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EMAIL: nleverett@kelleydrye.com

October 15, 2003

RECEIVED

OCT 16 2003

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

VIA OVERNIGHT DELIVERY

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

Re: XO Long Distance Services, Inc. Application for Local Exchange
Telecommunications Authority.

Dear Ms. Bonrud:

Enclosed please find an original and ten copies of the above-captioned Application for filing with the South Dakota Public Utilities Commission ("Commission").

Also enclosed is a duplicate copy of this filing, along with a self-addressed, postage-paid envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided. Also please find enclosed a check for \$250.00 to cover the requisite filing fees. Thank you for your assistance in this matter.

Respectfully submitted,



Nicholaus G. Leverett

Enclosures

Returned Check
10/16/03.

Before the
STATE OF SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

RECEIVED

OCT 16 2003

Application of)
)
XO LONG DISTANCE SERVICES, INC.)
)
for a Certificate of Authority)
to Provide Local Exchange)
Telecommunications Services)
within the State of South Dakota)

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Docket No. _____

APPLICATION OF
XO LONG DISTANCE SERVICES, INC.
FOR A CERTIFICATE OF AUTHORITY

XO LONG DISTANCE SERVICES, INC. ("Applicant"), by its attorneys, respectfully requests that the South Dakota Public Utilities Commission ("Commission") grant it a Certificate of Authority to provide resold and facilities-based competitive local exchange telecommunications services in the State of South Dakota pursuant to Chapter 20:10:32:03 of the Commissions Rules. Further, in connection with the expansion of its authority, Applicant hereby respectfully notifies the Commission of its intent to change its name to XO Network Services, Inc. It is Applicant's understanding that no formal approval is required from the Commission for the name change portion of this transaction. If that understanding is incorrect, Applicant respectfully requests authority to change its name to XO Network Services, Inc.

In support of its Application, Applicant provides the following information.

1. 20:10:32:03 (1): Applicant, a corporation organized and existing under the laws of the State of Washington, is a wholly owned subsidiary of XO Communications, Inc. ("XO"), a Delaware corporation. Both companies are headquartered at: 11111 Sunset Hills Road, Reston, Virginia 20190,

(703) 547-2000. Applicant is authorized by the Commission to provide interexchange telecommunications service pursuant to order entered on January 18, 2000 in Docket No. TC99-102. Through its operating subsidiaries, XO provides bundled local and long distance as well as dedicated voice and data telecommunications services primarily to business customers. It operates broadband fiber optic networks in more than 60 major metropolitan markets in the United States. XO 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, and has deployed fixed wireless technology in 27 of these cities.

20:10:32:03 (2): The following is a list of XO's officers and directors:

Carl J. Grivner, Chief Executive Officer and President

John Jacquay, President, Business Market Sales

Wayne Rehberger, Executive Vice President, Chief Financial Officer and Director

Doug Kelly, Executive Vice President, Network Services

Brian Oliver, Executive Vice President, Strategy and Corporate Development

Lee Weiner, Sr. Vice President, General Counsel, and Secretary

Kathy Isaac, Vice President, Controller

Michael O'Day, Assistant Treasurer, Chief Tax Officer

Carl Icahn, Chairman and Director

The full business experience of XO's management team is set forth in detail in *Exhibit C*, which also contains the biographies and a brief description of the business experience of key management and operational personnel who will be responsible for XO's provision of telecommunications services in South Dakota and throughout the United States. All of the above-referenced officers may be reached through XO's principal office located at the following address:

XO COMMUNICATIONS, INC.
11111 Sunset Hills Road
Reston, Virginia 20190
(703) 547-2000

2. 20:10:32:03 (3): Applicant will shortly change its corporate name to XO Network Services, Inc.

3. 20:10:32:03 (4)(a): Applicant does not have an office in the State of South Dakota at this time and has no plans at present for establishment of such an office. The name and address of the Company's registered agent for service of process in the State of South Dakota is:

Corporation Service Company
503 South Pierre Street
Pierre, SD 57501

4. 20:10:32:03 (b): As stated above, the Applicant is wholly owned by XO Communications, Inc.

5. 20:10:32:03 (c): Applicant is incorporated in the state of Washington. A copy of Applicant's Articles of Incorporation was filed in its initial interexchange certification docket, but a revised copy is appended hereto as **Exhibit A**, reflecting Applicant's new corporate name: XO Network Services, Inc.

6. 20:10:32:03 (d): Applicant is authorized to transact business in South Dakota as a foreign corporation. A copy of Applicant's qualifying document was previously filed, but a revised copy is appended hereto as **Exhibit B**, reflecting Applicant's new corporate name: XO Network Services, Inc.

7. 20:10:32:03 (5): XO is authorized, through its subsidiaries, to provide intrastate interexchange services virtually nationwide, including in South Dakota, pursuant to the authority cited above. XO also is authorized, through its subsidiaries, to provide local exchange services in approximately 30 states, not including in South Dakota. XO wishes to expand its local exchange operations in several other states, including South Dakota; thus, Applicant is filing this Application.

XO also offers domestic and international telecommunications services pursuant to FCC Section 214 authorizations. However, its international offerings are incidental to its core domestic business.

8. 20:10:32:03 (6): XO Communications, Inc., a Delaware corporation is the Applicant's parent company. XO is headquartered at: 11111 Sunset Hills Road, Reston, Virginia 20190, (703) 547-2000. The Applicant's affiliates are listed in **Exhibit I**, attached hereto. The address for all affiliates is 11111 Sunset Hills Road, Reston, Virginia 20190.

9. 20:10:32:03 (7): By this Application, Applicant seeks to expand its authority to provide telecommunications services in South Dakota to include facilities-based and resold local exchange telecommunications services, in addition to interexchange services. Applicant requests authority to provide local exchange services, in addition to interexchange services, on a statewide basis. Applicant seeks authority to expand its telecommunications authorization in South Dakota to include the authority to provide a full array of facilities-based and resold local exchange services including, but not limited to, basic voice, exchange access, private line and data transmission services. These services will be provided to business customers primarily. 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.

10. 20:10:32:03 (8): With respect to the geographic coverage area for its intended services, Applicant requests authority to operate as a competitive local exchange for the entire State of South Dakota, except in those areas served by a rural telephone company.

11. 20:10:32:03 (9)(a): As demonstrated below, Applicant is well-qualified, managerially and technically to provide the competitive local exchange services for which authority is requested in this Application. In support of its Application, Applicant submits the following information to demonstrate that it has sufficient managerial and technological telecommunications experience and

expertise, as well as the financial stability adequate to ensure its continued provision of quality local exchange and interexchange telecommunications services within the State of South Dakota. Applicant is well-qualified managerially, technically and financially to provide the competitive local exchange services for which authority is requested in this Application, as well as to continue to provide interexchange services to current customers. In particular, XO's management team includes individuals with extensive technical and managerial experience in successfully developing and operating telecommunications businesses. This is evident by the fact that, among them, Applicant's corporate officers have over 100 years of experience in the telecommunications industry with companies such as Global Crossing, Cable & Wireless PLC, MCI, AT&T, Bell Atlantic, GTE, Ameritech, and US West/Qwest. The expertise of these individuals range from the areas of customer care and marketing to design and engineering to financial and upper level management. Details of XO's management and technical experience are appended hereto as *Exhibit C*.

12. 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/>.

13. 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 technically and economically feasible.

