's revenue is generated from services provided to other telecommunications service providers. Several of these companies have filed for protection under Chapter 11 of the Bankruptcy Code while others have experienced business downturns. The Company believes that its established valuation and credit allowances are adequate to cover these risks.

(s) Fair Value of Financial Instruments

SFAS No. 107, "Disclosure about Fair Value of Financial Instruments" ("SFAS No. 107"), requires disclosure of fair value information about financial instruments, for which it is practicable to estimate the value. The carrying amounts for the majority of the Company's financial instruments classified as current assets and liabilities approximate their fair value due to their short maturities. Marketable securities are recorded at fair value. Amounts outstanding under long-term debt agreements approximate their estimated fair values as they accrue interest at rates that are variable every 3-6 months.

(t) Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations," ("SFAS No. 143"), which requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which a legal or contractual removal obligation is incurred if a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, SFAS No. 143 requires the liability to be recognized when a reasonable estimate of the fair value can be made. As required by SOP 90-7, we implemented SFAS No. 143 on January 1, 2003, in conjunction with the implementation of fresh start and recorded an estimated asset retirement obligation of $12.0 million, as disclosed in Note 12.

Effective January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), which requires that costs, including severance costs, associated with exit or disposal activities be recorded at their fair value when a liability has been incurred. Under previous guidance, certain exit costs, including severance costs, were accrued upon managements' commitment to an exit plan, which is generally before an actual liability has been incurred. The adoption of SFAS No. 146 did not have a material effect on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," ("SFAS No. 149"), which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," ("SFAS No. 150"), which establishes standards for how companies classify and measure certain financial instruments with characteristics of both liabilities and equity. It requires companies to classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective beginning with the second quarter of fiscal 2003. The adoption of SFAS No. 150 did not have a material impact on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" ("FIN 46"). FIN 46 applies to any business enterprise that has a controlling interest, contractual relationship or other business relationship with a variable interest entity ("VIE") and establishes guidance for the consolidation of VIEs that function to support the activities of the primary beneficiary. In December 2003, the FASB completed its deliberations regarding the proposed modification to FIN 46 and issued Interpretation Number 46R, "Consolidation of Variable Interest Entities-an Interpretation of ARB No. 51" ("FIN 46R"). The decision reached included a deferral of the effective date and provisions for additional scope exception for certain type of variable interests. Application of FIN 46R is required in financial statements of public entities that have interests in VIEs or potential VIEs commonly referred to as special-purpose entities for period ending after December 15, 2003. Application by public entities (other than small business issuers) for all other types of entities is required in financial statements for periods ending after March 15, 2004. The Company does not believe that the adoption of FIN 46R will have any effect on the Company's consolidated financial statements.

In November 2002, the FASB's Emerging Issues Task Force reached a final consensus on Issue No. 00-21. "Accounting for Revenue arrangements with Multiple Deliverables" ("EITF 00-21"), which is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Under the EITF 00-21, revenue arrangements with multiple deliverables are required to be divided into separate units of accounting under certain circumstances. The adoption of EITF 00-21 did not have a material effect on the Company's consolidated financial statements.

In December 2003, the SEC issued Staff Accounting Bulletin No. 104, "Revenue Recognition", which updates the guidance in SAB No. 101, integrates the related set of Frequently Asked Questions, and recognizes the role of EITF 00-21. The adoption of SAB No. 104 did not have a material effect on the Company's consolidated financial statements.

6. CUMULATIVE EFFECT OF ACCOUNTING CHANGE

Effective January 1, 2002, the Company adopted SFAS No. 142 and performed the required transitional impairment tests of goodwill, and determined that the value of its goodwill was totally impaired Accordingly, in the first quarter of 2002, the Company recorded a $1,876.6 million charge as a cumulative effect of accounting change to write-off all of its goodwill. The adjusted net loss and related earnings per share before cumulative effect of accounting change for the year ended December 31, 2001 compared to the actual results for the years ended December 31, 2003 and 2002 is as follows (dollars in thousands, except per share data):

	Reorganized XO	Predecessor XO	
	2003	2002	2001
Reported net loss before cumulative effect of accounting change	$(102,554)	$(1,510,192)	$(2,086,125)
Goodwill amortization	—	—	595,601
Adjusted net loss before cumulative effect of accounting change	$(102,554)	(1,510,192)	(1,490,524)
Net loss per common share before cumulative effect of accounting change, basic and diluted			
Reported net loss before cumulative effect of accounting change	$ (1.07)	$ (3 42)	$ (5 16)
Goodwill amortization	—	—	1 47
Adjusted net loss per common share before cumulative effect of accounting change, basic and diluted	$ (1 07)	$ (3 42)	$ (3 69)

7. RESTRUCTURING CHARGES AND ASSET WRITE-DOWNS

During 2003, the Company recorded restructuring charges of $11.6 million from the reduction of its work force by approximately 550 employees, primarily employed in network operations, sales and marketing and information technology and estimated losses associated with restructured leases. During the second half of 2001, and the first half of 2002, the Company implemented a plan to restructure certain of its business operations. The restructuring plan included divesting its European operations and reducing the Company's discretionary spending, capital expenditures and workforce based on its assessment at that time of current and expected future market conditions.

As of December 31, 2003, the remaining restructuring accrual was $60.0 million, which relates primarily to payments due to landlords on exited leased facilities. The restructuring accrual has decreased from $79 0 million as of December 31, 2002, due to $17.2 million in payments associated with exited leased facilities and $40.3 million of non-cash reductions made in conjunction with the Company's implementation of fresh start to reflect the December 31, 2002 accrual at its estimated net present value offset by a $26.8 million increase from reorganization adjustments.

8. MARKETABLE SECURITIES

Marketable securities consisted of the following (dollars in thousands):

	Reorganized XO December 31, 2003	Predecessor XO December 31, 2002
Investments in equity and debt securities	$42,052	$ —
U S. Government and agency notes and bonds	—	246,945
	$42,052	$246,945

The amortized cost, gross unrealized gains and losses and fair value of the investment securities available-for-sale as of December 31, 2003 and 2002, are as follows (dollars in thousands):

	Fair Value	Cost Basis	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses
As of December 31, 2003				
Equity securities	$ 30,041	$ 28,663	$3,001	$(1,623)
Debt securities	12,011	12,011	—	—
Total marketable securities	$ 42,052	$ 40,674	$3,001	$(1,623)
As of December 31, 2002				
U.S. Governments and agency notes and bonds	$246,945	$244,433	$2,512	$ —

Debt securities as of December 31, 2003 mature in 2007.

9. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following components (dollars in thousands):

	Reorganized XO December 31, 2003	Predecessor XO December 31, 2002
Telecommunications networks and acquired bandwidth	$407,747	$2,920,819
Furniture, fixtures, equipment, and other	77,783	656,994
	485,530	3,577,813
Less accumulated depreciation	79,501	1,165,216
	406,029	2,412,597
Network construction-in-progress	79,955	367,992
	$485,984	$2,780,589

As discussed in Note 3, the Company applied fresh start on January 1, 2003. Accordingly its property and equipment as of January 1, 2003, were recorded at fair value which resulted in a significant write down of property and equipment and a reduction in the associated depreciation expense in 2003. During 2003, 2002 and 2001, depreciation expense was $83.1 million, $598.5 million and $447 0 million, respectively. During 2003, 2002 and 2001 the Company capitalized interest on construction costs of $3.0 million, $11.1 million, and $51.6 million, respectively. Assets classified as construction-in-progress are not being depreciated as they are not currently ready for their intended use.

10. BROADBAND WIRELESS LICENSES AND OTHER INTANGIBLES

Broadband wireless licenses and other intangible assets consisted of the following (dollars in thousands):

	Reorganized XO December 31, 2003	Predecessor XO December 31, 2002
Broadband wireless licenses	$ 59,508	$ 997,942
Customer relationships	49,987	123,745
Internally developed technology	9,521	—
Acquired technology	—	130,515
Other	—	35,413
	119,016	1,287,615
Less accumulated amortization	(26,163)	(303,001)
	92,853	984,614
XO Trade name — indefinite life asset	16,662	—
	$109,515	$ 984,614

As discussed in Note 3, the Company applied fresh start on January 1, 2003. Accordingly its broadband wireless licenses and other intangibles as of January 1, 2003, were recorded at fair value which resulted in a significant write down of broadband wireless licenses and other intangibles and a reduction in the associated amortization expense in 2003. Amortization expense for the years ended December 31, 2003, 2002 and 2001 was $26 2 million, $101.3 million and $715.7 million, respectively. Broadband wireless licenses are amortized when commercial service using the wireless technology is deployed in the license's geographic area. As of December 31, 2003, approximately $23.5 million of broadband wireless licenses are not being amortized as commercial services have not been deployed in the license's geographic area. Estimated amortization expense for the next five years is $26.1 million, $26.1 million, $6.3 million, $6.3 million and $4.4 million, respectively.

11. ACCRUED LIABILITIES

Accrued liabilities consisted of the following components (dollars in thousands):

	Reorganized XO December 31, 2003	Predecessor XO December 31, 2002
Accrued taxes	$ 49,046	$ 57,649
Accrued compensation	46,124	58,551
Accrued operative expenses	27,837	27,807
Deferred income	26,011	37,109
Accrued telecommunications costs	19,491	28,494
Accrued restructuring	20,046	16,364
Other accrued liabilities	19,798	40,128
	$208,353	$266,102

12. ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

The Company leases Internet data center facilities and various technical sites. Terminating and decommissioning these locations would require the removal of any XO assets and restoration of the leased space to its original condition. Accordingly, upon adoption of SFAS No. 143, the Company recorded an estimated asset retirement obligation of $12 0 million, which was estimated using management's best estimate of the expected cash flows. The present value of the asset retirement obligation was calculated using a discount rate of 8.0% over a period of 5-20 years, which is representative of the estimated remaining period XO will occupy its data centers and technical facilities. Accretion expense of $0.8 million for 2003 is included in selling, operating and general expense in the accompanying consolidated statement of operations.

13. LONG-TERM DEBT

The Company has a secured Credit Facility which matures on July 15, 2009. There are no additional borrowings available under the Credit Facility. There are no current debt service requirements since cash interest payments as well as automatic and permanent quarterly reductions on the principal amount outstanding do not commence until 2009. However, in the event that consolidated excess cash flow (as defined in the Credit Facility) for any fiscal quarter during the term of the agreement is greater than $25 million, at the request of the lender, the Company will pay an amount equal to 50% of such excess cash flow greater than $25 million toward the reduction of outstanding indebtedness. In addition, if the ratio of XO's consolidated earnings before interest, taxes, depreciation and amortization to interest expense for the four consecutive quarters exceeds 4:1, XO would be required to pay cash interest, unless waived by the lenders.

