TC04-145

KC|KS

TC04-145

DOCKET NO.

In the Matter of IN THE MATTER OF THE FILING FOR APPROVAL OF TRANSFER OF CERTIFICATE OF AUTHORITY FROM XO NETWORK SERVICES, INC. TO XO COMMUNICATIONS SERVICES, INC.

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
8/2	04	Filed and Docketed;
8/5	04	Weekly Filing;
11/12	04	Tariff;
12/14	04	Request for Waiver;
12/17	04	Revised Tariff Page;
12/29	04	Order Granting Transfer of COA and Order Granting Petition for Waiver;
12/29	04	Docket Closed.

STATE PUBLISHING CO., PIERRE, SOUTH DAKOTA—SMEAD 62 SP14130

TC04-145

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July 30, 2004

VIA UPS

Ms. Pam Bonrud, Executive Director
South Dakota Public Utilities Commission
Capitol Building, 1st floor
500 East Capitol Avenue
Pierre, SD 57501-5070

Re: Request for Authority Regarding XO Corporate Reorganization

Dear Ms. Bonrud:

Enclosed for filing with the South Dakota Public Utilities Commission ("Commission") please find an original and ten (10) copies of an Application For Approval of an Internal Corporate Reorganization related to a corporate reorganization of the subsidiaries of XO Communications, Inc.

Also enclosed is check for $250.00 to cover the requisite filing fee and a duplicate of this filing, along with a self-addressed, postage-paid envelope. Kindly date-stamp the duplicate and return it in the envelope provided. Thank you for your attention to this matter, and please do not hesitate to contact me if you have any questions.

I called Nicholaus Leverett. He said they do want to transfer the COA.

Sincerely,

Nicholaus G. Leverett

The name to be transfered to is XO Communications Services, Inc.

DC01/LEVEN/222873.1

Before the
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

In the Matter of the Application of XO NETWORK SERVICES, INC. AND XO COMMUNICATIONS SERVICES, INC. For Approval of an Internal Corporate Reorganization and For Approval, As Necessary, of Related Transactions	))))))))	Docket No. ____________

APPLICATION

XO Network Services, Inc. ("XO Network Services") and XO Communications Services, Inc. ("XO Communications") (collectively "Applicants" or "XO Subsidiaries"), both subsidiaries of XO Communications, Inc. ("XO"), the ultimate parent corporation, by their attorneys and pursuant to South Dakota Administrative Rules §§ 20:10:24:04.01 and 20:10:32:08 hereby respectfully request that the South Dakota Public Utilities Commission ("Commission") approve or grant such authority as may be necessary for an internal corporate reorganization whereby XO Network Services and all of its assets, including its authorization to provide telecommunications services in South Dakota, will be merged into XO Communications.[1] Upon consummation of this reorganization, XO Communications will provide service to the existing customers of XO Network Services. This internal reorganization will simplify the XO corporate structure, streamlining XO's operations in South Dakota, eliminating administrative redundancy and improving overall efficiency. The Applicants anticipate that the consolidation in South Dakota will occur after receipt of the required regulatory approvals in South Dakota; thus, the

---

1 XO Communications became the new name of XO Domestic Holdings, Inc. on June 29, 2004. XO is in the process of obtaining the necessary documentation from the South Dakota Secretary of State showing the name change and will late-file the documentation and any necessary additional request for name change approval.

Applicants request that the Commission take any action necessary to approve this application at its earliest possible convenience.

Specifically, as described below, the Applicants propose that XO Network Services' intrastate customer base, tariff and authority to provide telecommunications services in South Dakota be transferred to its affiliate, XO Communications. Applicants will submit the necessary documentation from the South Dakota Secretary of State showing the new name as soon as it is available. The proposed transaction is not expected to result in any loss or impairment of service to the XO Long Distance customers that would be affected by consummation of the proposed transaction. XO end users will continue to receive service at substantially similar rates, terms and conditions and will continue to see the "XO" name on their bills.

The reorganization and consolidation of the XO Subsidiaries into a single operating entity, XO Communications, is anticipated to occur via a number of mergers. Corporate organizational charts showing XO's corporate structure before and after the consolidation are appended hereto as **Exhibit A.** The Applicants propose to transfer XO Network Services' intrastate customer base, tariff and authority to provide telecommunications services to XO Communications through a merger of XO Network Services into XO Communications. After the merger, XO Network Services will cease to exist by operation of law, and XO Communications will assume all of XO Network Services' assets and operations and will provide telecommunications services to XO Network Services' customers pursuant to XO Network Services' tariff, amended with the new name XO Communications.

In connection with the merger, the telecommunications authorizations currently held by XO Network Services will be transferred to XO Communications. The Applicants respectfully request that the Commission authorize, to the extent necessary, the merger of XO Network

Services with and into XO Communications together with the transfer of XO Network Services' operating authority, tariff and customer base to XO Communications.

The proposed transfer of operating authority from XO Network Services to XO Communications will be virtually transparent to consumers in South Dakota and will have no adverse impact on them. XO will remain the parent corporation, and the name that customers see on their telecommunications invoice will remain "XO." Further, the same services will be provided to end users at substantially similar rates, terms and conditions. Because XO Network Services and XO Communications are managed by the same team of experienced telecommunications personnel, day-to-day operations will continue to function as they have in the past. Customer service functions will be provided by the same team of qualified consumer representatives. In order to facilitate a seamless transfer, XO Communications will file a revised tariff, as required, to reflect its slightly changed name. Thus, XO Network Services' end user customers will continue to receive high quality services from the same qualified personnel, at substantially similar rates, terms and conditions.

In support of this Application, the Applicants provide the following information:

20:10:32:03(1) and 20:10:24:02(1): XO Communications, Inc. and its subsidiaries, including XO Communications Services, Inc. and XO Network Services, Inc. are Delaware corporations whose principal office and place of business is located at 11111 Sunset Hills Road, Reston, Virginia 20190-5339. Phone: (703) 547-2000. Facsimile: (801) 951-2171. Email address for XO's regulatory contact is: doug.kinkoph@xo.com. The company's stock is publicly traded on the Over the Counter Bulletin Board under the symbol "XOCM.OB."

20:10:32:03(2): Please see **Exhibit B** for a listing of XO Communications' Officers and Directors. All officers and directors can be contacted at the Company's address of 11111 Sunset Hills Road, Reston, Virginia 20190-5339.

20:10:32:03(3) and 20:10:24:02(2): Applicant may provide services under the name "XO."

20:10:32:03(4)(a) and 20:10:24:02(3)(b): Applicant's registered agent in South Dakota is Corporation Service Company, 503 South Pierre Street, Pierre, South Dakota 57501.

20:10:32:03(4)(b) and 20:10:24:02(3)(c): XO Communications is wholly owned by XO. XO is ultimately controlled by Carl C. Icahn, a U.S. citizen, through his ultimate control and ownership of various companies.

20:10:32:03(4)(c) and 20:10:24:02(3)(a): As stated above, XO Communications is a Delaware corporation. It was incorporated on January 5, 2000. Please find attached as **Exhibit C** its certificate of incorporation.

20:10:32:03(4)(d): Please see **Exhibit D**.

20:10:32:03(5) and 20:10:24:02(5) and (6): XO is a leading facilities-based provider of broadband telecommunications services. The company offers a complete set of telecommunications services including local and long distance voice, Internet access, Virtual Private Networking (VPN), Ethernet, Wavelength, Web Hosting and Integrated voice and data services. XO provides service through its facilities-based broadband networks and Tier One Internet peering relationships. The company also is one of the nation's largest holders of fixed wireless spectrum, covering 95% of the population of the 30 largest U.S. cities. XO currently offers facilities-based broadband telecommunications services within and between more than 70 markets throughout the United States.

XO is authorized by the FCC to provide interstate and international telecommunications services and, through one or more of its subsidiaries, is authorized to provide intrastate interexchange services virtually nationwide, and is authorized to provide competitive local exchange services in 47 states. In South Dakota, XO Network Services offers local and long distance services pursuant to its authorization issued by the Commission.[2] Thus, XO Network Services and its corporate parent, XO, have been found by this Commission to possess the requisite financial, managerial and technical qualifications necessary to operate as a provider of intrastate telecommunications services in South Dakota.[3]

20:10:32:03(6): As stated above, XO and all of its affiliates, subsidiaries and parent organizations are located at 11111 Sunset Hills Road, Reston, Virginia 20190-5339. Corporate organizational charts showing XO's affiliates subsidiaries and parents before and after the consolidation are appended hereto as **Exhibit A.**

20:10:32:03(7): To streamline and simplify its corporate structure, XO intends to collapse XO Network Services into XO Communications. After completion of the consolidation, XO will remain the ultimate corporate parent and it will have only one XO subsidiary operating in South Dakota, XO Communications, which will continue providing the same high quality services to the current customers of XO Network Services. As stated above, XO Network Services currently provides facilities-based and resold local exchange telecommunications services in addition to interexchange services. XO Communications seeks the same authorization so it may continue to provide high quality service to the current customers of XO

---

2 XO Network Services, formerly known as XO Long Distance, was granted authority to provide local services in Docket No. TC03-187 and to provide IXC services in TC99-102.

3 XO's most recent Annual Report and Form 10-Q which contains the consolidated financial statements of XO and subsidiaries can be accessed at www.xo.com.

Network Services. These services, including but not limited to basic voice, exchange access, private line and data transmission services will be provided on a statewide basis. These services will be provided primarily to business customers. Initially Applicant plans to provide these voice and data services via UNE-P and resale. Applicant may, however expand its network into South Dakota if economically feasible in the future.

20:10:32:03(8) and 20:10:24:02(7): With respect to the geographic coverage area for its intended services, Applicant requests the same authority as is currently held by XO Network services, i.e. authority to operate as a competitive local exchange provider and provider of long distance services for the entire State of South Dakota, except in those areas served by a rural telephone company.

20:10:32:03(9)(a): As reflected on the ownership charts appended hereto, upon completion of the reorganization, the ownership of XO Communications will be identical to its current ownership and the ownership of XO Network Services. The Commission has already examined the financial, managerial, technical and operational qualifications of XO to provide telecommunications services – XO Communications is backed by the same qualifications as XO Network Services and will provide the same high quality services to customers. Thus, there should be no question about the qualifications of XO Communications and its parent, XO, to operate in the public interest as the reorganization will not cause any meaningful change in the ownership, financial condition or services of the utility entities.

20:10:32:03(9)(b): Applicant is dedicated to providing superior customer service. Customer care representatives are available 24 hours a day, seven days a week, to assist in questions and concerns about products, services, billing or any other area of need. Customers can contact XO toll-free at 1-888-575-6398 or use the online support options on the Internet at http://www.xo.com/care/. As noted above, Applicant initially plans to offer services via UNE-P and resale, thus maintenance and quality assurance will be performed by the incumbent.

20:10:32:03(10): In addition to the above-listed local exchange services and in conformity with the Commission's regulations, Applicant, either directly or through arrangements with other service providers, will offer access to 911 Emergency Services, services for the hearing and speech-impaired, local and toll directory assistance, operator-assisted calling, equal access to customers' carriers of choice for intraLATA and interLATA toll calls, and number portability, where required.

20:10:32:03(11)(a) and 20:10:24:02(8): Please see **Exhibit E**.

20:10:32:03(11)(b): Please see **Exhibit F** and **Exhibit G**.

20:10:32:03(12): On February 25th, 2004, the Commission approved an interconnection agreement between XO Network Services and Qwest Corporation in Docket No. TC04-007. Applicant will be a party to that agreement.

20:10:32:03(13): Applicant is in the process of preparing its tariffs and will file them with the Commission shortly.

20:10:32:03 (14) and 20:10:24:02(12): Applicant's services will be provided to business customers primarily and Applicant does not anticipate serving 50,000 subscribers in the near future. Applicant therefore requests a waiver of the cost support requirement.

20:10:32:03 (15) and 20:10:24:02(11): Applicant's marketing effort will be integrated with that of its parent company, XO Communications, Inc. XO plans to market its service via the Internet and printed advertising.

20:10:32:03 (16): Applicant requests that the existing authority of XO Network Services be transferred to XO Communications. It is our understanding that XO Network Services does not currently possess authority to provide service in the service area of rural telephone companies.

20:10:32:03 (17) and 20:10:24:02(10): XO Communications is not licensed to provide telecommunications services in any state at this time. XO Communications has never been denied registration or certification in any state.

20:10:32:03 (18) and 20:10:24:02(9): The designated contact for customer complaints and regulatory matters is:

Doug Kinkoph
Vice President Regulatory and External Affairs
XO COMMUNICATIONS, INC.
Two Eastern Oval
Suite 300
Columbus, Ohio 43219
Tel. (614) 416-1468
Fax (614) 416-9268
Email: doug.kinkoph@xo.com

Copies of any correspondence also should be sent to the following designated representative of the Applicants:

Nicholaus G. Leverett, Esq.
Melissa Smith Conway, Esq.
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
Tel. (202) 887-1212
Fax (202) 955-9792

20:10:32:03 (19): Applicant currently plans to render its own bills and send them directly to its customers; Applicant may, in the alternative, contract with a billing agent to handle some or all of its billing functions. Applicant will seek to ensure that all bills comply with the Commission's rules and regulations.

20:10:32:03 (20): XO will be using agents and direct sales personnel to solicit new customers. In most, if not all instances, these customers' decision-makers will be located outside of South Dakota and will provide XO a Letter of Authorization to transition their South Dakota locations to XO's local services. Attached as **Exhibit H**, please find a copy of the Letter of Authorization used by XO to convert new customers

20:10:32:03 (21) and 20:10:24:02(14): Applicant has not been the subject of a complaint in any state or federal commission regarding the unauthorized switching of a customer's telecommunications and the act of charging customers for services that have not been ordered.

20:10:32:03 (22) and 20:10:24:02(15): Applicant respectfully requests waiver from the Commission's requirement to file cost support information. As mentioned above, Applicant's services will be provided to business customers primarily and Applicant does not anticipate serving fifty thousand subscribers in the near future. Applicant agrees that at such time as it serves more than fifty thousand local exchange subscribers, it will notify the Commission and file its such cost support information as required under the Commission's Rules.

20:10:32:03 (23) and 20:10:24:02(13): Applicant's Federal tax identification number is 91-2019476.

20:10:32:03 (24) and 20:10:24:02(16): The proposed internal corporate reorganization and transfer of operating authority is in the public interest. As noted above, the reorganization will generally be transparent to customers and will have no adverse impact on them. Current XO Network Services customers will continue to see "XO" on their invoices and the consolidation will be entirely transparent to them. This proposed consolidation will provide significant reductions in legal, accounting and tax administrative burdens and will simplify the XO companies' corporate structure, eliminating administrative redundancy and improving the companies' overall efficiency thereby enhancing the company's ability to compete in South Dakota and elsewhere. Over time, consumers in South Dakota will benefit from a greater number of product and service options as well as more efficient prices resulting from the enhanced competitive ability of the streamlined company.

As reflected on the ownership charts appended hereto, upon completion of the reorganization, the ownership of XO Communications will be identical to its current ownership and the ownership of XO Network Services. Thus, there should be no question about the qualifications of XO Communications and its parent, XO, to operate in the public interest as the reorganization will not cause any meaningful change in the ownership, financial condition or services of the utility entities

WHEREFORE, the Applicants respectfully request that the Commission grant them authority, to the extent necessary, to reorganize, as described herein, and for such other and further relief as may be necessary to carry out the reorganization described herein.

Respectfully submitted,

XO NETWORK SERVICES, INC. AND XO COMMUNICATIONS SERVICES, INC.

By:____________________

Brad E. Mutschelknaus
Melissa S. Conway
Nicholaus G. Leverett
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
Tel. (202) 955-9600

Their Attorneys

Dated: July 30, 2004

VERIFICATION

I, LEE WEINER, am authorized to represent XO Communications, Inc. and its subsidiaries, and to make this verification on their behalf. The statements in the foregoing document relating to XO Communications, Inc. and its subsidiaries, except as otherwise specifically attributed, are true of my own knowledge, except as to matters that are stated herein on information or belief, and as to those matters, I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.

Lee Weiner

Name: LEE WEINER
Title: Sr. Vice President, General Counsel
and Secretary

Subscribed and sworn to before me on this 24th day of June, 2004.

Janette M. Weaver

Notary Public

My commission expires: 03-31-05

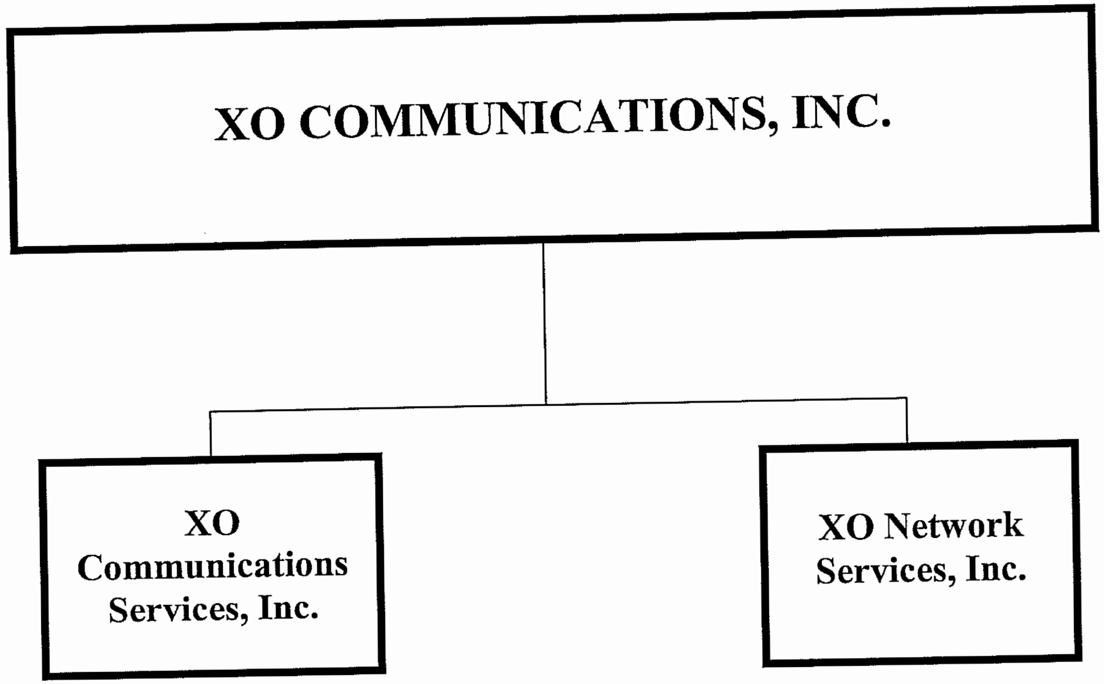
- SEAL

JANETTE M. WEAVER
COMMONWEALTH OF VIRGINIA
NOTARY PUBLIC

EXHIBIT A

CORPORATE ORGANIZATIONAL CHARTS

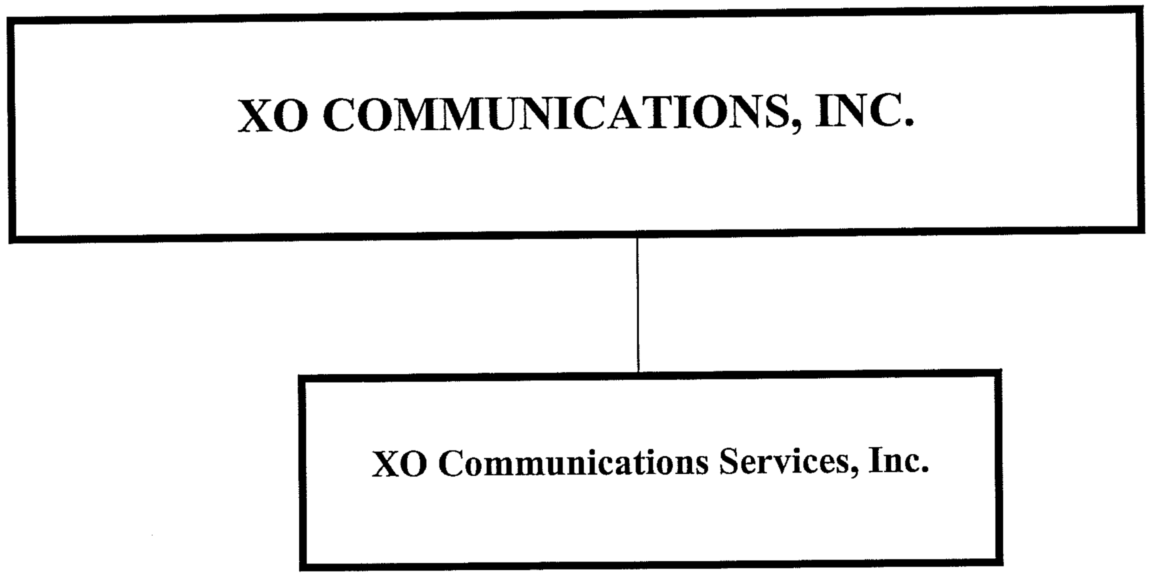
EXISTING CORPORATE STRUCTURE[1]



[1] Each entity is 100% owned by the entity immediately above it, unless otherwise indicated.

DC01/LEVEN/222768.1

CORPORATE STRUCTURE AFTER RESTRUCTURING[1]



[1] Each entity is 100% owned by the entity immediately above it, unless otherwise indicated.

DC01/LEVEN/222768.1

EXHIBIT B

CORPORATE OFFICERS AND DIRECTORS

Carl J. Grivner
Chief Executive Officer

Wayne Rehberger
Chief Operating Officer

Lee Weiner
Senior Vice President and General Counsel

Bill Garrahan
Acting Chief Financial Officer and Senior Vice President, Corporate Development

Doug Sobieski
Vice President, Fixed Broadband Wireless Services

Terri Burke
Vice President, Human Resources

Rob Geller
Chief Information Officer

Tom Cady
Chief Marketing Officer

Mark Faris
Senior Vice President, Network Operations

Matt Harty
President, Commercial Sales

Ernie Ortega
President, Carrier Sales

Rob Westervelt
President, Indirect Sales

Ron Scott
Senior Vice President, XO Communications and President, XO One

EXHIBIT C

CERTIFICATE OF INCORPORATION

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "XO DOMESTIC HOLDINGS, INC.", CHANGING ITS NAME FROM "XO DOMESTIC HOLDINGS, INC." TO "XO COMMUNICATIONS SERVICES, INC.", FILED IN THIS OFFICE ON THE TWENTY-EIGHTH DAY OF JUNE, A.D. 2004, AT 2:31 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

3154937 8100

040475355

AUTHENTICATION: 3202073

DATE: 06-29-04

State of Delaware
Secretary of State
Division of Corporations
Delivered 03:14 PM 06/28/2004
FILED 02:31 PM 06/28/2004
SRV 040475355 - 3154937 FILE

STATE OF DELAWARE
CERTIFICATE OF AMENDMENT
OF CERTIFICATE OF INCORPORATION

XO Domestic Holdings, Inc.

a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware.

DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of XO Domestic Holdings, Inc., resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that the name of the company is hereby changed from "XO Domestic Holdings, Inc." to "XO Communications Services, Inc.", effective as of the earliest date permissible under the General Corporation Law of the State of Delaware;

RESOLVED, that, it being advisable and in the best interests of the sole stockholder, that the Article First of the Company's Certificate of Incorporation be amended to read as follows:

"The name of the corporation is XO Communications Services, Inc."

RESOLVED, that each officer shall have the authority to execute and deliver on behalf of the Company, the Certificate of Amendment, and any such agreements, contracts, certificates, bonds, mortgages, deeds, documents and instruments as are or become necessary in accordance with the foregoing resolution, and the signature of such officer on such officer on such document shall be sufficient to bind the Company.

SECOND: That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of said corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: That the capital of said corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, said XO Domestic Holdings, Inc., has caused this certificate to be signed by

William Garrahan, an Authorized Officer,

this 28th day of June, 2004.

By: ______________________
Authorized Officer

Title: Acting CFO

Name: William Garrahan
Print or Type

EXHIBIT D

AUTHORITY TO TRANSACT BUSINESS

To Be Late-Filed

EXHIBIT E

FINANCIAL INFORMATION

XO COMMUNICATIONS, INC.
Condensed Consolidated Statements of Operations
(Dollars in thousands, except for share and per share data)

	Reorganized XO (1) Three Months Ended December 31, 2003 (Unaudited)	Predecessor XO Three Months Ended December 31, 2002 (Unaudited)
Revenue	$ 261,039	$ 299,442
Costs and expenses:		
Cost of service	102,790	121,996
Selling, operating, and general	168,021	170,558
Depreciation and amortization (2)	27,315	183,351
Restructuring expense (3)	11,618	-
Loss from operations	(48,705)	(176,463)
Investment income (loss), net (4)	36,851	2,874
Interest expense, net	(9,589)	(665)
Reorganization expense (5)	-	4,432
Net (loss) income applicable to common shares	$ (21,443)	$ (169,822)
Net (loss) income per common share, basic and diluted	$ (0.22)	$ (0.39)
Weighted average shares, basic and diluted	96,247,325	441,180,486

XO COMMUNICATIONS, INC.
Condensed Consolidated Statements of Operations
(Dollars in thousands, except for share and per share data)

	Reorganized XO (1) Year Ended December 31, 2003	Predecessor XO Year Ended December 31, 2002
Revenue	$ 1,110,483	$ 1,259,853
Costs and expenses:		
Cost of service	422,129	522,924
Selling, operating, and general	679,286	765,853
Depreciation and amortization (2)	109,308	699,806
Restructuring expense (3)	11,618	480,168
Loss from operations	(111,858)	(1,208,898)
Investment income (loss), net (4)	46,152	16,278
Interest expense, net	(36,848)	(226,451)
Reorganization expense (5)	-	(91,121)
Net (loss) income before cumulative effect of accounting change	(102,554)	(1,510,192)
Cumulative effect of accounting change (6)	-	(1,876,626)
Net (loss) income	(102,554)	(3,386,818)
Recognition of preferred stock modification fee, net	-	78,703
Preferred stock dividends, net	-	(42,247)
Net (loss) income applicable to common shares	$ (102,554)	$ (3,350,362)
Net (loss) income per common share, basic and diluted:		
Net (loss) income before cumulative effect of accounting change	(1.07)	(3.42)
Cumulative effect of accounting change	-	(4.24)
Net (loss) income	(1.07)	(7.66)

Recognition of preferred stock modification fee, net	-	0.18
Preferred stock dividends, net	-	(0.10)
Net (loss) income per common share, basic and diluted	$ (1.07)	$ (7.58)
Weighted average shares, basic and diluted	95,632,859	441,964,342

XO COMMUNICATIONS, INC.
Condensed Consolidated Balance Sheets
(Dollars in thousands)

	Reorganized XO (1)	
	As of December 31, 2003	As of September 30, 2003
		(Unaudited)
Cash and marketable securities	$ 520,612	$ 520,135
Accounts receivable, net	93,958	108,618
Property and equipment, net	485,984	474,640
Broadband wireless licenses and other intangibles, net	109,515	116,056
Other assets, net	55,096	62,190
Total assets	$ 1,265,165	$ 1,281,639
Accounts payable and accrued expenses	$ 347,949	$ 354,856
Long-term debt (7)	536,791	526,824
Total stockholders' equity	380,425	399,959
Total liabilities and stockholders' equity	$ 1,265,165	$ 1,281,639

Footnotes to Condensed Consolidated Financial Statements

(1) On January 16, 2003, XO emerged from its Chapter 11 reorganization proceedings with a significantly restructured balance sheet due to the implementation of fresh start accounting under the provisions of SOP 90-7, "Financial Reporting by Entities in Reorganziation under the Bankruptcy Code. Fresh start accounting required XO to adjust the historical cost of its assets and liabilities to their fair values as based upon its total reorganization value and that such value be allocated to its net assets. Accordingly, 2003 results are not comparable with 2002 results. The accompanying 2003 balance sheets illustrates the impact of this revaluation.

(2) The implementation of fresh start accounting resulted in a reduction of the carrying value of XO's property and equipment and broadband wireless licenses and other intangibles to their estimated fair value, which is significantly lower than historical cost. As a result, 2003 depreciation and amortization expense decreased and is not comparable with the prior period.

(3) Restructuring expenses includes involuntary severance benefits for employees whose employment was terminated as part of restructuring efforts, estimated losses associated with restructuring leases for the period ended December 31, 2003, and the loss on the divestiture of XO's European business for the period ended December 31, 2002.

(4) Investment income (loss), net includes interest income as well as any realized gains or losses on sale of investments. The 2003 balance is primarily for a gain on sale of an investment.

(5) Reorganization expenses for the period ended December 31, 2002 include charges for adjustments of the historical carrying amounts of XO's debt to the estimated allowed claim by the Bankruptcy Court and professional fees directly related to XO's bankruptcy filing and plan of reorganization.

(6) On January 1, 2002, XO performed the impairment tests of goodwill as required by Statement of Financial Accounting Standards No. 142. Based on these tests, XO recorded a $1,876.6 million impairment charge to write-off all of XO's goodwill as a cumulative effect of accounting change during the first quarter of 2002.

(7) Long-term debt of Reorganized XO represents the outstanding principal amount of loans under an amended and restated credit agreement, pursuant to the terms of XO's Plan of Reorganization.

XO COMMUNICATIONS, INC.
Operating Data
(Unaudited)

	As of December 31, 2003	As of September 30, 2003	As of June 30, 2003	As of March 31, 2003	As of December 31, 2002
Route miles (in thousands)	23.7	23.8	23.7	23.7	23.7
Fiber miles (in thousands)	1,161.6	1,168.7	1,158.2	1,152.7	1,245.3
On-net buildings	2,374	2,355	2,338	2,400	2,395
Customers (in thousands)	83.5	84.2	87.2	89.8	91.8
Employees	5,123	5,163	5,026	4,933	5,093
Average monthly revenue per customer	$ 1,007	$ 1,053	$ 1,045	$ 1,013	$ 1,031

Operating Data Definitions

Route miles - The number of constructed miles of the telecommunications path in which XO-owned or controlled fiber optic cables are installed. These include metro and inter-city miles and exclude wavelength capacity.