14. 20:10:32:03 (11): Upon emergence from Chapter 11 bankruptcy earlier this year, XO benefited from a major reduction in debt and the creation of a new credit facility. Under the terms of its new financing arrangement (“New Credit Agreement”), XO maintains \$500 million in outstanding principal under a secured credit facility and guaranty agreement (the “New Facility”). The maturity date of the outstanding principal is July 15, 2009. XO is not required to pay cash interest accrued on the principal amount under the New Credit Agreement until XO meets certain financial ratios. There are no additional borrowings available under the New Credit Agreement, although under certain circumstances, the New Credit Agreement permits XO to obtain a senior secured credit facility of up to \$200 million (the “Additional Loan”), less the amount of any proceeds for an anticipated \$200 million rights offering. The security for the New Credit Agreement includes Applicant’s guarantee and a security interest in its assets. In South Dakota, Applicant notified the Commission of this financing arrangement via Notice filed November 12, 2002. As specifically demonstrated in XO’s financial statements appended hereto as *Exhibit F*, Applicant has sufficient capital on hand to fund the development and operation of its telecommunications network in South Dakota, and to meet any lease and ownership obligations associated with its provision of local exchange and interexchange services. Specifically, as shown in *Exhibit F*, XO’s SEC Form 10-Q filing for the quarterly period that ended June 30, 2003, which includes condensed consolidated balance sheets, statements of operations and statement of cash flows, as of June 30, 2003, Applicant has approximately \$361.2 million in cash and cash equivalents, \$2.25 million in marketable securities and a \$158.5 million investment in debt securities. Applicant has more than adequate financial resources for the expansion of its business.

15. 20:10:32:03 (12): Applicant is examining interconnection options under Sections 251 and 252 of the Telecommunications Act of 1996, and will submit any interconnection analysis as required

for the Commission's approval. 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.

16. 20:10:32:03 (13): All of the regulated local telecommunications services offered by Applicant in South Dakota will be provided pursuant to the terms and conditions set forth in Applicant's proposed local exchange and access tariffs appended hereto as *Exhibits D* and *E*, respectively. Applicant will continue to offer interexchange services pursuant to its existing tariff. As noted below, these tariffs reflect Applicant's new name: XO Network Services, Inc.

17. 20:10:32:03 (14): 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.

18. 20:10:32:03 (15): 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. A copy of the advertisement to be used is appended hereto as *Exhibit G*. A copy of the product description is appended hereto as *Exhibit H*. In addition, this product description may be accessed on the Internet at the following address:

http://www.xo.com/products/large/voice/local/national/productsummary_nationallocal.pdf

19. 20:10:32:03 (16): With its this application, Applicant is requesting authority to offer local exchange services in South Dakota, except in those areas served by a rural telephone company, and if in the future should Applicant choose to provide local exchange services statewide, with respect to rural telephone companies, Applicant will come request such authority from the Commission.

20. 20:10:32:03 (17): Applicant is in good standing with all state telecommunications jurisdictions where it has been authorized to provide service.

21. As of the date of the filing of this Application, various subsidiaries of XO are authorized to provide interexchange services virtually nationwide. Through its subsidiaries, XO also is authorized to provide local exchange services in approximately 40 states, and in the near future, intends to apply for authority to provide local exchange services in all the remaining states.

22. To date, Applicant has not been denied any requested authority to provide telecommunications services filed in any state, nor has Applicant had its authorization to provide telecommunications services revoked in any state.

23. 20:10:32:03 (18): All correspondence, notices, orders and inquiries regarding the processing of this Petition should be addressed to:

Nicholaus G. Leverett
Nicole Oden
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
Telephone: (202) 887-1212
Facsimile: (202) 955-9792
Email: nleverett@kelleydrye.com

Copies of all correspondence, notices, orders and inquiries also should be sent to:

Douglas W. Kinkoph
Vice President, Regulatory Affairs
XO Communications, Inc.
Two Easton Oval
Columbus, OH 43219
Telephone: (614) 416-1468
Email: doug.kinkoph@xo.com

Chris McKee
Director, Regulatory Affairs
XO COMMUNICATIONS, INC.
11111 Sunset Hills Road
Reston, VA 20190
Telephone: (703) 547-2358
Email: Chris.mckee@xo.com

24. 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.

25. 20:10:32:03 (21): 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.

26. 20:10:32:03 (22): 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.

27. 20:10:32:03 (23): Applicant's Federal tax identification number is 91-1957034.

28. 20:10:32:03 (24): Approval of this Application is in the public interest because Applicant is well-qualified – technically, managerially, and financially – to serve the public in South Dakota as a facilities-based and resold local exchange carrier. Moreover, permitting Applicant to provide the services described in this Application will expand service options for customers in South Dakota, and will increase and facilitate competition in South Dakota by expanding the diversity of suppliers within the telecommunications market place -- without any adverse impact on the Commission's goals of universal service and affordable telecommunications services for the residents of South Dakota.

29. Applicant's participation in the market for local exchange and interexchange telecommunications services in South Dakota will promote consumer choice by expanding the

availability of innovative, high quality, reliable and competitively priced telecommunications services. Approval of this Application also is likely to compel other local telecommunications providers to improve their existing services, increase the quality and efficiency of their operations, and introduce innovative new services of their own. Moreover, the addition of Applicant to the South Dakota local telecommunications market makes it probable that consumers of telecommunications services in South Dakota will receive the benefits of downward pressure on prices, improved customer responsiveness and access to increasingly advanced telecommunications technology

WHEREFORE, Applicant respectfully requests that the Commission approve the expansion of Applicant's Certificate of Public Convenience and Necessity to include the provision of competitive resold and facilities-based local exchange telecommunications services, in addition to interexchange services, throughout the State of South Dakota, as described in this Application and pursuant to the proposed local exchange and access tariffs attached hereto. Applicant further requests that the Commission take notice of the name change described herein.

Respectfully submitted,

XO LONG DISTANCE SERVICES, INC.

By: 

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

Its Counsel

DATED: October 15, 2003

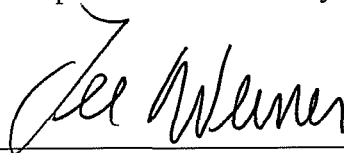
VERIFICATION

Lee Weiner, Affiant, being duly sworn/affirmed according to law, deposes and says that:

He is the Senior Vice President and General Counsel of XO Long Distance Services, Inc.

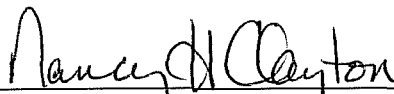
That he is authorized to and does make this affidavit for said corporation;

That the facts set forth above are true and correct to the best of his knowledge, information, and belief and that he expects said corporation to be able to prove the same at any hearing hereof.



Lee Weiner
Senior Vice President and General Counsel

Sworn and subscribed before me this 14 day of Oct, 2003.



Signature of official administering oath

My commission expires: 6/30/07

EXHIBIT A
ARTICLES OF INCORPORATION

UNITED STATES OF AMERICA

The State of



Washington

Secretary of State

I, Sam Reed, Secretary of State of the State of Washington and custodian of its seal, hereby issue this

CERTIFICATE OF EXISTENCE/AUTHORIZATION

OF

XO NETWORK SERVICES, INC.

I FURTHER CERTIFY that the records on file in this office show that the above named profit corporation was formed under the laws of the State of Washington and was issued a Certificate of Incorporation in Washington on February 26, 1999.

I FURTHER CERTIFY that as of the date of this certificate, no Articles of Dissolution have been filed, and that the corporation is duly authorized to transact business in the corporate form in the State of Washington.

Date: August 28, 2003



Given under my hand and the Seal of the State of Washington at Olympia, the State Capital.

Sam Reed

Sam Reed, Secretary of State

FILED IOWA SECRETARY OF S 9-3-03 10:16 W358924

DR

035356



STATE of WASHINGTON



SECRETARY of STATE

I, *RALPH MUNRO*, Secretary of State of the State of Washington and custodian of its seal,

hereby certify by this certificate that the attached is a true and correct copy of

ARTICLES OF AMENDMENT

of

NEXTLINK LONG DISTANCE SERVICES, INC.

CHANGING NAME TO
XO LONG DISTANCE SERVICES, INC.

as filed in this office on September 27, 2000.