The security for the Credit Facility consists of all assets of XO Parent, including the stock of its direct and indirect subsidiaries, and all assets of virtually all of those subsidiaries. The Credit Facility limits additional indebtedness, liens, dividend payments and certain investments and transactions, and contains certain covenants with respect to EBITDA (earnings before interest, taxes, depreciation and amortization) requirements and maximum capital expenditures. The Company was in compliance with these covenants at December 31, 2003. The Company is also required to maintain an unrestricted cash balance of $45 million at December 31, 2003, and $25 million at the end of each fiscal quarter thereafter during the term

At December 31, 2003, long-term debt of $529 9 million was outstanding on the Credit Facility and $6.9 million of accrued interest that if not paid, converts to principal. At December 31, 2003, more than 90% of the underlying loans of the Credit Facility are held by an entity controlled by Mr. Carl C. Icahn, Chairman of the board of directors ("Mr. Icahn"). As discussed above, the Company is not required to pay cash interest accrued on the principal amount under the Credit Facility until it meets certain financial ratios; however the Company can elect to begin paying interest in cash prior to the required date. Loans under the Credit Facility bear interest, at the Company's option, at an alternate base rate, as defined, or a Eurodollar rate, plus in each case, applicable margins. Once the Company begins to pay accrued interest in cash, the applicable margins are reduced. At December 31, 2003, the annualized weighted average interest rate applicable to outstanding borrowings under the Credit Facility was 7.57%.

14. STOCKHOLDERS' EQUITY

Pursuant to the Company's Certificate of Incorporation that was adopted in connection with the Plan of Reorganization, the Company has the authority to issue 1,000.0 million shares of New Common Stock and 200 0 million shares of new undesignated preferred stock. As of December 31, 2003, approximately 96.3 million shares of New Common Stock had been issued, more than 80% of which were owned by entities controlled by Mr. Icahn.

As discussed in Note 2, XO Parent's pre-petition senior note holders and pre-petition general unsecured creditors were entitled to, among other consideration, warrants to purchase shares up to an additional 23.75 million shares of New Common Stock.

The warrants consist of:

- Series A Warrants to purchase 9.5 million shares of New Common Stock at an exercise price of $6.25 per share;
- Series B Warrants to purchase approximately 7.1 million shares of New Common Stock at an exercise price of $7 50 per share; and

- Series C Warrants to purchase approximately 7.1 million shares of New Common Stock at an exercise price of $10.00 per share.

The warrants were valued at approximately $44 9 million using a Black Scholes model at the Effective Date and are included in reorganized XO's common stock in the accompanying consolidated balance sheet. The warrants will expire 7 years after the date of issuance. The exercise price applicable to each respective series of warrants is subject to adjustment in certain events. Entities controlled by Mr. Icahn own approximately 40% of these warrants as they owned pre-petition senior notes.

In addition to the outstanding warrants discussed above, the Company has a stock option plan that can further dilute investors if exercised. This stock option plan is discussed further in Note 16. On December 31, 2003, there were 2.4 million exercisable stock options.

15. INCOME TAXES

As of December 31, 2003, XO had net operating loss carryforwards of approximately $1.0 billion. All of XO's net operating loss and a substantial amount of XO's capital loss carryforward generated prior to the Bankruptcy Effective Date have been reduced as a result of the discharge and cancellation of various pre-petition liabilities. XO's use of the surviving capital loss carryforward of $0.2 billion is subject to limitations imposed under the ownership change rules in the U.S. Internal Revenue Code. Also, the utilization of the expected tax benefit from property and equipment depreciation could also be impacted by the ownership change rules of the U.S. Internal Revenue Code.

XO will join with the affiliated group of corporations controlled by Mr. Icahn in filing a consolidated federal income tax return for the year ended December 31, 2003. In January 2004, Mr. Icahn's ownership percentage fell below the amount required by the Internal Revenue Code for the filing of consolidated returns. As such, in January 2004, XO deconsolidated with Starfire Holding Corporation ("Starfire"), the Parent entity of the affiliated group of corporations controlled by Mr. Icahn. XO entered into a Tax Allocation Agreement with Starfire which provides that while XO files on a consolidated basis with Starfire, Starfire will pay all consolidated federal income taxes on behalf of the consolidated group that includes XO, and XO will make payments to Starfire in an amount equal to the tax liability, if any, that it would have if it were to file as a consolidated group separate and apart from Starfire. Upon deconsolidation, the Tax Allocation Agreement generally provides that Starfire will reimburse XO each year going forward for the excess of XO's actual income taxes over the income tax that would have been required if NOLs or other tax attributes used by the Starfire consolidated group excluding XO, if any, were available to XO.

Components of deferred tax assets and liabilities were as follows (dollars in thousands):

	Reorganized XO December 31, 2003	Predecessor XO December 31, 2002
Deferred tax assets		
Provisions not currently deductible	$ 172,368	$ 123,280
Property, equipment and other long-term assets (net)	893,957	367,208
Net operating loss and capital loss carryforwards	483,453	1,863.336
Total deferred tax assets	1,549,778	2,353,824
Valuation allowance	(1.540,612)	(2,028.331)
Net deferred tax assets	9.166	325,493
Deferred tax liabilities		
Property, equipment and other long-term assets (net)	—	(101,402)
Other identifiable intangibles	(15,997)	(222,537)
Other	—	(1,554)
Total deferred tax liabilities	(15,997)	(325,493)
Net deferred tax liability	$ (6,831)	$ —

A reconciliation of the U.S. federal and state tax rate to the Company's effective income tax rate is as follows:

	Reorganized XO 2003	Predecessor XO 2002
Statutory U S federal rate	35 0%	35 0%
State income taxes, net of federal benefit	6 0%	6 0%
Valuation allowance for deferred tax assets	(41 0%)	(18 3%)
Other identifiable intangibles	—	(22 7%)
Effective income tax rate	—%	—%

16. STOCK COMPENSATION ARRANGEMENTS

The XO Communications, Inc. 2002 Stock Incentive Plan ("the 2002 Stock Incentive Plan") was adopted upon the Effective Date. Under the 2002 Stock Incentive Plan, the Company is authorized to issue awards for up to 17.6 million shares of New Common Stock in the form of restricted stock or options to purchase stock. The 2002 Stock Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors, which has the discretionary authority to determine all matters relating to awards of stock options and restricted stock, including the selection of eligible participants, the number of shares of common stock to be subject to each option or restricted stock award, the exercise price of each option, vesting, and all other terms and conditions of awards. Unless the Compensation Committee designates otherwise, all options expire on the earlier of (i) ten years after the date of grant, (ii) twelve months after termination of employment with XO due to death or complete and permanent disability, (iii) immediately upon termination of employment by XO for cause, or (iv) three months after termination of employment by the employee or by XO for other than cause. Upon the Effective Date of the plan of Reorganization, all options under any predecessor XO stock option plans were cancelled and the plans were terminated.

On June 20, 2003, XO filed a registration statement covering the offer and sale of stock options and stock appreciation rights ("SARs") to be granted in conjunction with the 2003 Employee Retention and Incentive Plan (the "Retention Plan") for an aggregate award of 1.9 million shares of New Common Stock. (the "Retention Plan Awards"). Approximately 200,000 options and approximately 10,500 SARs were granted in the third quarter of 2003, fifty percent of which were vested and exercisable on the date of grant, with the remaining fifty percent vesting ratably every month for twenty four months following the month of grant. Additional grants may be made in 2004 if the Company attains certain financial goals in the second half of 2003. The financial goals and the terms of the Retention Plan were established by the Company's Board of Directors. The per share exercise price for the Retention Plan Awards was set at $5.84. Any compensation was recorded as deferred compensation and amortized to on a straight line basis expense based on the associated vesting period.

The following two tables summarize information regarding option activity under the 2002 Stock Option Plan for the year ended December 31, 2003:

	Number of Shares	Weighted Average Exercise Price
Outstanding at the Effective Date	—	$ —
Granted	15,394,162	$5.09
Canceled	(3,697,068)	$5.02
Exercised	(1,274,139)	$5.01
Outstanding at December 31, 2003	10,422,955	$5.12
Exercisable, at December 31, 2003	2,424,903	$5.10

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding at December 31, 2003	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at December 31, 2003	Weighted Average Exercise Price
$ 4.80 – $7.05	10,422,955	9.1	$ 5.12	2,424,903	$ 5.10

17. SUPPLEMENTAL DISCLOSURE

Cash flows

Supplemental disclosure of the Company's cash flow information is as follows (dollars in thousands):

	Reorganized XO	Predecessor XO	
	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Non-cash financing and investing activities were as follows			
Class A common stock, warrants and options issued in acquisitions and under lease arrangements	$ —	$ —	$ 29,055
Redeemable preferred stock dividends, paid in shares of redeemable preferred stock	—	—	86,237
Accrued redeemable preferred stock dividends, payable in shares of redeemable preferred stock	—	—	6,524
Assumption of preferred stock and liabilities in acquisitions	—	—	8,816
Conversion of 6½% redeemable cumulative preferred stock to Class A common stock	—	35	17,700
Conversion of accrued interest to long-term debt	29,901	—	—
Cash paid for interest	$ 2,315	$11,681	$313,178

Employee Savings and Retirement Plan

At December 31, 2003, the Company had a defined contribution plan, generally covering all full time employees in the United States. The Company provides a match to all eligible employees based on certain plan provisions and the discretion of the Board of Directors. Effective April 1, 2002, the Company changed its employer matching contribution from a 100% matching contribution up to 5% of the participant's compensation to a 50% matching contribution up to 5% of the participant's compensation. Company contributions were $4.8 million, $7.0 million and $12.5 million during 2003, 2002 and 2001, respectively.

18. OPERATING SEGMENTS

Reportable Segments

The Company operates its business as one telecommunications segment. The Company's communications segment includes all of its products and services including data, voice, integrated voice and data, and other services. These services have similar network operations and technology requirements and are sold through similar sales channels to a similar targeted customer base. Therefore, the Company manages these services as a single segment that are sold in geographic areas, or markets, within the United States, or that are sold to customers with a presence across geographical markets.