Fiber miles - The number of route miles, as defined above, multiplied by XO's estimate of the number of fibers along that path.

On-net buildings - Buildings connected to our networks by either XO-owned or controlled cable or fixed wireless antenna.

Customers - The number of revenue-generating invoices as of the end of the respective period. This statistic excludes consumer dial up and shared hosting accounts.

Average monthly revenue per customer - Represents revenue for the quarter divided by the average monthly customer count for the quarter determined based on the number of customers (as defined above) at the end of each month within the quarter. This calculation excludes both the associated revenue and customer counts for XO's consumer dial-up and shared hosting accounts. Average monthly revenue per customer is not a measure under GAAP but rather, it is a measure employed by management to view revenue results adjusted for revenue derived from products whose pricing and customer mix is not representative. XO uses average monthly revenue per customer only as a supplemental measure of XO's revenue performance. XO's method of computation may not be comparable to other similarly titled measures used by other companies. XO believes average monthly revenue per customer is a meaningful indicator that can be used by investors to analyze and compare XO's revenue performance between periods and to compare the revenue performance of other companies.

The following is a reconciliation of quarterly revenue to average monthly revenue per customer.

	As of December 31, 2003	As of September 30, 2003	As of June 30, 2003	As of March 31, 2003	As of December 31, 2002
Quarterly revenue (in thousands)	$ 261,039	$ 279,433	$ 283,918	$ 286,093	$ 299,442
Less: Shared hosting and consumer dial-up quarterly revenue (in thousands)	(7,537)	(7,680)	(8,535)	(9,895)	(10,290)
Quarterly revenue applicable to revenue per customer calculation (in thousands)	$ 253,502	$ 271,753	$ 275,382	$ 276,198	$ 289,152
Average customer count (in thousands)	83.9	86.0	87.9	90.9	93.5
Quarterly revenue per customer	$ 3,020	$ 3,160	$ 3,134	$ 3,038	$ 3,093
Average monthly revenue per customer	$ 1,007	$ 1,053	$ 1,045	$ 1,013	$ 1,031

EXHIBIT F

ANNUAL REPORT

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

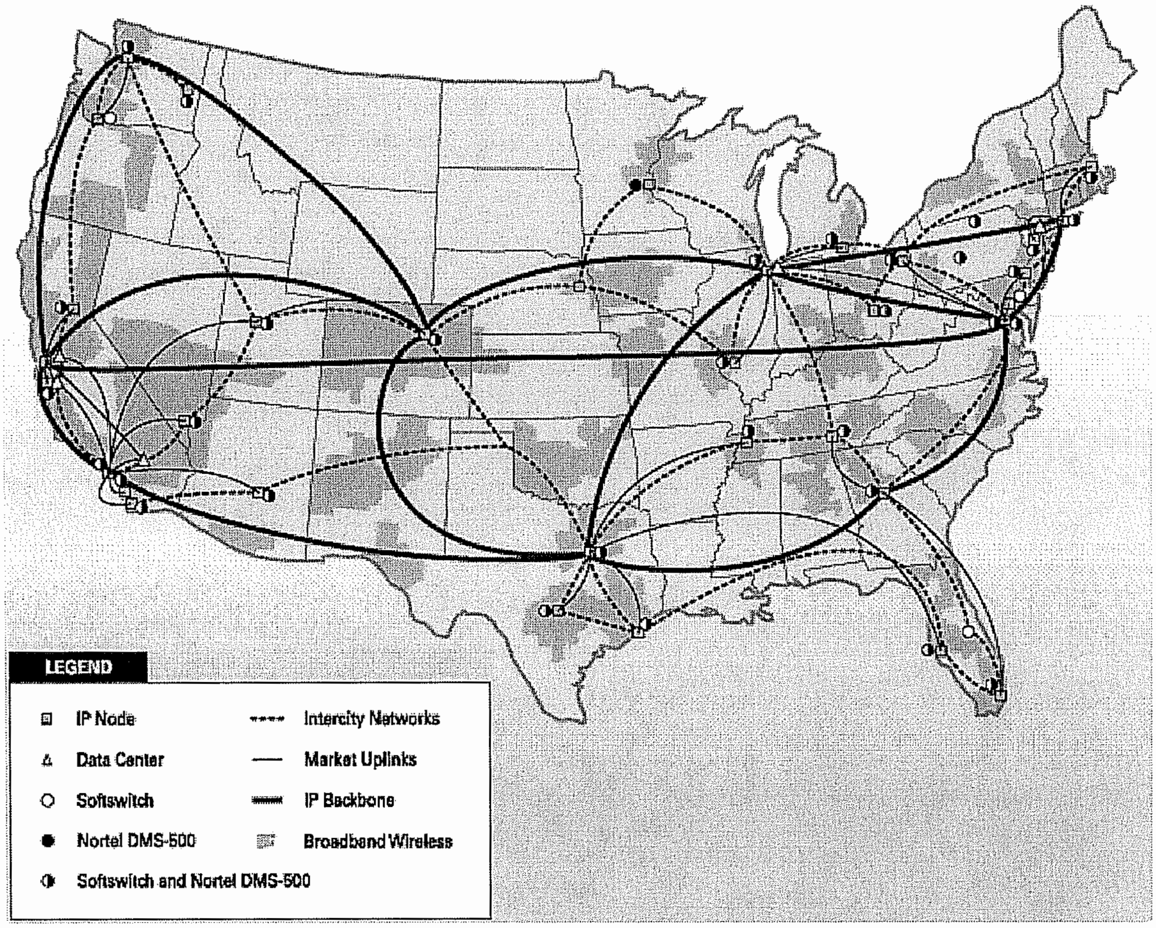
We offer bundled packages of voice and data products, known as XOptions, to small and middle-market businesses that include integrated, flat-rate packages for specified amounts of certain services, including local and long distance voice services, Internet access and web hosting services. These services 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

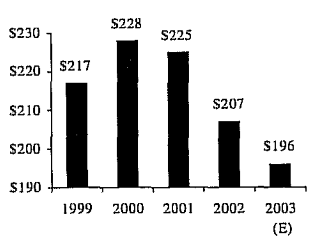
State of the Telecommunications Industry

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.

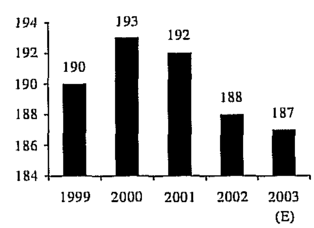
The telecommunications industry annual revenues peaked for wireline services in 2000 at $228 billion, and are estimated to be approximately $196 billion in 2003. Associated lines have declined from 193 million in 2000 to an estimated 187 million in 2003.

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.

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 (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

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

REPORT TO STOCKHOLDERS

XO Communications, Inc. Summary Report 2003

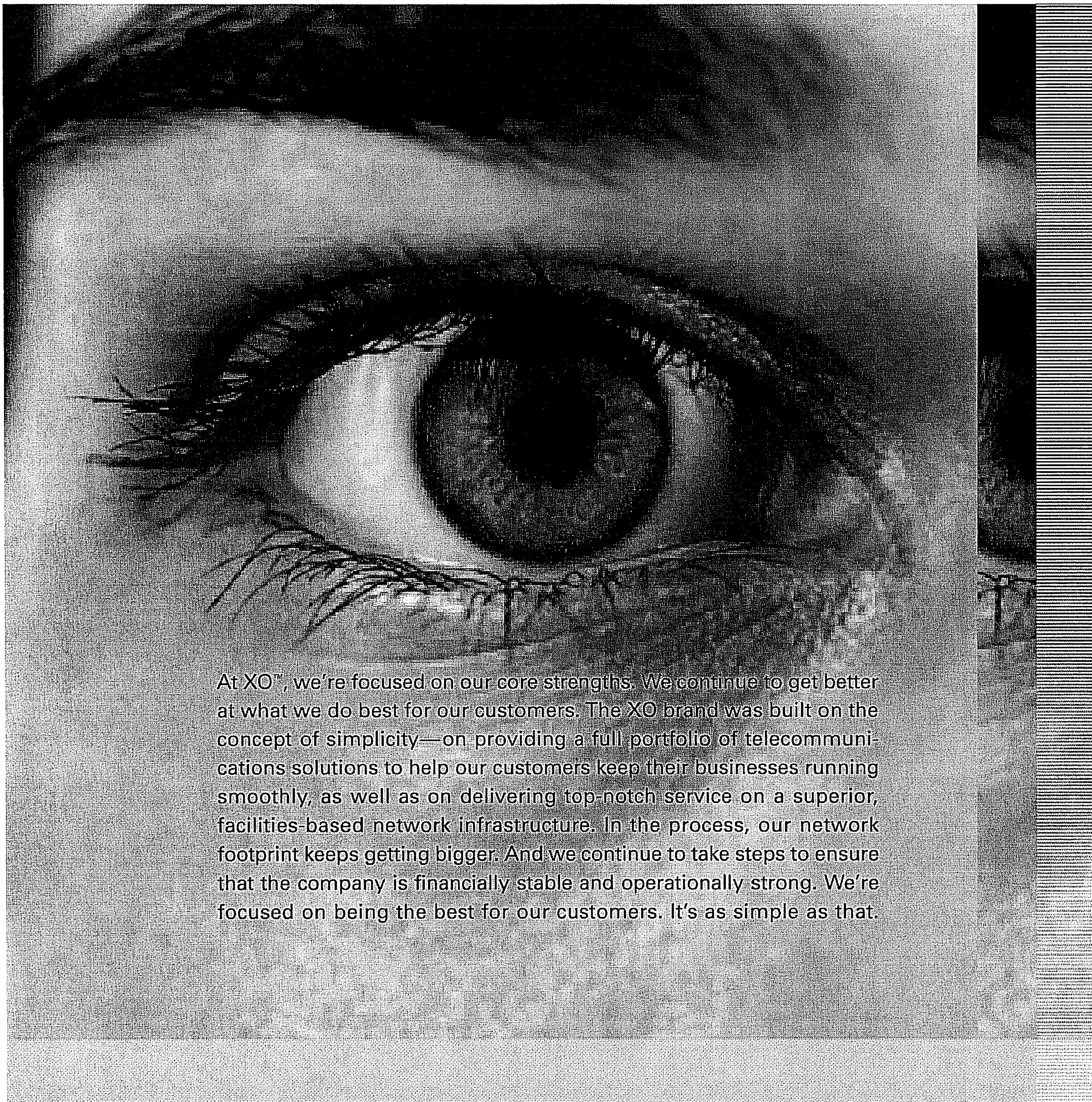
XO Communications, Inc. is a national provider of data, Internet and voice telecommunications services to businesses and carriers, offering a complete portfolio of solutions, including local and long distance voice, Internet access, private line, Virtual Private Networking (VPN), Ethernet, Wavelength, Web hosting, and integrated voice and data services.

XO™ has been providing voice and data telecommunications services for 10 years and remains dedicated to being where our customers need us to be. We currently offer facilities-based broadband telecommunications services within and between more than 70 markets throughout the United States. And, with the pending acquisition of all of the local exchange carrier business of Allegiance Telecom, XO will become one of the nation's largest independent providers of national local telecommunications and broadband services.

Financial Highlights*

	REORGANIZED XO	PREDECESSOR XO	
DOLLARS IN MILLIONS	2003	2002	2001
Revenue	$1,111	$ 1,260	$ 1,259
Gross margin	62%	58%	58%
Selling, operating and general expenses	$ 679	$ 766	$ 1,009
Net loss	$ (103)	$(3,387)	$(2,086)
Cash and marketable securities at December 31	$ 521	$ 561	$ 755

* The company applied fresh start accounting in January 2003, consequently 2003 results may not be comparable to prior year results. Please refer to www.xo.com for most up-to-date financials.



At XO™, we're focused on our core strengths. We continue to get better at what we do best for our customers. The XO brand was built on the concept of simplicity—on providing a full portfolio of telecommunications solutions to help our customers keep their businesses running smoothly, as well as on delivering top-notch service on a superior, facilities-based network infrastructure. In the process, our network footprint keeps getting bigger. And we continue to take steps to ensure that the company is financially stable and operationally strong. We're focused on being the best for our customers. It's as simple as that.

Letter from the CEO

Focus is the key to success. In order to be successful, we believe you must keep an unrelenting focus on your target. If you take your eye off the ball or look over your shoulder for an instant, you lose focus and won't stay at the top of your game. At XO, our customers are our focal point. We're dedicated to being the premier national local business telecommunications services provider by staying focused on our customers' needs.

We've accomplished an enormous amount this past year—completing a market expansion, achieving record sales in the third quarter, improving efficiencies and continuing to deliver the simple, innovative solutions that businesses need.

Financial review
Our 2003 revenues reflect the competitive pressures that were occurring in our industry. For the year, we reported revenue of $1.11 billion compared to revenue of $1.26 billion in 2002. Although the company is not yet profitable, through management initiatives, we improved gross margins by 3.5% and reduced selling, operating and general expenses by $86.6 million, which helped us to generate net cash from operations of $6.3 million for 2003.

We continued to improve our balance sheet. During the fourth quarter of 2003, we began a successful rights offering that was completed in January 2004 and generated $197.6 million in net cash proceeds. Those funds were used to further reduce our outstanding debt of $536.8 million at December 31, 2003. After the rights offering, we have one of the lowest debt to equity ratios in our industry. We have no current debt service requirements since cash interest or principal payments do not start until 2009.

Strengthening our core assets
We further strengthened our national local presence this year with the expansion of the XO network, adding 12 markets to our existing 60-market footprint. This expansion enhances our ability to meet the needs of multi-location businesses—whether they have two or two hundred offices.

We stayed focused on keeping our customers satisfied and continued to add new ones. We signed substantial new contracts with such customers as AMS, Premier Business Centers, SkyWay Aircraft, Z-Tel Technologies, Hitachi Metals of America, RE/MAX and the Gannett Company.

In addition, we are continuing our commitment to "Think Customer" in our day-to-day business.

Strength through synergy
In February 2004, XO was selected to acquire all of the local exchange carrier business of Allegiance Telecom, Inc., a facilities-based national local exchange carrier that provides integrated telecommunication services to businesses, government and other institutional users in 36 major metropolitan areas across the United States. With the combined resources of the two companies,

Timeline

01.16.03 XO emerges from financial reorganization
– Debt reduced to $500 million from $5 billion
02.19.03 XO secures contract with Hitachi Metals America
03.04.03 XO signs contract with AMS
05.15.03 Carl Grivner assumes CEO position
10.01.03 XO launches new MultiTransport Networking Service
10.08.03 XO launches new Multipoint Intercity Service
10.16.03 XO commences rights offering
12.04.03 XO expands from 60 to 72 markets
01.14.04 XO announces successful trial of fixed wireless broadband access service
01.23.04 XO raises $197 million from rights offering and pays down debt
02.13.04 XO selected to acquire CLEC assets of Allegiance Telecom, Inc.

XO expects to offer the national scale and scope to meet more customer needs.

The acquisition is expected to close in June 2004 and generate combined annual revenues of approximately $1.5 billion. As a result of the acquisition, XO will own one of the largest networks of nationwide connections to the networks of the Regional Bell Operating Companies (RBOCs). We will double our Points of Presence in the markets where both XO and Allegiance operate, and will dramatically increase our network penetration in all our markets. The complete integration process is expected to take about 12 to 18 months, but many benefits are expected to be available to current and future customers sooner than that.

This is good news for our customers. By combining the XO OC-192 network backbone and facilities-based infrastructure with the extensive metro coverage of the Allegiance network, XO will be able to reduce network costs and improve operating reliability because we can get closer to our customers with our own facilities. This allows XO to extend the benefits of one of the nation's largest independent national local telecommunications networks in the United Sates by offering cost-effective local and long distance telecommunications solutions to all of our business customers across the country.

Building momentum

This is a new beginning for XO—staying focused has gotten us where we are today and where we need to be.

As a facilities-based national local business telecommunications provider with one of the largest network footprints, XO is in a unique position within the industry. We are one of the few non-RBOC service providers that businesses can come to for both local and national telecommunications services. This means that instead of buying local service in each metro area where a customer's business is located, customers can get it all from XO.

Focus

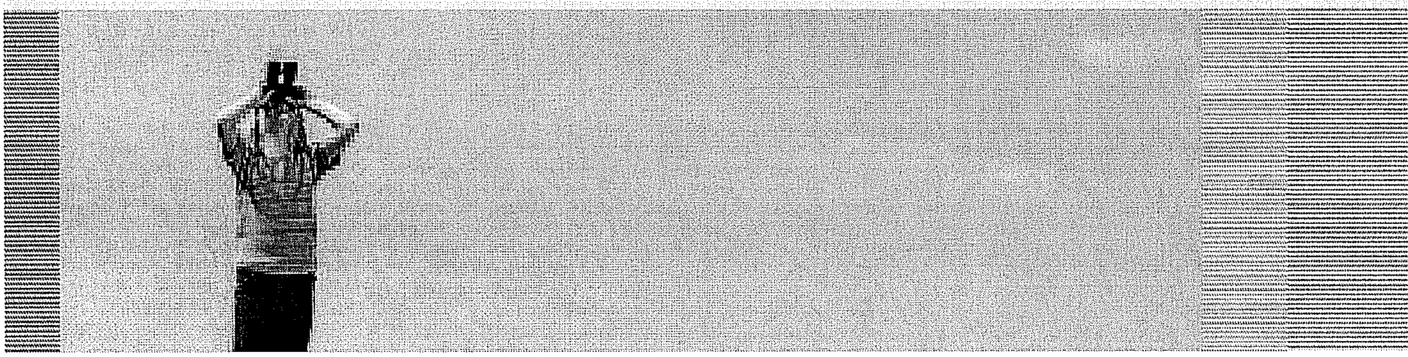
In 2004, XO will continue to focus on what we do best. We will continue to focus on simplifying life for the business customer and taking advantage of new opportunities in our industry. Focus is the key. Join us as we open the door.

Sincerely,

Carl J. Grivner
Chief Executive Officer

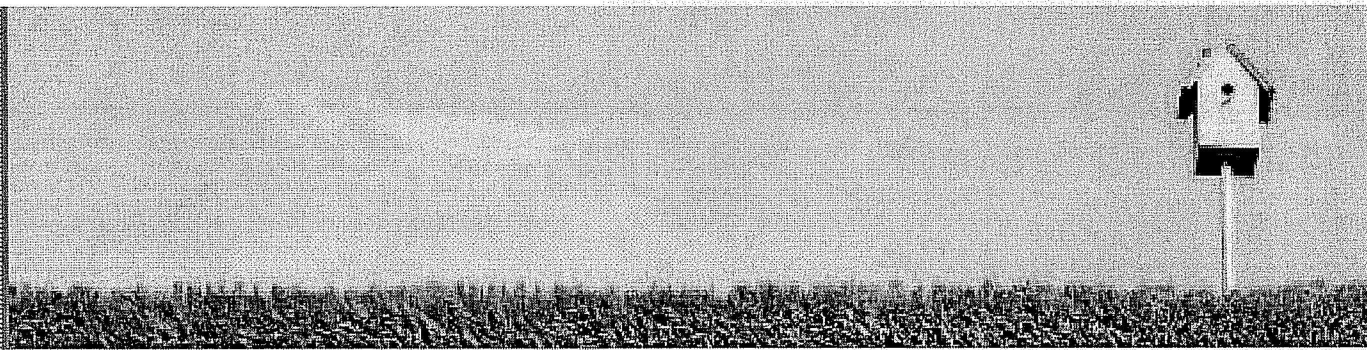
We're focused on our products.

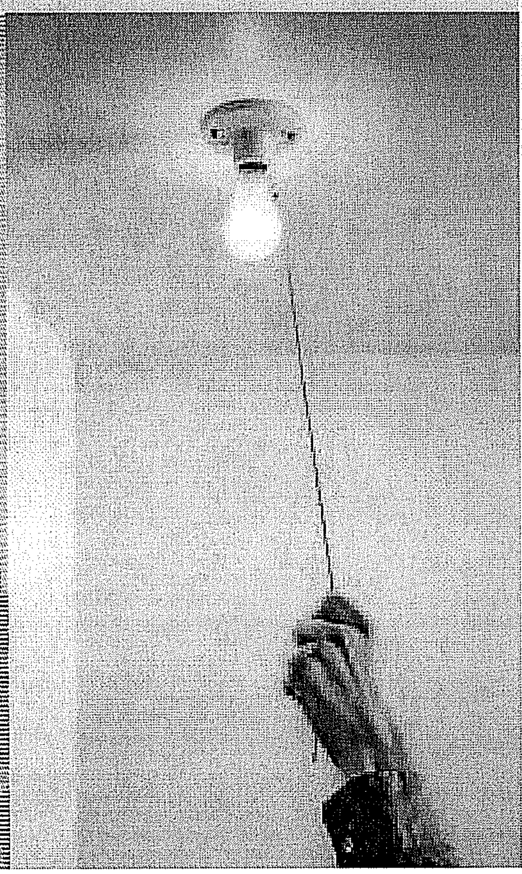
At XO™, we built our brand on the concept of providing simple telecommunications solutions for businesses. In 2003, we renewed that focus by simplifying our product mix, and by refining our pricing structure and the internal systems that are the foundation of our customers' experience. And we continue to commit all of our resources and technology exclusively to business customers.



Voice Services	Internet Access	Private Data Networking	Hosting Services	Integrated Services
Local Services	DSL	Firewall	Telco Collocation	XOptions℠
Long Distance	Dedicated Internet Access (DIA)	VPN	Web Sites	Integrated Access
Conferencing Services	Dial	Private Line	Dedicated Hosting	
Hosted IVR	Security Services	Ethernet		
Advanced Directory		MultiTransport Networking Service		

simplicity





The XO brand is based on a single concept: businesses need simplicity. They want hassle-free, customized solutions from a single provider on a single bill. And they want a range of choices that make sense for their business. Our product portfolio includes a full range of voice, Internet access, private data networking, hosting and integrated options customized to fit the needs of businesses. Sales channels—commercial, carrier and indirect—are aligned to complement the XO product portfolio and capitalize on award-winning network assets.

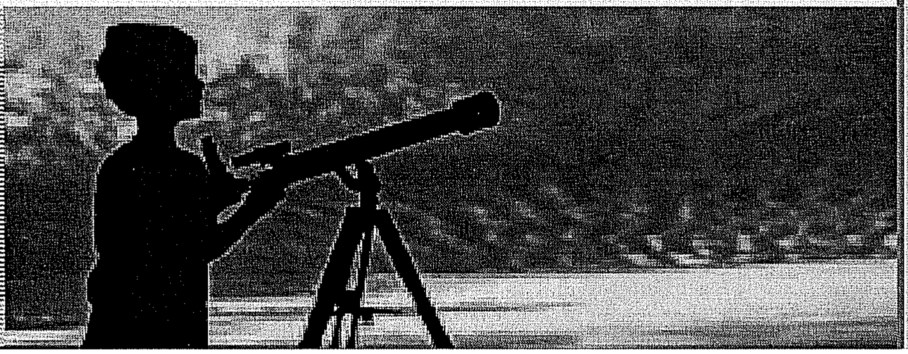
With our multi-market capabilities, XO is able to serve growing business customers with a strong product mix plus one-stop shopping. The XO customer base also includes carriers and service providers because we can deliver significant bandwidth capabilities along with the products, dedicated customer service and technical support they need to serve their customers.

In October 2003, XO launched the XO MultiTransport Networking Service, utilizing Multi-Protocol Label Switching. This service allows independent Frame Relay and Ethernet networks to connect to other Frame Relay and Ethernet networks. The XO MultiTransport Networking Service is expected to grow to support a full range of any-to-any protocol services.

Even with changes to our product portfolio, we're still focused on our original concept. In 2000, we pioneered XOptions℠—one of the industry's first bundled packages of integrated voice and data services. Today, XOptions is still a market leader, with more than 12,500 bundles sold—and we continue to offer a variety of integrated service packages to meet the needs of businesses of all sizes. Simplicity—that's the basis of our brand. That's what makes us the clear choice for growing commercial businesses.

We're focused on the customer.

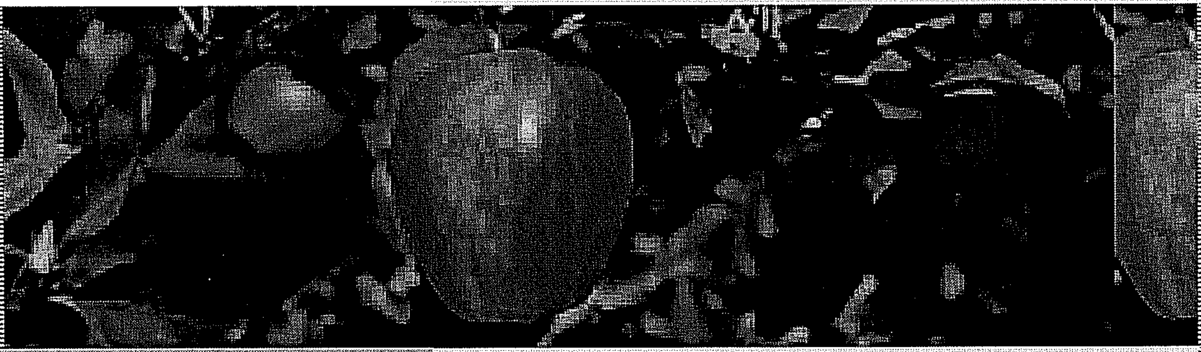
Our customers range from small and medium-sized businesses to large enterprises and carriers. We remain focused on offering a world-class experience to our customers and on helping them look ahead to the future. That is and always will be our primary focus.

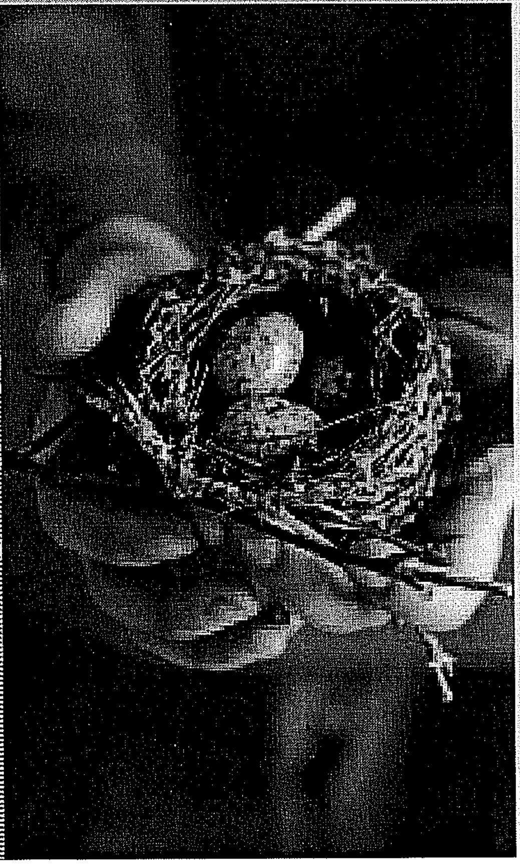


We back it all up with the XO Satisfaction Guarantee.

XO is so confident in its communications solutions that if new customers are not 100% satisfied after three months of activation of one of our standard services, we'll switch them back to their previous service and provider—with no hassles and no fees.

XO service





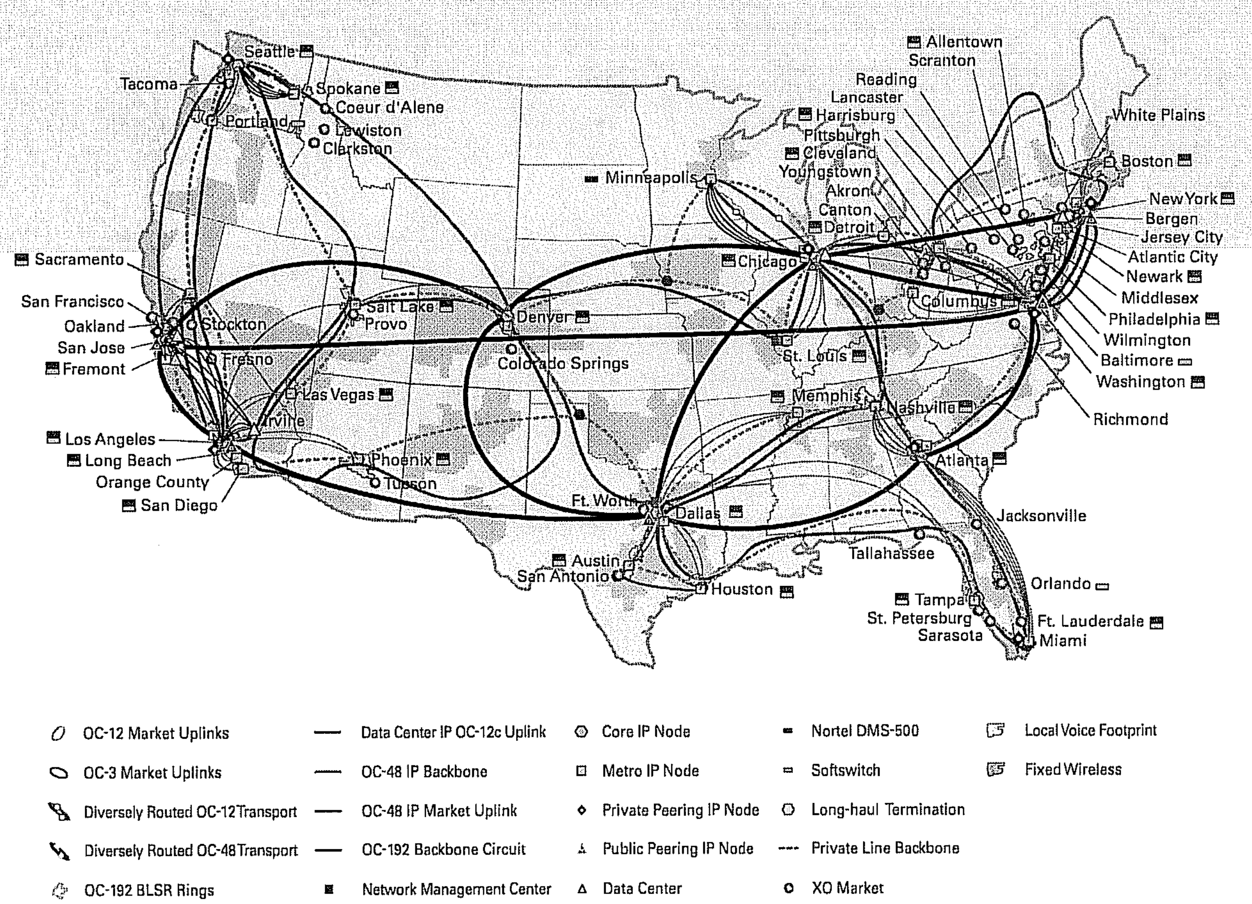
When XO talks about providing world-class customer care, we mean more than just a toll-free 800 number. XO Customer Care is available 24 hours a day, seven days a week via e-mail and phone, which means an XO specialist is available anytime, all the time. We know that while technical jargon may sound impressive, our Customer Care team communicates with customers on a level at which they are most comfortable. We also offer customer self-service through our Business Center Web site and through automated telephony options.