Date: October 10, 2000

*Given under my hand and the Seal of the State
of Washington at Olympia, the State Capital*

Ralph Munro, Secretary of State

277-1726
2000

CORP. 551 331

ARTICLES OF AMENDMENT
OF
NEXTLINK LONG DISTANCE SERVICES, INC.

FILED
STATE OF WASHINGTON

SEP 27 2000

RALPH MURPHY
SECRETARY OF STATE

The following Articles of Amendment are executed by the undersigned, as Secretary of State of the Washington corporation:

1. The name of the corporation is NEXTLINK Long Distance Services, Inc.
2. Article I of the Articles of Incorporation of the corporation is amended to read as follows:

"The name of this corporation is XO Long Distance Services, Inc."
3. The date of the adoption of the amendment by the Board of Directors of the corporation is September 25, 2000.
4. Shareholder action was not required pursuant to the provisions of RCW 23B.10.020.
5. The amendment does not provide for the exchange, reclassification or cancellation of issued shares.
6. These Articles will be effective upon filing.

These Articles of Amendment are executed by said corporation by its duly authorized officer.

DATED: September 26, 2000

NEXTLINK Long Distance Services, Inc.

By: *Richard A. Montfort, Jr.*
Print Name: Richard A. Montfort, Jr.
Its: Assistant Secretary

Check - 09/27/2000

UNITED STATES OF AMERICA

The State of  Washington

Secretary of State

I, Sam Reed, Secretary of State of the State of Washington and custodian of its seal,
hereby issue this

certificate that according to records on file in this office,

Articles of Amendment to

XO LONG DISTANCE SERVICES, INC.

a Washington corporation, whereby the corporate name is changed to

XO NETWORK SERVICES, INC.

was received and filed by this office on August 13, 2003.

Date: August 28, 2003



Given under my hand and
the Seal of the State of
Washington at Olympia,
the State Capital.

Sam Reed, Secretary of State

EXHIBIT B

FOREIGN QUALIFICATION DOCUMENT

Secretary of State

State Capitol, Ste 204
500 East Capitol Avenue
Pierre, South Dakota
57501-5070
sdsos@state.sd.us



Chris Nelson
Secretary of State

To: CSC - WILMINGTON
RICKEDA JACKSON
2711 CENTERVILLE RD
WILMINGTON DE 19808

From: Secretary of State Chris Nelson
Corporations Division

Date: September 3, 2003

Re: XO LONG DISTANCE SERVICES, INC. changing its name to XO NETWORK
SERVICES, INC. (WA)
Document Filings

The documents submitted on behalf of **XO LONG DISTANCE SERVICES, INC.** changing its name to **XO NETWORK SERVICES, INC. (WA)** have been received and filed.

Enclosed is the acknowledgement with a receipt for the fee of \$50.

Thank you.

State of South Dakota



OFFICE OF THE SECRETARY OF STATE

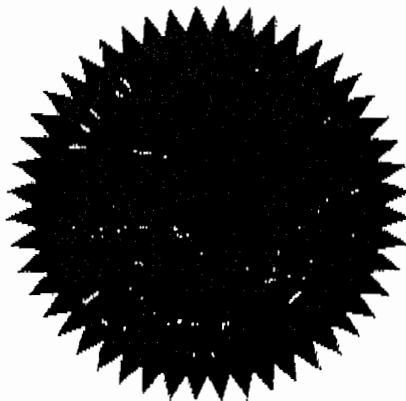
Amended Certificate of Authority

ORGANIZATIONAL ID #: FB022591

I, **Chris Nelson** Secretary of State of the State of South Dakota, hereby certify that duplicate of the Application for an Amended Certificate of Authority of **XO LONG DISTANCE SERVICES, INC. changing its name to XO NETWORK SERVICES, INC. (WA)** to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Amended Certificate of Authority and attach hereto a duplicate of the application to transact business in this state.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this September 3, 2003.



Chris Nelson
Secretary of State



Secretary of State
State Capitol
500 E. Capitol Ave.
Pierre SD 57501
Phone 605-773-4845
Fax 605-773-4550

Filed this 3rd day of Sept. 2003
Chris Nelson
SECRETARY OF STATE

RECEIVED

SEP 03 '03

S.D. SEC. of STATE

Application for Amended Certificate of Authority

Pursuant to the provisions of SDCL 47-8-22, the undersigned corporation hereby applies for an amended Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

- (1) The name of the corporation is (exact corporate name) XO Long Distance Services, Inc.

- (2) The name of the corporation as amended is XO Network Services, Inc.

- (3) State where incorporated Washington Federal Taxpayer ID# 91-1957034
- (4) The date of its incorporation is February 26, 1999
and the period of its duration is Perpetual
- (5) The address of its principal office in the state or country under the laws of which it is incorporated is c/o CSC 1010 Union Ave. SE, Olympia, WA 98510 Zip Code _____
mailing address if different from above is: _____ Zip Code _____
- (6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is 503 South Pierre Street, Pierre, SD Zip Code 57501
and the name of its proposed registered agent in the State of South Dakota at that address is Corporation Service Company
- (7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are:
Communication Services

(8) The names and respective addresses of its directors and officers are:

Name	Officer Title	Street Address	City	State	Zip
<u>Please see attached rider</u>					

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
<u>1000</u>	<u>Common</u>		<u>no par value</u>

(10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
100	Common		no par value

(11) The amount of its stated capital is \$ 100.00

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the Secretary of State or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated August 21, 2003

Lee Weiner
 (Signature)
SVP, General Counsel, Secretary
 (Title)

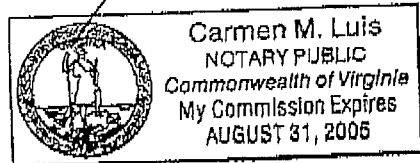
STATE OF Virginia
COUNTY OF Fairfax

I, Carmen M Luis, a notary public, do hereby certify that on this 21st day of August, personally appeared before me Lee Weiner who, being by me first duly sworn, declared that he/she is the SVP, General Counsel & Sec. of XO Network Services, Inc., that he/she signed the foregoing document as officer of the corporation, and the statements therein contained are true.

August 31, 2005
My Commission Expires

[Signature]
 (Notary Public)

Notarial Seal



FILING FEE: \$50

FILING INSTRUCTIONS:

A foreign corporation authorized to do or engage in business in this state shall procure an amended certificate of authority in the event it changes its corporate name or desires to pursue in this state other or additional purposes than those set forth in its prior application.

One ORIGINAL and One COPY of the application must be submitted.

The application must be accompanied by an original one page CERTIFICATE OF FACT or NAME CHANGE showing both the former name and the change to the new name. The certificate must be obtained from the Secretary of State in the state under whose laws it is incorporated.

XO NETWORK SERVICES, INC.**SLATE OF DIRECTORS**

Carl Grivner
Wayne M. Rehberger

SLATE OF OFFICERS

Carl J. Grivner	Chief Executive Officer & President
John Jacquay	President, Business Market Sales
Brian Oliver	Executive Vice President, Strategy & Corporate Development
Doug Kelly	Executive Vice President, Network Services
Wayne M. Rehberger	Executive Vice President, Chief Financial Officer
Lee Weiner	Senior Vice President, General Counsel & Secretary
Jay D. Hull	Vice President, Asst. General Counsel & Asst. Secretary
Noelle N. Beams	Vice President, Treasurer
Craig Collins	Vice President, General Manager
Michael O'Day	Assistant Treasurer, Chief Tax Officer

EXHIBIT C

MANAGEMENT BIOGRAPHIES

Attachment C
Officers and Directors of XO Communications

Carl J. Grivner

Chief Executive Officer

Carl J. Grivner was named Chief Executive Officer of XO Communications effective May 15, 2003.