Products and Services

The Company classifies its products and services revenues offered by its communications services segment into voice services, data services, integrated voice and data services, and other services (dollars in thousands):

	Reorganized XO Year Ended	Predecessor XO Year Ended December 31,	
	2003	2002	2001
Voice services	$ 572,774	$ 659,558	$ 609,885
Data services	392,742	472,247	596,664
Integrated voice and data services	144,967	128,048	52,018
Total revenue	$1,110,483	$1,259,853	$1 258,567

19. SELECTED QUARTERLY DATA (Unaudited)

Quarterly financial information is summarized in the table below (dollars in thousands, except per share data):

	Reorganized XO			
	Quarter ended 2002			
	March 31,	June 30,	September 30,	December 31,
Revenue	$286,093	$283,918	$279,433	$261,039
Cost of service	107,506	104,898	106,935	102,790
Loss from operations	(14,015)	(13,260)	(35,878)	(48,705)
Net loss (a)	(20,488)	(19,836)	(40,787)	(21,443)
Net loss per common share (basic and diluted) (a)(d)	(0 22)	(0 21)	(0 42)	(0 22)

	Predecessor XO			
	Quarter ended 2002			
	March 31,	June 30,	September 30,	December 31,
Revenue	$ 333,405	$ 325,480	$ 301 526	$ 299,442
Cost of service	140,367	134,346	126,215	121,996
Loss from operations (b)	(182,663)	(176,771)	(673,001)	(176,463)
Net loss before cumulative effect of accounting change	(299,028)	(346,133)	(695,209)	(169,822)
Net loss (c)	(2,175,654)	(346,133)	(695,209)	(169,822)
Net loss applicable to common shares	(2,198,480)	(286,851)	(695,209)	(169,822)
Net loss per common share (basic and diluted) (c)(d)	(4 97)	(0 65)	(1 57)	(0 39)

a Fourth quarter of 2003 includes a $33 5 million realized investment gain

b In the third quarter of 2002, loss from operations includes a non-cash asset write down totaling $477 3 million c In the first quarter of 2002, net loss includes a $1,876.6 million impairment charge to write-off all of XO's goodwill as a cumulative effect of accounting change, pursuant to SFAS No 142

d For the year 2003, the net loss per share data has been calculated based on the shares outstanding subsequent to consummation of the Plan of Reorganization For the year 2002, the net loss per share data has been calculated based on the shares outstanding of the Company's pre-petition class A and class B common stock prior to the consummation of its Plan of Reorganization

20. RELATED PARTY TRANSACTIONS

Various entities controlled by Mr. Icahn hold the following interests in XO:

	Outstanding Common Stock	Series A, B and C Warrants	Credit Facility
	(unaudited)	(unaudited)	(unaudited)
At December 31, 2003	Greater than 80%	Greater than 40%	Greater than 90%
At January 31, 2004	Greater than 60%	Greater than 40%	Greater than 90%

In addition, entities controlled by Mr. Icahn have acquired an option to purchase 6.25 million additional shares of XO's New Common Stock from Franklin Mutual Advisors, LLC at a strike price of $4.25 per share which expires June 21, 2004. After closing the Rights Offering in January 2004, Mr. Icahn's ownership interest in our outstanding common stock was reduced to over 60% (unaudited).

As a result of his majority ownership, Mr. Icahn can elect all of our directors, appoint the members of the committees of our Board of Directors, appoint key members of our executive management team, and appoint our auditors. Currently, Mr Icahn is Chairman of the Board of Directors and three employees of Icahn Associates sit on the Board of Directors and various Committees of the Board of Directors Under applicable law and XO's Certificate of Incorporation and by-laws, certain action cannot be taken without the approval of holders of a majority of our voting stock, including, without limitation, mergers, acquisitions, the sale of substantially all our assets, and amendments to our Certificate of Incorporation and by-laws.

Mr Icahn, through various entities that he owns or controls, has the right to require XO to register, under the Securities Act of 1933, shares of New Common Stock held by such entities and to include shares of New Common Stock held by them in certain registration statements filed by XO, pursuant to a Registration Rights Agreement approved by the Bankruptcy Court in connection with XO Parent's Chapter 11 proceedings.

In February 2003, Dixon Properties, LLC ("Dixon"), which is controlled by Mr. Icahn, acquired ownership of the building in which XO headquarters is located in a transaction that was approved by the Bankruptcy Court. XO currently leases approximately 170,000 square feet of space in that building. Pursuant to the assumed lease agreement, XO has paid $3.3 million in lease expense to Dixon for the year ended December 31, 2003 and XO is obligated to pay approximately $15.6 million to Dixon through the expiration of the initial term of the lease, which is November 30, 2007.

XO has entered into a Tax Allocation Agreement, dated January 16, 2003, between XO and Starfire Holding Corporation ("Starfire"), the parent entity of the affiliated group of corporations controlled by Mr. Icahn. XO and Starfire intend to file consolidated returns during the period in which Mr. Icahn's ownership of XO is equal to or greater than 80%, as required by the Internal Revenue Code. The Tax Allocation Agreement provides that Starfire will pay all consolidated federal income taxes on behalf of the Icahn consolidated group that includes XO, and XO will make payments to Starfire in an amount equal to the tax liability, if any, that it would have incurred if it were to file its own consolidated return separate and apart from Starfire. Upon the closing of the Rights Offering in January 2004, Mr. Icahn ownership percentage fell below 80% (unaudited). Consequently XO will no longer file as part of Icahn's consolidated group after January 2004 Upon deconsolidation, the Tax Allocation Agreement generally provides that Starfire will reimburse XO each year going forward for the excess of XO's actual income tax expense over the income tax that would have been owed if the net operating losses or other tax attributes used in prior periods by the Starfire consolidated group excluding XO, if any, were still available to XO.

The Company provides certain telecommunications services to companies affiliated with Mr. Icahn. For the year ended December 31, 2003, the total revenue recognized on such services affiliated with Mr. Icahn was approximately $0.4 million. The Company has purchased approximately $0.3 million in services from Icahn affiliates during 2003. During 2003, XO purchased approximately $1.1 million in hardware and services from Dell Computers, Inc. Mr. Adam Dell, an XO director, is Mr. Michael Dell's, the Chief Executive Officer of Dell Computers, brother.

21. COMMITMENTS AND CONTINGENCIES

Operating Commitments

The Company is leasing premises under various noncancelable operating leases for administrative space, building access, and other leases, which, in addition to rental payments, require payments for insurance, maintenance, property taxes and other executory costs related to the leases. The lease agreements have various expiration dates and renewal options through 2029. The Company also has various noncancelable long-term contractual obligations associated with maintenance and service agreements.

Future minimum lease commitments required under noncancelable operating leases and contractual obligations are as follows (dollars in thousands):

Year Ending December 31,	Operating lease obligations	Other long-term contractual obligations
2004	$ 60,623	$ 53,974
2005	57,974	33,768
2006	53,269	24,484
2007	49,159	23,451
2008	38,823	23,048
Thereafter	188,084	96,811
Total minimum commitments	$447,932	$255,536

Rent expense for cancelable and noncancelable leases totaled approximately $54.0 million, $76 4 million, and $100.0 million for the years ended December 31, 2003, 2002, and 2001, respectively. The minimum lease payments noted above have not been reduced for sublease income totaling approximately $6.1 million at December 31, 2003.

Capital Leases

Network assets under capital leases totaled approximately $1.4 million and $16.3 million as of December 31, 2003 and 2002, respectively, and are included in telecommunications networks in property and equipment. Depreciation on leased assets of $0.4 million and $2.0 million for the years ended

December 31, 2003 and 2002, respectively, is included in depreciation expense. Future minimum lease payments under capital lease obligations as of December 31, 2003 are as follows (dollars in thousands):

Year Ending December 31,	
2004	$2,809
2005	2,668
2006	2,416
2007	1,733
2008	277
Thereafter	—
Total minimum capital lease payments	9,903
Less imputed interest	(2,722)
Less current portion of capital lease obligations	(1,660)
Long-term portion of capital lease obligation	$5,521

The Company provides intercity transport primarily through five year leases of wavelength capacity that are paid for at the beginning of the term. The first of these leases expires in 2006. At that time, XO will either renew these leases or light its intercity fiber network, either of which will be a substantial capital expenditure.

Legal Proceedings

XO is involved in lawsuits, claims, investigations and proceedings consisting of commercial, securities, tort, and employment matters, which arise in the ordinary course of business. In addition, disputes with respect to general unsecured claims and two administrative expense claims against XO Parent in the aggregate amount of approximately $23.0 million remain pending from the XO Parent Chapter 11 proceedings. In accordance with SFAS No. 5, "Accounting for Contingencies," XO makes a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. XO believes it has adequate provisions for any such matters. XO reviews these provisions at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. However, XO believes that it has valid defenses with respect to legal matters pending against it. Nevertheless, it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Unfunded Affiliate Pension Obligation (Unaudited)

As affiliates of Mr. Icahn held over 80% of the outstanding New Common Stock of XO Parent at December 31, 2003, applicable pension and tax laws made each member of a plan sponsor's "controlled group" (generally defined as entities in which there is at least an 80% common ownership interest) jointly and severally liable for certain pension plan obligations of the plan sponsor. These pension obligations include ongoing contributions to fund the plan, as well as liability for any unfunded liabilities that may exist at the time the plan is terminated. In addition, the failure to pay these pension obligations when due may result in the creation of liens in favor of the pension plan or the Pension Benefit Guaranty Corporation, (the "PBGC") against the assets of each member of the plan sponsor's controlled group.

As a result of the reduction to less than 80% ownership interest in XO Parent by Mr. Icahn's affiliates after the Rights Offering, XO Parent and its subsidiaries will no longer be subject to the pension liabilities of any entities in which Mr. Icahn has a direct or indirect ownership interest of at least 80%.

22. SUBSEQUENT EVENTS (Unaudited)

Acquisition of Assets of Allegiance Telecom, Inc.

On February 19, 2004, the United States Bankruptcy Court for the Southern District of New York approved the Asset Purchase Agreement by and between XO Parent and Allegiance Telecom, Inc., or ("Allegiance"), pursuant to which XO Parent has agreed to acquire substantially all of the assets of Allegiance for approximately $311.0 million in cash and approximately 45.4 million shares of New Common Stock. Governmental approval should occur prior to, or shortly after the second quarter of 2004. At that point in time, the two companies will operate under a management agreement whereby the combined management team will exercise day to day operating control over the assets and operations to be acquired from Allegiance. The acquisition of the Allegiance assets should be consummated during the third quarter of 2004 after all other federal and state regulatory approvals are obtained. While the Company believes the approvals will be forthcoming, there can be no assurance that XO will obtain the governmental approvals and clearances required to consummate the acquisition of the Allegiance assets.

The Allegiance assets consist primarily of:

- switching and routing equipment, located both in current Allegiance facilities and in facilities operating by one or more incumbent local exchange carriers;
- physical points of presence in the form of network operations centers, data centers, central offices, and sales offices located in 36 major metropolitan areas;
- customer and sales agreements that constitute a majority of Allegiance's voice and data revenues;
- leased intercity and metro fiber network capacity that is both redundant to and expansive of XO's current network; and
- billing, provisioning, and other back-office information technology platforms.

Rights Offering

As part of its Plan of Reorganization, XO Parent agreed to initiate a Rights Offering that allowed certain holders of claims and interests in XO Parent as of the November 15, 2002 record date to subscribe for up to 40.0 million shares of New Common Stack at $5.00 per share The Rights Offering closed on January 5, 2004. An aggregate of 39.7 million shares were issued, yielding net proceeds of $197.6 million The proceeds were used to reduce its outstanding debt and accrued interest under the Credit Facility from $536.8 million to $339.2. See also Note 2.

XO Communications, Inc.