In fact, we improved our secure, online Business Center and launched a new Web-based Order Provisioning Tool, which reduces the order interval time for more than a dozen routine customer requests from 30–60 days to just a few minutes.

XO puts customers first. Our goal is for 80% of all our phone inquiries to be answered in 20 seconds or less, so you won't be caught in phone mail mazes. Our latest customer satisfaction surveys indicate that, on a five-point scale, greater than 80% of our customers rate XO good or excellent.

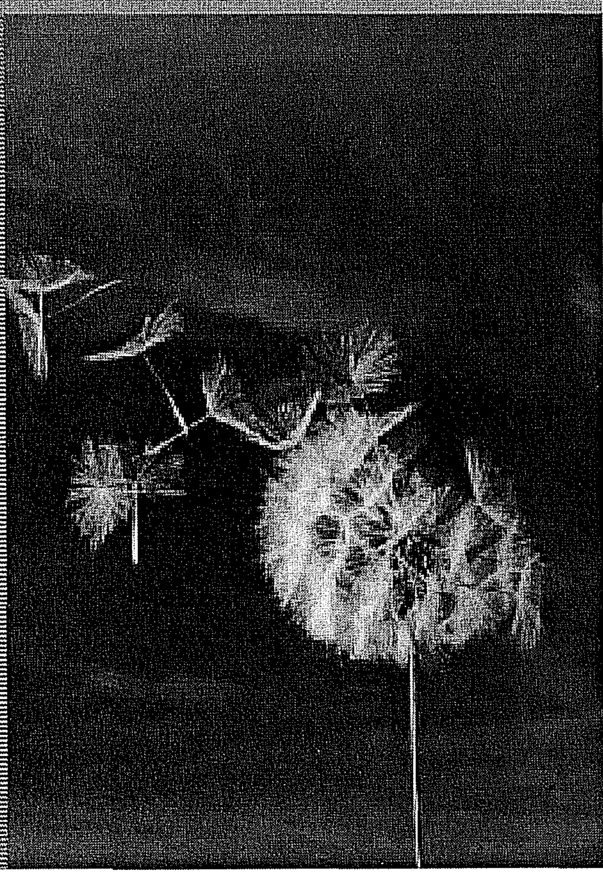
We're focused on the future.

Today, our network assets include local, last-mile metro networks in more than 70 markets connected by a national OC-192 IP network, with more than 2,700 on-net buildings. XO has two network backbones: a four-fiber mesh SONET long-haul transport network and an IP core network with access to 100% of the Internet and capacity to peer greater than 35 Gb. With total metro fiber of more than 1,150,000 miles—enough fiber-optic cable to circle the globe more than 45 times—XO is emerging as a premier national facilities-based competitor.



Refer to www.xo.com for the most up-to-date network facilities map.

XO network



Our 22,400-route-mile, high-capacity OC-192 IP network is engineered for speed and reliability. And because our network is facilities-based, we can reach more customers, more reliably, and cost efficiently, *within each of our service areas* than most of our competitors.

Our network also provides significant advantages along with access for next-generation applications that businesses and carriers demand. Because it's a hybrid, with a mix of circuit and packet switches, we can evolve with the emerging Voice over Internet Protocol (VoIP) technology. XO has implemented Sonus Networks softswitches for handling next-generation VoIP traffic and applications, with 81 gateways and presence in 34 major markets across the nation. In fact, we already have experience deploying VoIP service for select customers. And our infrastructure enables us to provide IP and legacy services on the same network.

With the pending Allegiance acquisition, XO is expected to become one of the premier national facilities-based competitors to the RBOCs. We will gain more than 400 additional local service office collocations, doubling our service area in all of our markets. And, because of the depth and breadth of Allegiance's metro coverage, we will expand our network penetration in all the markets we serve.

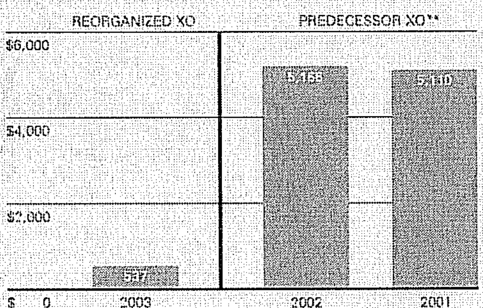
XO is one of the only providers with the network assets to compete locally and nationally.

Condensed Consolidated Balance Sheets*

	REORGANIZED XO	PREDECESSOR XO**	
DOLLARS IN THOUSANDS	DECEMBER 31, 2003	DECEMBER 31, 2002	DECEMBER 31, 2001
Cash and marketable securities	$ 520,612	$ 560,983	$ 755,167
Accounts receivable, net	93,958	116,541	216,753
Property and equipment, net	485,984	2,780,589	3,742,577
Goodwill, net	—	—	1,876,626
Broadband wireless licenses and other intangibles, net	109,515	984,614	1,100,949
Other assets, net	55,096	142,769	238,393
Total assets	$1,265,165	$ 4,585,496	$7,930,465
Accounts payables and accrued expenses	347,949	743,744	741,556
Long-term debt	536,791	5,165,718	5,109,503
Redeemable preferred stock	—	1,708,316	1,781,990
Total stockholders' equity (deficit)	380,425	(3,032,282)	297,416
Total liabilities and stockholders' equity (deficit)	$1,265,165	$ 4,585,496	$7,930,465

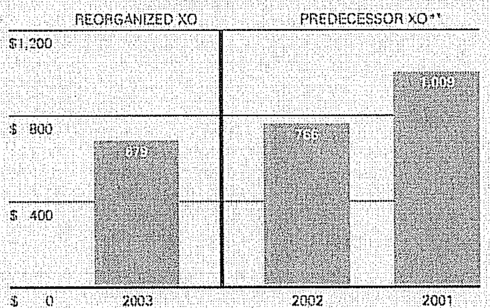
Total Debt*

Dollars in Millions



SO&G Expenses*

Dollars in Millions



* This summary financial information should be read in conjunction with the consolidated financial statements filed with the SEC in our 2003 form 10-K and located at www.xo.com.

** The company applied fresh start accounting in January 2003, consequently 2003 results may not be comparable to prior year results. Please refer to www.xo.com for most up-to-date financials.

Condensed Consolidated Statements of Operations*

	REORGANIZED XO	PREDECESSOR XO**		
DOLLARS IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA	YEAR ENDED DECEMBER 31, 2003	JANUARY 1, 2003	YEAR ENDED DECEMBER 31, 2002	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 writedowns	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	(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)
Gain on repurchases of preferred stock, net	—	—	—	376,879
Preferred stock dividends, accretion of preferred stock redemption obligation and recognition of preferred stock modification fee, net	—	—	36,456	(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

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Condensed Consolidated Statements of Cash Flow*

DOLLARS IN THOUSANDS	REORGANIZED XO YEAR ENDED DECEMBER 31, 2003	PREDECESSOR XO** JANUARY 1, 2003	YEAR ENDED DECEMBER 31, 2002	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 writedowns	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

*This summary financial information should be read in conjunction with the consolidated financial statements filed with the SEC in our 2003 form 10-K and located at www.xo.com.

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Board of Directors

Carl Icahn
Chairman and Director

Vincent Intrieri
Director

Keith Meister
Director

Carl J. Grivner
Chief Executive Officer and Director

Adam Dell
Director

Andrew R. Cohen
Director

2004 Executive Management

Carl Grivner
Chief Executive Officer

Wayne Rehberger
Chief Operating Officer

Lee Weiner
Senior Vice President and General Counsel

Bill Garrahan
Acting Chief Financial Officer and Senior Vice President, Corporate Development

Rob Geller
Chief Information Officer

Tom Cady
Chief Marketing Officer

Mark Faris
Senior Vice President, Network Operations

Matt Harty
President, Commercial Sales
e-mail: mharty@xo.com

Ernie Ortega
President, Carrier Sales
e-mail: ernest.ortega@xo.com

Rob Westervelt
President, Indirect Sales
e-mail: rwestervelt@xo.com

Terri Burke
Vice President, Human Resources

Doug Sobieski
Vice President, Fixed Broadband Wireless Services

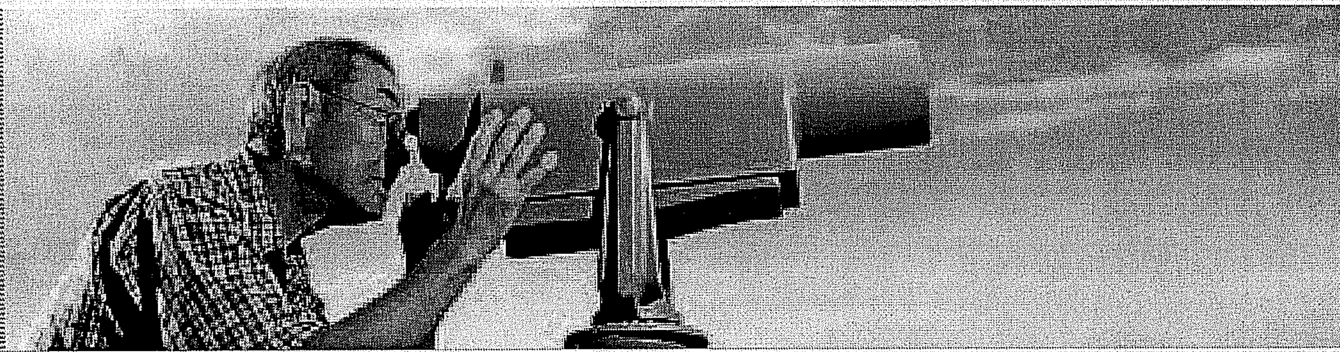
Corporate Information

Headquarters
XO Communications, Inc.
11111 Sunset Hills Road
Reston, VA 20190
703.547.2000
www.xo.com

Media Relations
Press and other interested media should contact XO Corporate Communications at 703.547.2746

Customer Care Contacts
Customers calling regarding their voice or XOptions products, please call 888.575.6398
Customers calling regarding their data and hosting services, please call 888.699.6398

Sales
Businesses interested in purchasing XO products should call 866.963.9696



XO Communications, Inc. 11111 Sunset Hills Road Reston, Virginia 20190 www.xo.com

XO™

EXHIBIT H

LETTER OF AUTHORIZATION

XO™

LOCAL & LONG DISTANCE COMMERCIAL ORDER REQUEST
LETTER OF AGENCY

I wish to select XO as my provider for the following Telecommunications Services:

Please check if applicable:
- ☐ I would like to change my Local Exchange Carrier to XO as defined in the table below.
- ☐ I would like to change my IntraLATA Carrier to XO as defined in the table below.
- ☐ I would like to change my InterLATA Carrier to XO as defined in the table below.

NOTICE REGARDING BILLING AND USAGE-RELATED INFORMATION

In the course of providing service to you, we will possess certain billing and usage-related information about the quantity, type and destination of telecommunications services you use. You have a right, and we have a duty, to protect the confidentiality of this information. This information may be useful to tailor our products and services to your needs and to enhance our ability to meet all of your telecommunications needs. By checking the authorization box on this document, we will use your billing and usage-related information to offer you other XO (or its affiliates) products or services that may satisfy your needs and to respond to your concerns if you have become dissatisfied or cancel any of our services. Of course your decision will not harm the quality of service provided, and we will honor your choice until you expressly tell us otherwise.

☐ I authorize XO, its affiliates, or its agents, to use billing and usage information related to my account to see if I would benefit from other telecommunications services offered by XO, its affiliates, or its agents, and market them to me.

Service Address:

Company Name:	Customer Signature: X
Service Address:	Customer (Printed Name):
	Title:
City/State/Zip	Date Signed:

My signature on this form authorizes XO to act as my agent for the purpose of ordering, changing and/or maintaining communication services, including but not limited to local exchange, intraLATA and/or interLATA telephone services. XO is also authorized to obtain billing information, customer service records and other network information required to provide my telephone service. I understand that I may consult with my new service provider as to whether a fee will apply to change my preferred carrier. I understand that I may designate only one primary interexchange carrier for any one telephone number for interLATA and where applicable intraLATA usage. Selection of XO will apply to the telephone number(s) listed on this form.

THIS AUTHORIZATION REVOKES ANY PREVIOUS AUTHORIZATIONS REGARDING MY LOCAL, INTRALATA AND/OR INTERLATA TELEPHONE SERVICE AND SHALL REMAIN IN EFFECT UNTIL MODIFIED OR REVOKED IN WRITING.

Sales Rep Name:	**Sales Office:**
Sales Rep Telephone:	**Sales Rep Fax:**

KELLEY DRYE & WARREN LLP
1200 19TH STREET, N.W.
WASHINGTON, DC 20036

8066

15-122/540
BRANCH 00480

DATE July 28, 2004

PAY TO THE ORDER OF South Dakota Public Utility Commission $ 250.00

Two Hundred Fifty And No/100------------------------------------ DOLLARS

Security features included. Details on back.

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Florence K. Lambert

MP

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DETACH AND RETAIN THIS STATEMENT
THE ATTACHED CHECK IS IN PAYMENT OF ITEMS DESCRIBED BELOW. IF NOT CORRECT PLEASE NOTIFY US PROMPTLY. NO RECEIPT DESIRED.
KELLEY DRYE & WARREN LLP

DATE	DESCRIPTION	AMOUNT
7/28/04	Charge 047035.0003 for filing fee.	$250.00
	TC04-145	

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of July 29, 2004 through August 4, 2004

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this report. Phone: 605-773-3201

CONSUMER COMPLAINTS

CT04-002 In the Matter of the Complaint filed by Jerry Galloway on behalf of Bold Venture, LLC, Sioux Falls, South Dakota, against McLeodUSA Telecommunications Services, Inc. Regarding Over Billing for Services.

Complainant's representative states that he signed an addendum to his contract on 10/19/00. Since that time he has been charged a per line rate that is over the contracted amount and he has been charged for features that according to the contract were to be included at no additional charge. The complainant seeks a refund of all monies paid to the respondent for services that were billed over the contracted amount.

Staff Analyst: Jim Mehlhaff
Staff Attorney: Karen E. Cremer
Date Docketed: 08/03/04
Intervention deadline: N/A

TELECOMMUNICATIONS

TC04-136 In the Matter of the Request of West River Cooperative Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On July 29, 2004, West River Cooperative Telephone Company (West River) provided information constituting West River's plan for the use of its federal universal service support and to otherwise verify that West River will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 07/29/04
Intervention Deadline: 08/20/04

TC04-137 In the Matter of the Filing for Approval of a Reciprocal Interconnection, Transport and Termination Agreement between WWC License LLC and McCook Cooperative Telephone Company.

On July 29, 2004, the Commission received a Filing for Approval of a Reciprocal Interconnection, Transport and Termination Agreement between McCook Cooperative Telephone Company and WWC License LLC. According to the parties, the "Agreement sets forth the terms, conditions and prices under which (a) the Parties agree to directly interconnect the networks of the CMRS Provider and the Telephone Company for the purposes of the exchange of telecommunications traffic between the Parties' networks or (b) the Parties will transport and terminate the telecommunications traffic originated by the other Party and delivered via the network of a Third Party Provider." Any party wishing to comment on the Agreement may do so by filing written comments with the Commission and the parties to the Agreement no later than August 18, 2004. Parties to the Agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Rolayne Ailts Wiest
Date Filed: 07/29/04
Initial Comments Due: 08/18/04

TC04-138 In the Matter of the Request of Kennebec Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On July 30, 2004, Kennebec Telephone Company, Inc. (Kennebec) provided information constituting Kennebec's plan for the use of its federal universal service support and to otherwise verify that Kennebec will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 07/30/04
Intervention Deadline: 08/20/04

TC04-139 In the Matter of the Request of Interstate Telecommunications Cooperative, Inc. for Certification Regarding its Use of Federal Universal Service Support.

On July 30, 2004, Interstate Telecommunications Cooperative, Inc. (Interstate) provided information constituting Interstate's plan for the use of its federal universal service support and to otherwise verify that Interstate will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 07/30/04
Intervention Deadline: 08/20/04

TC04-140 In the Matter of the Request of Heartland Telecommunications Company of Iowa d/b/a Hickory Tech Corporation for Certification Regarding its Use of Federal Universal Service Support.

On August 2, 2004, Heartland Telecommunications Company of Iowa d/b/a Hickory Tech (Hickory Tech) provided information constituting Hickory Tech's plan for the use of its federal universal service support and to otherwise verify that Hickory Tech will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/02/04
Intervention Deadline: 08/20/04

TC04-141 In the Matter of the Request of Consolidated Telcom for Certification Regarding its Use of Federal Universal Service Support.

On August 2, 2004, Consolidated Telcom (Consolidated) provided information constituting Consolidated's plan for the use of its federal universal service support and to otherwise verify that Consolidated will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/02/04
Intervention Deadline: 08/20/04

TC04-142 In the Matter of the Application of Intandem Communications Corp. for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

On August 2, 2004, Intandem Communications Corp. filed an application for a Certificate of Authority to provide interexchange telecommunications services in South Dakota. The applicant seeks authority to operate as a reseller of intrastate telecommunications services on a statewide basis. The applicant intends to provide MTS, in-WATS, out-WATS, and calling card services throughout South Dakota.

Staff Analyst: Michele Farris
Staff Attorney: Karen Cremer
Date Filed: 08/02/04
Intervention Deadline: 08/20/04

TC04-143 In the Matter of the Filing for Approval of an Adoption Agreement between Qwest Corporation and Sancom, Inc. d/b/a Mitchell Telecom.

On August 2, 2004, the Commission received a Filing for Approval of an Adoption Agreement between Qwest Corporation and Sancom, Inc. d/b/a Mitchell Telecom. According to the parties, Sancom has chosen "to adopt, in its entirety, the terms and conditions of the Interconnection Agreement and any associated amendments, if applicable, between Sprint Communications Company, L.P. and Qwest Corporation that was approved by the Commission on February 25, 2004 in Docket No. TC04-002." Any party wishing to comment on the Agreement may do so by filing written comments with the Commission and the parties to the Agreement no later than August 23, 2004. Parties to the Agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Rolayne Ailts Wiest
Date Filed: 08/02/04
Initial Comments Due: 08/23/04

TC04-144 In the Matter of the Filing for Approval of a Master Services Agreement between Qwest Corporation and MCImetro Access Transmission Services, LLC.

On August 2, 2004, the Commission received a filing for approval of an Elimination of UNE-P and Implementation of Batch Hot Cut Process and Discounts Amendment (Discounts Amendment) between Qwest Corporation (Qwest) and MCImetro Access Transmission Services, LLC (MCImetro). In addition, the Commission received a "Master Services Agreement," which attached as Exhibit 1 the "Qwest Platform PlusTM Service," which together are referred to as the "QPPTM Agreement." The QPP agreement was also entered into between Qwest and MCImetro. The Discounts Amendment and QPP Agreement were both submitted by MCImetro. However, Qwest had already submitted the Discounts Amendment and that is docketed as TC04-135. Qwest had also submitted the QPP Agreement but for informational purposes only. Based on this informational filing, the Commission did not docket the QPP Agreement but instead requested comments on whether the QPP Agreement should be submitted for approval. Since MCImetro has now submitted the QPP Agreement for filing, the Commission will accept comments on that Agreement in this docket. The Commission will accept comments on the Discounts Amendment in Docket TC04-135. Therefore, any party wishing to comment on the QPP Agreement may do so by filing written comments with the Commission and the parties to the Agreement no later than August 23, 2004. Parties to the QPP Agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Rolayne Ailts Wiest
Date Filed: 08/02/04
Initial Comments Due: 08/23/04

TC04-145 In the Matter of the Filing for Approval of Transfer of Certificate of Authority from XO Network Services, Inc. to XO Communications Services, Inc.

On August 2, 2004, XO Network Services, Inc. and XO Communications Services, Inc. filed a joint application to transfer XO Network Services, Inc.'s local and IXC authority to XO Communications Services, Inc.

Staff Analyst: Keith Senger
Staff Attorney: Karen Cremer
Date Docketed: 8/02/04
Intervention Deadline: 8/20/04

TC04-146 In the Matter of the Request of Faith Municipal Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On August 3, 2004, Faith Municipal Telephone Company (Faith) provided information constituting Faith's plan for the use of its federal universal service support and to otherwise verify that Faith will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/03/04
Intervention Deadline: 08/20/04

TC04-147 In the Matter of the Filing for Approval of a Reciprocal Interconnection, Transport and Termination Agreement between Golden West Telecommunications Cooperative, Inc. and Verizon Wireless (VAW) LLC d/b/a Verizon Wireless, CommNet Cellular License Holding LLC d/b/a Verizon Wireless, Sanborn Cellular, Inc. d/b/a Verizon Wireless and Eastern South Dakota Cellular, Inc. d/b/a Verizon Wireless.

On August 3, 2004, the Commission received a Filing for Approval of a Reciprocal Interconnection, Transport and Termination Agreement between Golden West Telecommunications Cooperative, Inc. and Verizon Wireless. According to the parties, the "Agreement sets forth the terms, conditions and prices under which (a) the Parties agree to directly interconnect the networks of the CMRS Provider and the Telephone Company for the purposes of the exchange of telecommunications traffic between the Parties' networks or (b) the Parties will transport and terminate the telecommunications traffic originated by the other Party and delivered via the network of a Third Party Provider." Any party wishing to comment on the Agreement may do so by filing written comments with the Commission and the parties to the Agreement no later than August 23, 2004. Parties to the Agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Rolayne Ailts Wiest
Date Filed: 08/03/04
Initial Comments Due: 08/23/04

TC04-148 **In the Matter of the Filing for Approval of a Reciprocal Interconnection, Transport and Termination Agreement between Kadoka Telephone Company and CommNet Cellular License Holding LLC d/b/a Verizon Wireless, Missouri Valley Cellular, Inc. d/b/a Verizon Wireless, Sanborn Cellular, Inc. d/b/a Verizon Wireless, Eastern South Dakota Cellular, Inc. d/b/a Verizon Wireless and Verizon Wireless (VAW) LLC d/b/a Verizon Wireless.**

On August 3, 2004, the Commission received a Filing for Approval of a Reciprocal Interconnection, Transport and Termination Agreement between Kadoka Telephone Company and Verizon Wireless. According to the parties, the "Agreement sets forth the terms, conditions and prices under which (a) the Parties agree to directly interconnect the networks of the CMRS Provider and the Telephone Company for the purposes of the exchange of telecommunications traffic between the Parties' networks or (b) the Parties will transport and terminate the telecommunications traffic originated by the other Party and delivered via the network of a Third Party Provider." Any party wishing to comment on the Agreement may do so by filing written comments with the Commission and the parties to the Agreement no later than August 23, 2004. Parties to the Agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Rolayne Ailts Wiest
Date Filed: 08/03/04
Initial Comments Due: 08/23/04

TC04-149 **In the Matter of the Filing for Approval of a Reciprocal Interconnection, Transport and Termination Agreement between Vivian Telephone Company and Verizon Wireless (VAW) LLC d/b/a Verizon Wireless, CommNet Cellular License Holding LLC d/b/a Verizon Wireless, Sanborn Cellular, Inc. d/b/a Verizon Wireless and Eastern South Dakota Cellular, Inc. d/b/a Verizon Wireless.**

On August 3, 2004, the Commission received a Filing for Approval of a Reciprocal Interconnection, Transport and Termination Agreement between Vivian Telephone Company and Verizon Wireless. According to the parties, the "Agreement sets forth the terms, conditions and prices under which (a) the Parties agree to directly interconnect the networks of the CMRS Provider and the Telephone Company for the purposes of the exchange of telecommunications traffic between the Parties' networks or (b) the Parties will transport and terminate the telecommunications traffic originated by the other Party and delivered via the network of a Third Party Provider." Any party wishing to comment on the Agreement may do so by filing written comments with the Commission and the parties to the Agreement no later than August 23, 2004. Parties to the Agreement may file written responses to the comments no later than twenty days after the service of the initial comments.

Staff Attorney: Rolayne Ailts Wiest
Date Filed: 08/03/04
Initial Comments Due: 08/23/04

TC04-150 **In the Matter of the Request of James Valley Cooperative Telephone Company for Certification Regarding its Use of Federal Universal Service Support.**

On August 4, 2004, James Valley Cooperative Telephone Company (James Valley) provided information constituting James Valley's plan for the use of its federal universal service support and to otherwise verify that James Valley will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04

Intervention Deadline: 08/20/04

TC04-151 In the Matter of the Request of Western Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Western Telephone Company (Western) provided information constituting Western's plan for the use of its federal universal service support and to otherwise verify that Western will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

TC04-152 In the Matter of the Request of Tri-County Telcom, Inc. for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Tri-County Telcom, Inc. (Tri-County) provided information constituting Tri-County's plan for the use of its federal universal service support and to otherwise verify that Tri-County will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

TC04-153 In the Matter of the Request of Roberts County Telephone Cooperative Association and RC Communications, Inc. for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Roberts County Telephone Cooperative Association and RC Communications, Inc. (the Company) provided information constituting the Company's plan for the use of its federal universal service support and to otherwise verify that the Company will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

TC04-154 In the Matter of the Request of Stockholm-Strandburg Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Stockholm-Strandburg Telephone Company (Stockholm) provided information constituting Stockholm's plan for the use of its federal universal service support and to otherwise verify that Stockholm will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04

Intervention Deadline: 08/20/04

TC04-155 In the Matter of the Request of Valley Telecommunications Cooperative Association, Inc. for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Valley Telecommunications Cooperative Association, Inc. (Valley) provided information constituting Valley's plan for the use of its federal universal service support and to otherwise verify that Valley will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

TC04-156 In the Matter of the Request of Golden West Telecommunications Cooperative, Inc. for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Golden West Telecommunications Cooperative, Inc. (Golden West) provided information constituting Golden West's plan for the use of its federal universal service support and to otherwise verify that Golden West will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

TC04-157 In the Matter of the Request of Vivian Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Vivian Telephone Company (Vivian) provided information constituting Vivian's plan for the use of its federal universal service support and to otherwise verify that Vivian will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

TC04-158 In the Matter of the Request of Kadoka Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Kadoka Telephone Company (Kadoka) provided information constituting Kadoka's plan for the use of its federal universal service support and to otherwise verify that Kadoka will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

TC04-159 In the Matter of the Request of Union Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Union Telephone Company (Union) provided information constituting Union's plan for the use of its federal universal service support and to otherwise verify that Union will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

TC04-160 In the Matter of the Request of Bridgewater-Canistota Independent Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Bridgewater-Canistota Independent Telephone Company (Bridgewater) provided information constituting Bridgewater's plan for the use of its federal universal service support and to otherwise verify that Bridgewater will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

TC04-161 In the Matter of the Request of Armour Independent Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Armour Independent Telephone Company (Armour) provided information constituting Armour's plan for the use of its federal universal service support and to otherwise verify that Armour will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

TC04-162 In the Matter of the Request of Sioux Valley Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, Sioux Valley Telephone Company (Sioux Valley) provided information constituting Sioux Valley's plan for the use of its federal universal service support and to otherwise verify that Sioux Valley will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

TC04-163 In the Matter of the Request of McCook Cooperative Telephone Company for Certification Regarding its Use of Federal Universal Service Support.

On August 4, 2004, McCook Cooperative Telephone Company (McCook) provided information constituting McCook's plan for the use of its federal universal service support and to otherwise verify that McCook will use all federal universal service support received in a manner that is consistent with the federal universal service provisions of 47 U.S.C. Section 254.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 08/04/04
Intervention Deadline: 08/20/04

111 East Broadway
Suite 1000
Salt Lake City, UT 84111
USA

XO Communications, Inc.

Tel 801.983.1600
Fax 801.983.1520

VIA OVERNIGHT DELIVERY

November 11, 2004

Ms. Pamela A. Bonrud
Executive Director
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070

Re: ***XO Communications Services, Inc.; Docket No. TC04-145***

Dear Ms. Bonrud:

Enclosed please find for filing one original and one copy of the Access Services Tariff, Local Exchange Services Tariff and Interexchange Services Tariff for XO Network Services, Inc. reflecting our name change to XO Communications Services, Inc.

Kindly return a date-stamped copy of this letter in the envelope provided for your convenience. Should you have any questions, please feel free to contact me by telephone at (801)983-0013 or by email to collette.n.marthia@xo.com.

Sincerely,

Collette Marthia
Regulatory Analyst

Enclosures

XO COMMUNICATIONS SERVICES, INC.