Mr. Grivner's career in telecom and technology spans more than 25 years. He previously served as Chief Operating Officer at Global Crossing. 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. Mr. Grivner began his career working in sales at IBM. He also served in the United States Marine Corps from 1975-1978.



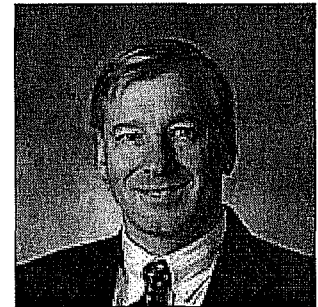
Wayne Rehberger

Chief Financial Officer

Wayne Rehberger joined XO™ in September 2000 and was named Chief Financial Officer in December 2000. He is responsible for all of the XO™ financial and administrative functions.

Rehberger brings over 20 years of diversified telecommunications management experience to XO™ including having served in a number of executive financial roles at MCI Communications Corporation, and as Senior Vice President of Finance at MCI WorldCom prior to joining XO.

Prior to joining MCI, Rehberger was a manager in KPMG's consulting practice in Washington, D.C.



John Jacquay

President, Business Market Sales

John Jacquay is the XO™ President of National Accounts. He is responsible for building the world class XO sales organization.

Prior to joining XO™, Jacquay was the CEO and Chairman of Pagoo, a Voice on the Internet Software Company. Upon selling this business, he transitioned back to the telecom sector by joining XO.

Prior to Pagoo, Jacquay was President and COO of GRIC Communications, Chief Operating Executive of the Regulated Industries Unit of MCI Systemhouse; President of Network Services at US One (one of the pioneer CLECs), and held various sales and P&L leadership positions at MCI. Jacquay started his career at GTE Corporation in a variety of roles in Finance, IT, Marketing and Sales



Attachment C
Officers and Directors of XO Communications

Doug Kelly

Executive Vice President of Network Services

Doug Kelly is Executive Vice President of Network Services at XO Communications. In this role, he oversees all service delivery, service assurance and network performance functions and is responsible for the end-to-end customer experience, from order entry, through service installation, billing and customer care.

Prior to joining XO, Mr. Kelly founded DEK Consulting Services which provided both technical and business analyses to telecom firms involved in acquisitions, business development and restructuring strategies. Prior to that, he was President, Network Services for Global Crossing. He also held several senior management positions at MCI including Vice President Network Management, Vice President Central Operations and Director of West Operations. Mr. Kelly also held positions at New York Telephone Company and AT&T.

Mr. Kelly holds a B.S. degree from Clarkson University and an MBA from University of Rochester's Simon School of Management.



Brian Oliver

Executive Vice President Strategy and Corporate Development

Brian Oliver is Executive Vice President of Strategy and Corporate Development at XO Communications. In this role, Mr. Oliver manages the company's strategic planning process and is responsible for implementing corporate development activities such as identifying, negotiating and closing acquisitions, partnerships and other such relationships. In addition he oversees the technical development activities associated with optimizing the value of XO's wealth of LMDS spectrum.

Mr. Oliver's career in telecom spans more than 20 years. Prior to joining XO, he was the Founder, Chairman and CEO of Cambrian Communications, a facilities-based metropolitan area network provider, delivering end-to-end, all-optical network solutions between New York and Washington, DC. Prior to forming Cambrian, Mr. Oliver was the founder, President and CEO of Wave International, Inc. He also held various senior positions at Bell Atlantic Corporation including Vice President of Corporate Development and Vice President of Federal Regulatory Relations. In addition, Mr. Oliver was an active board member for Pontio Communications.

Mr. Oliver earned a Bachelor of Science degree in Civil Engineering and Environmental Engineering from Cornell University.



Lee Weiner

Senior Vice President and General Counsel

Lee Weiner is Senior Vice President and General Counsel at XO Communications. In this role he oversees all of the company's legal affairs.

Prior to joining XO, Mr. Weiner was Executive Vice President, General Counsel and Secretary at Net2000 Communications, Inc. He also served as Vice President and Acting General Counsel/Senior Associate Counsel at Qwest Communications International, Inc. after its merger with LCI International, Inc. Prior to that, he was Vice President and General Counsel at LCI International, Inc. Mr. Weiner also held several senior positions at MCI Telecommunications Corporation.

Mr. Weiner has a J.D. degree from American University Washington College of Law and an A. B. degree in Political Science from Vassar College.



EXHIBIT D

LOCAL EXCHANGE TARIFF

XO NETWORK 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

~~XO~~ Network Services, Inc.
LOCAL EXCHANGE SERVICES TARIFF

Original Page 1

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.

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33	Original	XXXXXX, 2003

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EFFECTIVE: XXXXXX, 2003

Rex M. Knowles, Vice President
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111 East Broadway
Salt Lake City, UT 84111

XO Network Services, Inc.
LOCAL EXCHANGE SERVICES TARIFF

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XO Network Services, Inc.
LOCAL EXCHANGE SERVICES TARIFF

Original Page 3

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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 effect, 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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Rex M. Knowles, Vice President
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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 Network Services, Inc., (hereafter, "the Company"), to Customers within the local exchange service area defined herein.

ISSUED: XXXXX, 2003

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Rex M. Knowles, Vice President
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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 Network Services, Inc., a Washington 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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Rex M. Knowles, Vice President
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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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EFFECTIVE: XXXXX, 2003

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

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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Rex M. Knowles, Vice President
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111 East Broadway
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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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXXX, 2003

EFFECTIVE: XXXXXX, 2003

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 limited to the lesser of \$500 or, in the event of a failure of service, an amount equal to no more than the proportionate charge (based on the rates then in effect) for the service during the period of time in which the service is affected. The extension of such allowances for interruption shall be the sole remedy of the Customer, authorized user, or joint user and the sole liability of the Company.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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 or responsible for any special, consequential, exemplary, lost profits, or punitive damages, whether or not caused by the intentional acts or omissions or negligence of the Company's employees, agents or contractors.
- (c) 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.
- (d) 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.
- (e) 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.
- (f) 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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.4 Liability of the Company (Cont'd)

- (g) 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.
- (h) 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.
- (i) 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.
- (j) 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.
- (k) 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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

2. REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.4 Liability of the Company (Cont'd)

- (l) The Company shall not incur any liability, direct or indirect, to any person who dials or attempts to dial the digits "9-1-1" or to any other person who may be affected by the dialing of the digits "9-1-1".
- (m) The Company shall not be liable for damages arising out of errors in or omissions from directories, or will the Company be a party to controversies arising between customers or others as a result of listings in directories. The Company shall not be liable for damages arising out of errors in or omissions from directories when the listing information has been submitted by a customer on behalf of its patron.
- (n) THE COMPANY MAKES NO REPRESENTATION OR WARRANTY EITHER EXPRESS OR IMPLIED INCLUDING BUT NOT LIMITED TO ANY IMPLIED WARRANTIES OF MERCHANTABILITY AND/OR FITNESS FOR A PARTICULAR PURPOSE, AND ASSUMES NO OBLIGATION WITH RESPECT TO THE ENFORCEMENT OF ANY MANUFACTURER'S WARRANTIES AND GUARANTEES. NO DEFECT, UNFITNESS, OR OTHER CONDITION OF SYSTEM EQUIPMENT OR SERVICES SHALL RELIEVE CUSTOMER OF THE OBLIGATION TO PAY AND CHARGES HEREUNDER OR PERFORM ANY OTHER OBLIGATIONS UNDER THIS AGREEMENT.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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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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EFFECTIVE: XXXXX, 2003

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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EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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;

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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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EFFECTIVE: XXXXX, 2003

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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EFFECTIVE: XXXXX, 2003

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 Section 2.6(b), 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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EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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 30 days of receipt of the bill. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may file a complaint with the Commission, in accordance with the Commission's rules of procedure.

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.