Schedule II — Consolidated Valuation and Qualifying Accounts
For The Years Ended December 31, 2003, 2002 and 2001

Predecessor XO

(dollars in thousands)	Beginning Balance	Additions charged to expense	Reductions	Balance Ending
Allowance for doubtful accounts				
2001	$ 20,999	$ 45,757	$ (34,264)	$ 32,492
2002	$ 32,492	$ 53,631	$ (49,093)	$ 37,030
Restructuring accrual				
2001 (a)	$ —	$509,202	$(383,429)	$125,773
2002 (b)	$125,773	$480,168	$(526,951)	$ 78,990

(a) Only $16 6 million of the reduction in the 2001 restructuring accrual was for cash payments The balance was associated with the write down for the excess of carrying value of assets to be sold or abandoned and was applied to those assets

(b) Only $49 7 million of the reduction in 2002 restructuring accrual was for cash payments The balance was associated with the non-cash asset write down resulting from an agreement with Level 3 to amend various agreements relating to XO's Level 3 intercity fiber network facilities

Reorganized XO

(dollars in thousands)	Beginning Balance	Reorganization Adjustments	Additions charged to expense	Reductions	Ending Balance
Allowance for doubtful accounts					
2003	$37,030	$ —	$29,998	$(34,042)	$32,986
Restructuring accrual					
2003 (c)	$38,725	$26,809	$11,618	$(17,176)	$59,976

(c) The beginning balance was reduced to its net present value when we implemented fresh start

EXHIBIT G

SMALL AND MINORITY BUSINESS PLAN

LMDS HOLDINGS, INC. SMALL AND MINORITY-OWNED TELECOMMUNICATIONS BUSINESS PARTICIPATION PLAN FOR ITS TENNESSEE BUSINESS OPERATIONS

PURPOSE:

The purpose of the Small and Minority-Owned Telecommunications Business Participation Plan ("Plan") of LMDS Holdings, Inc ("Holdings" or "Company") is to identify small and minority-owned telecommunications businesses in Tennessee that are qualified to provide goods and services to Holdings, and to promote awareness among these entities of the opportunities to develop business relationships with Holdings in those areas in Tennessee in which Holdings provides telecommunications services.

POLICY STATEMENT:

Holdings acknowledges the importance of supporting the participation of small and minority-owned telecommunications businesses in the telecommunications industry in Tennessee and throughout the United States

It is the policy of Holdings, wherever possible, to provide small and minority-owned telecommunications businesses with an opportunity to compete for contracts and subcontracts to supply goods and services to Holdings in those areas in which Holdings is providing telecommunications services. To this end, Holdings is committed to the identification and selection of qualified small and minority-owned telecommunications businesses that may wish to contract with Holdings for purposes of supplying the Company's Tennessee operations with goods and services relating to the field of telecommunications. It also is the policy of Holdings, where appropriate and feasible, to provide information on programs, if any, to provide technical assistance to small and minority-owned telecommunications businesses whenever and wherever available in Tennessee

Holdings acknowledges its obligation, under TENN CODE ANN § 65-5-212, to contribute its statutory share to the fund established by the Tennessee Department of Economic and Community Development for the purpose of supporting the Small and Minority-Owned Telecommunications Business Assistance Program ("Program") in Tennessee This Program provides for loan guarantees, technical assistance and services, and consulting and educational services for small and minority-owned telecommunications businesses in Tennessee

DEFINITIONS:

"*Act*" - Section 16 and 17 of Chapter 408 of the Public Acts of 1995.

"*Holdings*" -- a Delaware Corporation headquartered at 11111 Sunset Hills Road, Reston, VA 20190

"*Minority-Owned Telecommunications Business*" – As defined in the Act and in TENN. CODE ANN § 65-5-212, a telecommunications business which is solely owned, or at least fifty-one percent (51%) of the assets or outstanding stock of which is owned, by an individual who personally manages and the daily operations of such business, and who is impeded from normal entry into the economic mainstream because of race, religion, sex or national origin and such business has annual gross receipts of less than four million dollars ($4,000,000), or as otherwise modified or amended in the future by the legislature for the State of Tennessee

a "*Personally Manages*" in this context shall mean actively involved in the day-to-day management.

b. "*Controls*" in this context shall mean exercising the power to make policy decisions

c "*Who is impeded from normal entry*" in this context shall individuals who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their qualities as individuals and as provided in the regulation implementing Section B(a) and 7(j) of the Small Business Act, as amended by the Business Opportunity Development Reform Act of 1988, and Business Opportunity Development Reform Act Technical Corrections Act, (15 U.S C. 67(a) and 636(j)), as amended by Pub L 100-656 and Pub. L 101-37

"*Small Telecommunications Business*" - A telecommunications company with annual gross receipts of less than four million dollars ($4,000,000), or as otherwise modified or amended in the future by the legislature for the State of Tennessee.

"*Subcontract*" - Any agreement (other than one involving an employer-employee relationship) entered into by Holdings with a non-affiliated company or individual calling for the direct or indirect purchase of raw materials, components, supplies and services needed to support Holdings' operations.

IMPLEMENTATION OF PLAN:

Where appropriate, Holdings will invite bids, issue requests for proposals, or otherwise solicit offers from small and minority-owned telecommunications businesses to furnish specified goods or services to Holdings in furtherance of its Tennessee operations, except in the case of emergencies, or in such cases where Holdings is bound by contract to purchase goods and services from other sources.

ADMINISTRATION OF PLAN:

In conducting its business affairs in Tennessee, Holdings will appoint one of its employees as the Administrator of the Plan The Administrator will be responsible for identifying and utilizing available resources for identifying small telecommunications and minority-owned telecommunications businesses interested in and qualified to furnish goods and services to Holdings in Tennessee, as Holdings' needs arise. The Administrator also will be responsible for cultivating an awareness among such business entities with respect to potential opportunities to develop business relations with Holdings

The Administrator will endeavor to serve as resource for technical assistance to small and minority-owned telecommunications business, and will refer such businesses to sources of information and technical assistance, internal and external, where feasible.

PLAN ADMINISTRATOR:

The administration of this Plan will be under the direction of (hereinafter called the "Administrator")·

David LaFrance
Regulatory and External Affairs
LMDS Holdings, Inc
11111 Sunset Hills Road
Reston, VA 20814

The duties of the Administrator include the following·

1. To develop Company policies and procedures relating to the Plan

2. To search for and develop opportunities to use qualified small and minority-owned telecommunications businesses to participate in and bid on contracts and subcontracts to supply goods and services to Holdings by utilizing the following resources, where available.

   a The United States Department of Commerce, Office of Minority Business Data Center, the Small Business Administration and its Procurement Automated Source System ("PASS") and its Office of Minority Small Business and Capital Ownership Development, the Tennessee Chamber of Commerce; the Tennessee Department of Economic and Community Development, the National Minority Supplier Development Counsel; the National Association of Women Business Owners, the National Association of Minority Contractors.
   b. Local and national associations, and minority supplier development councils
   c Trade fairs and industry meetings.
   d Advertisement in industry and local publications
   e. Historically Black Colleges, Universities, and Minority Institutions

3 To establish and maintain an updated Plan and related documentation that are consistent with the current rules, orders and policies of the Tennessee Regulatory Authority regarding small and minority-owned telecommunications businesses, and that are in full compliance with TENN. CODE ANN. § 65-5-212

4. To prepare and submit such information and documentation as may be required by the Tennessee Regulatory Authority

5. To cooperate with the Tennessee Regulatory Authority and with other agencies of the State of Tennessee to find and utilize, where possible, the qualified business entities defined herein.

6. To support activities for assisting potential buyers in locating and qualifying the types of business concerns identified herein

9. To cooperate in any authorized surveys by the Tennessee Regulatory Authority.

10. To provide information and educational activities to Holdings personnel and to train such persons to seek out, encourage, and promote the use of small and minority-owned telecommunications businesses.

COMPLIANCE REPORTS:

Holdings will submit such reports as may be required for use in connection with subcontracting plans by the Tennessee Regulatory Authority and/or the State of Tennessee. Holdings will cooperate to the fullest extent possible with all reasonable and appropriate surveys or studies required by the contracting agency for purposes of determining compliance with the State's small and minority-owned telecommunications business participation program However, Holdings reserves the right to designate any documents, reports, surveys, studies or information submitted for this purpose as "confidential" or "proprietary."

RECORD MAINTENANCE:

Holdings will maintain records relating to its Small and Minority-Owned Telecommunications Business Participation Plan for purposes of evidencing the Company's implementation of this policy, for use by Holdings in evaluating the effectiveness and in achieving the goals of its Plan, and for the Company's use in updating the Plan on an annual basis with the Tennessee Regulatory Authority, or as otherwise required.

ADOPTED THIS 2nd day of March, 2006.

LMDS Holdings, Inc.

By: Benjamin R Preston
Benjamin R. Preston

EXHIBIT H

TESTIMONY

BEFORE THE TENNESSEE REGULATORY AUTHORITY

In Re Application of	)	
	)	
LMDS HOLDINGS, INC.	)	
	)	Docket No. ____________
	)	
For a Certificate of Public	)	
Convenience and Necessity	)	
To Provide Facilities-Based Local	)	
Exchange and Interexchange	)	
Telecommunications Services	)	
Within the State of Tennessee	)	

Pre-Filed Testimony of David LaFrance

I, David LaFrance do hereby testify as follows in support of LMDS Holdings Inc.'s ("Holdings" or "Applicant") Application for Certificate of Public Necessity to Provide Local Exchange and Interexchange Telecommunications Services within the State of Tennessee:

Q. Please state your name, business address and title.

A. My name is David LaFrance, and my business address is 11111 Sunset Hills Road, Reston, Virginia, 20190. My title is Senior Manager - Regulatory and External Affairs at LMDS Holdings, Inc.

Q. Please state your qualifications.

A. I am currently Senior Manager of Regulatory and External Affairs for LMDS Holdings, Inc. responsible for managing federal and state regulatory matters. From September, 1998 through November, 2005 I held a series of positions with XO Communications, Inc. with responsibility for state regulatory matters in the Qwest region. From September, 1994 to September, 1998 I was the primary telecommunications policy advisor to the Utah Public Service Commission and prior to that served from 1990 to 1994 as the primary telecommunications analyst for the Rhode Island Public Utilities Commission. I hold a Bachelor of Arts degree from Saint Michael's College and an interdisciplinary Master of Arts from the American University School of Communication and the Kogod Business School.

Q. Are all of the statements in Holdings' Application correct and true to the best of your knowledge, information and belief?

A. Yes.

Q. Please describe the current corporate structure of Holdings.

A. Holdings is currently a wholly-owned subsidiary of XO Communications, Inc. However, XO Communications, Inc. is in the process of a *pro forma* restructuring merger. As a result of this restructuring, XO Communications, Inc. will be merged into XO Communications, LLC and removed from the ownership structure of Holdings. This will leave XO Holdings, Inc. in the place of XO Communications, Inc. as parent-company to Holdings. Holdings will share the same ultimate owner with XO Communications, LLC, Carl C. Icahn. An Petition for Approval of this transaction has been filed with the TRA under separate cover and issued Docket No. 05-0334. A press release describing this transaction can be found at http://www.xo.com/news/278.html.

Q. Does Holdings have the requisite managerial, technical and financial abilities to provide service for which it has applied?

A. Yes.

Q. Please describe Applicant's financial abilities?

A. Specifically, as stated in the Press Release appended as ***Exhibit C***, Applicant will have an infusion of $300,000,000 upon closing of the restructuring of its corporate structure. Also included are the 10K filings of XO Communications, Inc. as ***Exhibit F***, and projected financial statements of Applicant, filed under seal, appended as ***Exhibit E***.

Q. Please describe the technical and managerial qualifications of Holdings.

A. Applicant's management team includes individuals with substantive experience in successfully developing and operating telecommunications business. Consequentially, the Company has the adequate internal technical resources to support its Tennessee operations. This expertise in the telecommunications industry makes Applicant's management team well-qualified to operate its local exchange and interexchange operations in Tennessee. Specific details of the business and technical experience of Holdings' officers and management personnel are attached as ***Exhibit D***, which also contain biographies and a brief description of the business experiences of key management personnel who will be responsible for Applicant's telecommunications services in Tennessee and throughout the United States.