REGULATIONS, DESCRIPTIONS, AND RATES

APPLICABLE TO FURNISHING COMPETITIVE INTRASTATE ACCESS SERVICES

WITHIN THE STATE OF SOUTH DAKOTA

This tariff is on file with the South Dakota Public Utilities Commission and copies may be inspected during normal business hours at the Company's principal place of business at 11111 Sunset Hills Road, Reston, Virginia, 20190

Rex M. Knowles, Vice President
XO Communications Services, Inc.
111 East Broadway
Salt Lake City, UT 84111

CHECK SHEET

The Title Page through Page 12 inclusive of this tariff are effective on the date shown. Original and revised pages as named below contain all changes from the original tariff that are in effect on the date shown.

Page	Revision	Date
Title	Original	December 31, 2004
1	Original	December 31, 2004
2	Original	December 31, 2004
3	Original	December 31, 2004
4	Original	December 31, 2004
5	Original	December 31, 2004
6	Original	December 31, 2004
7	Original	December 31, 2004
8	Original	December 31, 2004
9	Original	December 31, 2004
10	Original	December 31, 2004
11	Original	December 31, 2004
12	Original	December 31, 2004

Rex M. Knowles, Vice President
XO Communications Services, Inc.
111 East Broadway
Salt Lake City, UT 84111

<u>CHECK SHEET</u> (Cont'd)

RESERVED FOR FUTURE USE

Rex M. Knowles, Vice President
XO Communications Services, Inc.
111 East Broadway
Salt Lake City, UT 84111

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate switched access within the State of South Dakota by XO Communications Services, Inc. hereinafter referred to as ("the Company").

EXPLANATION OF SYMBOLS, REFERENCE MARKS, AND ABBREVIATIONS OF TECHNICAL TERMS USED IN THIS TARIFF.

Revisions of this tariff are coded through the use of symbols. These symbols appear in the right margin of the sheet. The symbols and their meanings are:

(C) To signify changed conditions or regulations.

(D) To signify discontinued rate, regulation, or condition.

(I) To signify increase.

(M) To signify a move from one page to another with no change to text, regulation or tariff.

(N) To signify a new rate, regulation, condition, or sheet.

(R) To signify reduction.

(T) To signify a change in text for clarification.

Rex M. Knowles, Vice President
XO Communications Services, Inc.
111 East Broadway
Salt Lake City, UT 84111

TABLE OF CONTENTS

Rex M. Knowles, Vice President
XO Communications Services, Inc.
111 East Broadway
Salt Lake City, UT 84111

1. Definitions

Please refer to Company's Local Exchange Services Tariff, for applicable Definitions.

Rex M. Knowles, Vice President
XO Communications Services, Inc.
111 East Broadway
Salt Lake City, UT 84111

2. REGULATIONS

Please refer to Company's Local Exchange Services Tariff, for applicable Regulations.

Rex M. Knowles, Vice President
XO Communications Services, Inc.
111 East Broadway
Salt Lake City, UT 84111

3.0 JURISDICTIONAL REPORTING

3.1 Description and Requirements

The jurisdictional reporting requirements will be as specified below. When a Customer orders access service, its projected percent interstate usage (PIU) must be provided in whole numbers to the Company. These whole number percentages will be used by the Company to apportion the use and/or charges between interstate and intrastate until a revised report is received as set forth herein.

(a) Originating Access

Originating access minutes may be based on traffic originating at the state, LATA or local switching center level, provided that the traffic being measured is only traffic originating from the Company local switching center(s). The Customer must provide the Company with a projected PIU factor on a quarterly basis, as specified herein. If no PIU for originating minutes is submitted, then the projected PIU will be set on a default basis of 50 percent interstate traffic and 50 percent intrastate traffic.

(b) Terminating Access

Terminating access minutes may be based on traffic terminating at the state, LATA or local switching center level, provided that the traffic being measured is only traffic terminating to the Company local switching center(s). The Customer must provide the Company with a projected PIU factor on a quarterly basis, as specified below. If no PIU for originating minutes is submitted, then the projected PIU will be set on a default basis of 50 percent interstate traffic and 50 percent intrastate traffic.

(c) Except where the Company measured access minutes are used, the Customer reported projected PIU factor as set forth above will be used until the Customer reports a different projected PIU factor, as set forth below. The revised report will serve as the basis for future billing and will be effective on the next bill date.

3.0 JURISDICTIONAL REPORTING (Cont'd)

3.1 Description and Requirements (Cont'd)

(d) Effective on the first of January, April, July and October of each year the Customer shall update its interstate and intrastate jurisdictional report. The Customer shall forward to the Company, to be received no later than 15 days after the first of such month, a revised report showing the interstate and intrastate percentage of use for the past three months ending the last day of December, March, June and September, respectively, for each service arranged for interstate use, based solely on the traffic originating from or terminating to the Company's local switching center. The revised report will serve as the basis for the next three months billing and will be effective on the bill date for that service. If the Customer does not supply the reports for those services where reports are needed, the Company will assume the percentage to be the same as that provided previously. For those cases in which a quarterly report has never been received from the Customer, the Company will assume the percentages to be the same as those provided in the access service request.

(e) Jurisdictional Reports Verification

For Switched Access Service, if a billing dispute arises or a regulatory commission questions the projected PIU factor, the customer will provide the data issued to determine the projected PIU factor. The Customer will supply the data within 30 days of the Company request.

The Customer shall keep records of call detail from which the percentage of interstate and intrastate use can be ascertained and, upon request of the Company, shall make the records available for inspection as reasonably necessary for purposes of verification of the percentages. The Company reserves the right to conduct an audit at any time during the year. The Customer, at its own expense, has the right to retain an independent auditing firm.

Rex M. Knowles, Vice President
XO Communications Services, Inc.
111 East Broadway
Salt Lake City, UT 84111

4.0 SERVICE DESCRIPTIONS

4.1 Switched Access Service

4.1.1 Description of Services

Company Switched Access Service consists of the services offered pursuant to this Tariff. Service is offered via the Company's facilities and/or in combination with resold exchange services, transmission facilities provided by other certificated carriers, or a combination thereof.

Under this tariff, the Company is only responsible for the services and facilities it provides under this tariff, 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.

The provision of Company's Services is subject to and contingent upon the Company obtaining and retaining such approvals, consents, governmental authorizations, licenses and permits, as may be required or be deemed necessary by the Company. The Company shall use reasonable efforts to obtain and keep in effect all such approvals, consents, authorizations, licenses and permits that may be required to be obtained. The Company shall be entitled to take, and shall have no liability whatsoever for, any action necessary to bring the Services into conformance with any rules, regulations, orders decisions, or directives imposed bye the Federal Communication Commission or other applicable agency, and the Customer shall fully cooperate in and take such action as may be requested by the Company to comply with any such rules, regulations, orders, decisions, or directives.

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4.0 SERVICE DESCRIPTIONS (Cont'd)

4.1 Switched Access Service (Cont'd)

4.1.2 Billing of Access Minutes

When recording originating calls over FGD with multifrequency address signaling, usage measurement begins when the first wink supervisory signal is forwarded from the Customer's facilities. The measurement of originating call usage over FGD ends when the originating FGD entry switch receives disconnect supervision from either the originating end user's local switching center (indicating that the originating end user has disconnected), or the Customer's facilities, whichever is recognized first by the entry switch.

For terminating calls over FGD with multifrequency address signaling, the measurement of access minutes begins when a seizure signal is received from the Carrier's trunk group at the point of presence within the LATA. The measurement of terminating call usage over FGD ends when a disconnect signal is received, indicating that either the originating or terminating user has disconnected.

When recording originating calls over FGD with SS7 signaling, usage measurement begins with the transmission of the initial address message by the switch for direct trunk groups and with the receipt of an exit message by the switch for tandem trunk groups. The measurement of originating FGD usage ends when the entry switch receives or sends a release message, whichever occurs first.

For terminating calls over FGD with SS7 signaling, the measurement of access minutes begins when the terminating recording switch receives the initial address message from the terminating end user. On directly routed trunk groups or on tandem routed trunk groups, the Company switch receives the initial address message and sends the indication to the Customer in the form of an answer message. The measurement of termination FGD call usage ends when the entry switch receives or sends a release message, whichever occurs first.

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4.0 SERVICE DESCRIPTIONS (Cont'd)

4.1 Switched Access Service (Cont'd)

4.1.3 Application of Rates

The rate for switched access is assessed based on the monthly usage charges for end-office switching and tandem switched transport. Usage rates are rates that are applied on a per access minute or per query basis.

4.1.4 Rates

(a) End Office Switching Charge:

Per Access Minute of Originating Use	Per Access Minute of Termination Use
$ 0.062700	$ 0.062700

(b) Tandem Switched Transport Charge

Per Access Minute of Originating Use	Per Access Minute of Terminating Use
$ 0.033000	$ 0.033000

4.1.5 800 Database Access Service: The Customer will be charged a per query based on a query of the 800-NXX-XXXX dialed and/or delivered to the Customer in conjunction with 800 Data Base Access Service.

Per Query $0.011

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XO COMMUNICATIONS SERVICES, INC.

REGULATIONS, DESCRIPTIONS, AND RATES

APPLICABLE TO FURNISHING

LOCAL EXCHANGE SERVICES

WITHIN THE STATE OF SOUTH DAKOTA

This tariff is on file with the South Dakota Public Utilities Commission
and copies may be inspected during normal
business hours at the Company's principal place of business
at 11111 Sunset Hills Road, Reston, Virginia, 20190

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CHECK SHEET

Pages 1 - 61 of this tariff are effective as of the date shown. Original and revised pages, as named below, comprise all changes from the original tariff in effect on the date indicated.

Page	Revision	Date
Title	Original	December 31, 2004
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CHECK SHEET (Cont'd)

RESERVED FOR FUTURE USE

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EXPLANATION OF SYMBOLS, REFERENCE MARKS, AND ABBREVIATIONS OF TECHNICAL TERMS USED IN THIS TARIFF.

Revisions of this tariff are coded through the use of symbols. These symbols appear in the right margin of the sheet. The symbols and their meanings are:

(C) To signify changed conditions or regulations.

(D) To signify discontinued rate, regulation, or condition.

(I) To signify increase.

(M) To signify a move from one page to another with no change to text, regulation or tariff.

(N) To signify a new rate, regulation, condition, or sheet.

(R) To signify reduction.

(T) To signify a change in text for clarification.

TARIFF FORMAT

A. **Sheet Numbering** – page numbers appear in the upper right corner of the page. Pages are numbered sequentially. When a new page is added between pages already in affect, a decimal is added. For example, a new page added between pages 14 and 15 would be 14.1.

B. **Sheet 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 South Dakota Public Utilities Commission (hereafter "the Commission"). For example, the 4th revised page 14 cancels the 3rd revised page 14. Consult the Check Page for the page currently in effect.

C. **Check Sheets** – When a tariff filing is made with the Commission, 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 (*).

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APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to the furnishing of intrastate communications services by XO Communications Services, Inc., (hereafter, "the Company"), to Customers within the local exchange service area defined herein.

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1. DEFINITIONS

Certain terms used generally throughout this tariff are defined below.

Access: A connection between a Customer premise and a point of presence of an Interchange Company for the transmission of voice, data, or video / image information.

Advance Payment: Payment of all or part of a charge required before the start of service.

Anonymous Call Rejection: This feature allows the subscriber to reject incoming calls from callers who have intentionally blocked their caller identification information.

Authorized User: A person, firm, corporation or other entity that either is authorized by the Customer to use local exchange telephone service or is placed in a position by the Customer, either through acts or omissions, to use local exchange telephone service.

Automatic Callback: This feature allows a subscriber to place a call to the last line the subscriber called. If the destination line is busy, it is monitored for 30 minutes until it becomes idle and can accept the call.

Automatic Line (Hotline): Directs the line to automatically call a preassigned number when a line user lifts the handset.

Automatic Recall: This feature allows a subscriber to place a call to the last station that called the subscriber. If the destination line is busy, it is monitored for 30 minutes until it becomes idle and can accept the call.

Call Forward Busy: Automatically routes incoming calls to a designated answering point when the called line is busy.

Call Forwarding of Call Waiting Calls: This service provides the capability to forward unanswered waiting calls to a subscriber-designated directory number by using the combined call treatments of Call Waiting and Call Forward Don't Answer. An incoming call to a busy line first receives standard call waiting treatment in which the called party hears an audible tone and the calling party hears audible ringing. If the call is not answered after a period of time that is equal to the time-out value of Call Forward Don't Answer, the incoming call is given Call Forward Don't Answer treatment and is forwarded to a subscriber-designated directory number.

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1. DEFINITIONS (Cont'd)

Call Forward Doesn't Answer Ring Select (Subscriber Programmable Ringing): Allows the subscriber with the Call Forward Doesn't Answer option to program the number of rings before a call is forwarded. The subscriber dials an access code, receives a special dial tone, and enters the desired number of rings, from two to nine. A confirmation tone is provided if the operation is successful, and from this point on any incoming call that is unanswered is forwarded after the newly specified number of rings. The new ringing time-out value stays in effect until it is changed.

Call Forward No Answer: Automatically routes incoming calls to a designated answering point when the called line does not answer within a pre-specified number of rings.

Call Forward, Remote Access: Combines Call Forward Variable with remote access capability from any touch tone or tone capable telephone.

Call Forward Variable: Automatically routes incoming calls to a designated answering point, regardless of whether the User's Station is idle or busy.

Call Hold: Allows the User to hold one call for any length of time provided that neither party goes On Hook.

Call Park: Allows the User to "park" a call against their directory number within the business group and "unpark" the call from any other directory number. A business group consists of a series of Customer-defined telephone numbers.

Call Pickup: Allows the User to answer incoming calls to another Station line within a defined call pickup group. Call Pickup is provided as either Group Call Pickup, where pre-designated groups can pick up each other's calls by activating an access code or a feature key, or Directed Call Pickup, where any call can be retrieved by dialing a different access code followed by the extension number.

Call Rounding: Where applicable, the price per call will be rounded to the nearest penny using natural rounding. There will be a minimum charge of $0.01 per call. This will cover those calls where the call rounding listed above may generate a cost of $0.00.

Call Transfer: Provides the capability to transfer a call to another telephone number.

Call Waiting: Provides the User with a burst of tone to indicate that another call is waiting. The second call can either be answered by flashing the switch hook or hanging up the phone and the new call will be received.

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1. DEFINITIONS (Cont'd)

Call Waiting Cancel: Allows the User to cancel the Call Waiting feature on a per call basis by dialing a specific two digit code.

Caller ID Blocking: This feature is available in two methods, per line or per call. The per line blocking feature automatically blocks the telephone number for originating calls. The User can selectively unblock calls on a per call basis by dialing a two-digit code before dialing. Per call blocking allows the User to selectively block Caller ID information from being transmitted by dialing a two-digit code before dialing.

Calling Number Delivery: Identifies the 10 digit number of the calling party.

Calling Number Delivery Blocking: Blocks the delivery of the number to the called party on a per call basis.

Calling Number Delivery with Name: Identifies the 10 digit number and the name of the calling party.

Circuit Switching: A switching technique in which an entire circuit or, in a digital switch equipped for ISDN, a specific selection of time slots is dedicated to a given call.

Class of Service (COS): Used to prevent a Station from dialing certain codes and numbers.

Commission: The South Dakota Public Utilities Commission.

Company: XO Communications Services, Inc., a Delaware corporation, which is the issuer of this tariff.

Common Carrier: An authorized company or entity providing telecommunications services to the public.

Company Calling Card: A telephone calling card issued by the Company at the Customer's request, which enables the Customer or User(s) authorized by the Customer to place telephone calls and to have the charges for such calls billed to the Customer's account.

Conference Calling - Meet Me: Allows conferees to hold a conference on a six party conference bridge by having all attendees dial into a directory number at a specified time.

Conference / Three Way: The User can sequentially call up to two other people and add them together to make up a three-way call.

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1. DEFINITIONS (Cont'd)

Customer: The person, firm, corporation or other entity which orders or uses service for commercial purposes and is responsible for the payment of charges and for compliance with the Company's tariff regulations.

Customer Group Dialing Plan: A dialing scheme shared by the members of a Customer group, such as 4 digit internal dialing.

Customer Owned Coin Operated Telephone (COCOT): A Customer Owned Coin Operated Telephone is an individual exchange dial tone line for use by pay phone service providers, location owners and interexchange carriers to connect coin, or combination coin/coinless pay telephones to the Telephone Company's network.

Dedicated: A facility or equipment system or subsystem set aside for the sole use of a specific Customer.

Dial Pulse (DP): The pulse type employed by rotary dial Station sets.

Distinctive Ringing/Call Waiting: With this service, incoming calls from up to 12 DNs (DMS-100) can be automatically identified by distinctive ringing. A distinctive ringing pattern (short-long-short for the DMS-100) accompanies incoming calls from the designated DNs. If a subscriber is engaged in conversation and a call from one of the designated DNs arrives, a distinctive call waiting tone (short-long-short) accompanies the incoming call. Calls from all other DNs ring normally.

Do Not Disturb: Allows the User to prevent incoming calls from ringing its line by diverting them to a tone or a recorded announcement that informs the caller that the User is not accepting calls at this time.

Duplex Service: Service which provides for simultaneous transmission in both directions.

Electronic Set Interface per PDN: This feature allows for the connection of a Business Set to the Central Office through a special interface card

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1. DEFINITIONS (Cont'd)

Fiber Optic Cable: A thin filament of glass with a protective outer coating through which light beam carrying communications signals may be transmitted by means of multiple internal reflections to a receiver, which translates the message.

Ground Start: Describes the signaling provided by the terminal equipment or PBX/Key system interface requesting service from the Local Exchange Carrier switching system by putting a ground condition on the line.

Hotline: This feature automatically connects a User to a pre-designated number when the User goes Off-Hook.

Hunting: Routes a call to an idle Station line. With Serial Hunting, calls to a member of a hunt group will search from that point to the end of the group and stop.

Individual Case Basis (ICB): A service arrangement in which the regulations, rates and charges are developed based on the specific circumstances of the Customer's situation.

InterLATA Service: Service which originates within one local access transport area (LATA) and terminates in a different LATA.

IntraLATA Service: Service which originates and terminates within the same local access transport area (LATA).

Joint User: A person, firm or corporation designated by the Customer as a user of local exchange service furnished to the Customer by the Company, and to whom a portion of the charges for such facilities are billed under a joint use arrangement.

LATA: A local access and transport area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192 for the provision and administration of communications services.

Local Access: The connection between a Customer premise and Company point of presence.

Local Calling: A completed call or telephonic communication between a calling Station and any other station within the local service area of the calling Station.

Local Exchange Carrier: Any individual, partnership, association, joint-stock company, trust governmental entity or corporation engaged in the provision of local exchange telephone service.

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1. DEFINITIONS (Cont'd)

Mbps: Megabits, or million of Bits, per second.

Message Toll Service: A service that provides facilities for telecommunications between different local calling areas of the same LATA in accordance with the regulations and schedule of rates specified in this tariff. The rates specified in this tariff are in payment for all services furnished between the calling and called stations.

Message Waiting: This feature provides an indication to a Station User that a message is waiting. Indications may be visual (lamp) or audible (stuttered dial tone). This feature is available with Voicemail Subscription.

Most Idle Trunk Selection (MIDL): MIDL Trunk selection occurs when a switching unit selects from a Trunk group the Trunk that has been idle for the longest period of time.

MOU: Minutes of Use.

Multi-Frequency (MF): An inter-machine pulse-type used for signaling between telephone switches, or between telephone switches and PBX/key systems.

Network: The Company's digital fiber optics-based network.

Network Services: The Company's telecommunications access services offered on the Company's network.

Node: The Company office where all Customer facilities are terminated for purposes of interconnection to trunks and/or cross-connection to distant ends.

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.

Off-Hook: The term "off-hook" denotes the active condition of a telephone exchange service line.

On-Hook: The term "on-hook" denotes the idle condition of a telephone exchange service line.

Originating Off-Net: A call originating on and placed via non-company owned or company leased facilities.

Originating On-Net: A call originating on and placed via company owned or company leased facilities.

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1. DEFINITIONS (Cont'd)

Pay Telephone Line: A Pay Telephone line is an individual exchange dial tone line service designed for use with station controlled pay telephone instruments.

PIU: Percent Interstate Usage

Point to Point Service: An unswitched full time transmission service utilizing the Company's facilities to connect two or more Customer designated locations.

Premises: The space occupied by a Customer or authorized user in a building or buildings or contiguous property (except railroad right-of-way, etc.) not separated by a highway.

Presubscription: Presubscription is an arrangement whereby an end user may select and designate a carrier, without an access code, for intraLATA and interLATA calls.

Recurring Charges: The monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon duration of the service.

Remote Call Forwarding (RCF): A service to allow a telephone number in one exchange (RCF number) to automatically forward by telephone company equipment to a second telephone number in the same or different exchange.

Selective Call Acceptance: Allows the subscriber to set up a list of up to 12 directory numbers that should always be able to call the subscriber. When activated, only callers on this list will be connected to the subscriber's line. All other callers hear an announcement.

Selective Call Forwarding (SCF): Allows subscribers to ensure that selected calls reach them when they are away from the office. Incoming calls from up to 12 directory numbers can be forwarded to another location. Calls from directory numbers that are not on the SCF list can be picked up at the office—or receive whatever treatment the subscriber has arranged, such as answering machine or voice mail. If the SCF destination is busy, the originator will receive busy tone.

Selective Call Rejection: Allows the subscriber to set up a list of up to 12 directory numbers indicating telephone numbers from which the subscriber does not wish to receive calls. When activated a number on the list that tries to call will hear an announcement and will not be connected.

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1. DEFINITIONS (Cont'd)

Service Commencement Date: The first day following the date of Customer's first use of service or, in the case of a written request or Service order, the day which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order or this tariff, in which case the Service Commencement Date is the date of the Customer's acceptance of service. The parties may mutually agree on a substitute Service Commencement Date.

Service Order: The written request for services executed by the Customer and the Company in a format specified by the Company or the use of Company Services by the Customer. The signing of a Service Order by the Customer and acceptance thereof by the Company or the use of Company Services initiates the respective obligations of the parties as set forth therein and pursuant to this tariff, but the duration of the service is calculated from the Service Commencement Date.

Service Outage: A disruption or degradation of On-Net Service.

Services: The Company's telecommunications services offered on the Company's network.

Shared: A facility or equipment system or subsystem which can be used simultaneously by several Customers.

Special Access Service: Dedicated access between a Customer's Premises and another Point of Presence for the purpose of originating and terminating communications.

Speed Dial: Provides the User with the option to call selected directory numbers by dialing a one or two-digit code.

State: South Dakota

Station: Telephone equipment from or to which calls are placed.

Station to Station: Service where the person originating the call from other than a public or semipublic coin telephone dials the telephone number desired and the call is completed without the assistance of the Company operator and the call is not billed to a number other than the originating number.

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1. DEFINITIONS (Cont'd)

Supplementary Directory Number Service: This feature allows the subscriber up to four telephone numbers assigned to the same physical line. Each number would have its own distinctive ring, and differing Call Waiting tones.

Switched Access: Access to the switched network of an Exchange Carrier for the purpose of originating or terminating communications.

Three Way Calling: Allows a station to include a third party on a call. If the originator disconnects from the call the 3-Way call is ended, unless the originator's Business Line has Call Transfer in which case the remaining two callers are joined. The originator is billed for all toll or usage charges.

Toll Free Off-Net: Toll Free Service terminating on non-Company owned or Company leased local exchange facilities.

Toll Free On-Net: Toll Free Service terminating on Company owned or Company leased local exchange facilities.

Toll Free Service: Refers to 8XX service.

Trunk: A communications path connecting two switching systems in a network, used in the establishment of an end-to-end connection.

User: A Customer or any other person authorized by the Customer to use service provided under this tariff.

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2. 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.

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

(a) The Company reserves the right to limit or 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.

(b) The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's fiber optic cable facilities as well as facilities the Company may obtain from other carriers, from time to time, to furnish service as required at the sole discretion of the Company.

2.1.3 Terms and Conditions

(a) Except as otherwise provided herein, service is provided and billed 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 prior notice. Unless otherwise specified herein, for the purpose of computing charges in this tariff, a month is considered to have 30 days. All calculations of dates set forth in this tariff shall be based on calendar days, unless otherwise specified herein.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.3 Terms and Conditions (Cont'd)

(b) 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 rate to be charged, the duration of the services, and the terms and conditions in this tariff.

(c) Company Service Agreements shall be effective upon complete execution by the parties. The term shall be set forth on the Service Order and shall commence on the service activation date. Either party providing the other written notice at least thirty (30) days prior to the termination date may terminate the agreement at the end of the term. Company will notify Customer, in writing, at least sixty (60) days prior to the expiration of the agreement, regarding the pending expiration of the agreement and the automatic renewal provision of the agreement. If the Customer does not cancel the agreement before the end of the term, Company will automatically renew the agreement for a similar term at the rates on the Service Order Agreement. In the event of early termination of the agreement by Customer, or termination by Company for material breach, Customer shall pay Company all non-recurring charges reasonably expended to establish service to the Customer; any disconnect, early cancellation, or early termination charges incurred and paid to third parties on behalf of customer; plus all recurring charges for the balance of the then term.

(d) This tariff shall be interpreted and governed by the laws of the State.

(e) Another telephone company must not interfere with the right of any person or entity to obtain service directly from the Company.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.3 Terms and Conditions (Cont'd)

(f) 1) The assignment of a telephone number to a Customer's telephone service will be made at the discretion of the Company. The Customer has no property right to the telephone number or any other call number designation associated with services furnished by the Company. The Company reserves the right to assign, designate or change telephone numbers, any other call number designations associated with services provided under this tariff, or the Company service Central Office prefixes associated with such numbers, when the Company deems it necessary in the conduct of its business or as required by a regulatory body or by law.

2) In the event that Customer anticipates its need for Company services will increase, Company may, at Customer's request, reserve telephone numbers to meet Customer's expected growth. Company will reserve telephone numbers for a maximum forty-five (45) day period (the "Reservation Period"). Customer must place the reserved numbers in-service prior to termination of the Reservation Period. Otherwise, pursuant to federal regulations, the reserved numbers will return to Company's telephone number inventory at the termination of the Reservation Period. A renewal of the Reservation Period is not permitted. Company will make all attempts to reserve the specific telephone numbers identified by the Customer. Company reserves the right to substitute numbers when necessary in the conduct of its business or as required by a regulatory body or by law.

(g) The Customer agrees to operate Company-provided equipment in accordance with instructions of the Company or the Company's agent. 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 (h) below.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.3 Terms and Conditions (Cont'd)

(h) 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, normal wear and tear only excepted. The Customer shall reimburse the Company, upon demand, for any costs incurred by the Company due to the Customer's failure to comply with this provision.

2.1.4 Liability of the Company

Because the Customer has exclusive control of its communications over the services furnished by the Company, and because interruptions and errors incident to these services are unavoidable, the services the Company furnishes are subject to the terms, conditions, and limitations specified in this tariff and to such particular terms, conditions, and limitations as set forth in the special regulations applicable to the particular services and facilities furnished under this tariff.

(a) The liability of the Company for damages arising out of the furnishing of these services, including but not limited to mistakes, omissions, interruptions, delays, errors, other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts of commission or omission, shall be determined in accordance with SDCL 49.13-1, 49-13-1.1 and any other applicable law.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.4 Liability of the Company (Cont'd)

(b) The Company shall not be liable for any failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and 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 any civil or military authority; national emergencies; insurrections; riots; wars; unavailability of rights-of-way or materials; or strikes, lock-outs, work stoppages, or other labor difficulties.

(c) The Company shall not be liable for any act or omission of any entity furnishing to the Company or to the Company's Customers facilities or equipment used for or with the services the Company offers.

(d) 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.

(e) The Company shall not be liable for the claims of vendors supplying equipment to Customers of the Company which may be installed at premises of the Company nor shall the Company be liable for the performance of said vendor or vendor's equipment.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.4 Liability of the Company (Cont'd)

(f) The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer indemnifies and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and 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 any installation so provided.

(g) The Company is not liable for any defacement of or damage to the premises of a Customer (or authorized or joint user) resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, when such defacement or damage is not the result of negligence or willful misconduct on the part of the agents or employees of the Company.

(h) The Company shall not be liable for any damages resulting from delays in meeting any service dates due to delays resulting from normal construction procedures. Such delays shall include, but not be limited to, delays in obtaining necessary regulatory approvals for construction, delays in obtaining right-of-way approvals and delays in actual construction work.

(i) The Company shall not be liable for any damages whatsoever to property resulting from the installation, maintenance, repair or removal of equipment and associated wiring unless the damage is caused by the Company's willful misconduct or negligence.

(j) The Company shall not be liable for any damages whatsoever associated with service, facilities, or equipment which the Company does not furnish or for any act or omission of the Customer or any other entity furnishing services, facilities or equipment used for or in conjunction with Company Service.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

<RESERVED FOR FUTURE USE>

2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.5 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. 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 outage resulting from cable damage, notification to the Customer may not be possible.

2.1.6 Provision of Equipment and Facilities

(a) Where construction is required, the Company shall use reasonable efforts to make available services to the 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.

(b) The Company shall use reasonable efforts to maintain facilities 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 installed by the Company, except upon the written consent of the Company.

(c) Equipment installed at the Customer Premises for use in connections with the services the Company offers shall not be used for any purpose other than that for which the Company provided it.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.6 Provision of Equipment and Facilities (Cont'd)

(d) 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. Beyond this responsibility, the Company shall not be responsible for:

(1) the transmission of signals by Customer provided equipment or for the quality of, or defects in, such transmission; or

(2) the reception of signals by Customer provided equipment; or

(3) network control signaling where such signaling is performed by Customer-provided network control signaling equipment.

2.1.7 Non-routine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. 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.

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2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.8 Ownership of Facilities

Title to all facilities provided in accordance with this tariff remains in the Company, its agents or contractors.

2.1.9 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 effort 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 route 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 charges will be determined on a case by case basis.