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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

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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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EFFECTIVE: XXXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

2. REGULATIONS (Cont'd)

2.6 Allowances for Interruptions of Service

2.6.1 Credit for Interruptions: In the event that Company is unable to restore a portion of the Service as required hereunder, or in the event of a Service Outage, Customer shall be entitled to a credit as set forth in 2.6.1 (b) below, for all unplanned outages in excess of four (4) hours. Credit allowances, if any, shall be deducted from the charges payable by Customer hereunder and shall be expressly indicated on a subsequent bill to Customer. A Service Outage begins when Company is notified or becomes aware of the failure, whichever occurs first. A Service Outage ends when the affected Service is fully operative, subtracting any delay time associated with Company's inability to access the Customer Premise. If the Customer reports Services to be inoperative but declines to release it for testing and repair, it is considered to be impaired, but shall not be deemed a Service Outage.

(a) To be eligible for an Outage Credit, Customer must submit a request for credit in writing within sixty (60) days of the occurrence that includes the Trouble Ticket Number and Circuit ID or any claim for an allowance is waived. Unless otherwise specifically stated, Service Outages are not aggregated for purposes of determining the credit allowance.

(b) Service Outages for Services:

<u>Service Outage Length</u>	<u>Credit Per Circuit</u>
Four (4) hours or less	None
Between four (4) hours and eight (8) hours	0.75% of MRC of the Circuit
twenty-four (24) hours	Between eight (8) hours and 1.5% of MRC of Circuit
More than twenty-four (24) hours and for each twenty-four (24) hours thereafter	3.3% of MRC of the Circuit capped at 50% of the MRC for any single Service Outage. Credits are capped at 100% of the MRC for all Service Outages to that same circuit in any month.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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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.

<u>PBX Trunks</u>	MRC	NRC
Two-Way	\$ 41.45	\$ 47.00
One-Way, out only	\$ 41.45	\$ 47.00
One-Way, in only	\$ 41.45	\$ 47.00
<u>Optional Features</u>		
DID Termination	\$ 35.00	\$ 40.00
Hunting	\$ 8.95	\$ 11.00
<u>DID Numbers</u>		
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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EFFECTIVE: XXXXX, 2003

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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	\$0.75
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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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EFFECTIVE: XXXXX, 2003

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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

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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Salt Lake City, UT 84111

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.

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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
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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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

<u>Duration</u>	<u>Non-recurring Charge</u>
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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXXX, 2003

EFFECTIVE: XXXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

Rex M. Knowles, Vice President
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EXHIBIT E
ACCESS TARIFF

XO NETWORK 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

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.

<u>Page</u>	<u>Revision</u>	<u>Date</u>
Title	Original	XXXXXX, 2003
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ISSUED: XXXXX, 2003

EFFECTIVE: XXXX, 2003

CHECK SHEET (Cont'd)

RESERVED FOR FUTURE USE

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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 Network Services, Inc. hereinafter referred to as ("the Company").

ISSUED: XXXXX, 2003

EFFECTIVE: XXXX, 2003

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

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.

ISSUED: XXXXX, 2003

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ISSUED: XXXXX, 2003

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1. Definitions

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

ISSUED: XXXXX, 2003

EFFECTIVE: XXXX, 2003

2. REGULATIONS

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

ISSUED: XXXXX, 2003

EFFECTIVE: XXXX, 2003

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.

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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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXX, 2003

Rex M. Knowles, Vice President
XO Network 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 by 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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXX, 2003

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

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 <u>Originating Use</u>	Per Access Minute of <u>Termination Use</u>
\$ 0.062700	\$ 0.062700

(b) Tandem Switched Transport Charge

Per Access Minute of <u>Originating Use</u>	Per Access Minute of <u>Terminating Use</u>
\$ 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

ISSUED: XXXXX, 2003

EFFECTIVE: XXXX, 2003

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

EXHIBIT F

FINANCIAL DOCUMENTS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2003

Commission file number: 0-30900

XO Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

54-1983517
(I.R.S. Employer
Identification No.)

11111 Sunset Hills Road, Reston, VA
(Address of principal executive offices)

20190
(Zip Code)

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

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES NO

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING
THE PRECEDING FIVE YEARS:**

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

As of August 6, 2003, the number of shares of common stock of XO Communications, Inc. issued and outstanding was 96,049,026.

XO Communications, Inc. and Subsidiaries
Index to Form 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

XO Communications, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Amounts in thousands, except for share and per share data)

	Reorganized XO June 30, 2003 (Unaudited)	Reorganized XO January 1, 2003 (Unaudited)	Predecessor XO December 31, 2002
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 361,161	\$ 314,038	\$ 314,038
Marketable securities	2,247	246,945	246,945
Investment in debt securities	158,516	—	—
Accounts receivable, net of allowance for doubtful accounts of \$39,804 at June 30, 2003; and \$37,030, at January 1, 2003 and at December 31, 2002, respectively	109,415	116,541	116,541
Other current assets	18,884	35,192	83,480
Total current assets	650,223	712,716	761,004
Property and equipment, net	475,288	476,588	2,780,589
Fixed wireless licenses and other intangibles, net	122,596	135,678	984,614
Other assets, net	45,924	23,108	59,289
Total assets	<u>\$ 1,294,031</u>	<u>\$ 1,348,090</u>	<u>\$ 4,585,496</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	\$ 62,747	\$ 67,268	\$ 63,729
Accrued liabilities	200,713	235,192	266,102
Current liabilities subject to compromise	—	—	5,497,207
Total current liabilities	263,460	302,460	5,827,038
Long-term liabilities not subject to compromise	—	—	75,242
Long-term liabilities subject to compromise	—	—	7,182
Long-term debt	517,274	500,000	—
Other long-term liabilities	74,645	70,630	—
Total liabilities	855,379	873,090	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 common stock, par value \$0.01 per share, 1,000,000,000 shares authorized: 95,740,826 and 95,000,001 shares issued and outstanding on June 30, 2003 and January 1, 2003, respectively	478,957	475,000	—
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	—	—	(8,500)
Accumulated other comprehensive income	19	—	2,512
Accumulated deficit	(40,324)	—	(7,654,433)
Total stockholders' equity (deficit)	438,652	475,000	(3,032,282)
Total liabilities and stockholders' equity (deficit)	<u>\$ 1,294,031</u>	<u>\$ 1,348,090</u>	<u>\$ 4,585,496</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

XO Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Amounts in thousands, except for share and per share data)
(Unaudited)

	Reorganized XO Three months ended June 30, 2003	Predecessor XO Three months ended June 30, 2002
Revenue	\$ 283,918	\$ 325,480
Costs and expenses:		
Cost of service	104,898	134,346
Selling, operating, and general.....	165,042	188,253
Stock-based compensation.....	—	8,891
Depreciation and amortization.....	27,238	167,843
Restructuring and asset write-downs	—	<u>2,918</u>
Total costs and expenses.....	<u>297,178</u>	<u>502,251</u>
Loss from operations	(13,260)	(176,771)
Interest income	4,671	4,225
Interest expense, net (contractual interest was \$121,512 for the three months ended June 30, 2002).....	(11,687)	(104,419)
Other income, net.....	440	2
Reorganization expense, net	<u>—</u>	<u>(69,170)</u>
Net loss	(19,836)	(346,133)
Recognition of preferred stock modification fee, net – reorganization item.....	—	78,703
Preferred stock dividends and accretion of preferred stock redemption obligation, net	<u>—</u>	<u>(19,421)</u>
Net loss applicable to common shares.....	<u>\$ (19,836)</u>	<u>\$ (286,851)</u>
Net loss per common share, basic and diluted:		
Net loss	(0.21)	(0.78)
Recognition of preferred stock modification fee, net – reorganization item.....	—	0.17
Preferred stock dividends and accretion of preferred stock redemption obligation, net	<u>—</u>	<u>(0.04)</u>
Net loss per common share, basic and diluted	<u>\$ (0.21)</u>	<u>\$ (0.65)</u>
Weighted average shares, basic and diluted.....	<u>95,129,610</u>	<u>442,219,619</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