Q. What services will Holdings offer?

A. The Applicant plans to initially offer dedicated point-to-point transport and data services to enterprise customers and other common carriers. At a later date, Holdings may expand its service offerings, to include a broader range of products and services.

Q. Will granting a Certificate serve the public interest of Tennessee consumers?

A. A decision by the TRA to grant Applicant authority to provide local exchange and interexchange telecommunications services is in the public interest. Applicant is well qualified to operate as such a service provider in Tennessee. Consumers of telecommunications services in Tennessee will receive the benefits of downward pressure on prices, increased choice, improved quality of service and customer responsiveness, innovative service offerings, and access to increasingly advanced telecommunications technology. The market incentives for new and existing providers of telecommunications services will be improved through an increase in the diversity of suppliers and competition within the local exchange and interexchange telecommunications market. Granting Holdings' Application would enhance the development of competition in the local exchange and interexchange markets and provide the consumers of Tennessee with all of the benefits described above.

Q. Has Holdings filed its small and minority-owned business plan?

A. Yes.

Q. Has Holdings filed a dialing parity plan?

A. As a data and transport provider, Holdings will not offer voice grade telecommunications services to end users. Therefore, a dialing parity plan is not applicable.

Q. Will Holdings offer service in areas served by rural telecommunications providers or independent telecommunications providers?

A. Holdings is requesting authority to provide its data and transport telecommunications services in all areas on the state.

Q. Is Holdings authorized to provide service in other states?

A. Yes, Holdings is currently authorized to provide service in the District of Columbia, Maryland, Missouri, New York, Texas, Washington. .Holdings is in the process of applying for Certificates in the following jurisdictions: Alabama, Arizona, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Massachusetts, Michigan, Minnesota, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, and Wisconsin.

Q. Who is knowledgeable about Holdings' operations and will serve as the TRA's regulatory and customer service contact?

A. All ongoing compliance matters should be directed to my attention. All correspondence, notices, inquiries and orders relating to consumer issues, billing issues, technical service quality issues, and customer complaint issues should be sent to Tamie Whitefoot, Operations Director, LMDS Holdings, Inc., 4800 Concentric Blvd., Saginaw, MI 48604, Telephone: (877) 714-6398, Facsimile: (989) 758-6510, E-mail: tamie.whitefoot@xo.com.

Q. Has Holdings been involved in any pertinent mergers or acquisitions?

A. No.

Q. Will Holdings comply with all of the rules, regulations and orders of the TRA?

A. Yes.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT I

BOND

TO BE LATE FILED

EXHIBIT J

PROPOSED TARIFF

TITLE PAGE

LOCAL EXCHANGE SERVICES

OF

LMDS Holdings, Inc.

This Tariff contains the descriptions, regulations and rates applicable to the furnishing of local exchange services by LMDS Holdings, Inc. ("LMDS") hereinafter the "Company" with principal offices located at 11111 Sunset Hills Road, Reston, VA 20190. This Tariff is on file with the Tennessee Regulatory Authority and copies may be inspected, during normal business hours, at the Company's principal place of business.

CHECK SHEET

Pages of this Tariff, as indicated below, are effective as of the date shown at the bottom of the respective pages. Original and revised pages, as named below, comprise all changes from the original Tariff and are currently in effect as of the date on the bottom of this page.

PAGE	REVISION		PAGE	REVISION		PAGE	REVISION
Title	Original	*	26	Original	*		
1	Original	*	27	Original	*		
2	Original	*	28	Original	*		
3	Original	*	29	Original	*		
4	Original	*	30	Original	*		
5	Original	*	31	Original	*		
6	Original	*	32	Original	*		
7	Original	*	33	Original	*		
8	Original	*	34	Original	*		
9	Original	*	35	Original	*		
10	Original	*	36	Original	*		
11	Original	*	37	Original	*		
12	Original	*	38	Original	*		
13	Original	*	39	Original	*		
14	Original	*	40	Original	*		
15	Original	*	41	Original	*		
16	Original	*	42	Original	*		
17	Original	*	43	Original	*		
18	Original	*	44	Original	*		
19	Original	*	45	Original	*		
20	Original	*	46	Original	*		
21	Original	*					
22	Original	*					
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24	Original	*					
25	Original	*					

* - indicates those pages included with this filing

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David LaFrance, Regulatory & External Affairs
11111 Sunset Hills Road
Reston, VA 20190

EXPLANATION OF SYMBOLS

When changes are made in any Tariff page, a revised page will be issued canceling the Tariff page affected. Changes will be identified on the revised pages(s) through the use of the above mentioned symbols.

The following are the only symbols used for the purposes indicated below:

(C) - To signify changed regulation.

(D) - To signify discontinued rate or regulation.

(I) - To signify increased rate.

(M) - To signify a move in the location of text.

(N) - To signify new rate or regulation.

(R) - To signify reduced rate.

(S) - To signify reissued matter.

(T) - To signify a change in text but no change in rate or regulation.

TARIFF FORMAT

A. **Page Numbering** - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially, however, new pages are occasionally added to the Tariff. When a new page is added between pages already in effect, a decimal is added. For example, a new page added between pages 14 and 15 would be 14.1.

B. **Page Revision Numbers** - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the Tennessee Regulatory Authority. For example, the 4th Revised Page 14 cancels the 3rd Revised Page 14. Because of various suspension periods, deferrals, etc, the Tennessee Regulatory Authority follows in their Tariff approval process, the most current page number on file with the TRA is not always the Tariff page in effect. Consult the Check Sheet for the page currently in effect.

C. **Paragraph Numbering Sequence** - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.
2.1.
2.1.1.
2.1.1.A.
2.1.1.A.1.
2.1.1.A.1.(a).
2.1.1.A.1.(a).I.
2.1.1.A.1.(a).I.(i).
2.1.1.A.1.(a).I.(i).(1).

D. **Check Sheets** - When a Tariff filing is made with the Tennessee Regulatory Authority, an updated Check Sheet accompanies the Tariff filing. The Check Sheet lists the pages contained in the Tariff, with a cross reference to the current revision number. When new pages are added, the Check Sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this page if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some pages). The Tariff user should refer to the latest Check Sheet to find out if a particular page is the most current on file with the Tennessee Regulatory Authority.

SECTION 1 - DEFINITIONS

Advance Payment - Part or all of a payment required before the start of service.

Authorized User - A person, firm or corporation which is authorized by the Customer or joint user to be connected to the service of the Customer or joint user.

Broadband Wireless Service - A high capacity broadband wireless service offered by the Company.

Circuit – A dedicated telecommunications path provided by the Company to connect a Customer Remote location with a Company Hub as specified by the Customer in a Service Order. Circuits come in different types depending on the speed and data rates provisioned over the physical facilities of the Circuit (i.e., DS1, DS3, OCx, 5 Mbps, 10 Mbps).

Company - LMDS Holdings, Inc., the issuer of this Tariff, which is a Delaware corporation, or any of its affiliates which concur in this Tariff.

Customer - The person, firm or corporation which orders service and is responsible for the payment of charges and compliance with the Company's regulations.

Hub – A location at which the Company maintains facilities to aggregate customer traffic and/or to interconnect Customer traffic with the facilities of other telecommunications carriers. Transport of information from a Hub to Remotes and vise versa occurs via Links and/or Circuits. Transport is provided by line of sight technology which includes point to multipoint and point to point wireless technology.

Individual Case Basis (ICB) - A service arrangement in which the terms, conditions, rates and charges are developed based on the specific circumstances of the Customer's situation, and as further described in Section 3.1.2.

Link – A direct wireless connection between two physical locations using radio transmission and reception equipment at each end.

Non-Recurring Charges - The one-time initial charges for services or facilities, including but not limited to charges for construction, installation or special fees for which the Customer becomes liable at the time the Service Order is executed.

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SECTION 1 – DEFINITIONS, (CONT'D.)

Point of Demarcation – The point at the Remote Site at the Customer's premises at which the Company's responsibility to provide equipment and service ends and the Customer's responsibility for the information begins, as specified in a Service Order.

Recurring Charges - The monthly charges to the Customer for services, facilities and equipment which continue for the agreed upon duration of the service.

Remote - A Customer end point location that serves as the termination point for various Circuit types. Transport of information from a Remote to a Hub and vise versa occurs via Links and/or Circuits. Transport is provided by line of sight technology which includes point to multipoint or point to point wireless technology, or by terrestrial cable and wire facilities. If a site is used as an intermediate location in a chain of point to point services, both ends are defined as a Remote.

Service Commencement Date - The date on which the Company notifies the Customer that the services are installed or connected and available for use. The parties may mutually agree on a substitute Service Commencement Date.

Service Order - The written request for communications services executed by the Customer and the Company in the format devised by the Company. The signing of a Service Order by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this Tariff.

Site – A location from which radio transmission and reception equipment produces Links. A Site may be a Hub or, a Remote.

United States - The 48 contiguous states and the District of Columbia, Hawaii, Alaska, Puerto Rico, the US Virgin Islands, as well as the off-shore areas outside the boundaries of the coastal states of the 48 contiguous states to the extent that such areas appertain to and are subject to the jurisdiction and control of the United States.

User or End User - Any person or entity that obtains the Company's services provided under this Tariff, regardless of whether such person or entity is so authorized by the Customer.

SECTION 2 - GENERAL REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish communications service in connection with one-way and/or two-way information transmission between points within the State of Tennessee under the terms of this Tariff.

Customers may use services and facilities provided under this Tariff to obtain access to services offered by other service providers. The Company is responsible under this Tariff only for the services and facilities provided herein, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services, or to communicate with its own customers.

2.1.2 Shortage of Equipment or Facilities

The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control.

The furnishing of service under this Tariff is subject to the availability on a continuing basis of all the necessary facilities, including facilities the Company may obtain from other carriers, to furnish service.

The provisioning and restoration of services in emergencies shall be in accordance with Part 64, Subpart D, Appendix A, of the Federal Communications Commission's Rules and Regulations, which specifies the priority system for such activities as further described in Section 2.1.10 below.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.3 Terms and Conditions

2.1.3.1 Except as otherwise provided herein, service is provided on the basis of a minimum period of at least one month and shall continue to be provided until canceled by the Customer, in writing, on not less than 30 days notice. For the purpose of computing charges in this Tariff, a month is considered to have 30 days.

2.1.3.2 Customers may be required to enter into written Service Orders which shall contain or reference the name of the Customer, a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this Tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.

2.1.3.3 At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month to month basis at the then current rates unless terminated by either party upon 30 days written notice. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the service order and this Tariff prior to termination. The rights and obligations which, by their nature, extend beyond the termination of the term of the service order shall survive such termination.

2.1.3.4 In any action between the parties to enforce any provision of this Tariff, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award.

2.1.3.5 This Tariff shall be interpreted and governed by the laws of the State of Tennessee without regard of the State's choice of laws provision.

2.1.3.6 Service may be terminated upon written notice to the Customer if:

(a) the Customer is using the service in violation of this Tariff, or
(b) the Customer is using the service in violation of the law, or as set forth in Section 2.5.5 of this Tariff.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.3 Terms and Conditions, (cont'd.)