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2. REGULATIONS (Cont'd)

2.2 Prohibited Uses

2.2.1 The service the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.

2.2.2 The Company may require the Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.

2.3 Obligations of the Customer

2.3.1 General

The Customer shall be responsible for:

(a) the payment of all applicable charges pursuant to this tariff;

(b) reimbursing the Company for damage to, or loss of, the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer's premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company. The Company will, upon reimbursement for damages, cooperate with the Customer in prosecuting a claim against the person causing such damage and the Customer shall be subrogated to the Company's right of recovery of damages to the extent of such payment.

(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 premises of the Customer, and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;

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2. REGULATIONS (Cont'd)

2.3 Obligations of the Customer (Cont'd)

2.3.1 General (Cont'd)

(d) obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduit necessary for installation of fiber optic cable and associated equipment used to provide local exchange service to the Customer from the cable building entrance or property line to the location of the equipment space described in 2.3.1(c). Any costs associated with obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company-provided facilities, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service;

(e) providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's 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 the Company's 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. 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 any Customer premises or the rights-of-way for which the Customer is responsible under Section 2.3.1(d) above; 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;

2. REGULATIONS (Cont'd)

2.3 Obligations of the Customer (Cont'd)

2.3.1 General (Cont'd)

(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.

2.3.2 Claims

With respect to any service or facility provided by the Company, the Customer shall indemnify, defend and hold harmless the Company from all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees for:

(a) any loss, destruction or damage to property of the Company or any third party, or the death of or injury to persons, including, but not limited to, employees or invitees of either the Company or the Customer, 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 the Company's services and facilities in a name not contemplated by the agreement between the Customer and the Company

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2. REGULATIONS (Cont'd)

2.3 Obligations of the Customer (Cont'd)

2.3.3 Liability for Calling Card Fraud

a) The Customer is liable for the unauthorized use of the Company's facilities, equipment, and services obtained through the fraudulent or other unauthorized use of a Company Calling Card, provided that the unauthorized use occurs before the Company has been notified.

(b) The Customer's liability for unauthorized use shall not exceed the lesser of $50.00 or the amount of services obtained by the unauthorized use prior to notification to the Company. Notwithstanding the foregoing, in situations where the Company issues ten (10) or more calling cards to a Customer for use by its employees, the Company and the Customer may agree on the Customer's liability for unauthorized use on a case by case basis without regard to this subsection.

(c) The Customer must give the Company notice that unauthorized use of a Company Calling Card has occurred or may occur as a result of loss, theft or other reasons. Written notice shall be sent to the Company's address as designated pursuant to Section 2.6(e) and will be effective when received, and oral notice shall be made by contacting a Company representative at the Company's business office or by telephone at the Company's listed telephone number. For the purposes of this section, notice occurs when the Company receives oral or written confirmation that unauthorized use of a Company Calling Card has occurred or may occur as a result of loss, theft or other reasons.

(d) The Company may, but is not required to, advise the Customer of abnormal calling patterns or other possible unauthorized use of Company Calling Cards assigned to the Customer. In addition, the Company may, but is not required to, block calls on a Company Calling Card personal identification number which the Company believes to be unauthorized or fraudulent.

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2. REGULATIONS (Cont'd)

2.3 Obligations of the Customer (Cont'd)

2.3.3 Liability for Calling Card Fraud (Cont'd)

(e) Except as otherwise provided in this tariff, 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.

2.4 Customer Equipment and Channels

2.4.1 General

A Customer may transmit or receive information or signals via the facilities of the Company.

2.4.2 Station Equipment

(a) The Customer is responsible for providing and maintaining any terminal equipment on the Customer premises. The electric power consumed by such equipment shall be provided by, and maintained at the expense of, the Customer. All such terminal equipment must be registered with the FCC under 47 C.F.R., Part 68 and all wiring must be installed and maintained in compliance with those regulations. The Company will, where practical, notify the Customer that temporary discontinuance of the use of a service may be required; however, where prior notice is not practical, nothing contained herein shall be deemed to impair the Company's right to discontinue forthwith the use of a service temporarily if such action is reasonable under the circumstances. In case of such temporary discontinuance, the Customer will be promptly notified and afforded the opportunity to correct the condition which gave rise to the temporary discontinuance. During such period of temporary discontinuance, credit allowance for service interruptions as set forth in Section 2.6 following is not applicable.

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2. REGULATIONS (Cont'd)

2.4 Customer Equipment and Channels (Cont'd)

2.4.2 Station Equipment (Cont'd)

(b) 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 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

(a) Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing local exchange service and the channels, facilities, or equipment of others may be provided at the Customer's expense.

(b) Local 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 of the other communications carriers which are applicable to such connections.

(c) Facilities furnished under this tariff may be connected to Customer provided terminal equipment in accordance with the provisions of this tariff.

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2. REGULATIONS (Cont'd)

2.4 Customer Equipment and Channels (Cont'd)

2.4.4 Inspections

(a) Upon reasonable 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 (b) for the installation, operation, and maintenance of Customer-provided facilities and equipment to Company-owned facilities and equipment. No credit will be allowed for any interruptions occurring during such inspections.

(b) 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.

2.5 Payment Arrangements

2.5.1 Payment for Service

The Customer is responsible for payment of all charges for service and facilities furnished by the Company to the Customer or its Joint or Authorized Users. Objections must be received by the Company within 30 days after statement of account is rendered, or the charges shall be deemed correct and binding upon the Customer. If an entity other than the Company imposes charges on the Company, in addition to its own internal costs, in connection with a service for which a Company Non-Recurring Charge is specified, those charges may be passed on to the Customer.

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2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

2.5.1 Payment for Service (Cont'd)

(a) Taxes: The Customer is responsible for the payment of any sales, use, gross receipts, excise, access or other local, state and federal taxes, charges, user fees, or surcharges (however designated) excluding taxes on the Company's net income imposed on or based upon the provision of Services, all of which shall be separately designated on the Company's invoices. Any taxes imposed by a local jurisdiction (e.g. County and municipal taxes) will only be recovered from those Customers residing in the affected jurisdictions. It shall be the responsibility of the Customer to pay any such taxes that subsequently become applicable retroactively.

(b) A surcharge is imposed on all charges for service originating at addresses in states which levy, or assert a claim of right to levy, a gross receipt tax on the Company's operations in any such state, or a tax on interstate access charges incurred by the Company for originating access to telephone exchanges in that state. This surcharge is based on the particular state's receipts tax and other state taxes imposed directly or indirectly upon the Company by virtue of, and measured by, the gross receipts or revenues of the Company in that state and/or payment of interstate access charges in that state. The surcharge will be shown as a separate line item on the Customer's monthly invoice.

2.5.2 Billing and Collection of Charges

Bills will be rendered monthly to the Customer. Billing will begin on the Service Commencement Date. The parties may mutually agree upon a substitute Service Commencement date. If Customer notifies Company in writing that it is not prepared to utilize the Services or facility after Company has notified the Customer that the requested Service or facility is ready for use, Company may begin billing the Customer on the Service Commencement Date.

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2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

2.5.2 Billing and Collection of Charges (Cont'd)

(a) The Company shall present bills monthly to the Customer for Recurring Charges in advance of the month which service is provided. Usage charges will be billed in arrears.

(b) For new customers or existing customers whose service is disconnected, the charge for the fraction 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.

(c) Amounts not paid within 30 days after the date of invoice are considered past due.

(d) A $25.00 charge will be assessed for checks with insufficient funds or non-existing accounts. Business Customers will be assessed a late fee on past due amounts in the amount of the lesser of 1.5 % per month or a maximum lawful rate under applicable state law.

(e) From time to time, the Company will grant credits against usage or recurring charges per Customer account, per monthly billing period, whenever the Company determines, in its sole discretion, that such a credit is warranted due to consideration or disputes involving the delivery of past service to the Customer or account receiving the credit.

2.5.3 Disputed Bills: The Customer shall notify the Company of any disputed items on a bill within 180 days of receipt of the bill. The date of the dispute shall be the date the Company receives notice from Customer. The date of the resolution is the date the Company completes its investigation and notifies the Customer of the disposition of the dispute. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the Commission, in accordance with the Commission's rules of procedure. Customers may contact the Commission at South Dakota Public Utilities Commission, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070, telephone 605-773-3201.

2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

2.5.4 Advance Payments

To safeguard its interests, the Company may require a Customer to make an Advance Payment before services and facilities are furnished. The Advance Payment will not exceed an amount equal to the Non-Recurring Charge(s) and three months' charges for the service or facility. 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.

2.5.5 Deposits

(a) Applicants for service or existing Customers whose financial condition is not acceptable to the Company, or is not a matter of general knowledge, may be required at any time to provide the Company a security deposit. The deposit requested will be in cash or the equivalent of cash, and will be held as a guarantee for the payment of charges. 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:

(1) two month's charges for a service or facility which has a minimum payment period of one month; or

2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

(2) the charges that would apply for the minimum payment period for a service or facility which has a minimum payment period of more than one month; except that the deposit may include an additional amount in the event that a termination charge is applicable. In addition, the Company shall be entitled to require such an applicant or Customer to pay all its bills within a specified period of time, and to make such payments in cash or the equivalent of cash. At the Company's option, such deposit may be refunded to the Customer's account at any time. Also, the Company reserves the right to cease accepting and processing Service Orders after it has requested a security deposit and prior to the Customer's compliance with this request.

(b) A deposit may be required in addition to an advance payment.

(c) When a service or facility is discontinued, the amount of a deposit, if any, will be applied to the Customer's account and any credit balance remaining will be refunded. Before the service or facility is discontinued, the Company may, at its option, return the deposit or credit it to the Customer's account.

(d) Deposits held will accrue interest at a rate specified by the Commission.

2.5.6 Discontinuance of Service

(a) Upon nonpayment of any amounts owing to the Company, the Company may, by giving requisite prior written notice to the Customer in accordance with applicable state law, discontinue or suspend service without incurring any liability.

(b) Upon violation of any of the other material terms or conditions for furnishing service the Company may, by giving 30 days prior notice in writing to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.

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2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

(c) Upon condemnation of any material portion of the facilities used by the Company 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.

(d) Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, failing to discharge an involuntary petition within the time permitted by law, or abandonment of service, the Company may, with prior notice to the customer, immediately discontinue or suspend service without incurring any liability.

(e) Upon any governmental prohibition, or required alteration of the services to be provided or any violation of any applicable law or regulation, the Company may immediately discontinue or suspend service without incurring any liability.

(f) The Company may discontinue the furnishings of any and/or all service(s) to the Customer, without incurring any liability:

(1) Immediately 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. The Company may discontinue service pursuant to this sub-section if:

(a) use of service in such a manner as to interfere with the service of other users; or

(b) use of service for unlawful purposes.

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2. REGULATIONS (Cont'd)

2.5 Payment Arrangements (Cont'd)

2.5.6 Discontinuance of Service (Cont'd)

(2) Upon ten (10) days written notice to the Customer, after failure of the Customer to comply with a request made by the Company for security for the payment of service in accordance with Section 2.5.5; or

(3) Ten (10) days after sending the Customer written notice of noncompliance with any provision of this tariff if the noncompliance is not corrected within that (10) day period; or

(g) The suspension or discontinuance of service(s) by the Company pursuant to this Section does not relieve the Customer of any obligation to pay the Company for charges due and owing for service(s) furnished during the time of or up to suspension or discontinuance or for any and all applicable early termination charges.

(h) Upon the discontinuance of service to the Customer under Section 2.5.6 (a) or 2.5.6 (b), all applicable charges, including early termination charges, shall become due, as specified in Section 2.7.2. 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.

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2. REGULATIONS (Cont'd)

2.6 Allowances for Interruptions of Service

2.6.1 Credit for Interruptions: When the use of service or facilities furnished by the Company is interrupted due to any cause other than the negligence or willful act of the Customer, or the operation or failure of the facilities or equipment provided by the Customer, a pro rata adjustment of the monthly Recurring Charges subject to interruption will be allowed for the service and facilities rendered useless and inoperative by reason of the interruption whenever said interruption continues for a period of 24 hours or more from the time the interruption is reported to or known to exist by the Company, except as otherwise specified in the Company's tariffs. If the Customer reports a service, facility or circuit to be inoperative but declines to release it for testing and repair, it is considered to be impaired, but not interrupted.

For calculating credit allowances, every month is considered to have 30 days. A credit allowance is applied on a pro rata basis against the monthly Recurring Charges specified hereunder for Local Line or Local Trunk Service and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit. Credit allowances for service outages that exceed 24 hours in duration will be rounded up to the next whole 24 hours.

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2. REGULATIONS (Cont'd)

2.6 Allowances for Interruptions of 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.

2.6.3 Use of Alternative Service Provided by the Company: Should the Customer elect to use an alternative service provided by the Company during the period that a service is interrupted, the Customer must pay the tariffed rates and charges for the alternative service used.

2. REGULATIONS (Cont'd)

2.7 Cancellation of Service

2.7.1. Cancellation of Application for Service

(a) Applications for service can not be canceled unless the Company otherwise agrees. Where the Company permits the 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.

(b) 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 salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of service ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service begun.

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2. REGULATIONS (Cont'd)

2.7 Cancellation of Service (Cont'd)

2.7.1. Cancellation of Application for Service (Cont'd)

(c) The special charges described in 2.7.1 (a) and 2.7.1 (b) will be calculated and applied on a case-by-case basis.

2.7.2 Cancellation of Service by the Customer

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than service interruption (as defined in 2.6.1 above), the 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 be payable within the period set forth in 2.5.2: all costs, fees and expenses reasonable incurred in connection with:

(a) all Non-Recurring Charges reasonably expended by Company to establish service to the Customer, plus

(b) any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by Company on behalf of the Customer, plus

(c) all early termination charges as specified in 2.7.3

The Customer should also give the Company at least thirty (30) days written or oral notice of the cancellation of service.

2.7.3 Early Termination Charges

Should Customer terminate service prior to the completion of the term specified in the Service Order ,Customer shall be obligated to pay Company an early termination charge equal to all non-recurring and recurring charges for the remaining term plus 75% of the average monthly billings for service for the three months prior to the termination month (or such lesser period if fewer than three months of Service were utilized) multiplied by the number of remaining months in the term of the service plan. The early termination charges are due and payable immediately upon cancellation of service.

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2. REGULATIONS (Cont'd)

2.8 Transfer 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.

2.9 Notices and Communications

2.9.1 The Customer shall designate on the Service Order, if applicable, or to the company directly, 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, if applicable, or to the company directly, 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 deposit 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 herein.

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2. REGULATIONS (Cont'd)

2.10 Jurisdictional Nature of Traffic

2.10.1 Customer agrees, represents and warrants that all traffic being delivered by Customer to Company for local termination, and all traffic that Company delivers to Customer that has originated in the same local calling area in which Customer's NXX is assigned and/or in which such traffic is terminated to Customer, is local traffic or is legally entitled to be treated as local traffic under all applicable federal, state and local laws, administrative and regulatory requirements and any other authorities having jurisdiction.

2.10.2 Customer further agrees to indemnify, defend and hold harmless Company and its parent company, affiliates, employees, directors, officers, and agents from and against all claims, demands, actions, causes of actions, damages, liabilities, losses, and expenses (including reasonable attorney's fees) incurred in connection with: Customer's breach or failure of any representation or warranty; Customer's traffic being processed through the Company switch/node; or the effect of any regulatory or legal modifications/change of law.

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3. SERVICE DESCRIPTIONS

3.1 Local Exchange Service: The Company's Local Telephone Service provides a Customer with the ability to connect to the Company's switching network which enables the Customer to:

(a) place or receive calls to any calling Station in the local calling area, as defined herein;
(b) access enhanced 911 Emergency Service where available;
(c) access the interexchange carrier selected by the Customer for interLATA, intraLATA, interstate or international calling;
(d) access Operator Services;
(e) access Directory Assistance;
(f) place or receive calls to 800 telephone numbers;
(g) access Telecommunications Relay Service.

The Company's service will automatically block originating calls to other telephone company's caller-paid information services (e.g. 900, 976) at no charge. Calls to those numbers and other numbers used for caller-paid information services will be unblocked on a per directory number basis only.

3.1.1 Local Calling Areas: Company will offer Services statewide. The specific calling areas serviced by Company can be found in the tariff on file by the incumbent local exchange provider. The NXX's associated with each particular exchange or zone may be found in the telephone directory published by the incumbent local exchange provider in the Customer's exchange area.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.1 Local Exchange Service (Cont'd)

3.1.2 Basic Business Lines

Basic Business Lines provide basic access service and supply a single, voice-grade communications channel for single line telephones, key telephone systems, modems and other devices needing access to the public switched telephone network (PSTN). Basic Business Line Customers will be charged a Non- Recurring Charge (NRC), a Monthly Recurring Charge (MRC) and usage charges as specified below as well as all applicable Federal, State and Local Taxes and Surcharges.

(a) Basic Business Lines include the following standard attributes at no cost:

Touchtone
One White Pages Directory Listing
911 Access
One Yellow Pages Directory Listing

Blocking Restrictions- Basic Business Lines come standard with all Caller Paid Service, 500 and 900 area codes blocked.

(b) Basic Business Line Optional Features: Basic Business Line Customers may order the following Optional Features listed below at the Rates specified below.

Call Forward Busy
Call Forward No Answer
Hunting
Call Forward Variable
Call Waiting
Speed Calling 8
Three Way Calling
Caller ID Number Only
Caller ID Name & Number
Voicemail

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3. SERVICE DESCRIPTIONS (Cont'd)

3.1 Local Exchange Service (Cont'd)

3.1.2 Basic Business Lines (Cont'd)

(c) Basic Business Line Rates and Charges: Basic Business Line Customers will be charged applicable Non-Recurring, Monthly Recurring and Usage Charges as specified below.

(1) Monthly Recurring Charges

Basic Local Line -	Line Charge
Two Year Term	$32.45

Optional Features:

Call Forward Busy	$ 5.50
Call Forward No Answer	$ 4.00
Hunting	$ 8.95
Call Forward Variable	$ 5.00
Call Waiting	$ 5.50
Speed Calling 8	$ 4.00
Three Way Calling	$ 4.00
Caller ID Number Only	$ 7.50
Caller ID Name & Number	$ 7.95
Voicemail	$ 13.95

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3. SERVICE DESCRIPTIONS (Cont'd)

3.1 Local Exchange Service (Cont'd)

(c) Basic Business Line Rates and Charges (Cont'd)

(2) Non-Recurring Charges

Installation Charge (Per Line)	
First Line	$47.00
Additional Line(s)	$47.00
Features	$11.00
Service Order Change	$25.00

NOTE: Non-recurring Service Order Change charges will not apply during the initial 30 day period following completion of a service order.

3.1.3 Private Branch Exchange (PBX) Trunks

3.1.3.1 Service Description:

PBX Trunk Service provides customers with access to and from the Public Switched Telephone Network (PSTN) for inbound, outbound or two-way call traffic.

Two-Way Trunks: A Trunk which allows traffic to be transmitted from either the customer's PBX or the Company switching equipment.

One-Way, out only: A One-Way Trunk that only allows traffic originating in the customer's PBX to be transmitted to the Company switching equipment.

One-Way, in only: A One-Way Trunk that only allows traffic from the Company switching equipment to be transmitted to the customer's PBX.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.1 Local Exchange Service (Cont'd)

3.1.3 Private Branch Exchange (PBX) Trunks (Cont'd)

Direct Inward Dialing (DID) Service: A special trunking arrangement which permits incoming calls from the exchange network to reach a specific PBX station directly without an attendant's assistance.

3.1.3.2 Rates and Charges: PBX Trunk Customers will be charged applicable Non-Recurring Charges, Monthly Recurring Charges and Usage Charges, where applicable. Additional Federal, State, and Local taxes and Surcharges may also apply. Rates below are based on a two year term. Rates for alternate term lengths may be provided on an individual case basis.

PBX Trunks	MRC	NRC
Two-Way	$ 41.45	$ 47.00
One-Way, out only	$ 41.45	$ 47.00
One-Way, in only	$ 41.45	$ 47.00
Optional Features		
DID Termination	$ 35.00	$ 40.00
Hunting	$ 8.95	$ 11.00
DID Numbers		
Per Blocks of 20	$ 3.00	$ 20.00
Per Blocks of 100	$ 15.00	$ 100.00

3.1.4 Business Line and Trunk Early Termination Charge: In addition to the early termination charges set forth in Section 2.7.3 of this tariff, Customers shall also incur a per line charge of Fifty Dollars ($50.00) per line/trunk that is terminated prior to the end of the Customer's service term.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.2 Directory Assistance

Directory Assistance service provides a Customer with requested telephone numbers and/or addresses within the Customer's local calling area. Customers can reach a Directory Assistance Operator by dialing 411 or 555-1212. The Directory Assistance Operator will furnish up to three items per call or will let the Customer know if the requested information cannot be found. Customers will be charged for calls placed to Directory Assistance even when the requested information cannot be found.

3.2.1 Each call to Directory Assistance will be charged as follows:

Per Call	$1.25

3.2.2 Call Completion Feature: Customers using Company's Directory Assistance Service will have the option of completing calls through Company's Call Completion feature. At the Customer's request, the Directory Assistance Operator will connect the Customer to the requested telephone number. In addition to the per call charge for Directory Assistance listed above, Customers will be charged for duration of the completed call as follows:

(a) Customers placing the call from a telephone line that is subscribed to Company local service will be charged according to Customer's current Company rate plan.

Other than the Directory Assistance per call charge and the applicable usage charges for the completed call, there is no additional charge for using this feature.

3.2.3 A credit will be given for calls to Directory Assistance as follows:

(a) The Customer experiences poor transmission or is cut-off during the call; or

(b) The Customer is given an incorrect telephone number.

To obtain such a credit, the Customer must notify its Customer Service representative within 48 hours of placing the call to Directory Assistance.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.3 Operator Assistance

Operator Assistance: A Customer may obtain the assistance of a local operator to complete local exchange telephone calls in the following manner. In addition to the rates specified in Section 3.1, surcharges as specified in Section 3.3.1 will apply:

Third Number Billing: Provides the Customer with the capability to charge a local call to a third number which is different from the called or calling party. The party answering at the third number has the option to refuse acceptance of the charges in advance or when queried by the operator.

Collect Calls: Provides the Customer with the capability to charge a call to the called party. On the operator announcement of a collect call, the called party has the option to refuse acceptance of charges in advance or when queried by the operator.

Calling Cards: Provides the Customer with the capability to place a call using a calling card of an Interchange Carrier with or without the assistance of an operator.

Person to Person: Calls completed with the assistance of an operator to a particular Station and person specified by the caller. The call may be billed to the called party.

Station to Station: Calls completed with the assistance of an operator to a particular Station. The call may be billed to the called party.

3.3.1 Operator Assisted Surcharges: The following surcharges will be applied on a per call basis.

Calling Card	\$1.00
Third Number Billing	\$1.75
Collect Calling	\$1.75
Person to Person	\$3.50
Station to Station	\$1.75

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3. SERVICE DESCRIPTIONS (Cont'd)

3.3 Operator Assistance (Cont'd)

3.3.2 Usage Rates for Operator Completed Calls: The following rate applies on a per minute basis to calls completed by an operator. The per minute charge begins once the operator has connected the call. Calls are billed in six (6) second increments with an initial billing period of eighteen (18) seconds. The duration of each call for bill purposes will be rounded off to the nearest highest increment. Fractional cents will be rounded to the nearest cent using natural rounding, $0.10 per minute of use.

3.3.3 Busy Line Verification and Interrupt Service: Busy Line Verification and Interrupt Service, which is furnished where and to the extent that facilities permit, provides the Customer with the following options:

(a) Busy Line Verification: Upon request of the calling party, the Company will determine if the line is clear or in use and report to the calling party.

(b) Busy Line Verification with Interrupt: The operator will interrupt the call on the called line only if the calling party indicates an emergency and requests interruption.

(c) Rates: Rates for Busy Line Verification and Interrupt Service, as specified below, will apply under the following circumstances:

The operator verifies that the line is busy with a call in progress.

The operator verifies that the line is available for incoming calls.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.3 Operator Assistance (Cont'd)

3.3.3 Busy Line Verification and Interrupt Service (Cont'd)

(c) Rates (Cont'd)

The operator verifies that the called number is busy with a call in progress and the Customer requests interruption. The operator will then interrupt the call, advising the called party the name of the calling party. One charge will apply for both verification and interruption.

Per Request

Busy Line Verification	$1.25
Busy Line Interrupt	$3.00

3.4 Directory Listings:

The Company shall arrange for the listing of the Customer's main billing telephone number in the directory(ies) published by the dominant Local Exchange Carrier in the service area at no additional charge. At a Customer's option, the Company will arrange for other types of listings and additional listings and will pass onto the Customer the charges, if any, for such listings that the dominant Local Exchange Carrier charges Company. Listings will be non-published at the specific request of the Customer.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.5 Telecommunications Relay Service: Telecommunications Relay Service enables deaf, hard-of-hearing or speech-impaired persons who use a text telephone or similar devices to communicate freely with the hearing population for using the text telephone and vice versa. The Company does not impose any charge to end users for access to Telecommunications Relay Service. However, persons using this Service are liable for applicable per call/increment charges.

3.6 Line Restoral Charge: A Line Restoral charge may apply for line restoral after temporary interruption of service initiated by the Company. Company will pass onto the Customer the charges, if any, for such restoral that the dominant Local Exchange Carrier charges Company. If service is temporarily interrupted and payment is not received within 10 days following the interruption, the Company reserves the right to discontinue service. If service is discontinued and subsequently re-established, charges apply as for a new installation of service.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.7 Miscellaneous Service and Equipment

3.7.1 Caller ID

This service utilizes specific network capabilities to transmit and display the number associated with an incoming call to the called party's access line. The number of the incoming call is transmitted during the silent interval between the first and second ring of the called party's line. Caller ID subscribers must provide, and connect, their own compatible premises equipment in order to process and display the number transmission. The company will forward all telephone numbers where technically feasible.

If a calling party has activated blocking, the number will not be transmitted to the display equipment of a Caller ID subscriber. Instead, the Caller ID privacy indicator notifies the Caller ID subscriber that the calling party chose to block number delivery.

3.7.2 Caller ID Blocking

Caller ID Blocking allows the caller to prevent the delivery of his/her calling data to a Caller ID subscriber on a per call basis (Caller ID Blocking - Per Call) or per line basis (Caller ID Blocking - Per Line).

(a) Caller ID Blocking - Per Call

This service will block the delivery of the caller's data to a Caller ID subscriber for one call only and may be activated from all single party access lines by dialing *67 (1167 from a rotary phone) prior to placing the call. Per the FCC Caller ID order, Caller ID Blocking-Per Call is provided to all customers at no charge.

Per FCC Docket 91-281, per call blocking will be provided on calls originating from public, semi-public or other pay stations used by the general public and party lines.

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3.0 SERVICE DESCRIPTIONS (Cont'd)

3.8 Miscellaneous Service and Equipment (Cont'd)

3.7.2 Caller ID Blocking (Cont'd)

(b) Caller ID Blocking - Per Line
This service will automatically block the delivery of the caller's data to a Caller ID subscriber on all calls and will be made available or offered, at no charge for victims of domestic violence, domestic violence programs, social welfare agencies, health and counseling centers, public service hotlines, law enforcement agencies and staff thereof. In addition, all customers call request per line blocking at no charge. Per line blocking call be deactivated by dialing *67 (1167 from a rotary phone) prior to placing the call.

3.7.3 Special Conditions for Caller ID

a) An originating caller's data may not be displayed to the called party under the following conditions:

1) The caller's data will not be displayed if the called party is off-hook. The called party must be on-hook to receive the caller's data. If the customer subscriber to both Call Waiting and Caller ID, and is on an existing call, the second incoming call information will not be displayed. Instead, the called party will receive the usual Call Waiting tone.

2) The caller's data will not be displayed if the called party answers the incoming call during the first ring interval.

3) Identification of names, specific stations or extensions served by a PBX or Key System is not possible. The main directory number or name and number (if available) of the PBX or Key System will be displayed.

4) Caller ID Service cannot be provided if the calling party "Unavailable" display.

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3.0 SERVICE DESCRIPTIONS (Cont'd)

3.7 Miscellaneous Service and Equipment (Cont'd)

3.7.3 Special Conditions for Caller ID (Cont'd)

5) The caller's data will be unavailable if it is from another office that is not linked by appropriate facilities with the called party's office.

6) The calling party has activated blocking.

7) Caller ID services do not display a directory number or name and number (if available) for operator assisted calls, calls marked private by the originator or calls originating from pay and party line stations.

b) The following special conditions apply to Caller ID services based on the FCC Caller ID Order effective 12/1/95:

1) If a customer dials a "1-800" or other Automatic Number Identification (ANI) Service number, the telephone number that they are calling from will be revealed to the called party through ANI technology. Even if the customer has per line blocking or has activated per call blocking, the 800 number party has the right to obtain this information through ANI.

2) ANI information may not be reused or resold for other purposes without a caller's consent, even where the called party has paid for the call.

3) Caller ID services are available on all long distance calls where technically feasible.

4) All calling data will be displayed to E911 through ANI technology, even if the customer has per line blocking or has activated per call blocking.

5) All calling data will be passed, even for customer who do not subscribe to Caller ID.

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3.0 SERVICE DESCRIPTIONS (Cont'd)

3.8 Miscellaneous Service and Equipment (Cont'd)

3.7.3 Special Conditions for Caller ID

6) Per Call Blocking will be available to all customers. (The FCC Order overrules all state PUC/PSC decisions on Per Call Blocking.)

3.7.4 Call Trace

This service enables the customer to initiate a trace of the last incoming call completed by dialing an activation code (*57) immediately after terminating the call, thus enabling the Company's equipment to record the incoming call detail (not the conversation). Call trace information will only be given to law enforcement agencies and not to the subscriber. Incoming call detail includes: The calling number, the time the trace was activated, and in some locations, the time the traced call was received. The customer is required to contact the telephone company business office during normal business hours, which will refer the customer to appropriate law enforcement agencies, or contact the law enforcement agency directly. Call trace detail will be retained by the company and made available to the local law enforcement for ten business days after the trace has been initiated. Only calls from locations with compatible signaling services are traceable using Call Trace. Call Trace is available on a usage sensitive basis only.