XO Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Amounts in thousands, except for share and per share data)
(Unaudited)

	Reorganized XO Six months ended June 30, 2003	Predecessor XO Six months ended June 30, 2002	Predecessor XO January 1, 2003
Revenue	\$ 570,011	\$ 658,885	\$ —
Costs and expenses:			
Cost of service	212,404	274,713	—
Selling, operating, and general.....	331,277	393,503	—
Stock-based compensation.....	—	17,986	—
Depreciation and amortization.....	53,605	329,199	—
Restructuring and asset write-downs	—	2,918	—
Total costs and expenses.....	597,286	1,018,319	—
Loss from operations	(27,275)	(359,434)	—
Interest income	7,881	9,765	—
Interest expense, net (contractual interest was \$241,115 for the six months ended June 30, 2002)	(21,370)	(225,145)	—
Other income (loss), net.....	440	(200)	—
Reorganization gain (expense), net.....	—	(70,146)	3,032,282
Net income (loss) before cumulative effect of accounting change.....	(40,324)	(645,160)	3,032,282
Cumulative effect of accounting change.....	—	(1,876,626)	—
Net income (loss).....	(40,324)	(2,521,786)	3,032,282
Recognition of preferred stock modification fee, net – reorganization item	—	78,703	—
Preferred stock dividends and accretion of preferred stock redemption obligation, net.....	—	(42,247)	—
Net income (loss) applicable to common shares.....	\$ (40,324)	\$ (2,485,330)	\$ 3,032,282
Net income (loss) per common share, basic and diluted:			
Net income (loss) before cumulative effect of accounting change.....	\$ (0.42)	\$ (1.46)	\$ 6.86
Cumulative effect of accounting change.....	—	(4.24)	—
Net income (loss).....	(0.42)	(5.70)	6.86
Recognition of preferred stock modification fee, net – reorganization item.....	—	0.17	—
Preferred stock dividends and accretion of preferred stock redemption obligation, net.....	—	(0.09)	—
Net income (loss) per common share, basic and diluted.....	\$ (0.42)	\$ (5.62)	\$ 6.86
Weighted average shares, basic and diluted.....	95,071,784	442,212,843	441,964,342

See accompanying notes to the unaudited condensed consolidated financial statements.

XO Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Reorganized XO Six months ended June 30, 2003	Predecessor XO Six months ended June 30, 2002	Predecessor XO January 1, 2003
OPERATING ACTIVITIES:			
Net income (loss)	\$ (40,324)	\$ (2,521,786)	\$ 3,032,282
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Non-cash reorganization items	—	57,189	(3,032,282)
Depreciation and amortization	53,605	329,199	—
Stock-based compensation	—	17,986	—
Cumulative effect of accounting change	—	1,876,626	—
Accretion of interest	21,234	—	—
Changes in assets and liabilities:			
Accounts receivable	11,310	42,617	—
Other assets	6,057	(17,845)	—
Accounts payable	(120)	—	—
Accrued liabilities	(30,010)	—	—
Other liabilities subject to compromise	—	197,572	—
Other liabilities not subject to compromise	—	(45,733)	—
Net cash provided by (used in) operating activities	21,752	(64,175)	—
INVESTING ACTIVITIES:			
Purchases of property and equipment	(38,994)	(149,467)	—
Sales of marketable securities	312,232	317,643	—
Purchases of marketable securities and debt securities	(226,030)	(15,786)	—
Purchases of escrowed/pledged securities	(25,000)	—	—
Net cash provided by investing activities	22,208	152,390	—
FINANCING ACTIVITIES:			
Repayments of capital leases	(541)	(5,096)	—
Proceeds from issuance of common stock	3,704	—	—
Net cash provided by (used in) financing activities	3,163	(5,096)	—
Effect of exchange rate changes on cash	—	(1,256)	—
Net increase in cash and cash equivalents	47,123	81,863	—
Cash and cash equivalents, beginning of period	314,038	246,189	314,038
Cash and cash equivalents, end of period	<u>\$ 361,161</u>	<u>\$ 328,052</u>	<u>\$ 314,038</u>
SUPPLEMENTAL DATA:			
Non-cash financing and investing activities:			
Accrued redeemable preferred stock dividends, payable in shares of redeemable preferred stock	\$ —	\$ 45,683	\$ —
Cash paid for interest	\$ 292	\$ 30,452	\$ —

See accompanying notes to the unaudited condensed consolidated financial statements.

XO Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of XO Communications, Inc. (“XO Parent”) and its subsidiaries (together with its predecessors, collectively referred to as the “Company” or “XO”) are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States for interim financial statements and the Securities and Exchange Commission (the “Commission”) instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. As discussed further in note 2, the condensed consolidated statements of operations and cash flows for reorganized XO for the three and six months ended June 30, 2003, show the operations of the reorganized Company from and including January 1, 2003, the date that the reorganized Company applied fresh start accounting, through June 30, 2003. Predecessor XO’s January 1, 2003 statements of operations and cash flows reflect only the effect of the reorganization and the application of fresh start as of such date and do not reflect any operating results. Operating results for the three and six month period ended June 30, 2003 are not necessarily indicative of the results that may be expected for any subsequent quarterly period, or for the year ending December 31, 2003. In the opinion of management, the unaudited condensed consolidated financial statements contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position and the results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States applicable to interim periods. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements of XO, included in its Annual Report on Form 10-K for the year ended December 31, 2002 (the “2002 Annual Report”).

As further discussed in the 2002 Annual Report, 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”). XO Parent emerged from the Bankruptcy Court proceedings pursuant to the terms of its third amended plan of reorganization (the “Plan of Reorganization”) on January 16, 2003 (the “Effective Date”). As discussed in note 2, the Company implemented the fresh start accounting provisions (“fresh start”) of the American Institute of Certified Public Accountants Statement of Position 90-7, “Financial Reporting by Entities in Reorganization under the Bankruptcy Code,” (“SOP 90-7”) as of January 1, 2003. Under fresh start, the fair value of the reorganized Company was allocated among its assets and liabilities, and its accumulated deficit as of January 1, 2003 was eliminated. As discussed in note 2, the implementation of fresh start has resulted in a substantial reduction in the carrying value of the Company’s long-lived assets, including property and equipment, fixed wireless licenses, other intangible assets and other noncurrent assets. As a result, the predecessor financial statements are not comparable to financial statements of the reorganized Company.

2. REORGANIZATION AND FRESH START ACCOUNTING

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. As described in more detail in the 2002 Annual Report, 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 a new credit agreement (the “New Credit Agreement”);
- The extinguishment of all amounts due under its pre-petition unsecured senior and subordinated notes and certain general unsecured obligations;
- The cancellation of all outstanding shares and interests in its pre-petition preferred stock and pre-petition common stock; and

- The issuance of approximately 95.0 million shares of common stock of the reorganized Company (“New Common Stock”) and warrants to purchase up to an additional 23.75 million shares of New Common Stock of the reorganized Company. As part of the distribution process, XO Parent is holding approximately 1.0 million shares of New Common Stock and warrants to purchase approximately 6.2 million shares of New Common Stock in a reserve for distribution to holders of XO Parent’s pre-petition unsecured senior notes and pre-petition general unsecured claims after the resolution of disputed bankruptcy claims.