2.1.3.7 The Customer agrees to operate Company-provided equipment in accordance with instructions of the Company or its agents. Failure to do so will void Company liability for interruption of service and may make the Customer responsible for damage to equipment pursuant to Section 2.1.3.8 below.

2.1.3.8 The Customer agrees to return to the Company all Company-provided equipment delivered to the Customer within five (5) days of termination of the service in connection with which the equipment was used. Said equipment shall be in the same condition as when delivered to the Customer, except for normal wear and tear.

Customer agrees to reimburse the Company, upon demand, for any reasonable costs incurred by the Company due to the Customer's failure to comply with this provision.

2.1.3.9 Another telephone company must not interfere with the right of any person or entity to obtain service directly from the Company.

David LaFrance, Regulatory & External Affairs
11111 Sunset Hills Road
Reston, VA 20190

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Liability of the Company

2.1.4.1 The liability of the Company for damages arising out of the furnishing of its services, including but not limited to mistakes, omissions, interruptions, delays, errors, or other defects, representations, or use of these services, or arising out of the failure to furnish the service, whether caused by acts of omission, shall be limited to the extension of allowances for interruption as set forth in Section 2.6. The extension of such allowances for interruption shall be the sole remedy of the Customer and the sole liability of the Company. The Company will not be liable for any direct, indirect, incidental, special, consequential, exemplary or punitive damages to Customer as a result of any Company service, equipment or facilities, or the acts, omissions or negligence of the Company's employees or agents.

2.1.4.2 Except for the extension of allowances to the Customer for interruption in service as set forth in Section 2.6, the Company shall not be liable to a Customer or third party for any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive damages, including, but not limited to, loss of revenue or profits, for any reason whatsoever, including, but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service or any failure in or breakdown of facilities associated with the service.

2.1.4.3 The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other state or local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state or local governments, or of any civil or military authority; national emergencies; insurrections; riots; wars; unavailability of rights-of-way or materials; or strikes, lockouts, work stoppages, or other labor difficulties.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Liability of the Company, (cont'd.)

2.1.4.4 The Company shall not be liable for any claims for loss or damages involving any act or omission of (a) any entity furnishing to the Company or to the Company's Customers' facilities or equipment used in conjunction with services or facilities provided by the Company; or (b) common carriers or warehousemen.

2.1.4.5 The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer-provided equipment or facilities.

2.1.4.6 The Customer shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, including attorney fees, whether suffered, made, instituted, or asserted by the Customer or any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location, or use of any installation so provided. The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this section as a condition precedent to such installations.

2.1.4.7 The Company is not liable for any defacement of, or damage to, Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Liability of the Company, (cont'd.)

2.1.4.8 Notwithstanding the Customer's obligations as set forth in Section 2.3 below, the Company shall be indemnified, defended and held harmless by the Customer, or by others authorized by it to use the service, against any claim, loss or damage arising from Customer's use of services furnished under this Tariff, including: claims for libel, slander, invasion of privacy or infringement of copyright arising from the material, data, information, or other content transmitted via the Company's service; patent infringement claims arising from combining or connecting the service offered by the Company with apparatus and systems of the Customer or others; and all other claims arising out of any act or omission of the Customer or others, in connection with any service provided by the Company pursuant to this Tariff.

2.1.4.9 The entire liability of the Company for any claim, loss, damage or expense from any cause whatsoever shall in no event exceed sums actually paid by Customer for the specific services giving rise to the claim. No action or proceeding against the Company shall be commenced more than thirty (30) days after the date of the occurrence that gave rise to the claim.

2.1.4.10 The Company shall be indemnified and held harmless by the End User against any claim, loss or damage arising from the End User's use of services offered under this Tariff including: claims for libel, slander, invasion of privacy or infringement of copyright arising from the End User's own communications; patent infringement claims arising from the End User's combining or connecting the service offered by the Company with facilities or equipment furnished by the End User of another carrier; and all other claims arising out of any act or omission of the End User in connection with any service provided pursuant to this Tariff.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Liability of the Company, (cont'd.)

2.1.4.11 The Company does not guarantee or make any warranty with respect to service installations at locations at which there is present an atmosphere that is explosive, prone to fire, dangerous or otherwise unsuitable for such installations. The Customer and End User shall indemnify and hold the Company harmless from any and all loss, claims, demands, suits or other actions, or any liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party, for any personal injury to, or death of, any person, or persons, or for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, location or use of service furnished by the Company at such locations.

2.1.4.12 The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the dollar amount erroneously billed.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.4 Liability of the Company, (cont'd.)

2.1.4.13 The Company assumes no responsibility for the availability or performance of any cable or satellite systems or related facilities under the control of other entities, or for other facilities provided by other entities used for service to the Customer, even if the Company has acted as the Customer's agent in arranging for such facilities or services. Such facilities are provided subject to such degree of protection or non-preemptability as may be provided by the other entities.

2.1.4.14 The Company makes no warranties or representations, express or implied either in fact or by operation of law, statutory or otherwise, including warranties of merchantability or fitness for a particular use, except those expressly set forth herein.

2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.6 Provision of Equipment and Facilities

2.1.6.1 The Company shall use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of, and compliance by the Customer with, the regulations contained in this Tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to any Customer.

2.1.6.2 The Company shall use reasonable efforts to maintain facilities and equipment that it furnishes to the Customer. The Customer may not, nor may the Customer permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.

2.1.6.3 The Company may substitute, change or rearrange any equipment or facility at any time, but shall not thereby alter the technical parameters of the service provided to the Customer.

2.1.6.4 Equipment the Company provides or installs at the Customer premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which the Company provided it.

2.1.6.5 The Company shall not be responsible for the installation, operation, or maintenance of any Customer-provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this Tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this Tariff and to the maintenance and operation of such facilities. Subject to this responsibility, the Company shall not be responsible for:

(a) the transmission of signals by Customer-provided equipment or for the quality of, or defects in, such transmission; or
(b) the reception of signals by Customer-provided equipment; or
(c) network control signaling where such signaling is performed by Customer-provided network control signaling equipment.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.7 Special Construction

Subject to the arrangement of the Company and to all of the regulations contained in this Tariff, special construction of facilities may be undertaken on a reasonable efforts basis at the request of the Customer. Special construction is that construction undertaken:

(a) where Company facilities are not presently available, and Company agrees to construct those facilities;

(b) of a type other than that which the Company would normally utilize in the furnishing of its services;

(c) over a transmission link other than that which the Company would normally utilize in the furnishing of its services;

(d) in a quantity greater than that which the Company would normally construct;

(e) on an expedited basis;

(f) on a temporary basis until permanent facilities are available;

(g) involving abnormal costs; or

(h) in advance of its normal construction.

Special construction may be assessed for point to point to point or point to multipoint radio transmission and reception facilities. Such facilities may include, but are not limited to, radio transmission equipment, transmit and receive antennae, circuit equipment, and professional engineering services for design and construction of Hub and/or Remote terminal equipment including mounting of antennae, masts, and installation of transmission cable. Special construction charges will be determined on a case by case basis.

2.1.8 Ownership of Facilities

Title to all facilities provided in accordance with this Tariff remains with the Company, its agents, contractors or suppliers.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.1 Undertaking of the Company, (Cont'd.)

2.1.9 Non-routine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or at a hazardous location or Site. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.1.10 Telecommunications Service Priority

The Telecommunications Service Priority System is the regulatory, administrative and operational system authorizing and providing for priority treatment, to provide and restore National Security Emergency Preparedness Telecommunications service. Under the rules of the Telecommunications Service Priority System, The Company is authorized and required to provide and restore services with Telecommunications Service Priority assignments before services without such assignments. The provision and restoration of Telecommunications Service Priority System services shall be in compliance with Part 64, Appendix A, of the Federal Communications Commission's Rules and Regulations, the guidelines set forth in the Telecommunications Service Priority for National Security Emergency Preparedness Service User Manual and Service Vendor Handbook.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.2 Use of Service

Service is provided for use by the Customer and may be used by others, when so authorized by the Customer, provided that all such usage shall be subject to the provisions of this Tariff, and shall not affect the Customer's responsibility for all payments required under this Tariff.

2.2.1 Prohibited Uses

2.2.1.1 The services the Company offers shall not be used for any unlawful purpose or for any use for which the Customer has not obtained all required governmental approvals, authorization, licenses, consents and permits.

2.2.1.2 The Company may require a Customer to immediately shut down its transmission if such transmission is causing interference to others.

2.2.1.3 The Customer may not use the services so as to interfere with or impair service over any facilities and associated equipment, or so as to impair the privacy of any communications over such facilities and associated equipment.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.3 Obligations of the Customer

2.3.1 Customer Responsibilities

The Customer shall be responsible for:

(a) the payment of all applicable charges pursuant to this Tariff;

(b) damage to or loss of Company facilities or equipment caused by the acts or omissions of the Customer; by the noncompliance by the Customer with these regulations; or by fire or theft or other casualty on the Customer premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;

(c) providing at no charge, as specified from time to time by the Company, any needed personnel, equipment, space and power to operate Company facilities and equipment installed on the Customer premises, and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;

(d) obtaining, maintaining, and otherwise having full responsibility for all rights-of-way including private or public easements, licenses, roof rights and conduit necessary for the installation and ongoing maintenance of wireless transmission and reception equipment including, but not limited to, roof top antennas, inside wiring and associated indoor equipment used to provide services to the Customer from the Company's designated Point of Demarcation to the location of the equipment space described in 2.3.1 (c). Any costs associated with the obtaining and maintaining of the rights-of-way described herein, including the costs of altering the structure to permit installation of Company-provided facilities, shall be borne entirely by, or may be charged by the Company to, the Customer;

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.3 Obligations of the Customer, (Cont'd.)

2.3.1 Customer Responsibilities, (cont'd.)

(e) providing a safe place to work and complying with all federal and state laws and regulations regarding the working conditions on any premises at which Company employees and agents shall be installing or maintaining Company facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to Company employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g. friable asbestos) prior to any construction or installation work;

(f) complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to the location of Company facilities and equipment in or on any Customer premises or the right-of-way for which Customer is responsible under section 2.3.1(d); and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company.

(g) not creating or allowing to be placed or maintained any liens or other encumbrances on the Company's equipment or facilities; and

(h) making Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance for interruptions in service will be made for the period during which service is interrupted for such purposes.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.3 Obligations of the Customer, (Cont'd.)

2.3.2 Claims

With respect to any service or facilities provided by the Company, the Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorney fees for:

(a) any loss, destruction or damage to property of the Company or any third party, or the death or injury to persons, including, but not limited to, employees or invitees of either party, to the extent caused by or resulting from the negligent or intentional act or omission of the Customer, its employees, agents, representatives or invitees; or

(b) any claim, loss, damage, expense or liability for infringement of any copyright, patent, trade secret, or any proprietary or intellectual property right of any third party, arising from any act or omission by the Customer, including, without limitation, use of Company services and facilities in a manner not contemplated by the agreement between Customer and the Company.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.4 Customer Equipment and Channels

2.4.1 In General

A Customer may transmit or receive information or signals via the facilities of the Company.