Rate per incident	$ 1.00

3.7.5 Intercept and Number Referral Service

(A) Intercept

Is an optional service employed after telephone service has been disconnected, whereby an automated system repeats the called number and provides the status of the telephone service. Intercept Service is available for published numbers free of charge for the first 90 days of use. Intercept Service for published numbers in place longer than 90 days will be charged as outlined below. Intercept Service for unpublished numbers will be charged as outlined below from the start of the Number Referral Service.

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3. SERVICE DESCRIPTIONS (Cont'd)

3.7.5 Intercept and Number Referral Service (Cont'd)

(B) Number Referral Service
Is an optional service employed after telephone service has been disconnected, whereby an automated system repeats the called number and provides callers with the new number. Number Referral Service is available for published numbers free of charge for the first 90 days of use. Number Referral Service for published numbers in place longer than 90 days will be charged as outlined below. Number Referral Service for unpublished numbers will be charged as outlined below from the start of the Number Referral Service.

Duration	Non-recurring Charge
1 month:	$10.00
2 months:	$20.00
3 months:	$30.00
6 months:	$45.00
9 months:	$55.00
12 months:	$65.00

3.8 Service Calls

When a customer reports trouble to the Company for clearance and no trouble is found in the Company's facilities, the Customer may be responsible for payment of a charge calculated from the time Company's personnel are dispatched to the Customer Premise until the work is completed. Company will pass onto the Customer the charges, if any, for such service calls that the dominant Local Exchange Carrier charges Company.

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4. INDIVIDUAL CASE BASIS (ICB) ARRANGEMENTS

Arrangements will be developed on a case-by-case basis in response to a bonafide request from a Customer or prospective Customer to develop a competitive bid for a service offered under this tariff. Rates quoted in response to such competitive requests may be different than those specified for such service in this tariff. ICB rates will be offered to the Customer in writing and on a non-discriminatory basis. ICB rates, service descriptions and length of such agreement will be filed with the Commission when required.

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5. PROMOTIONAL OFFERINGS

The Company, from time to time, may make promotional offerings of its services which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and times of the offerings and the locations where the offerings are made. Promotional offerings will only be available where facilities and billing capabilities permit.

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XO Communications Services, Inc.

Regulations, Descriptions and Rates

Applicable to Furnishing

Interexchange Services

with the State of South Dakota

This tariff contains the descriptions, regulations and rates applicable to the furnishing of service and facilities for telecommunications services within the State of South Dakota by XO Communications Services, Inc. ("Company"). This tariff is on file with the South Dakota Public Utilities Commission, and copies may also be inspected, during normal business hours, at the following location: Capitol Building, 1st floor, 500 East Capitol Avenue, Pierre, SD 57501-5070.

CHECK SHEET

The Title Page through Page 59 inclusive of this tariff are effective on the date shown. Original and Revised Pages as named below contain all changes from the original tariff that are in effect on the date shown.

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TARIFF FORMAT

A. Sheet Numbering – page numbers appear in the upper right corner of the page. Pages are numbered sequentially. When a new page is added between pages already in affect, a decimal is added. For example, a new page added between pages 14 and 15 would be 14.1.

B. Sheet 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 South Dakota Public Utilities Commission. For example, the 4th revised page 14 cancels the 3rd revised page 14. Consult the Check Page for the Sheet currently in effect.

C. Check Sheets – When a tariff filing is made with the South Dakota Public Utilities Commission, 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. remain the same, just revised revision levels on some pages.)

APPLICATION OF TARIFF

This tariff contains the regulations and rates applicable to the provision of intrastate interexchange services by XO Communications Services, Inc. (hereafter the "Company") from its operating locations throughout the state of South Dakota. Service is furnished by means of wire, terrestrial microwave radio, optical, fibers, satellite circuits or a combination thereof. Service is subject to transmission, atmospheric conditions and like conditions.

CONCURRING CARRIERS

No Concurring Carriers

CONNECTING CARRIERS

No Connecting Carriers

OTHER PARTICIPATING CARRIERS

No Other Participating Carriers

EXPLANATION OF SYMBOLS, REFERENCE MARKS, AND ABBREVIATIONS OF TECHNICAL TERMS USED IN THIS TARIFF.

Revisions of this tariff are coded through the use of symbols. These symbols appear in the right margin of the sheet. The symbols and their meanings are:

(C) To signify changed conditions or regulations.

(D) To signify discontinued rate, regulation, or condition.

(I) To signify increase.

(K) To signify that material has been transferred to another sheet or place in the tariff.

(M) To signify that material has been transferred from another sheet or place in the tariff.

(N) To signify a new rate, regulation, condition, or sheet.

(O) To signify no change.

(R) To signify reduction.

(T) To signify a change in text for clarification.

TABLE OF CONTENTS

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.

Central Office (CO): Telephone company facility where subscribers' lines are joined to switching equipment for connecting other subscribers to each other, locally and long distance.

Company: XO Communications Services, Inc., the issuer of this tariff, which is a Delaware corporation, or any of its affiliates which concur in this tariff.

Company Calling Card: A telephone calling card issued by the Company at the Customer's request which enables the Customer or User(s) authorized by the Customer to place telephone calls and to have the charges for such calls billed to the Customer's account.

Customer: The person, firm, or corporation which orders service and is responsible for the payment of charges and compliance with the Company's regulations.

Individual Case Basis (ICB): A service arrangement in which the regulations, rates and charges are developed based on the specific circumstances of the Customer's situation.

IntraLATA Service: Service which originates and terminates within the same Local Access and Transport Area (LATA).

InterLATA Service: Service which originates in one Local Access and Transport Area (LATA) and terminates in a different LATA.

M/M: Month to month.

MOU: Minutes of use.

1. Definitions (cont'd)

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.

Primary InterLATA Carrier ("PIC"): Long distance carrier designated by a telephone subscriber to provide the Customer with interLATA service without having to dial a special access code..

Originating Off-net: A call originating on and placed via non-company owned facilities or a combination of non-company owned and leased facilities.

Originating On-Net: A call originating on and placed via company-owned facilities or a combination of company owned and leased facilities.

Recurring Charges: The monthly charges to the Customer for services, facilities and equipment which continue for the agreed upon duration of the service.

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 the acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff.

Station: Denotes the network control signaling unit and any other equipment provided at the Customer's premises which enables a Customer to establish communications connections and to effect communications through such connections.

1. Definitions (cont'd)

Station-to-Station: Service where the person originating the call from other than a public or semi-public coin telephone dials the telephone desired and the call is completed without the assistance of a Company operator and the call is not billed to a number other than the originating number.

Two Point Message Toll Service: Furnishing of facilities for telecommunications between different local calling areas in accordance with the regulations and schedule of rates specified in this tariff. The rates specified in this tariff are for payment for all services furnished between the calling and called stations.

United States: The 48 contiguous states and the District of Columbia, Hawaii, Alaska, Puerto Rico, the U.S. 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.

2. Undertaking of the Company

2.1 Limitations on Service

2.1.1 Service is offered to the availability of facilities and the provisions of the tariff. 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.

2.1.2 The Company reserves the right to immediately discontinue furnishing services or billing options when the manner in which the Customer uses the Company's service results, or may result, in network blockage or other service degradation which adversely affects service to the calling party, the customer, or other customers of the Company. The Company also reserves the right to immediately discontinue furnishing services or billings options, when the Customer is using the service in violation of the provisions of this tariff or in violation of the law. The customer will be responsible for all charges incurred as well as any access charges the Company may incur as a result of such customer actions.

2.1.3 Service may be discontinued by the Company, at any time and without notice to its Customers, by blocking traffic to or from certain countries, cities, NXX exchanges, or individual telephone stations, by blocking call origination for Company services, or by blocking calls using certain customer authorization codes and/or access codes when the Company deems it necessary to take such action to prevent unlawful and/or unauthorized use of its services. In addition, the Company may take any of the foregoing actions, in the case of actual or anticipated non-payment for its service. In order to control fraud, the Company may refuse to accept Calling Card, Collect Calling, and/or Third Party calls which it reasonably believes to be unauthorized or invalid and/or may limit the use of these billing options to or from certain countries or areas including, without limitation, all or part of the United States, Puerto Rico, and/or the U.S. Virgin Islands.

2. Undertaking of the Company (cont'd)

2.1 Limitations on Service (cont'd)

2.1.4 A Customer shall not: (a) use any service mark of trademark either of the Company or any of its affiliated companies or of which the Company or any of its affiliated companies is a licensee, or (b) refer to the Company or any of its affiliated companies in connection with any service, product, equipment offering, promotion, or publication of the customer, without the prior written consent of the Company.

2.1.5 Title to all facilities provided by the Company under these regulations remains with the Company.

2.1.6 To the extent applicable, Company service will be subject to the most recent conditions set forth in the Truth in Lending Act, Reg. Z, 12 C.F.R. Section 226.

2.1.7 If the Company disconnects a Customer's service for non-payment of past due amounts, the Customer's service will remain disconnected until such time as the Company receives payment for all past due amounts and confirms the availability of sufficient funds to satisfy the amount of payment.

2.1.8 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.

2.1.9 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.

3. Rules and Regulations

3.1 Terms and Conditions

3.1.1 Company services are provided and billed on the basis of a minimum period of at least one month, beginning on the date that billing becomes effective and continues to be provided until canceled by the Customer in writing on not less than 30 days notice from the date of postmark on the letter giving notice of cancellation.

3.1.2 The name(s), address(es), and telephone number(s) of the Customers desiring to use the service must be stipulated in the application for service.

3.1.3 The Customer agrees to operate the Company-provided equipment in accordance with the instructions of the Company or an agent of the Company.

3.1.4 The Customer agrees within five (5) days of termination of the service in connection with which the equipment was used to return to the Company all Company-provided equipment which was delivered to the Customer. Said equipment shall be in the same condition as when delivered to the Customer, normal wear and tear excepted. Customers shall reimburse the Company, upon demand, for any costs incurred by the Company due to the Customers failure to comply with this provision.

3. Rules and Regulations (cont'd)

3.2 Cancellation of Service by a Customer

3.2.1 If a Customer cancels an order for service before the service begins, before completion of the minimum period, or before completion of some other period mutually agreed upon by the Customer and the Company, a charge will be levied upon the Customer for the non-recoverable portions of expenditures or liabilities incurred expressly on behalf of the Customer by the Company and not fully reimbursed by installation and monthly charges. If based on an order by a Customer, and construction has either begun or been completed, but no services provided, the non-recoverable cost of such construction shall be borne by the Customer.

3.2.2 Except as otherwise provided in this tariff, if an order for installation is delayed for more than thirty (30) days beyond the due date, and such delay is not requested or caused by the Customer, the Customer may cancel the order without incurring cancellation charges

3.3 Use of Service

3.3.1 Service furnished by the Company may be used for one or more of the following:

(a) for the transmission of communications by the Customer;

(b) for the transmission of communications to or from an authorized user or joint user;

(c) for the transmission of communications to or from a Customer of another common carrier, which has subscribed to the Company's communications service for purposes of resale.

3. Rules and Regulations (cont'd)

3.3.2 Service furnished by the Company may be arranged for joint use or authorized use. The joint user or authorized user shall be permitted to use such service in the same manner as the Customer, but subject to the following:

(a) One joint user or authorized user must be designated as the Customer. The designated Customer does not necessarily have to have communications requirements of its own. The Customer must specifically name all joint users or authorized users in the application for service. Orders that involve the start, rearrangement, or discontinuance of joint use or authorized use service will be accepted by the Company only from that Customer and will be subject to all provisions of this tariff.

(b) All charges for the service will be computed as if the service were to be billed to one Customer. The joint user or authorized user that has been designated as the Customer will be billed for all components of the service and will be responsible for all payments to the Company. In the event that the designated Customer fails to pay the Company each joint user or authorized user shall be liable to the Company for all charges incurred as a result of its use of the Company's service. Each joint or

3. Rules and Regulations (cont'd)

3.3 Use of Service (cont'd)

3.3.2 (b) (cont'd)

authorized user must submit to the designated Customer a letter accepting contingent liability for its portion of all charges billed by the Company to the designated Customer. This letter must specify that the joint or authorized user understands that the Company will receive a copy of the guaranty from the designated Customer. Unless supportive services are provided, the Customer shall be responsible for allocating charges to each joint user or authorized user.

3.4 Directory Assistance

3.4.1 Directory Assistance is available for all services. The Directory Assistance charge will be applied to each call for information as to any telephone number telephone number that is part of the North American Numbering Plan. The Directory Assistance charge applies to each call regardless of whether the requested Directory Assistance telephone number is furnished. In addition, Directory Assistance calls will not count toward, nor be calculated as part of, the Customers service volume discounts unless otherwise indicated. Directory Assistance customer calls may be placed with the assistance of an operator, and they may be billed to commercial credit cards.

3.4.2 A credit allowance will be given or the charge that would otherwise apply will be waived when:

(a) the Customer experiences poor transmission or is cut-off during the call to Directory Assistance;

(b) the Customer is given an incorrect telephone number by the Directory Assistance operator;

(c) the Customer has inadvertently misdialed and has reached Directory Assistance for the wrong area code. To obtain such a credit/waiver, the Customer must notify a Company customer service representative with twenty-four (24) hours.

3. Rules and Regulations (cont'd)

3.4 Directory Assistance (cont'd)

3.4.3 Customers who are presubscribed to Company service and have been certified in writing to be unable to access or use a manual directory because of a visual or other physical impairment are eligible to receive a credit that will be applied against the per-call charge and any applicable operator-assistance surcharges specified in this tariff for domestic Directory Assistance calls made by dialing NPA-555-1212. This certification must be made by a licensed physician, optometrist, appropriate federal or state agency, or appropriate approved private agency.

The written certification of visual or other physical impairment must be provided to a Company Customer Service Representative, or at the Company's election, proof of certification, as defined above, may be provided to, and maintained on file with, the Customer's Local Exchange Carrier.

Credits may be used by: (i) the visually or otherwise physically impaired customer: (ii) an organization established specifically for the purpose of assisting the visually or otherwise physically impaired; or (iii) a business where all owner(s) and/or employees of the business on the premises at which a call originates have been certified as visually or otherwise physically impaired. Credits will apply only to Directory Assistance calls made by dialing NPA-555-1212, that originate from and are billed to the telephone number of the certified visually or otherwise physically impaired person or organization. Only one telephone number per location is entitled to this credit. A maximum of fifty (50) Directory Assistance calls, including operator-assistance surcharges, per monthly billing period will be eligible for the credit.

3. Rules and Regulations (cont'd)

3.5 Toll Free Service

3.5.1 A call begins when call termination is received by or passes through customer premises equipment. It is the Customer's responsibility to pass appropriate answer supervision back to the Company point of connection.

3.5.2 If a Customer of the Company Toll Free service is found to be non-compliant in passing back appropriate answer supervision, the Company reserves the right to suspend and/or deny service. The Company shall give the Customer three (3) days notice of intent to suspend or deny service due to such non-compliance.

3.5.3 The Customer shall be liable for all costs and toll charges associated with their 800/888/877 service, including unauthorized calls associated with the use of 800/888/877 service obtained from the Company, including, but not limited to, calls made using Toll Free Service when such calls are in any way routed through the Customer's location. Customers shall maintain sole responsibility for the security of 800/888/877 number(s) issued to them.

3.5.4 Nothing in this section, or, in any other provision of this tariff, or in any marketing materials issued by the Company, shall give any Customers who have reserved 800/888/877 telephone numbers hereunder or Customer who subscribe to and use Toll Free Service, or their transferees or assignees, any ownership interest or proprietary right in any particular 800/888/877 telephone number.

3.5.5 Customers (including carrier customers) are prohibited from using any telephone numbers beginning with an 800/888/8/77 service code, or any other number advertised or widely understood to be Toll Free, in a manner that would result in; (a) the calling party or the subscriber originating line being assessed any fee or charge by virtue of completing the call; (b) the calling party being connected to a pay-per-call service; (c) the calling party being charged for information conveyed during the call unless the calling party has a presubscription or comparable arrangement; or (d) the calling party being called back collect for the provision of audio or data information services, simultaneous voice conversation services, or products. The Customer shall be afforded a period of no less that seven (7) days and no more than fourteen (14) days during which a violation may be brought into compliance. 800/888/877 service no in compliance with the above regulations at the expiration of such period may be terminated immediately.

3. Rules and Regulations (cont'd)

3.5 Toll Free Service (cont'd)

3.5.6 The Customer must obtain an adequate number of access lines associated with Toll Free service(s) to handle the Customer's expected demand in order to prevent interference or impairment of this service, or any other service provided by the Company, taking into account (1) call volume (2) average call duration; (3) time-of-day characteristics; and (4) peak calling periods. The Company, without incurring any liability, may disconnect or refuse to furnish Toll Free services to any Customer that fails to comply with these conditions. In case of disconnection, the Customer will be notified at least five (5) days in advance of the disconnect. The Customer will be responsible for all charges incurred as well as any access charges the Company may incur as a result of the Customer failure to comply within the above conditions.

3.5.7 A Customer is responsible for all charges for all calls placed to the Customer's Toll Free service including network blocked calls. An applicant for Toll Free service may be required to supply the following information when requesting service: an initial traffic forecast, identification of its geographical marketing target areas, and a schedule of marketing and promotional activities. A new tariff forecast shall be submitted quarterly after service is initiated. Customers of Toll Free service may not use Automatic Number Identification (ANI), provided by the Company incidental to the furnishing of Toll Free service, to invoice, either directly or indirectly their Customer in connection with their furnishing of other than common carrier services.

3.5.8 All new 800/888/877 and future toll free prefixes, for the purpose of this tariff, apply to all Company existing 800/888/877 services, rates, and rules and regulations that governs all Company Toll Free service.

3. Rules and Regulations (cont'd)

3.5 Toll Free Service (cont'd)

3.5.9 Reservation and Administration, Ownership, Use, and Assignment of Telephone Numbers for XO 800

3.5.9.1 The Company will accept a prospective Customer's request for a particular 800/888/877 service telephone number. Up to a total of ten (10) such requested numbers may be requested. The Company will accommodate each request to the extent possible. If a requested number(s) can be assigned to a prospective Customer, the Company will notify the Customer and will reserve it for the Customer's use for a fifty-nine (59) day period. If, at the end of the fifty-nine (59) day period, the prospective Customer has not subscribed to the Company 800/888/877 services using a reserved number(s), the Company, in accordance with its procedures, may make the reserved number available for use by another Customer.

3.5.9.2 In its capacity as Resp Org, the Company will reserve, assign, activate, or change, upon receipt of a verified request, 800/888/877 numbers for a Customer or prospective Customer and will administrator 800/888/877 numbers, in accordance with customary industry standards and practices, the terms of this tariff, and the effective procedures of the 800/888/877 Service Management System (SMS) database administration. Customers may request, reserve, assign or activate 800/888/877 numbers on their own behalf, or a Customer that resells Company inbound transmission services may request, reserve, assign, or activate 800/888/877 numbers on behalf of a Customer or prospective Customer of such reseller. A Customer who resells Company inbound transmission services must provide to any Customer or potential Customer, upon reasonable request therefore, information concerning the status of a particular 800/888/877 number or number(s) in which the Customer or potential Customer has interest and, if applicable and available the identity of the Resp Org(s) for the 800/888/877 number(s), the Customer must notify the Company within forty-eight (48) hours so the Company may release the 800/888/877 numbers to the pool of numbers for assignment in accordance with industry practice and standards.

3. Rules and Regulations (cont'd)

3.5 Toll Free Service (cont'd)

3.5.9 Reservation and Administration, Ownership, Use, and Assignment of Telephone Numbers for XO 800 (cont'd)

3.6.9.3 800/888/877 numbers are incidental to the inbound calling service with which they are associated and, as such, may not be sold, transferred, or otherwise conveyed independent of inbound transmission. The assignment of an 800/888/877 telephone number(s) for use with company-provided inbound transmission service confers of the Customer no proprietary interest what so ever in the number(s) assigned. It shall be a violation of this tariff if the Customer seeks to acquire, or does acquire, any 800/888/877 associated with inbound service provided by the Company for the primary purpose of selling, brokering bartering, or releasing for a fee (or other consideration) to another party that 800/888/877 number, independent of the Company service with which it is associated. In any instance in which the Company learns that a Customer or prospective Customer is attempting to sell or otherwise transfer or assign an 800/888/877 number to another person, in violation of this tariff, the Company may immediately and without notice release the number from reserved status, or it may immediately upon written notice to the Customer discontinue the furnishing of service, or it may immediately upon written notice to the Customer discontinue the furnishing of service via the 800/888/877 number. The Company telephone number forfeited as a result of the impermissible or reassigned to the undertaking will not be reserved for the prospective Customer or reassigned to the Customer under any condition or circumstances by the Company.

3.5.9.4 Each 800/888/877 service telephone number must be placed in actual and substantial use by the Customer.

3. Rules and Regulations (cont'd)

3.6 Recording Conversations

3.6.1 A Customer may record a two-way conversation only when the recording is:

(a) preceded by verbal or written consent of all parties to the conversation;

(b) preceded by verbal notification of the recording of the conversation, which notification is recorded at the beginning, and as a part of, the call; or

(c) accompanied by a distinctive recorder tone, repeated at intervals of approximately fifteen (15) seconds, to alert all parties to the conversation that a recording device is in use.

3. Rules and Regulations (cont'd)

3.6 Recording Conversations (cont'd)

3.6.2 Broadcast licenses are exempt from the restrictions set forth in Section 3.7 when the licensee is recording the two-way conversation for broadcast and:

(a) the licensee informs each party to the conversation that the licensee intends to broadcast the conversation;

(b) each party to the conversation is aware that the conversation will be broadcast; or

(c) the other party or parties to the conversation may be presumed to be aware, from the circumstances of the conversation, that the conversation is likely to be broadcast; provided that such awareness may be presumed only when the other party to the conversation is associated with the licensee (such as an employee or part-time reporter) or the other party or parties to the conversation originate(s) and the conversation is obviously in connection with a program during which the licensee customarily broadcasts telephone conversations.

3.6.3 A Customer is exempt from the restrictions set forth in Section 3.7 when:

(a) recording incoming calls made to telephone numbers publicized for emergencies (such as 911) and outgoing calls made in immediate response to these incoming calls (including calls made to and from Department of Defense Command Centers and the Operations Center of the Nuclear Regulatory Commission);

(b) recording calls made for patently unlawful purposes (such a bomb threats, kidnap ransom requests, and obscene calls) and outgoing calls made in immediate response to these calls (including calls referred to the U.S. Secret Service that threaten the safety and security of the President of the United States, his or her immediate family, or the White House); or

(c) recording calls pursuant to an explicit and lawful order of a court issued to 18 U.S.C. Section 2516, as amended, or any equivalent successor provision.

3. Rules and Regulations (cont'd)

3.7 Operator Services

3.7.1 A Customer acquiring operator service from the Company who, in the ordinary course of its operations, makes telephone calls, must:

(a) post on or near the telephone instrument, in plain view of consumers: the name address and toll-free telephone number of the provider of operator services;

(b) provide a written disclosure that the rates for all operator-assisted calls are available on request, and that consumers have a right to obtain access to the interstate common carrier of their choice; and that Customers may contact their preferred interstate common carriers for information on accessing that carrier service using the telephone; and the name and address of the enforcement of the Common Carrier Bureau of the Federal Communications Commission, to which the consumer may direct complaints regarding operator services; ensure that each of its telephones presubscribed to a provider of operator services allows consumers to use 800/888/877 and 950 access code numbers or any other carrier identification code (1010XXX) to obtain access to the provider of operator service desired by the consumer;

(c) ensure that no charge by such Customer to the consumer for using an 800/888/877 and 950 access code, or any other access code number, is greater than the amount the aggregator charges for calls placed using the Customers presubscribed provided of operator services. Payment (on a location-by-location basis) of any compensation to the Customer, including commissions, shall be in violation of Section 3.8.1 (b) and shall not be made until such time as the blocking ceases.

3. Rules and Regulations (cont'd)

3.8 Information Provider Data

A Service Bureau shall promptly furnish to the Company, and keep current on a continuing basis, the name, address, and Customer Service telephone number(s) of the Information Providers to whom it provides service. Where an Information Provider directly subscribes to Company service, it shall promptly furnish to the Company, and keep current on a continuing basis, its name, address, and Customer Service Telephone number(s).

3.9 Line Service

No provider of pay-per-call services subscribing to the Company's service in this tariff shall use automatic dialing devices which deliver a recorded message to the called party unless the device releases that called party's telephone line promptly but in no event longer than current industry standards.

3.10 Answer Supervision

Answer supervision must be provided when a Company service offering is connected to switching equipment or a Customer-provided communications system. The Customers equipment or system must provide answer supervision so that the measure of chargeable time that begins upon the delivery of the Customer's call to the switching equipment or to the equipment connected to the communications system and ends upon termination of the call by the calling party. If a Customer's communications system fails to promptly return to Company an idle (on-hook) state upon completion of the call, the Customer will be held responsible for all charges that responsible for all charges that result up until the time the Customer's communication system signals the Company's network that the call has been terminated or until such a time that the Company's own system terminates the call.

3. Rules and Regulations (cont'd)

3.11 Restrictions

Providers of pay-per-call services subscribing to Company transmission services, including 900 service, must comply with all requirements of (a) Title I and II of the Telephone Disclosure and Dispute Resolution Act (Pub.L No. 102-556) (TDDRA); and (b) all requirements of: the regulations presubscribed by the Federal Communications Commission and Federal Trade Commission pursuant to those Titles. The Company shall terminate programs which utilize 900 service if the programs are not in compliance, following written notice to the provider. The provider shall be afforded a period of no less than seven (7) days and no more that fourteen (14) days during which a program may be brought into compliance. Programs not in compliance at the expiration of such period shall be terminated immediately.

3.12 Payment Arrangements

3.12.1 The Customer is responsible for payment of all charges for service furnished to the Customer or its joint or authorized users. This responsibility is not changed by virtue of any use, misuse, or abuse of the Customer service or Customer provided systems, equipment, facilities, or services interconnected to the Customer's service, which use, misuse, or abuse may be occasioned by third parties, including, without limitation, the Customers' employees or other members of the public. The Company is not liable for any damages, including toll usage charges, the subscriber may incur as a result of the unauthorized use of its telephone facilities. This unauthorized use if the subscriber's facilities includes, but is not limited to, the placement of calls from the subscriber's premises, and the placement of calls through subscriber-provided equipment which are transmitted or carried on the Company network. The Company security department may work with subscribers to recommend possible solutions to reduce unauthorized use of its facilities. However, the Company does not warrant or guarantee that its recommendations will prevent all unauthorized use, and the subscriber is

3. Rules and Regulations (cont'd)

3.12 Payment Arrangements (con't)

3.12.1 (cont'd)
responsible for controlling access to, and use of, its own telephone facilities. Non-recurring charges are payable when the service for which they are applied has been made available. If an entity other than the Company (e.g. another carrier or supplier) imposes charges on the Company, in addition to its own internal costs, those charges will be passed onto the Customer. Recurring charges which are fixed in amount and not dependent on usage are billed in advance. Except for usage charges the rate or volume discount level applicable to a Customer for a particular service or services shall be the rate or volume discount level in effect at the end of the monthly billing period applicable to the Customer for the particular service or service. The Customer agrees to pay the Carrier for all charges billed as a result of any use of the Customer's authorization code(s), whether such use is by Customer or by a third party in connection with a lost, stolen or misappropriated authorization code, or otherwise. It is the Customer's responsibility to inform the Company that an authorization code(s) has been stolen or lost.

3.12.2 Service is provided and billed on a monthly (30-day) basis, beginning on the date that service becomes effective.

3. Rules and Regulations (cont'd)

3.12 Payment Arrangements (cont'd)

3.12.3 Payment will be due upon receipt. Interest may be applied in accordance with Company-standard credit policy to any unpaid amount commencing thirty (30) days after the statement date.

3.12.4 If a Customer accumulates more that $500.00 of unpaid or disputed Toll Free service charges, the Company or the Company Resp Org reserves the right not to honor that Customer's request for a Resp Org change until such dispute is resolved or undisputed charges are paid in full.

3.12.5 In the event the Company incurs fees or expenses, including attorney's fees in collecting or attempting to collect any charges owed the Company, the Customer will be liable to the Company for the payment of all such fees and expenses reasonably incurred.

3.12.6 The Company's bills are payable upon receipt, unless the Company indicates on the invoice or a billing insert that the sum shown as due need not be paid, because of the smallness of the amount, until the balance reaches some specified amount; or the Company may deal with Customers whose accounts show very small balances by withholding the issuance of an invoice until the amount due from the Customer reaches a level, which, in the Company's sole discretion, is deemed large enough to justify initiating the billing and collection process; or the Company may invoice low usage Customers every other month unless a Customer invoiced in such a manner requests monthly billing. When a bill is issued, amounts not paid within thirty (30) days after the date of invoice will be considered past due. If the Company becomes concerned at any time about the ability of a Customer to pay its bills, the Company, in its sole discretion, may require that such a Customer pay its bills within a specified number of days and to make such payments in cash or the equivalent of cash.

3. Rules and Regulations (cont'd)

3.12 Payment Arrangements (cont'd)

3.12.7 Applicants for service or existing Customers whose financial condition is not acceptable to the Company, or is not a matter of general knowledge, may be required at any time to provide the Company a security deposit as a condition of service. The deposit requested will be in cash or the equivalent of cash, up to an amount equal to the applicable installation charges, if any, and/or up to three month's actual or estimated usage charges for service to be provided. Any applicant or Customer may also be required, at any time, whether before or after the commencement of service, to provide such other assurances of, or security for, the payment of the Company's charges for services to be provided as the Company deems necessary including, without limitation, advance payments for service, third party guarantees of payment, pledges, or other grants of security interest in the Customer's assets, and similar arrangements. The required deposit or other security may be increased or decreased by the Company as it deems appropriate in light of changing conditions and Customers usage pattern. In addition, the Company shall be entitled to require such an applicant or Customer to pay all its bills within a specified period of time, and to make such payments in cash or the equivalent of cash. Simple interest at the rate of six percent (6%) annually will be paid for the period during which the deposit is held by the Company, unless a different rate has been established by the appropriate legal authority in the jurisdiction in which the Company service in question is provided. At the Company's option, such deposit may be refunded to the Customer's account at any time. The Company also reserves the right to cease accepting and processing service orders after it has requested a security deposit and prior to the Customer's compliance with this request.