In accordance with the Plan of Reorganization, XO Parent intends to issue 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”). In addition, pursuant to a stipulation relating to the settlement of a claim made against XO Parent purportedly on behalf of its shareholders (the “Stockholder Stipulation”), holders of shares of pre-petition class A common stock of XO Parent will receive additional nontransferable rights exercisable for up to 3.3 million shares of New Common Stock to the extent that the rights otherwise allocable to such holders in the Rights Offering are exercisable for less than 3.3 million shares of New Common Stock, at \$5.00 per share. Accordingly, not less than 40.0 million shares and not more than 43.3 million shares will be offered in the Rights Offering. XO Parent filed a registration statement with the Commission on July 22, 2003 with respect to the shares of New Common Stock issuable upon exercise of these rights.

The Company adopted fresh start as of January 1, 2003. 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 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. Fresh start required that the Company adjust the historical cost of its assets and liabilities to their fair values as determined by the reorganization value of the Company and that the reorganization value be allocated among the reorganized 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. The accompanying January 1, 2003 statement of operations and balance sheet show the impact of this valuation, but do not reflect any of the Company’s operating results as attributable to that date. A reconciliation of the adjustments recorded in connection with the reorganization and the adoption of fresh start is presented below (in thousands):

	Predecessor XO December 31, 2002 (Audited)	Reorganization	Fresh Start Adjustments (d)	Reorganized XO January 1, 2003 (Unaudited)
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
Fixed wireless licenses and other intangibles, net.....	984,614	—	(848,936)	135,678
Other assets, net	59,289	—	(36,181)	23,108
Total assets.....	<u>\$ 4,585,496</u>	<u>\$ —</u>	<u>\$ (3,237,406)</u>	<u>\$ 1,348,090</u>
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)	(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.....	<u>7,182</u>	<u>—</u>		<u>(7,182)</u>	<u>—</u>
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.....	<u>(7,654,433)</u>	<u>6,199,983</u>		<u>1,454,450</u>	<u>—</u>
Total stockholders' (deficit) equity	<u>(3,032,282)</u>	<u>6,674,983</u>		<u>(3,167,701)</u>	<u>475,000</u>
Total liabilities and stockholders' (deficit) equity	<u>\$ 4,585,496</u>	<u>\$ —</u>		<u>\$ (3,237,406)</u>	<u>\$ 1,348,090</u>

- (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, 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 New Credit Agreement, in accordance with the Plan of Reorganization.
- (c) To record the issuance of New Common Stock and warrants in accordance with the Plan of Reorganization.
- (d) To adjust the carrying value of assets, liabilities and stockholders' equity to fair value, in accordance with fresh start.

Reorganization gain, net 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	<u>(3,167,701)</u>
Total reorganization gain, net	<u>\$ 3,032,282</u>

As of December 31, 2002, the Company had incurred \$91.1 million in net reorganization expenses which included the write-off of deferred financing fees associated with the issuance of XO's pre-petition debt and professional fees incurred in conjunction with the Company's recapitalization.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Review of Significant Accounting Policies

As discussed in note 2, 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. 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.

Principles of Consolidation

The Company's condensed 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.

Preparation of Condensed Consolidated Financial Statements

The preparation of condensed 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 condensed 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.

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.

Marketable Securities

Substantially all of the Company's marketable securities currently consist of U.S. government agency issued and other high-grade and highly-liquid securities with original maturities beyond three months. The Company classifies investments in debt and equity securities as available-for-sale and records such investments at fair value. The fair values are based on quoted market prices. 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 interest income.

Investment in Debt Securities

Investment in debt securities at June 30, 2003 consists of investments in senior secured bank debt of Global Crossing Ltd. and Global Crossing Holdings Ltd. (collectively "Global Crossing"), a telecommunications company which is currently in Chapter 11 reorganization proceedings, see also note 12. The debt trades in a thin market primarily between dealers but is neither listed on any exchange nor on any over-the-counter NASDAQ or National Quotation Bureau systems. Accordingly, XO is currently reporting all Global Crossing debt securities at cost and has not accrued any interest income on this investment.

Long-Lived Assets

Long-lived assets includes property and equipment, fixed 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 June 30, 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 or more frequently if an event indicates that the asset might be impaired. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142"), the fair value of these intangible assets is determined based on a discounted cash flow methodology.

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, net of subsequent depreciation. Additions to property and equipment during 2003 are stated at cost, net of accumulated depreciation. 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.

Equipment held under capital leases is stated at the lower of the fair value of the asset or the net present value of the minimum lease payments at the inception of the lease. For equipment held under capital leases, depreciation is

provided using the straight-line method over the shorter of the estimated useful lives of the leased assets or the related lease term.

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

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

These useful lives are determined based on historical usage with consideration given to technological changes and trends in the industry, which could impact the network architecture and asset utilization. Accordingly, in making this assessment, the Company considers its planned use of the assets, the views of experts within the Company and outside sources regarding the impact of technological advances and trends in the industry on the value and useful lives of its network assets.

Fixed Wireless Licenses and Other Intangibles

Fixed wireless licenses acquired prior to December 31, 2002 are stated at their fair values at January 1, 2003, as required by fresh start, net of subsequent amortization. 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 fixed 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; however, it is reviewed at least annually for impairment as required under SFAS No. 142.

Other Assets

Other assets consist primarily of escrow and security deposits, investments in publicly traded companies and pledged securities. The escrow and security deposits and pledged securities are stated at cost, and their fair value approximates their carrying value. Investments in publicly traded companies are stated at fair value.

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.

As of December 31, 2002, the Company had net operating loss carryforwards of approximately \$4.0 billion and capital loss carryforwards of approximately \$0.5 billion. As of the Effective Date, the Company recognized a substantial amount of taxable income from the cancellation of indebtedness, eliminating a substantial portion of these capital and net operating loss carryforwards. Other tax attributes, including property bases, have also been reduced. Any surviving capital or net operating loss carryforwards will be subject to limitations imposed under the ownership change rules in the U.S. Internal Revenue Code. As discussed in more detail in note 10, the Company will join with the affiliated group of corporations controlled by Mr. Carl C. Icahn in filing a consolidated federal income tax return for periods following the Effective Date.

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 June 30, 2003 and December 31, 2002. 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.

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. During the first half of 2003, the settlements resulted in approximately \$12.4 million of net benefit to cost of service.

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.

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 Accounting Principles Board Opinion ("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 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 assumptions noted below. The

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

	Reorganized XO Three months ended June 30, 2003	Predecessor XO Three months ended June 30, 2002
Net loss applicable to common shares, as reported	\$ (19,836)	\$ (286,851)
Add: Stock-based employee compensation expense included in net loss applicable to common shares, as reported	—	8,891
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all stock awards, net of related tax effects	(3,957)	(366)
Pro forma net loss	<u>\$ (23,793)</u>	<u>\$ (278,326)</u>
Net loss per common share, basic and diluted:		
Net loss per common share, basic and diluted – as reported	<u>\$ (0.21)</u>	<u>\$ (0.65)</u>
Net loss per common share, basic and diluted – pro forma	<u>\$ (0.25)</u>	<u>\$ (0.63)</u>
Black Scholes Assumptions:		
Expected volatility	75.0%	125.0%
Risk free interest rate.....	2.4%	4.0%
Dividend yield.....	0.0%	0.0%
Expected life (range in years).....	4.0	4.0
Weighted average fair value per share at grant date	\$2.73	\$0.11

	Reorganized XO Six months ended June 30, 2003	Predecessor XO Six months ended June 30, 2002
Net loss applicable to common shares, as reported	\$ (40,324)	\$ (2,485,330)
Add: Stock-based employee compensation expense included in net loss applicable to common shares, as reported	—	17,986
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all stock awards, net of related tax effects	(7,995)	(732)
Pro forma net loss	<u>\$ (48,319)</u>	<u>\$ (2,468,076)</u>
Net loss per common share, basic and diluted:		
Net loss per common share, basic and diluted – as reported	<u>\$ (0.42)</u>	<u>\$ (5.62)</u>
Net loss per common share, basic and diluted – pro forma	<u>\$ (0.51)</u>	<u>\$ (5.58)</u>
Black Scholes Assumptions:		
Expected volatility	75.0%	125.0%
Risk free interest rate.....	2.6%	4.0%
Dividend yield.....	0.0%	0.0%
Expected life (range in years).....	4.0	4.0
Weighted average fair value per share at grant date	\$2.83	\$0.11

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 second quarter 2002, foreign currency translation adjustments relating to the Company's European operations, which were disposed of in February 2002.