2.4.2 Station Equipment

2.4.2.1 Customer-provided terminal equipment on the Customer premises and the electric power consumed by such equipment shall be provided and maintained at the expense of the Customer.

2.4.2.2 The Customer is responsible for ensuring that Customer-provided equipment connected to Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense.

2.4.3 Interconnection of Facilities

2.4.3.1 Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing service and the channels, facilities, or equipment of others may be provided at the Customer's expense.

2.4.3.2 Service may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs, other official rates of the other communications carriers which are applicable to such connections.

2.4.3.3 Facilities furnished under this Tariff may be connected to Customer provided terminal equipment in accordance with the provisions of this Tariff.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.4 Customer Equipment and Channels, (Cont'd.)

2.4.4 Inspection and Testing

2.4.4.1 Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with the requirements set forth in section 2.4.2.2 for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.

2.4.4.2 If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten days of receiving this notice the customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm. The Company will, upon request 24 hours in advance, provide the Customer with a statement of technical parameters that the Customer's equipment must meet.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.5 Payment Arrangements

2.5.1 Payment for Service

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer or to authorized or joint users. For the purposes of this Tariff, all rates are in U.S. dollars.

2.5.1.1 Taxes and Regulatory Fees

The Customer is responsible for the payment of any permissible sales, use, gross receipts, excise, access or other local, state and federal taxes, charges, fees or surcharges, including but not limited to any universal service assessments, however designated (excluding taxes on the Company's net income), imposed on or based upon the provision, sale or use of the Company's services. All such taxes or fees shall be separately designated on the Company's invoices to the extent required by law. If an entity other than the Company (e.g., another carrier or a supplier) imposes charges on the Company, in addition to its own internal costs, in connection with a service for which the Company's Non-recurring Charge is specified, those charges will be passed on to the Customer. It shall be the responsibility of the Customer to pay any such taxes, charges, fees or surcharges that subsequently become applicable retroactively.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.2 Billing and Collection of Charges

The Customer is responsible for the payment of all charges incurred by the Customer or other users for services and facilities furnished to the Customer by the Company.

The Company shall bill on a month-to-month basis all charges incurred by, and credits due to, the Customer under this Tariff attributable to services established, provided, or discontinued.

2.5.2.1 Non-Recurring Charges are due and payable within 30 days after the date an invoice is mailed to the Customer by the Company.

2.5.2.2 The Company shall present invoices for Recurring Charges monthly to the Customer in advance of the month in which service is provided. Recurring Charges shall be due and payable within 30 days after the invoice is mailed to the Customer by the Company.

2.5.2.3 When service does not begin on the first day of the month, or end on the last day of the month, the charge for the portion of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have 30 days.

2.5.2.4 Billing of the Customer by the Company will begin on the Service Commencement Date, which is the first day following the date on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in this Tariff or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

2.5.2.5 If any portion of the payment is received by the Company after the date due, or if any portion of the payment is received by the Company in funds which are not immediately available, then a late payment penalty of 1.5% shall be due to the Company.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.3 Advance Payments

To safeguard its interests, the Company may require a Customer to make an advance payment before services and facilities are furnished. In addition, where special construction is involved, the advance payment may also include an amount equal to the estimated Non-Recurring Charges for the special construction and Recurring Charges (if any) for a period to be set between the Company and the Customer. The advance payment will be credited to the Customer's initial bill. An advance payment may be required in addition to a deposit.

2.5.4 Deposits

(A) To safeguard its interests, the Company may require the Customer to make a deposit to be held as a guarantee for the payment of charges in accordance with Tennessee Public Service Commission Rule 515-12-1.05(4). A deposit may be required if the Customer's financial condition is not acceptable to the Company or is not a matter of general knowledge. A deposit does not relieve the Customer of the responsibility for the prompt payment of bills on presentation. The deposit will not exceed an amount equal to two and one-half twelfths of the estimated charge for the service for the ensuing twelve months. A deposit may be required in addition to an advance payment.

(B) Upon discontinuance of service, the Company shall promptly and automatically refund the Customer's deposit plus accrued interest, or the balance, if any, in excess of the unpaid bills including any penalties assessed for service furnished by the Company.

(C) Deposits will accrue interest annually at the rate of 7% per annum in accordance with Tennessee Public Service Commission Rule 515-12-1.05(4)(b). Upon request of the Customer, accrued interest shall be annually credited to the Customer by deducting such interest from the amount of the next bill for service following the accrual date.

(D) The Company shall annually and automatically refund the deposits of Customers who have paid bills for twelve consecutive months without having had service discontinued for nonpayment or had more than one occasion on which a bill was not paid within the period prescribed and are not then delinquent in payment.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.5 Return Check Charge

A. A return check charge of $25.00 will be assessed for checks returned for insufficient funds if the face value of the check does not exceed $50.00.

B. A return check charge of $30.00 will be assessed for checks returned for insufficient funds if the face value of the check exceeds $50.00 but does not exceed $300.00.

C. A return check charge of $40.00 or 5% of the value of the check, whichever is greater, will be assessed for checks returned for insufficient funds if the face value of the check exceeds $300.00.

2.5.6 Disputed Bills

The Customer shall notify the Company of any disputed items on a bill within 30 days of receipt of the bill. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the Tennessee Regulatory Authority in accordance with the TRA's rules of procedure.

2.5.6.1 The date of the dispute shall be the date the Company receives sufficient documentation to enable it to investigate the dispute.

2.5.6.2 The date of the resolution is the date the Company completes its investigation and notifies the Customer of the disposition of the dispute.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.5 Discontinuance of Service

2.5.5.1 Upon nonpayment of any amount owing the Company, the Company may, by giving ten (10) days prior written notice to the Customer, discontinue or suspend service without incurring any liability.

2.5.5.2 Upon violation of any of the other material terms or conditions for furnishing service, the Company may, by giving 30 days prior written notice to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.

2.5.5.3 Upon condemnation of any material portion of the facilities used by the Company or its agents to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.

2.5.5.4 Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law, the Company may immediately discontinue or suspend service without incurring any liability.

2.5.5.5 Upon any governmental prohibition or required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.

2.5.5.6 Upon the Company's discontinuance of service to the Customer under Section 2.5.5.1 or 2.5.5.2, or 2.5.5.7 the Company, in addition to all other remedies that may be available to the Company by law or in equity or under any other provision of this Tariff, may declare all future monthly and other charges which would have been payable by the Customer during the remainder of the term for which such services would have otherwise been provided to the Customer to be immediately due and payable.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.5 Discontinuance of Service, (cont'd.)

2.5.5.7 The Company may discontinue service pursuant to this sub-section 2.5.5.7 immediately and without notice, if the Company deems that such action is necessary to prevent or to protect against fraud or to otherwise protect its personnel, agents, facilities or services.

(a) the Customer refuses to furnish information to the Company regarding the Customer's credit-worthiness, its past or current use of common carrier communications services or its planned use of service(s);

(b) the Customer provides false information to the Company regarding the Customer's identity, address, credit-worthiness, past or current use of common carrier communications services, or its planned use of the Company's service(s);

(c) the Customer states that it will not comply with, or fails to comply with, a request of the Company for security for the payment for service(s) in accordance with Section 2.5.4;

(d) the Customer has been given written notice by the Company of any past due amount (which remains unpaid in whole or in part) for any of the Company's other common carrier communications services to which the Customer either subscribes or had subscribed or used;

(e) the Customer uses service to transmit a message, locate a person or otherwise give or obtain information without payment for the service;

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SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.5 Discontinuance of Service, (cont'd.)

2.5.5.7 (continued)

(f) the Customer uses, or attempts to use, service with the intent to avoid the payment, either in whole or in part, of the Tariffed charges for the service by:

(1) using or attempting to use service by rearranging, tampering with, or making connections to the Company's service not authorized by this Tariff;
(2) using tricks, schemes, false credit devices, electronic devices; or
(3) any other fraudulent means or devices;

(g) the Customer owes any sum thirty (30) days past due;

(h) within five (5) business days of the date of written notice to the Customer that the Customer is not complying with any provision of this Tariff, the noncompliance is not corrected.

2.5.5.8 The discontinuance of service(s) by the Company pursuant to this Section 2.5.5 does not relieve the Customer of any obligation to pay the Company for charges due and owing for service(s) furnished up to the time of discontinuance or for any applicable termination charges, reasonable attorneys' fees, or any other fees incurred by the Company in the collection of any amount due under this Tariff for services rendered or facilities provided, shall become due. Any attorneys' or other collection fees incurred by the Company after discontinuance of service shall become due immediately upon invoice of such fees to the customer. This is in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this Tariff.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.5 Payment Arrangements, (Cont'd.)

2.5.6 Cancellation of Application for Service

2.5.6.1 Applications for service cannot be canceled unless the Company otherwise agrees. Where the Company permits Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.

2.5.6.2 Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs the Company incurred, less net salvage, shall apply. In such case, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the construction or arrangements.

The special charges described in 2.5.6.2 will be calculated and applied on a case-by-case-basis.

2.5.6.3 Upon cancellation of a Service Order by the Customer after execution of the Service Order but before the Service Commencement Date, all applicable charges, including but not limited to charges enumerated in Section 2.5.6.2, termination charges, reasonable attorneys' fees, or any other fees incurred by the Company in the collection of any amount due under this Tariff for services rendered or facilities provided, shall become due. Any attorneys' or other collection fees incurred by the Company after cancellation of service shall become due immediately upon invoice of such fees to the Customer. This is in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this Tariff.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.6 Allowances for Interruptions in Service

Interruptions in service, which are not due to the negligence of, or noncompliance with the provisions of this Tariff by, the Customer or the operation or malfunction of the facilities, power or equipment provided by the Customer, will be credited to the Customer as set forth in 2.6.1 for the part of the service that the interruption affects.

2.6.1 Credit for Interruptions

2.6.1.1 A credit allowance will be made when an interruption occurs because of a failure of any component furnished by the Company under this Tariff. An interruption period begins when a Customer reports a service, facility or circuit is interrupted and releases it for testing and repair. An interruption period ends when the service, facility or circuit is repaired or is inoperative but the Customer declines to release it for testing and repair.

2.6.1.2 For calculating credit allowances, every month is considered to have 30 days. A credit allowance is applied on a pro rata basis against the rates specified thereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.6 Allowances for Interruptions in Service, (Cont'd.)

2.6.1 Credit for Interruptions, (cont'd.)

2.6.1.3 A credit allowance will be given for interruptions of 15 minutes or more. Credit allowances will be calculated as follows:

Interruptions of 24 hours or Less:

Length of Period to be Credited	**Interruption Credit**
Less than 15 minutes	None
15 minutes up to, but not including 3 hours	1/10 Day
3 hours up to, but not including 6 hours	1/5 Day
6 hours up to, but not including 9 hours	2/5 Day
9 hours up to, but not including 12 hours	3/5 Day
12 hours up to, but not including 15 hours	4/5 Day
15 hours up to, but not including 24 hours	One Day

Two or more interruptions of 15 minutes or more during any 24-hour period shall be considered as one interruption.

Interruptions Over 24 Hours and Less Than 72 Hours. Interruptions over 24 hours and less than 72 hours will be credited 1/5 day for each 3-hour period or fraction thereof. No more than one full day's credit will be allowed for any period of 24 hours.