3. Rules and Regulations (cont'd)

3.12 Payment Arrangements (cont'd)

3.12.8 For the purpose of billing, the start of service date is the activation date. The end of service date is the last day of the minimum notification period as described in Section 3.1.1.

3.12.9 If a Customer does not give the Company written notice of a dispute within one hundred and eighty (180) days from the date the invoice was rendered, such invoice shall be deemed to be correct and binding.

3.12.10 The charges set forth in this tariff contemplate installations made in normal locations and under normal working conditions. Any installations to be made under other circumstances are subject to additional charges.

3.12.11 Promotional and other credits offered by the Company in the marketing of its service cannot be assigned, but must be used by the person to whom they were offered and who earned them in strict accordance with the terms of the offers. In the event that a customer has been awarded a promotional credit for subscribing to the Company and does not use the service within twelve (12) months following the date of the Customer's service order, the Company may cancel the credit from the Customer's account unless otherwise stated in the specific promotion.

3.12.12 All charges for service are exclusive of applicable federal, state, local taxes, and tax-related surcharges.

3. Rules and Regulations (cont'd)

3.12 Payment Arrangements (cont'd)

3.12.13 If a Customer whose account has been closed has a credit balance showing, the Company will transfer the credit to another account of the Customer, if there is one, or will mail a check for the balance to the Customer if it believes it has a valid and current address. If the Company is not certain that it has a valid and current address, it will include a notice with the final invoice, which will be mailed to the Customer's last known address, asking the Customer to verify the address so that it can make a refund, or it will write to the Customer at that address and request verification. Such verification can be made by calling a designated telephone number or by writing to a specified address. Upon receiving verification, a check for the balance will be mailed. If the final invoice or the notification letter is returned by the post office as undeliverable, or if no response is received within thirty (30) days of mailing, the Company as its option may begin applying a closed account maintenance charge of $2.50 per month in the second monthly billing period following the month in which the account was closed, and will continue to apply that charge until the Customer requests a refund in writing or the balance is exhausted.

3.12.14 From time to time, the Company will grant credits against usage or recurring charges in an amount not to exceed $1,000.00 per Customer or account, per monthly billing period, whenever the Company determines, in its sole discretion, that such a credit is warranted due to consideration or disputes involving the delivery of past service to the Customer or account receiving the credit.

3.12.15 In lieu of the Customer receiving applicable volume discounts and/or promotional credits on a monthly invoice, the Company may, in its sole discretion, utilize other forms of payment.

3. Rules and Regulations (cont'd)

3.12 Payment Arrangements (cont'd)

3.12.16 In the event that payment is made by check and the Customer's check is not honored by the institution on which it was drawn, the Company will impose, and the Customer will be required to pay, a $15.00 fee, in addition to other tariff, legal, and equitable remedies available to the Company.

3.12.17 If the Company disconnects a Customer's service for non-payment of past due amounts, the Customer's service will remain disconnected until such time as the Company receives payment for all past due amounts and confirms the availability of sufficient funds to satisfy the amount of payment.

3.12.18 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.

3. Rules and Regulations (cont'd)

3.12 Payment Arrangements (cont'd)

3.12.19 A surcharge will be imposed on all Customer's charges for outbound service originating at, or inbound service terminating at, addresses in states which levy, or assert a claim of right to levy: a) gross receipts tax on the Company's operations in any such state; or b) a tax on interstate access charges incurred by the Company for access to telephone exchanges in that state; or c) an ad valorem tax on the Company's interstate property located in that state. This surcharge is based, respectively, on the Company's: a) gross receipts or revenues in that state; and/or b) payment of interstate access charges in that state; and/or c) property located in that state and used by the Company to provide interstate service. The surcharge will be shown as a separate line item on the Customer's invoice.

3.12.20 Notwithstanding any statement to the contrary contained in this Tariff, in the event that any regulatory agency, legislative body or court of competent jurisdiction promulgates regulations or modifies existing ones including, without limitation, regulations regarding payphones compensation , access charges and/or universal service ("Regulatory Activity), XO reserves the right, at any time and without notice to: (i) pass through to the Customer all, or a portion of, any charges or surcharges directly or indirectly related to such Regulatory Activity; or, (ii) modify the rates, including any rate guarantees, and/or terms and conditions contained in this Tariff to reflect the impact of such Regulatory Activity.

3. Rules and Regulations (cont'd)

3.13 Special Access Surcharge (cont'd)

3.13.1 A monthly special access surcharge, required by the Local Exchange Carrier (LEC), applies to each local channel termination associated with Channel Service and Foreign Exchange Service Capability. This monthly surcharge is applicable when the local channel is connected to a PBX or equivalent device which is capable of interconnecting the Channel Service or Foreign Exchange Service Capability with local exchange service. When analog or digital high capacity facilities interconnect with the local exchange network, the special access surcharge is applied on a per voice grade equivalent circuit basis as shown in the following example:

Calculation – (#Circuits) X ($25) = $ Per Circuit

Basic Digital Facility	Voice Grade Equivalent		Monthly Surcharge
Group	12 X $25	=	$300.00
DS1	24 X $25	=	$600.00

3.13.2 The special access surcharge applies on each local channel termination installed whether the interconnection capability exists in the Customer's premise equipment or in a Centrex CO type switch.

3.13.3 The Customer may be exempt from the monthly special access surcharge if:

(a) The Customer certifies in writing that the local channel termination is a device not capable of interconnecting the service with the local exchange network; or

(b) The Customer certifies that the local channel termination, by nature of its operating characteristics, could not make use of LEC common lines; or

(c) The Customer certifies that the local channel is connected to a LECs switched access service that is subject to carrier line charges.

3. Rules and Regulations (cont'd)

3.13 Special Access Surcharge

3.13.4 The certification will be in the form of a written notification to the Company. The notification may be provided:

(a) At the time the service is ordered;

(b) At such time as the service is re-terminated to a device not capable of interconnecting to the local exchange network; or

(c) At such time as the local channel becomes associated with a switched access service that is subject to carrier common line charges.

3.13.5 If a written certification is not received at the time an order for new service is placed, the special access surcharge will be applied. The Company will cease billing the special access surcharge and the exempt status will become effective on the date the certification is received by the Company on services in place. If the Company charged the Customer prior to the receipt of the exemption certification, the Company will credit the Customer's account based on the effective date, not to exceed ninety (90) days, of the change specified by the Customer in the letter of certification.

3. Rules and Regulations (cont'd)

3.14 Telecommunications Service Priority Provisioning and Restoration of Service

The provisioning and restoration of service 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 prioritization for such activities.

3.15 Inspection

The Company may, upon reasonable notice, make such tests and inspections, as may be necessary to determine that the requirements of this tariff are being complied with-in the installation, operation, or maintenance of the Customer's service. The Company may interrupt the type service at any time, without penalty to the Company, because of departure from any of these requirements.

3. Rules and Regulations (cont'd)

3.16 Cancellation for Cause by the Company (See Section 3.3 for cancellation by customer)

3.16.1 The Company may discontinue the furnishing of any and/or all service(s) to a Customer, without incurring any liability, immediately and without notice if the Company deems, in its sole discretion, that such action is necessary to prevent or to protect against fraud or to otherwise protect its personnel, agents, facilities or services. The Company may discontinue service pursuant to this subsection if:

(a) The Customer refuses to furnish information to the Company regarding the Customer's creditworthiness, its past or current use of common carrier services, or its planned use of service(s);

(b) The Customer provided false information to the Company regarding the Customer's identity, address, creditworthiness, past or current use of common carrier communications services, or its planned use of Company service(s);

(c) The Customer states that it will not comply with a request by the Company for security for the payment for service(s) in accordance with Section **3.13.7** above or 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 services to which the Customer subscribes or had subscribed or used:

(d) The Customer either a) accesses the Company service by dialing the Company's Carrier Identification Code (CIC), or b) having presubscribed to the Company's service has had its account(s) canceled and has been removed from the Company's billing system and is being billed for its subsequent use of the Company's network by the local exchange carrier, and either refuses to pay when billed for the Company service(s) or indicates to the Company or its billing agent that it will not pay for Company service(s) used by it; or

3. Rules and Regulations (cont'd)

3.16 Cancellation for Cause by the Company (cont'd)

3.16.1 (cont'd)

(e) A subscriber to the Company who accesses the service by use of an authorization code has not used the service (with the exception of calls to Directory Assistance) for ninety (90) days;

(f) Upon written notice to the Customer's billing address or notice to the Customer who is a subscriber to the Company's Calling Card service who has not used the service (with the exception of calls to Directory Assistance) for one-hundred eighty (180) days. In such case, the Company may deactivate the Customer's card to reduce the risk of unauthorized use. If the Customer wishes to renew usage of the service (e.g. upon returning from a vacation home), the Company will promptly supply a new card;

(g) The Customer uses service to transmit a message, locate a person or otherwise give or obtain information without payment for the service:

(h) The Customer uses, or attempts to use, service with the intent to avoid the payment, either in whole or in part, of the tariff charges for the service:

(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 or invalid numbers, false credit devices, electronic devices, or any other fraudulent means or devices.

3. Rules and Regulations (cont'd)

3.17 Cancellation for Cause by the Company (cont'd)

3.17.2 Upon written notice to the Customer of any sum thirty (30) days past due, the Company may immediately cancel service pursuant to this section; or

3.17.3 Immediately upon written notice to the Customer, after failure of the Customer to comply with a request by the Company for security for the payment of service in accordance with Section 3.13.7 above for five (5) days after sending the Customer written notice of noncompliance with any provision of this tariff if the noncompliance is not corrected within that five (5) day period, the Company may immediately cancel service pursuant to this section; or

3.17.4 The Company may, without notice, cancel service pursuant to this section without notice, if the Customer's account has shown no usage for six (6) consecutive months.

3.17.5 The discontinuance of service(s) by the Company pursuant to this Section does not relieve the Customer of any obligation to pay the Company for charges, dues and owings for service(s) furnished up to the time of discontinuance. In the event the Company cancels the Customer's service for cause, and the Customer is committed to a term or other plan for which charges apply, the Customer will be obligated to pay as though it had terminated service early for its own convenience.

3. Rules and Regulations (cont'd)

3.18 Testing and Adjusting

Upon reasonable notice, the service provided by the Company shall be made available to the Company for such tests and adjustments as the Company deems necessary to maintain the service in satisfactory condition.

3.19 Terminal Equipment

3.19.1 Terminal equipment, such as teleprinters, handsets, or data sets at the premises of the Customer and between such premises and the Company terminals, shall be furnished by and maintained at the expense of the Customer, except as otherwise provided.

3.19.2 The characteristics of equipment at either end of the channel shall be such that its connection to the channel complies with the minimum protection criteria set forth below, and does not interfere with services furnished to other Customers. Additional protective equipment, where required, shall be provided and maintained at the Customer's expense.

3. Rules and Regulations (cont'd)

3.19 Terminal Equipment (cont'd)

3.19.3 When services using local exchange carrier voice grade facilities are terminated in Customer-provided terminal equipment, channel derivation devices, or communications systems, the Customer shall comply with the minimum protective criteria set forth below.

3.19.3.1 When the facilities furnished under this tariff are used in common with local exchange carrier services, it is necessary, in order to prevent excessive noise and crosstalk, that the power of the signal applied to local exchange lines be limited. A single valued limit for all applications cannot be specified. Therefore, the power of the signal in the band above 300 Hertz, which may be applied by the Customer-provided equipment at the point of termination, will be specified by the Company for each application.

3.19.3.2 To protect the telecommunications services from interference at frequencies which are above the band of service provided, the Company will specify the acceptable signal power in the following bands to be applied by the Customer-provided equipment or communications systems at the point of termination to ensure that the input to local exchange carrier facilities does not exceed the limits indicated:

(a) The power in the band from 3995 Hertz to 4005 Hertz shall be at least 18 dB below the power of the signal as specified in Section 3.20.4

(b) The power in the band from 4000 Hertz to 10,000 Hertz shall not exceed 16 dB below one milliwatt.

(c) The power in the band from 10,000 Hertz to 25,000 Hertz shall not exceed 24 dB below one milliwatt.

(d) The power in the band from 25,000 Hertz to 40,000 Hertz shall not exceed 36 dB below one milliwatt.

(e) The power in the band above 40,000 Hertz shall not exceed 50 dB below one milliwatt.

3. Rules and Regulations (cont'd)

3.19 Terminal Equipment (cont'd)

3.19.4 Where in connection via Customer-provided terminal equipment or communications systems to a Message Telecommunications Service or a WATS service, to prevent the interruption or disconnection of a call, or interference with network control signaling, it is necessary that the signal applied by the Customer-provided equipment to the interface at no time have energy solely in the 2450 Hertz to 2750 Hertz. If the signal is in the 2450 to 2750 Hertz, it must not exceed the power present at the same time in the 800 to 2450 Hertz Band.

3.19.5 Where such Customer-provided equipment or communications systems applies signals having components in the spectrum 300 Hertz, excluding ringing signals, the currents and voltages (including all harmonics and spurious) at the interface shall not exceed the limits indicated in Sections 3.20.5.1 through 3.20.5.4 following:

3.19.5.1 The maximum root-means-square ("rms") value, including DC and AC components, of the current per conductor will not exceed .035 ampere.

3.19.5.2 The magnitude of the peak of the conductor or ground voltage shall not exceed 70 volts.

3.19.5.3 The conductor voltage shall be such that the conductor ground voltage limit in .10 proceeding is not exceeded. If the signal source is not grounded, the voltage limit in .0342 preceding applies to the conductor to conductor voltage.

3. Rules and Regulations (cont'd)

3.19 Terminal Equipment (cont'd)

3.19.5 (cont'd)

3.19.5.4 The total weighted rms voltage within the band from 50 Hertz to 300 Hertz shall not exceed 100 volts. The total weight rms is the square root of the sum of the products times the square of the rms voltage of the individual frequency components.

3.19.5.5 The weighting factors are as indicated:

For Frequencies Between	Weight Factor
50 Hertz and 100 Hertz	f 2/104
100 Hertz and 300 Hertz	f33/106.6

3.19.5.6 The Customer is responsible for all costs, which may include the expenses of Customer personnel, electrical power, etc. at the Customer's premises in the provision of the service described herein.

3. Rules and Regulations (cont'd)

3.20 Systems Security (cont'd)

3.20.1 Where Customers are permitted access to the Company's computer systems and data for the purpose of managing and maintaining their telecommunications services, they will comply with the following:

(a) Customers may access the Company's systems only to the extent required by an incident to administer and manage the Customer's telecommunications systems.

(b) Customers may not disclose or use information which may be learned as a consequence of access to Company systems except as may be directly required to ensure the proper operations of the Customer's telecommunications systems. Customers must take all reasonable precautions to prevent any other person or entity who does not have a need to know from acquiring such information.

(c) Customers shall not in any manner or form disclose, provide, or otherwise make available, in whole or in part, Company documentation, any related material or any other confidential material except to those who have a need to know incident to the use of Company services. All documentation shall remain the property of the Company and may not be copied, reproduced, or otherwise disseminated without the prior written permission of the Company.

(d) Customers shall take all responsible precautions to maintain the confidentiality of all Company documents. Such precautions shall include the use of Personal Identifications Numbers (PINs) and passwords selected by and known only to the Customer's individual authorized users. Company telephone numbers and dial-up access number(s) assigned to Customers by the Company, PINs, or any aspect of access and sign-on methodology shall not be posted or shared with others under any circumstances. Customers shall follow normal logoff procedures prior to leaving a terminal unattended. Customers should report any known or suspected attempt by others to gain unauthorized access.

3. Rules and Regulations (cont'd)

3.20 Systems Security

3.20.2 In the event that a security access device assigned to a Customer for dial-up access is lost, stolen, or misplaced, the Customer must notify the Company immediately. Access to information beyond that authorized may result in civil and/or criminal penalties.

3.21 Allowance for Interruptions

3.21.1 Except as provided for in Section 3.5 above, which pertain to Directory Assistance, the following credit allowances for interruptions of Company services will be made:

(a) Except as provided for elsewhere in this tariff, credit allowances will be made for interruptions associated with those Company services for which charges are specified on the basis of per minute of use, or on usage of a fraction of a minute, and in which there may be interruption of an individual call, due to a condition in the Company's shared interexchange facilities or in shared access or termination facilities provided by other carriers, where the interruption can be remedied by redialing the calls. A credit allowance will be made for that portion of a call which is interrupted due to poor transmission (e.g. noisy circuit) quality, (e.g. noisy circuit), one-way transmission (one party is unable to hear the other); or involuntary disconnection caused by deficiencies in the Company's service. A Customer may also be granted credit for reaching a wrong number. To receive a credit, the Customer must notify a Company Customer Service Representative and furnish information, including the called number, the service subscribed to, the difficulty experienced, and the approximate time the call was placed, Credit allowances will not be made for a) interruptions not reported to the Company within twenty-four (24) hours, or b) interruptions that are due to the failure of power, equipment, systems, or services not provided by the Company. If the Customer elects to use another means of communications after one of the above interruptions, or during a period when he or she is unable to place a call over the Company, the Customer must pay the charges for the alternative service used.

3. Rules and Regulations (cont'd)

3.21 Allowance for Interruptions (cont'd)

3.21.1 (cont'd)

(b) An interruption period begins when the Customer reports to the Company that the service has been interrupted and releases it for testing and repair. An interruption period ends when the service is operative again. If the Customer reports the service to be inoperative but declines to release it for testing and repairs, the service is deemed to be impaired, but not interrupted. The Company may deny a Customer's request for credit where notification of alleged inferior, or inadequate service has not been received by the Company's Customer Service Department within twenty-four (24) hours of the occurrence. Credit will be allowed only for disabled portions of the service.

3. Rules and Regulations (cont'd)

3.21 Allowance for Interruptions (cont'd)

3.21.1 (cont'd)

(c) Where a call has been disconnected, the Customer will be given a credit allowance equivalent to the charge for the initial minute of the call made to reestablish communications with the other party. Where a call has been interrupted by poor transmission or one-way transmission, the Customer will be given a credit allowance equivalent to the charge for the initial minute of a call made to continue communicating with the other party to the interrupted call. A Customer who has reached a wrong number will be given a credit allowance to the charge for the initial minute of the wrong number if he or she reports the situation, within twenty-four (24) hours to a Company Customer Service Representative.

(d) For all of the Company's services which involve dedicated access, dedicated interexchange transmission and/or dedicated termination, for which monthly recurring charges are applied, which are interrupted for more than an individual call and cannot be remedied by redialing the call except as provided in Section 3.24 below, the Customer will be given a credit allowance for an interruption of two consecutive hours or more, in accordance with the following:

3. Rules and Regulations (cont'd)

3.22 Outage Credit

3.22.1 For the purpose of this tariff, all months contain thirty (30) days. Services offered by the Company are on a twenty-four (24) hours per day, seven (7) days per week basis unless specifically stated otherwise.

3.22.2 For purposes of credit computations, every month shall be considered to have seven hundred twenty (720) hours.

3.22.3 The Customer shall be credited for an interruption of service on a prorated basis for the facilities affected for each period of two (2) hours or additional major fraction thereof. The prorated credit will be based on the monthly recurring charge of the affected Company circuit(s).

3.22.4 No credit allowance will be made for:

a) Interruptions by the negligence of the Customer or others authorized by the Customer to use the Customer's service.

b) Interruptions due to the failure of power, equipment, systems, or service not provided by the Company.

c) Interruptions during any period during which the Company or its agents are not afforded access to the premises where access lines are associated with the Customer's service are terminated.

d) Interruptions during any period when the Customer or user has released the service to the Company for maintenance or rearrangement purpose, or for the installation of a Customer order.

e) Interruptions during the period when the Customer elects not to release the service for testing or repair and continues to use it on an impaired basis.

f) Non-completion of calls due to network busy conditions or interruptions not reported to the Company.

3. Rules and Regulations (cont'd)

3.23 Interconnection with Other Carriers

3.23.1 Service furnished by the Company may be connected with services or facilities of another participating carrier. Such interconnection may be made at a Company terminal or entrance site, at a terminal of another participating carrier, or at the premises of a Customer, joint user, or authorized user. Service furnished by the Company is not part of a joint undertaking with other such carriers.

3.23.2 Any special interface equipment or facilities necessary to achieve compatibility between the facilities of the Company and other participating carriers shall be provided at the Customer's expense. Upon Customer request and acting as the Customer's authorized agent, the Company, in its discretion, may attempt to make the necessary arrangements for such interconnections.

3.23.3 Service furnished by the Company may be connected with the facilities or services of other participating carriers under the terms and conditions of the other participating carriers' tariffs applicable to such connections.

3. Rules and Regulations (cont'd)

3.24 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 effort basis at the request of the Customer. Special construction is that construction undertaken:

(a) where facilities are not presently available, and there is no other requirement for the facilities so constructed;

(b) of a type other than that which the Company would normally utilize in the furnishing of its services;

(c) over a route 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.

3. Rules and Regulations (cont'd)

3.25 Third Party Marketing Promotion

3.25.1 The Company may from time to time enter into agreements with third parties to market Company services. Subsequent to entering into such agreements, the Company may pay commission to the third party marketing entity for qualifying monthly usage revenues generated by the Company Customers to whom the third party has marketed Company service(s). The actual level of commissions to be paid will be dependent on the nature and extent of activities engaged in by the third party on the Company's behalf, including, without limitation, initial sales efforts, order coordination and processing, customer service, service problem determination and resolution, billing coordination, billing dispute resolution, and the collection or guarantee of collection of the amounts billed to the Company Customers enrolled by the third party. The commission payments may be remitted by the third party, in whole or in part, and in its sole discretion, to Customers to whom it has marketed Company service(s).

3.25.2 Within a Third Party Marketing Promotion, the Company may waive its portion of installation charges on voice and data basic digital service and switched services until such time as the Customers dedicated access line (DAL) services is installed and made available.

3.26 Dedicated Service

3.26.1 Upon request and signing up for one of the Company's dedicated access line services DAL, the DAL Customer will have the option of utilizing one of the Company's switched services until such time as the Customer's DAL service is installed and made available.

3.26.2 The Company will then credit the Customer the difference between the switched product rates and the applicable DAL rates after the DAL service is installed and in billing. The credit would only be for the period beginning with the first date the Customer is willing to accept installation of the DAL and the actual date the DAL is installed. The credit will be given on the Customer's second month's DAL bill received from the Company.

3. Rules and Regulations (cont'd)

3.27 Schools and Libraries Discount Program

3.27.1 General

The School and Library Discount Program permits eligible schools (public and private, grades Kindergarten through 12) and libraries to purchase the Company services offered in this tariff at a discounted rate, in accordance with the Rules adopted by the Federal Communications Commission (FCC) in its Universal Service Order 97-157, issued May 8, 1997. The Rules are codified at 37 Code of Federal Regulation (C.F.R.) 54.500 et. seq.

As indicated in the Rules, the discounts will be between 20 and 90 percent of the pre-discount price, which is the price of services to schools and libraries prior to application of a discount. The level of discount will be based on the eligible school or library level of economic disadvantage and by its location in either an urban or rural area. A school's level of economic disadvantage will be determined by the percentage of its students eligible for participation in the national school lunch program, and a library's level of economic disadvantage will be calculated on the basis of school lunch eligibility in the public school district in which the library is located. A non-public school may use either eligibility for the national school lunch program or other federally approved alternative measures to determine its level of economic disadvantage. To be eligible for the discount, schools and libraries will be required to comply with the terms and conditions set forth in the Rules. Discounts are available only to the extent that they are funded by the federal Universal Service Fund (USF). Schools and libraries may aggregate demand with other eligible entities to create a consortium.

3. Rules and Regulations (cont'd)

3.27 Schools and Libraries Discount Program (cont'd)

3.27.2 Regulations

Obligation of eligible schools and libraries:

3.27.2.1 Requests for service:

(a) Schools, libraries, and consortia shall participate in a competitive bidding process for all services eligible for discounts, in accordance with any state and local procurement rules.

(b) Schools, libraries, and consortia shall submit requests for services to the School and Library Corporation, as designated by the FCC, and follow established procedures.

(c) Services requested will be used for educational purposes.

(d) Services will not be sold, resold or transferred in consideration for money or any other thing of value.

3.27.2.2 Obligations of the Company:

(a) The Company will offer discounts to eligible schools and libraries on commercially available telecommunications services contained in this tariff.

(b) The Company will offer services to eligible schools, libraries, and consortia at prices no higher than the lowest price it charges to similarly situated non-residential Customers for similar services (lowest corresponding price).

(c) In competitive bidding situations, the Company may offer flexible pricing or rates other than in this tariff, where flexible pricing arrangements are allowed.

3. Rules and Regulations (cont'd)

3.27 Schools and Libraries Discount Program (cont'd)

3.27.3 Discounted Rates for Schools and Libraries

3.27.3.1 Discounts for eligible schools, libraries, and consortia shall be set as a percentage from the pre-discount price, which is the price of services to schools and libraries prior to the application of a discount.

3.27.3.2 The discount rate will be applied to all commercially available telecommunications services purchased by eligible schools, libraries or consortia.

3.27.3.3 The discount matrix for eligible schools, libraries, and consortia can be found below in Section 3.28.4 of this tariff.

3.27.3.4 Schools and Libraries Discount Matrix

% Of Students Eligible For National School Lunch Program	% Of US Schools	Urban Discount	Rural Discount
<1%	3%	20%	25%
1% - 19%	31%	40%	50%
20% - 34%	19%	50%	60%
35% - 49%	15%	60%	70%
50% - 74%	16%	80%	80%
75% - 100%	16%	90%	90%

4. Domestic Services

4.1 XO Gold and Platinum Services

XO's Gold and Platinum Services provide XO's customers with direct dialed communications services which are available for use by its customers on a twenty-four (24) hours a day seven days a week basis. Customers may originate Gold and Platinum services from locations served by the Company, and may terminate such calls to any location within the United States. Gold and Platinum Services include 1+ Outbound and Inbound Service, Operator Assistance, Calling Card, Toll Free Service and Directory Assistance Services as set forth below:

For the purposes of this Section 4.1, timing of messages will be determined by the following method.

(a) Chargeable time begins when connection is established between the calling station and the called station.

(b) Chargeable time ends when the calling station "hangs up" thereby releasing the network connection. If the called station "hangs up" but the calling station does not, chargeable time ends when the network connection is released by automatic timing equipment in the telephone network.

4.1.1 Usage Rates

Usage Rates for Gold and Platinum Services are billed in six (6) second increments with an initial billing period of six seconds. The duration of each call for bill purposes will be rounded off to the nearest highest increment. Fractional cents will be rounded to the nearest cent using natural rounding, however, there will be a minimum charge of $0.01 per completed call. The following rates apply to intrastate interLATA and IntraLATA calls.

4. Domestic Services (cont'd)

4.1 Gold and Platinum Service (cont'd)

4.1.1 Usage Rates (cont'd)

XO Platinum is an On-Net service where XO is the provider of dial tone. XO Gold is an Off-Net service where the local dial tone is provided by a LEC other than XO.

4.1.1.1 Standard Rates for Inbound and Outbound Services:

	Platinum	**Gold**
South Dakota	$0.145	$0.240

4. Domestic Services (cont'd)

4.1 Gold and Platinum Service (cont'd)

4.1.2 Access Lines (Local Loops)

XO Customers who elect to have XO bill them for their Non-XO local exchange access service will be charged a rate equal to the rates charged by the applicable local exchange carrier to XO. XO reserves the right to adjust such charges to reflect any rate changes instituted by the applicable local exchange carrier. Customers who select XO as their local exchange provider will be billed pursuant to applicable XO tariffs.

4.1.3 Payphone Surcharge

A payphone surcharge will be charged for each toll free call placed from a pay telephone.

Per Call	$0.30

4.1.4 Directory Assistance

Customer's placing a Directory Assistance call as Gold and Platinum Service Customers will be charged a rate of $1.25 for each call.

4. Domestic Services (cont'd)

4.2 Calling Card Service

The Company Calling Card Service is provided to Customers for use when away from their established service locations. The Company will issue Company Calling Cards that will allow Customers to place telephone calls and to re-originate calls, a feature which allows a Customer to place a new call without hanging-up and re-dialing the toll free access number. Access to XO's Calling Card is gained by dialing a Company-designated toll free access number (e.g. 800-NXX-XXXX) and then entering a 10 digit account number plus a four digit personal identification number (PIN) and the called telephone number.

4.2.1 Rates

Rates for this Section 4.2.1 are usage sensitive and billed in six (6) second increments. The duration of each call for bill purposes will be rounded off to the nearest highest increment. Fractional cents will be rounded off to the nearest higher cent. There will be a minimum charge of $0.01 per call. The following rates apply on a per minute basis to all Company Calling Card Calls issued by XO Communications Services, Inc. originating and terminating in the United States.

Company Calling Card Rate	$0.23 per MOU

4. Domestic Services (cont'd)

4.3 XO Prepaid Card Service

Prepaid Cards allow customers to acquire cards that are used to originate outbound direct dial calls. Prepaid cards are available in various dollar denominations as set forth below. To use the card, callers must dial an access number. When the call is acknowledged, the caller then enters the PIN. At this point, the caller is notified of the dollar value remaining on the card. The caller then enters the telephone number to be called.

XO's Prepaid Card service is available twenty-four hours a day, seven days a week from Dual Tone Multi Frequency phones. The number of available XO Prepaid Cards is subject to technical limitations. Such cards will be offered to Customers on a first come, first served basis.

XO will offer consumers the ability to purchase its prepaid cards in various dollar denominations. Each prepaid card will remain active until such time as the charges (as set forth below) equal the dollar value of the prepaid card purchased by the end-use or until the card expires (as set forth below). Where the dollar value left on an XO Prepaid Card is less than the cost of making a call, the card will be retired and the unused balance forfeited.

4.3.1 XO Prepaid Card Face Value

The following per minute of use rates will apply in addition to the charges set forth in Sections 4.2.2 through 4.2.4 below (as applicable). Calls will be billed in 60 second increments. The Initial Period is the first minute or fraction therefore of the call. The Additional Period is each minute or fraction thereof which occurs after the initial period is complete. These prices include taxes that are calculated based on usage. They do not include sales or excise taxes due at the point of purchase. XO Prepaid Card service rates apply twenty-four hours per day, seven days per week.

XO Prepaid Card Face Value	Initial Period	Each Additional Period
$10.00	$0.125	$0.125
$15.00	$0.120	$0.120
$20.00	$0.115	$0.115
$25.00	$0.100	$0.100

4. Domestic Services (Cont'd)

4.3 XO Prepaid Card Service

4.3.2 Payphone Surcharge

In addition to the usage rates above, the following surcharge will be assessed on each completed call made (regardless of the length of the call) from a public/semi-public payphone using an XO Prepaid Card which originates in the contiguous United States and the following non-contiguous U.S. regions; including but not limited to Alaska, Hawaii, Puerto Rico, U.S. Virgin Islands, Guam, Northern Marianas and American Samoa

Surcharge (per call) - $0.35

4.3.3 Expiration of Prepaid Cards/Rechargeable Cards

XO's prepaid cards will expire on the date specified on the card or package in which the card is included. Some XO Prepaid Cards have a feature whereby the Customer may purchase or "recharge" additional amounts of XO Prepaid Card Service to an existing prepaid card in increments of $10.00, $15.00, $20.00 or $25.00. In addition to the regulations set forth above, rechargeable cards are also subject to the following conditions and limitations:

(1) Customer may purchase additional units using the recharge feature no more than twice in a 48-hour period.
(2) The rates for a rechargeable card are the same as a non-rechargeable card for the initial purchase, such rates are set forth in Section 1 above.
(3) All units added through the recharge feature must be paid for by credit card and will be added to the Customer's prepaid card within one day after the credit card used by the Customer has been verified.

4.0 Domestic Services (Cont'd)

4.3 XO Prepaid Card Service

4.3.4 Additional Requirements/Conditions of Service

4.3.4.1. Only the entity in whose name the original qualifying purchase was made shall be deemed to be the Customer. Related entities, such as affiliates and subsidiaries, spouses and relatives, shall not be treated as the customer.

4.3.4.2 The following type calls will not be completed using the XO Prepaid Calling Card: Calls to 500, 700, 800, 877, 888, 900, 950 numbers, Directory Assistance calls, All Operator Service calls, Conference calls, Busy Line Verification and Interrupt services, Call requiring the quotation of time an charges, High Seas service and Maritime services will not be completed using the XO prepaid card.

4.3.4.3 Neither XO nor any of its authorized agents or contractors shall be liable or responsible for theft, loss or unauthorized use of any XO prepaid cards or card numbers. XO will not refund or issue credit for any unused value on any XO prepaid card.

4.3.4.4 All Calls must be charged against a XO Prepaid Card that has a sufficient available balance.

4.3.4.5 Customer's call will be interrupted with an announcement when the balance is about to be depleted. Such announcement will occur one minute before the balance will be depleted, based on the terminating location of the call.

4. Domestic Services (Cont'd)

4.3 XO Prepaid Card Service

4.3.4 Additional Requirements/Conditions of Service

4.3.4.6 Calls in progress will be terminated by the Company if the balance on the XO Prepaid Card is insufficient to continue the call.

4.3.4.7 Credit Allowances for Interruptions – A credit allowance for XO Prepaid Card service is applicable to that portion of a call that is interrupted due to poor transmission, one-way transmission, or involuntary disconnection of the call. To receive the proper credit, the Customer must notify the Company at the designated Customer service Number printed on the XO Prepaid Card and furnish the called number, the trouble experienced (e.g., cut-offs, noisy circuit, etc.,) and the approximate time the call was placed. A customer will not received credit for reaching a wrong number.

4.3.4.8 Interruptions to Established Calls – When a call that is charged to XO Prepaid Card is interrupted due to cut-off, one-way transmission, or poor transmission conditions the Customer will receive credit equivalent to the Price Per Minute in effect for that call.

4.3.4.9 When Credit Allowances Do Not Apply – Credit allowances for calls pursuant to XO Prepaid Card service do not apply for:

- Interruptions not reported to the Company
  Interruptions that are due to the failure of power, equipment or systems not provided by the Company, or interruptions caused by the failure of other services provided by this Company which are connected to XO Prepaid Card Service.

KELLEY DRYE & WARREN LLP
A LIMITED LIABILITY PARTNERSHIP
1200 19TH STREET, N.W.
SUITE 500
WASHINGTON, D.C. 20036
(202) 955-9600

NEW YORK, NY
TYSONS CORNER, VA
CHICAGO, IL
STAMFORD, CT
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BRUSSELS, BELGIUM
AFFILIATE OFFICES
JAKARTA, INDONESIA
MUMBAI, INDIA

FACSIMILE
(202) 955-9792
www.kelleydrye.com

DIRECT LINE: (202) 887-1212
EMAIL: nleverett@kelleydrye.com

RECEIVED
DEC 14 2004
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

December 13, 2004

VIA UPS

Ms. Pam Bonrud, Executive Director
South Dakota Public Utilities Commission
Capitol Building, 1st floor
500 East Capitol Avenue
Pierre, SD 57501-5070

Re: XO Communications, Inc. Request for Waiver TC04-145

Dear Ms. Bonrud:

Earlier this year, XO Communications Services, Inc. ("XO Communications") filed an application with the South Dakota Public Utilities Commission ("Commission") for approval of an Internal Corporate Reorganization related to a corporate reorganization of the subsidiaries of XO Communications, Inc. While reviewing the application, Commission staff found that it was necessary for XO Communications to request a waiver of South Dakota Administrative Rules 20:10:27:07 and 20:10:27:12, regarding switched access rates. Accordingly, enclosed please find that request for waiver.

Enclosed are an original, ten (10) copies and a duplicate of this filing. Kindly date stamp and return the duplicate in the postage paid envelope provided. Please do not hesitate to contact me if you have any questions regarding this matter. Thank you for your kind assistance.

Sincerely,

Nicholaus G. Leverett

DC01/LEVEN/229884.1

Before the
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

RECEIVED
DEC 14 2004
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

In the Matter of the Application of XO NETWORK SERVICES, INC. AND XO COMMUNICATIONS SERVICES, INC. For Approval of an Internal Corporate Reorganization and For Approval, As Necessary, of Related Transactions	))))))))	Docket No. TC04-145

REQUEST FOR WAIVER

Earlier this year, XO Network Services, Inc. ("XO Network Services") and XO Communications Services, Inc. ("XO Communications") (collectively "Applicants" or "XO Subsidiaries"), both subsidiaries of XO Communications, Inc. ("XO") requested that the South Dakota Public Utilities Commission ("Commission") approve an internal corporate reorganization whereby XO Network Services and all of its assets, including its authorization to provide telecommunications services in South Dakota, will be merged into XO Communications.

XO Communications desires exemption from South Dakota's requirement that XO Communications file cost data in support of its switched access service tariff. Accordingly, pursuant to South Dakota Administrative Rule 20:10:27:11, XO Communications requests a waiver of South Dakota Administrative Rule 20:10:27:07. XO Communications further requests a waiver of South Dakota Administrative Rule 20:10:27:12 which requires that switched access rates for companies exempted pursuant to §20:10:27:11 be calculated by dividing the sum of switched access revenue requirements for cost companies with less than 100,000 access lines for intraLATA and interLATA intrastate switched access traffic by the sum of switched access minutes for those same cost companies for intraLATA and interLATA intrastate switched access traffic. Instead of that rate, XO Communications seeks to mirror the rates charged by Qwest Communications.

XO Network Services received a waiver of these provisions, and XO Communications intends to operate in the same manner as its predecessor. Furthermore, it is in the public interest for XO Communications to match Qwest rates because XO Communications will serve customers in the Qwest territory, and will compete with Qwest. Grant of the waiver is also in the Commission's interest, as it will ease the administrative burden of reviewing XO Communications' tariff.

WHEREFORE, the Applicants respectfully request that the Commission grant their request of waiver from South Dakota Administrative Rules 20:10:27:07 and 20:10:27:12.

Respectfully submitted,

XO NETWORK SERVICES, INC. AND XO COMMUNICATIONS SERVICES, INC.

By: Nim Sorovetts

Brad E. Mutschelknaus
Melissa S. Conway
Nicholaus G. Leverett
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
Tel. (202) 955-9600

Their Attorneys

Dated: December 13, 2004

111 East Broadway
Suite 1000
Salt Lake City, UT 84111
USA

XO Communications, Inc.

Tel 801.983.1600
Fax 801.983.1520

VIA OVERNIGHT DELIVERY

December 16, 2004

Ms. Pamela A. Bonrud
Executive Director
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070

RECEIVED
DEC 17 2004
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Re: ***XO Communications Services, Inc.; Docket No. TC04-145***

Dear Ms. Bonrud:

Enclosed please find for filing one original and one copy of a revised page to the Access Services Tariff for XO Network Services, Inc. reflecting the change in our End Office Switching and Tandem Switching rates corrected to mirror those of Qwest.

Kindly return a date-stamped copy of this letter in the envelope provided for your convenience. Should you have any questions, please feel free to contact me by telephone at (801)983-0013 or by email to collette.n.marthia@xo.com.

Sincerely,

Collette Marthia
Regulatory Analyst

Enclosures

4.0 SERVICE DESCRIPTIONS (Cont'd)

4.1 Switched Access Service (Cont'd)

4.1.3 Application of Rates

The rate for switched access is assessed based on the monthly usage charges for end-office switching and tandem switched transport. Usage rates are rates that are applied on a per access minute or per query basis.

4.1.4 Rates

(a) End Office Switching Charge:

Per Access Minute of Originating Use	Per Access Minute of Termination Use
$ 0.008610	$ 0.008610

(b) Tandem Switched Transport Charge

Per Access Minute of Originating Use	Per Access Minute of Terminating Use
$ 0.008153	$ 0.008153

4.1.5 800 Database Access Service: The Customer will be charged a per query based on a query of the 800-NXX-XXXX dialed and/or delivered to the Customer in conjunction with 800 Data Base Access Service.

Per Query $0.011

Rex M. Knowles, Vice President
XO Communications Services, Inc.
111 East Broadway
Salt Lake City, UT 84111

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE FILING FOR APPROVAL OF TRANSFER OF CERTIFICATE OF AUTHORITY FROM XO NETWORK SERVICES, INC. TO XO COMMUNICATIONS SERVICES, INC.	)))))))	**ORDER GRANTING TRANSFER OF CERTIFICATE OF AUTHORITY AND ORDER GRANTING PETITION FOR WAIVER TC04-145**

On August 2, 2004, the Public Utilities Commission (Commission) received a joint application for the transfer of a certificate of authority from XO Network Services, Inc. (XO Network) to XO Communications Services, Inc. (XO Communications). On December 14, 2004, the Commission received a request from XO Communications for approval of its intrastate switched access tariff and for an exemption from the requirement to develop intrastate switched access rates based on company specific costs and a waiver of the use of the formula in ARSD 20:10:27:12, so as to mirror the Qwest Corporation tariffed access rates. XO Communications also requested a waiver of ARSD 20:10:27:07.

XO Communications proposes to offer interexchange and local exchange telecommunications services in South Dakota. A proposed tariff was filed by XO Communications.

On August 5, 2004, the Commission electronically transmitted notice of the filing and the intervention deadline of August 20, 2004, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled December 28, 2004, meeting, the Commission considered the request for transfer of certificate of authority. The Commission also considered XO Communications' request for approval of its intrastate switched access tariff no. 1, an exemption from establishing switched access rates based on company specific costs, and a waiver of the use of the formula in ARSD 20:10:27:12, so as to mirror the Qwest Corporation tariffed access rates. Commission Staff recommended transferring the certificate of authority, subject to a continuous $25,000 surety bond, and subject to rural safeguards. Staff recommended approving the switched access tariff no. 1 and granting the exemption for three years.

The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-31, specifically 49-31-3. 49-31-18, 49-31-19, 49-31-69, 49-31-71 and ARSD 20:10:24:04.01, 20:10:24:04.02, 20:10:27:07, 20:10:27:11, 20:10:27:12, and 20:10:32:03. The Commission finds that XO Communications has met the legal requirements established for the granting of a certificate of authority. XO Communications has, in accordance with SDCL 49-31-3 and 49-31-71, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to grant a waiver of ARSD 20:10:27:07, grant the petition for exemption from developing company specific cost-based switched access rates pursuant to ARSD 20:10:27:11 for three years, grant a waiver of the use of the formula in ARSD 20:10:27:12 so as to mirror the Qwest Corporation tariffed access rates, and approve XO Communications' intrastate switched access tariff.

The Commission approves the application for transfer of certificate of authority from XO Network to XO Communications, subject to a continuous $25,000 surety bond, and subject to rural safeguards, grants a waiver of ARSD 20:10:27:07, grants the petition for exemption from developing company specific cost-based switched access rates pursuant to ARSD 20:10:27:11 for three years, grants a waiver of the use of the formula in ARSD 20:10:27:12 so as to mirror the Qwest Corporation tariffed access rates, and approves XO Communications' intrastate switched access tariff. The certificate of authority for XO Communications shall authorize it to offer local exchange services in

South Dakota, except in those areas served by a rural telephone company. In the future, should XO Communications choose to provide local exchange services statewide, with respect to rural telephone companies, XO Communications will have to come before the Commission in another proceeding before being able to provide local service in that rural service area pursuant to 47 U.S.C. § 253(f) which allows the Commission to require a company that seeks to provide service in a rural service area to meet the requirements in 47 U.S.C. § 214(e)(1) for designation as an eligible telecommunications carrier. In addition, the granting of statewide certification will not affect the exemptions, suspensions, and modifications for rural telephone companies found in 47 U.S.C. § 251(f). It is therefore

ORDERED, that the application for transfer of certificate of authority from XO Network to XO Communications is hereby granted, effective December 28, 2004, subject to a continuous $25,000 surety bond; and it is

FURTHER ORDERED, that XO Communications shall file informational copies of tariff changes with the Commission as the changes occur; and it is

FURTHER ORDERED, that the Commission shall authorize XO Communications to offer its local exchange services in South Dakota, except in those areas served by a rural telephone company; and it is

FURTHER ORDERED, that XO Communications' request for a waiver of ARSD 20:10:27:07 is granted, its request to be exempt from establishing company specific cost-based switched access rates is granted, its request for a waiver of the use of the formula in ARSD 20:10:27:12, so as to mirror the Qwest Corporation tariffed access rates is granted, its intrastate switched access tariff is approved; and it is

FURTHER ORDERED, that XO Communications shall, within three years of the date of this order, file a petition to continue the exemption granted in this proceeding or file cost-based intrastate switched access rates.

Dated at Pierre, South Dakota, this 29th day of December, 2004.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 12/29/04

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

Robert K. Sahr

ROBERT K. SAHR, Chairman

Gary Hanson

GARY HANSON, Commissioner

James A. Burg

JAMES A. BURG, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State of South Dakota

Authority was Granted effective December 28, 2004
Docket No. TC04-145

This is to certify that

XO COMMUNICATIONS SERVICES, INC.

is authorized to provide interexchange telecommunications services, including local exchange services in nonrural areas in South Dakota.

This certificate is issued in accordance with SDCL 49-31-3 and 49-31-69 and ARSD 20:10:24:02 and 20:10:32:03, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 29th day of December, 2004.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

ROBERT K. SAHR, Chairman

GARY HANSON, Commissioner

JAMES A. BURG, Commissioner

KELLEY DRYE & WARREN LLP
A LIMITED LIABILITY PARTNERSHIP

1200 19TH STREET, N.W.
SUITE 500
WASHINGTON, D.C. 20036

(202) 955-9600

NEW YORK, NY
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CHICAGO, IL
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BRUSSELS, BELGIUM

AFFILIATE OFFICES
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MUMBAI, INDIA

FACSIMILE
(202) 955-9792
www.kelleydrye.com

ERIN WEBER EMMOTT
DIRECT LINE: (202) 955-9766
EMAIL: eemmott@kelleydrye.com

April 14, 2005

VIA UPS

Ms. Pam Bonrud
Executive Director
South Dakota Public Utilities Commission
State Capital Building, 1st Floor
500 East Capitol Avenue
Pierre, SD 57501

RECEIVED
APR 15 2005
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Re: Completion of Transaction – Docket TC04-145

Dear Ms. Bonrud:

On August 2, 2004, XO Network Services, Inc. ("XO Network") and XO Communications Services, Inc. ("XOCS"), by their attorneys, filed a Joint Application regarding an internal corporate reorganization whereby XO Network would be merged into XOCS. XOCS would provide service to the existing customers of XO Network in South Dakota. The Application and waiver of S.D. ADMIN. R. 20:10:27:07 and 20:10:27:12 was approved on December 29, 2004. This letter is to advise the South Dakota Public Utilities Commission that the transactions that were the subject of the Application have been consummated. XO Network no longer exists as a corporate entity – XOCS now holds the telecommunications authorization in South Dakota and is now serving the former customers of XO Network.

As described in the Application, the corporate reorganization has been transparent to customers as they are currently continuing to receive the same services pursuant to the same rates, terms, and conditions. To that end, the required tariffs for XOCS have been filed with the Commission. Please note that the Commission contact for XOCS from this point forward is:

Rex Knowles
XO Communications, Inc.
111 E. Broadway, Suite 1000
Salt Lake City, UT 84111
801-983-1504
801-983-1667 (fax)
Rex.Knowles@xo.com

Enclosed please find an original and ten (10) copies of this filing. Also enclosed is a duplicate copy of the filing and a self-addressed, postage paid envelope. Please date stamp the duplicate and return it in the enclosed envelope. Should there be any questions regarding this matter, or any further action required, please contact the undersigned at (202) 955-9766.

Respectfully submitted,

Erin Weber Emmott

Erin Weber Emmott
Counsel for XO Communication Services, Inc.

cc: Keith Senger

RECEIVED

MAY 23 2006

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

TC03-187
TC04-145

XO

XO Communications, Inc.

11111 Sunset Hills Road
Reston, VA 20190
USA

Ms. Karen Cremer
Staff Attorney
Public Utilities Commission
Capitol Building, 1st floor
500 East Capitol Avenue
Pierre, SD 57501-5070

Thursday, May 18, 2006

Re: Surety Bond Replacement

Atty. Cremer;

Please accept surety bond KO 7349865 as replacement for cancelled Greenwich Bond 45039962. Attached find a surety rider which you will need to execute and return to my attention.

Contact me should you have questions, comments or need additional information. Thank you for your patience on this endeavor.

Sincerely,

Nick Jukich
Treasury
703-547-2434

INDEMNITY BOND
To the
PEOPLE OF THE STATE OF SOUTH DAKOTA

Bond No. KO 73 49 86 5

We, XO Communications Services, Inc., the principal and the applicant for a CERTIFICATE OF AUTHORTY to resell the long distance telecommunications services within the State of South Dakota, and Westchester Fire Insurance Company as an admitted surety insurer, bind ourselves unto the Public Utilities Commission of the State of South Dakota and the consumers of South Dakota as Obligee, in the sum of Twenty Five Thousand and 00/100 ($25,000.00).

The conditions of the obligation are such that the principal, having been granted such CERTIFICATE OF AUTHORITY subject to the provision that said principal purchases this Indemnity Bond, and if said principal, shall in all respects fully and faithfully comply with all the applicable provisions of South Dakota State Law, and reimburse customers of XO Communications Services, Inc. for any prepayment or deposits they have made which may be unable or unwilling to return to said customers as a result of insolvency or other business failure, then this obligation shall be void, discharged and forever exonerated, otherwise to remain in full force and effect.

This bond shall take effect as of the date heron and shall remain in force and effect until the surety is released from liability by the written order of the Public Utilites Commission, provided that the surety may cancel this Bond and be relieved of further liability hereunder by delivering thirty (30) days written notice to the Public Utilities Commission. Such cancellations shall not affect any liability incurred or accrued hereunder prior to the termination of said thirty (30) day period.

Dated this 13th day of April, 2006.

To be effective this 30th day of May, 2006

XO Communications Services, Inc.

By: _______________, Treasurer

Westchester Fire Insurance Company

By: _______________

L. Randall McEnaney, Attorney in fact

SURETY RIDER

This rider is an attachment to and forms a part of Bond No. KO 73 49 86 5 issued by Westchester Fire Insurance Company, as surety, on behalf of XO Communications Services, Inc., as Principal, in favor of Public Utilities Commission of the State of South Dakota, Obligee.

This bond and rider replaces Greenwich Insurance Company ("Greenwich") Bond No.45039962. The coverage provided by this bond and rider is retroactive to the date upon which Greenwich's bond originally provided coverage. By accepting this bond, the Obligee acknowledges and agrees that (a) the Greenwich bond has become null and void and that Greenwich has been discharged from all past, present and future liability under its bond; and (b) the liability of Westchester Fire Insurance Company shall not exceed the penal sum set forth in this new bond.

Nothing contained in this rider shall vary, alter or extend any provision or condition of this bond, except as herein expressly stated.

This rider may be signed in any number of counterparts, all of which, when taken together, shall constitute the same instrument and shall be binding upon all parties.

This rider has been issued simultaneously with the bond and is effective on the same date.

Surety: Westchester Fire Insurance Company

By: L. Randall McEnaney
Name: L. Randall McEnaney
Title: Attorney-in-Fact

Principal: XO Communications Services, Inc.

By:
Name: Kristi Ivy
Title: Treasurer

The undersigned accepts the terms of this rider on behalf of the Obligee and represents that he/she has the authority to bind the Obligee to the terms of this rider.

Obligee: Public Utilities Commission of the State of South Dakota

By: Karen E. Cremer
Name:
Title:
Date: 5-26-06

Power of Attorney

384246

WESTCHESTER FIRE INSURANCE COMPANY 1141778

Know all men by these presents: That **WESTCHESTER FIRE INSURANCE COMPANY** , a corporation of the State of New York , having its principal office in the City of Atlanta , Georgia , pursuant to the following Resolution, adopted by the Board of Directors of the said Company on November 8, 1999, to wit:

"RESOLVED, that the following Rules shall govern the execution for the Company of bonds, undertakings, recognizances, contracts and other writings in the nature thereof:

(1) That the President, any Senior Vice President, any Vice President, and Assistant Vice President, or any Attorney-in-Fact, may execute for and on behalf of the Company any and all bonds, undertakings, recognizances, contracts and other writings in the nature thereof, the same to be attested when necessary by the Corporate Secretary, or any Assistant Corporate Secretary, and the seal of the Company affixed thereto;and that the President, any Senior Vice President, any Vice President or any Assistant Vice President may appoint and authorize any other Officer (elected or appointed) of the Company, as Attorneys-In-Fact to so execute or attest to the execution of all such writings on behalf of the Company and to affix the seal of the Company thereto.

(2) Any such writing executed in accordance with these Rules shall be as binding upon the Company in any case as though signed by the President and attested to by the Corporate Secretary.

(3) The signature of the President, or a Senior Vice President, or a Vice President, or an Assistant Vice President and the seal of the Company may be affixed by facsimile on any power of attorney granted pursuant to this Resolution, and the signature of a certifying Officer and the seal of the Company may be affixed by facsimile to any certificate of any such power, and any such power or certificate bearing such facsimile signature and seal shall be valid and binding on the Company.

(4) Such other Officers of the Company, and Attorneys-In-Fact shall have authority to certify or verify copies of this Resolution, the By-Laws of the Company, and any affidavit or record of the Company necessary to the discharge of their duties.

(5) The passage of this Resolution does not revoke any earlier authority granted by Resolutions of the Board of Directors."

Does hereby nominate, constitute and appoint L. RANDALL MCENANEY, ROBERT B. MADOCKS and PHYLLIS CHECHILE all of the City of New York, State of New York , each individually if there be more than one named, its true and lawful attorney-in-fact, to make, execute, seal and deliver on its behalf, and as its act and deed any and all bonds, undertakings, recognizances, contracts and other writings in the nature thereof in penalties not exceeding Five Million Dollars ($5,000,000) and the execution of such writings in pursuance of these presents shall be as binding upon said Company, as fully and amply as if they had been duly executed and ackowledged by the regularly elected officers of the Company at its principal office.

IN WITNESS WHEREOF, the said Stephen M. Haney , Vice-President, has hereunto subscribed his name and affixed the corporate seal of the said **WESTCHESTER FIRE INSURANCE COMPANY** this 9th day of March, 2006 .

WESTCHESTER FIRE INSURANCE COMPANY

WESTCHESTER FIRE INSURANCE CO.

Stephen M. Haney

Stephen M. Haney , Vice President

COMMONWEALTH OF PENNSYLVANIA
COUNTY OF PHILADELPHIA ss

On this 9th day of March , A.D. 2006 , before me, a Notary Public of the Commonwealth of Pennsylvania in and for the County of Philadelphia came Stephen M. Haney , Vice-President of the **WESTCHESTER FIRE INSURANCE COMPANY** to me personally known to be the individual and officer who executed the preceding instrument, and he acknowledged that he executed the same, and that the seal affixed to the preceding instrument is the corporate seal of said Company; that the said corporate seal and his signature were duly affixed by the authority and direction of the said corporation, and that Resolution, adopted by the Board of Directors of said Company, referred to in the preceding instrument, is now in force.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Philadelphia the day and year first above written.

KATHLEEN TIRRI COMMONWEALTH OF PENNSYLVANIA NOTARY PUBLIC

NOTARIAL SEAL
Kathleen Tirri, Notary Public
Philadelphia, Philadelphia County
My commission expires September 22, 2007

Kathleen Tirri

Notary Public

I, the undersigned Secretary of **WESTCHESTER FIRE INSURANCE COMPANY** , do hereby certify that the original POWER OF ATTORNEY, of which the foregoing is a substantially true and correct copy, is in full force and effect.

In witness whereof, I have hereunto subscribed my name as Secretary, and affixed the corporate seal of the Corporation, this 13th day of April 2006

WESTCHESTER FIRE INSURANCE CO.

George D. Mulligan

George D. Mulligan , Secretary

THIS POWER OF ATTORNEY MAY NOT BE USED TO EXECUTE ANY BOND WITH AN INCEPTION DATE AFTER March 9, 2008

FORM NO. 8800S

WESTCHESTER FIRE INSURANCE COMPANY

FINANCIAL STATEMENT December 31, 2004

ADMITTED ASSETS

BONDS	$1,363,863,132
SHORT - TERM INVESTMENTS	24,549,145
STOCKS	0
REAL ESTATE	0
CASH ON HAND AND IN BANK	5,338,440
PREMIUM IN COURSE OF COLLECTION*	117,395,478
INTEREST ACCRUED	15,349,513
OTHER ASSETS	365,657,095
TOTAL ASSETS	1,892,152,803

LIABILITIES

RESERVE FOR UNEARNED PREMIUMS	$415,496,923
RESERVE FOR LOSSES	1,150,554,701
RESERVE FOR TAXES	5,413,537
FUNDS HELD UNDER REINSURANCE TREATIES	0
OTHER LIABILITIES	(179,492,174)
TOTAL LIABILITIES	$1,391,972,987
CAPITAL: SPECIAL SURPLUS	$187,300,000
CAPITAL: 928,592 SHARES, $4.85 PAR VALUE	4,503,671
CAPITAL: PAID IN	129,098,600
SURPLUS (UNASSIGNED)	179,277,545
SURPLUS TO POLICYHOLDERS	500,179,816
TOTAL	$1,892,152,803

(*EXCLUDES PREMIUM MORE THAN 90 DAYS DUE.)

STATE OF PENNSYLVANIA

COUNTY OF PHILADELPHIA

John P. Taylor, being duly sworn, says that he is Vice President of Westchester Fire Insurance Company and that to the best of his knowledge and belief the foregoing is a true and correct statement of the said Company's financial condition as of the 31 st day of December, 2004.

Sworn before me this 27th day of April, 2005.

Vice President

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Irene T. Verratti, Notary Public
City Of Philadelphia, Philadelphia County
My Commission Expires Nov. 15, 2007
Member, Pennsylvania Association Of Notaries

Irene T. Verratti
Notary Public

Nov 15 2007
My commission expires

/short forms 2003/wfic/

PRINCIPAL'S ACKNOWLEDGMENT — IF A CORPORATION

State of ~~New York~~ Virginia, County of Fairfax } ss.

On this 26th day of April, 2006, before me personally appeared Kristi Jung to me known, who, being by me duly sworn, deposes and says: That ~~he~~/she resides in the City of Fairfax; Virginia that he/she is the Treasurer of XO Communication Services Inc., the corporation described in and which executed the within instrument; that ~~he~~/she knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that ~~he~~/she signed ~~his~~/her name thereto by like order.

Julie Ann Bess
My commission expires 3/31/0

PRINCIPAL'S ACKNOWLEDGMENT — IF INDIVIDUAL OR FIRM

State of New York, County of } ss.

On this day of , , before me personally appeared to me known to be (the individual) (one of the firm of) described in and who executed the within instrument, and he/she thereupon duly acknowledged to me that he/she executed the same (as the act and deed of said firm).

SURETY COMPANY'S ACKNOWLEDGMENT

State of New York)
) ss.:
County of New York)

On the 13th day of April in the year 2006 before me, the undersigned, personally appeared L. Randall McEnaney, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their/capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

Marlene M. Smith
Notary Public

MARLENE M. SMITH
Notary Public, State of New York
No. 01SM6016960
Qualified in Queens County
Commission Expires November 30, 2006
Certificate Filed in New York County