Interruptions Over 72 Hours. Interruptions over 72 hours will be credited 2 days for each full 24-hour period. No more than 30 days credited will be allowed for any one month period.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.6 Allowances for Interruptions in Service, (Cont'd.)

2.6.2 Limitations on Allowances

No credit allowance will be made for:

(a) interruptions due to the negligence of, or noncompliance with the provisions of this Tariff by, the Customer, authorized user, joint user, or other common carrier providing service connected to the service of the Company;

(b) interruptions due to the negligence of any person other than the Company, including but not limited to the Customer or other common carriers connected to the Company's facilities;

(c) interruptions due to the failure or malfunction of non-Company equipment;

(d) interruptions of service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;

(e) interruptions of service during a period in which the Customer continues to use the service on an impaired basis;

(f) interruptions of service during any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;

(g) interruption of service due to circumstances or causes beyond the control of the Company;

(h) interruptions of service not reported to the Company within thirty (30) days of the date that service was affected.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.6 Allowances for Interruptions in Service, (Cont'd.)

2.6.3 Use of an Alternative Service

Should the Customer elect to use another means of communications during the period of interruption, the Customer must pay the charges for the alternative service used.

2.6.4 Cancellation For Service Interruption

Cancellation or termination for service interruption is permitted only if any circuit experiences a single continuous outage of 8 hours or more or cumulative service credits equaling 16 hours in a continuous 12-month period. The right to cancel service under this provision applies only to the single circuit which has been subject to the outage or cumulative service credits.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.7 Cancellation of Service

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a service interruption (as defined in 2.6.1 above), Customer agrees to pay to Company the following sums which shall become due and owing as of the effective date of the cancellation or termination and shall be payable within the period set forth in 2.5.2: 1) all Non-Recurring charges reasonably expended by the Company to establish service to Customer, plus 2) any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of Customer, plus 3) all Recurring Charges specified in the applicable Service Order for the balance of the then current term.

2.8 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties (a) to any subsidiary, parent company or affiliate of the Company; (b) pursuant to any sale or transfer of substantially all the assets of the Company; or (c) pursuant to any financing, merger or reorganization of the Company.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.9 Notices and Communications

2.9.1 The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that Customer may also designate a separate address to which the Company's bills for service shall be mailed.

2.9.2 The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.

2.9.3 All notices or other communications required to be given pursuant to this Tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.

2.9.4 The Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth in Section 2.9.3.

SECTION 3 - SERVICE DESCRIPTIONS

3.1 Broadband Wireless Service

3.1.1 Description of Service

Broadband Wireless service is offered as a high capacity dedicated transmission facility available 24 hours per day, 7 days per week. Customers may commit to one, two or three year service terms. The minimum service period for Broadband Wireless Service is one year. Should the Customer terminate service prior to the end of the term commitment, the Customer will be billed a termination charge equal to the monthly recurring charge times the number of months remaining in the term.

Broadband Wireless Service provides dedicated wireless bandwidth between a Customer Remote and a Company Hub. Equipment at the Remote transmits and the Hub equipment receives a point-to-point or point-to-multipoint transmission utilizing radio frequencies in the Local Multipoint Distribution Service (LMDS) 27.5 to 31.225 GHz spectrum. The entire usable bandwidth of the transmission path is available and dedicated to the Customer for its exclusive use. Broadband Wireless Service provides line-of-sight transmission and will not penetrate trees, walls, glass or other path-obstructing materials. The use of time-division multiple access (TDMA) and FDMA (frequency DMA) technology allows multiple customers within a 3-7 mile coverage radius to share the same radio channel (multipoint).

SECTION 3 - SERVICE DESCRIPTIONS, (CONT'D.)

3.1 Broadband Wireless Service, (Cont'd.)

3.1.2 Limitations

Service will be provided subject to availability and where technical capabilities permit. The following limitations will apply to the provision of all Broadband Wireless Services.

Broadband Wireless Service microwave equipment requires an unobstructed line-of-sight to a Company Hub. Actual data transmission rates depend on a number of factors, including, but not limited to, the distance from the Customer Remote Site to the Company Hub. The Customer shall be responsible for any and all costs associated with obtaining and maintaining rights-of-way at a Remote Site, including costs of altering a structure to permit installation of Company provided facilities. Customer shall bear all such costs which will be charged by the Company subject to Customer's prior approval. The Company may require the Customer to demonstrate compliance with this section prior to accepting an order for Broadband Wireless Service.

Broadband Wireless Service is offered subject to the availability of necessary facilities or equipment, or both facilities and equipment, and subject to the provisions of this Tariff. The obligation of the Company to provide Broadband Wireless Service is dependent upon its ability to procure, construct, and maintain facilities that are required to meet the customer's order for service. The Company's' provision of Broadband Wireless Service through its own facilities requires the use of microwave transmit/receive equipment. Such equipment must be attached to or located at the Customer's Remote Site, often on the roof of the building in which the customer premises is located. Broadband Wireless Service equipment cannot be installed on the rooftop without the consent of the building owner and/or property manager(s). In addition, Broadband Wireless Service equipment cannot be installed without access to the building's telecommunications closet(s), which may not be under the control of the Customer or the Company. Therefore, the Company's Broadband Wireless Service is subject to the availability of rooftop access and telecommunications closet access.

SECTION 3 - SERVICE DESCRIPTIONS, (CONT'D.)

3.1 Broadband Wireless Service, (Cont'd.)

3.1.2 Limitations, (cont'd.)

The Company reserves the right to limit or to allocate the use of existing facilities when necessary due to lack of facilities, relevant resources, or causes beyond the Company's control.
The Company does not undertake to transmit messages, but offers the use of its facilities when available, and will not be liable for errors in transmission nor for failure to establish connections.

The Customer shall ensure that its equipment is properly interfaced with the Company's facilities or services used in providing Broadband Wireless Services; that the signals emitted into the Company's network are of the proper mode, bandwidth, power, signal level or other technical parameters for the intended use of the Customer and in compliance with the criteria set forth in this Tariff, and that the signals do not damage equipment, injure personnel or degrade service to other Customers.

SECTION 3 - SERVICE DESCRIPTIONS, (CONT'D.)

3.1 Broadband Wireless Service, (Cont'd.)

3.1.3 Wireless T-1

Wireless T-1 is a Broadband Wireless Service offering that provides Customer a total turnkey transport product including: installation; 24 hour/7 day a week network monitoring, maintenance and network performance reporting; detailed billing; and, on-going post-sales support. A Customer purchases connectivity between a Company Hub and Customer designated Remote. The Company will confer with the Customer to about antenna design and propagation. A Broadband Wireless customer can purchase bandwidth on a point to point or point to multipoint basis in the following increments:

- 4 T-1s
- 6 T-1's
- 8 T-'s
- 10 T-1's
- 12 T-1's

3.1.4 Wireless Ethernet

Wireless Ethernet utilizes Broadband Wireless Service technology to deliver Layer-2, 10/100BaseT or faster metropolitan wireless Ethernet connections or Dedicated Internet Access (DIA). The Wireless Ethernet product can be used to deliver end-to-end wireless connectivity utilizing standardized 10Mbps or 100Mbps Ethernet interfaces. Customers can purchase a fixed amount of bandwidth and use the allocated bandwidth for any lawful purpose consistent with this Tariff. The Broadband Wireless Service Customer can purchase fixed bandwidth on a point to point or point to multipoint basis in the following increments:

Wireless Ethernet	**Dedicated Internet Access**
5 Mbps	5 Mbps
10 Mbps	10 Mbps
15 Mbps	20 Mbps
20 Mbps	

SECTION 3 - SERVICE DESCRIPTIONS, (CONT'D.)

3.1 Broadband Wireless Service, (Cont'd.)

3.1.5 Rates and Charges

Rates and charges for Broadband Wireless Services are specified below. The Customer will be billed a fixed, flat Monthly Recurring Charge (MRC) for bandwidth in addition to a Non-Recurring Charge (NRC) for installation services provided at the same customer location. As set forth in section 2.5.1.1, additional Federal, State and Local taxes and Surcharges may also apply. Rates indicated below do not include sales, use, gross receipts, excise, access or other local, state and federal taxes, charges, user fees, or surcharges.

In addition to the rates and charges specified below, the Company may provide service on an Individual Case Basis. The Company may in response to competitive requests for proposal, develop a responsive individual case billing arrangement for services offered in this Tariff. Prices quoted in response to such requests may be different from those in effect in this Tariff. Such prices will also be available for similarly situated Customers. All individual case billing arrangement price quotes will be offered to the Customer for acceptance in writing. Such Individual Case Billing Arrangements will specify, among other things, the length of service, minimum volume of service required, and the rates and charges for the proposed service.

A. Rate Elements

1. **Air Link.** - A monthly recurring Air Link rate element provides for the dedicated transmission media between a Customer Remote and a Company Hub. One Link charge applies for each Link that comprises a Circuit.

2. **Port Charge** - A monthly recurring Port Charge rate element applies for each Wireless T1 or Wireless Ethernet port access connection to the Broadband Wireless Service network. The specified charge is billed per port per month for the dedicated bandwidth increments specified below. Data rates for Wireless Ethernet traffic may not exceed the dedicated bandwidth set out in the Service Order.

SECTION 3 - SERVICE DESCRIPTIONS, (CONT'D.)

3.2 Terrestrial DS1 Service

Terrestrial DS1 Service is a dedicated, high capacity, full duplex service with a line speed of 1.544 Mbps isochronous serial data having signal format of either Alternate Mark Inversion (AMI) or Bipolar 8 Zero Substitution (B8ZS) and either Super frame (D4) or Extended Super frame formats. DS1 Service has the equivalent capacity of 24 Voice Grade services or 24 DS0 services. AMI can support 24 56Kpbs channels and B8ZS can support 24 64Kbps channels.

SECTION 4- RATES AND CHARGES

4.1 Broadband Wireless Service

4.1.1 Wireless T1 Rates

	Monthly Recurring Charges		Non Recurring Charges	
	Link	**Port**	**Link**	**Port**
4 T-1s	$300	$120	$1,500	$1,500
6 T-1's	$450	$180	$1,500	$1,500
8 T-'s	$600	$240	$1,500	$1,500
10 T-1's	$750	$300	$1,500	$1,500
12 T-1's	$890	$360	$1,500	$1,500

4.1.2 Wireless Ethernet Rates

	Monthly Recurring Charges		Non Recurring Charges	
	Link	**Port**	**Link**	**Port**
5 Mbps	$400	$200	$750	$750
10 Mbps	$525	$200	$750	$750
15 Mbps	$850	$200	$750	$750
20 Mbps	$1,600	$200	$750	$750

4.1.3 Dedicated Internet Access Rates

	Monthly Recurring Charges		Non Recurring Charges	
	Link	**Port**	**Link**	**Port**
5 Mbps	$775	$200	$750	$750
10 Mbps	$1,300	$200	$750	$750
20 Mbps	$2,050	$200	$750	$750

SECTION 4- RATES AND CHARGES, (CONT'D.)

4.2 Terrestrial DS1 Service

Terrestrial DS1 voice loop monthly recurring charge	ICB
Terrestrial DS1 voice loop install charge	ICB

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