Concentration of Credit Risk

During the second quarter of 2003, XO liquidated its entire portfolio of marketable securities which consisted of an investment portfolio containing U.S. government agency issued and other securities with a duration of less than one year. The Company invested a portion of the proceeds, \$158.5 million, in \$761.1 million principal amount of senior secured bank debt of Global Crossing, a telecommunications company which is currently in reorganization proceedings. The debt trades in a thin market primarily between dealers but is neither listed on any exchange nor on

any over-the-counter NASDAQ or National Quotation Bureau systems. If the Company chooses to liquidate its investment in this debt, it may not be able to locate a buyer that would allow it to liquidate the debt in a timely fashion to recover the amount paid. Accordingly, it cannot be assured that the Company will be able to dispose of the investment for an amount equal to or greater than the amount it paid for it, or that any distribution that may be received upon consummation of Global Crossing's bankruptcy case will have a value equal to or greater than this investment.

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. The Company believes that its established valuation and credit allowances are adequate as of June 30, 2003 to cover these risks.

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 Company's financial instruments classified as current assets and liabilities approximate their fair value due to their short maturities with the exception of the investment in debt securities which consists primarily of senior secured bank debt of Global Crossing, a telecommunications company which is currently in reorganization proceedings. The Global Crossing debt trades in a thin market primarily between dealers but is neither listed on any exchange nor on any over-the-counter NASDAQ or National Quotation Bureau systems and is therefore recorded at cost. Management believes that fair market value approximates cost for this investment.

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 5 to the accompanying condensed consolidated financial statements.

Effective January 1, 2003, the Company adopted SFAS No. 145, "Rescission of the Financial Accounting Standards Board (the "FASB") 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"). The adoption of SFAS No. 145 had no effect on the Company's financial position or results of operations for the reported periods. The Company recognized extraordinary gains from debt repurchases in the third and fourth quarters of 2001. In the future, such gains will be reclassified in the respective consolidated statements of operations in accordance with SFAS No. 145.

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. In the six months ended June 30, 2003, the Company did not have any exit or disposal activities after December 31, 2002; however, the provisions of SFAS No. 146 were implemented in conjunction with the Company's implementation of fresh start. Accordingly, as discussed in note 6, the Company's remaining restructuring accrual has been reduced to its net present value.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," ("SFAS No. 148") which amends SFAS No. 123, "Accounting for Stock-Based Compensation,"

("SFAS No. 123"), to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28, "Interim Financial Reporting," or 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. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 28. Effective January 1, 2003, we adopted the disclosure provisions of SFAS No. 148. 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, "Accounting for Stock Issued to Employees," or APB No. 25.

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. We do not believe that the adoption of SFAS No. 149 will have a material impact on our 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 2004. We do not believe the adoption of SFAS No. 150 will have a material impact on our consolidated financial statements.

4. LONG-LIVED ASSETS

As discussed in note 2, the Company applied fresh start on January 1, 2003. Accordingly its property and equipment, fixed wireless licenses and other intangible assets as of January 1, 2003, have been recorded at their then fair values. Purchases of long-lived assets during 2003 have been recorded at cost.

As of June 30, 2003, the Company had approximately \$598 million of long-lived assets, including approximately \$98 million of construction-in-progress and certain fixed wireless licenses that are not currently ready for their intended use or placed into service. Accordingly, these long-lived assets are not being depreciated or amortized.

Property and Equipment

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

	Reorganized XO June 30, 2003	Reorganized XO January 1, 2003	Predecessor XO December 31, 2002
Telecommunications networks and acquired bandwidth	\$ 368,727	\$ 359,247	\$ 2,920,819
Furniture, fixtures, equipment, and other	<u>72,161</u>	<u>61,501</u>	<u>656,994</u>
	440,888	420,748	3,577,813
Less accumulated depreciation	<u>(40,274)</u>	<u>—</u>	<u>(1,165,216)</u>
	400,614	420,748	2,412,597
Network construction-in-progress	<u>74,674</u>	<u>55,840</u>	<u>367,992</u>
	<u>\$ 475,288</u>	<u>\$ 476,588</u>	<u>\$ 2,780,589</u>

Depreciation expense related to property and equipment for the reorganized Company's three and six months ended June 30, 2003 was \$20.7 million and \$40.5 million, respectively, and for the predecessor Company's three and six months ended June 30, 2002 was \$141.5 million and \$276.5 million, respectively.

Fixed Wireless Licenses and Other Intangibles

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

	Reorganized XO June 30, 2003	Reorganized XO January 1, 2003	Predecessor XO December 31, 2002
Fixed wireless licenses	\$ 59,508	\$ 59,508	\$ 997,942
Customer relationships	49,987	49,987	123,745
Internally developed technology.....	9,521	9,521	—
Acquired technology	—	—	130,515
Other.....	—	—	35,413
	<u>119,016</u>	<u>119,016</u>	<u>1,287,615</u>
Less accumulated amortization	<u>(13,082)</u>	<u>—</u>	<u>(303,001)</u>
	105,934	119,016	984,614
XO Trade name – indefinite life asset	<u>16,662</u>	<u>16,662</u>	<u>—</u>
	<u>\$ 122,596</u>	<u>\$ 135,678</u>	<u>\$ 984,614</u>

Amortization expense related to intangible assets for the reorganized Company's three and six months ended June 30, 2003 was \$6.5 million and \$13.1 million, respectively, and for the predecessor Company's three and six months ended June 30, 2002 was \$26.4 million and \$52.7 million, respectively.

Goodwill

In July 2001, SFAS No. 142 was issued and revised the accounting for purchased goodwill and intangible assets and superseded APB Opinion No. 17, "Intangible Assets" ("APB No. 17"). As described in greater detail in the 2002 Annual Report, the predecessor Company performed the required impairment tests of goodwill as of January 1, 2002, and as a result, during the first quarter of 2002, the predecessor Company recorded a \$1,876.6 million adjustment as a cumulative effect of accounting change to write-off all of its goodwill.

5. ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations," ("SFAS No. 143") was issued which requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which the entity makes the legal or contractual commitment related to the removal obligation if a reasonable estimate of fair value can be made. The Company implemented SFAS No. 143 on January 1, 2003 in conjunction with its implementation of fresh start.

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.

6. RESTRUCTURING CHARGES AND ASSET WRITE-DOWNS

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 reducing the Company's discretionary spending, capital expenditures and workforce based on its assessment at that time of current and expected future market conditions and the divestiture of its European operations. As of June 30, 2003, the remaining restructuring accrual was \$36.2 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, primarily due to payments associated with exited leased facilities and adjustments made in conjunction with the Company's implementation of fresh start to appropriately reflect the remaining accrual at its net present value in accordance with the provisions of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities."

7. LONG-TERM DEBT

As discussed in the 2002 Annual Report and in note 2, upon the Effective Date, the \$1.0 billion of loans under the pre-petition senior secured credit facility were converted into 90.25 million shares of New Common Stock of the reorganized Company and \$500.0 million of outstanding principal amount of loans under the New Credit Agreement. The maturity date of the outstanding principal under the New Credit Agreement is July 15, 2009 and automatic and permanent quarterly reductions of the principal amount commence on October 15, 2007. The security for the New Credit Agreement consists of all assets of XO Parent, including stock of its direct and indirect subsidiaries, and all assets of virtually all of those subsidiaries. The New Credit Agreement limits additional indebtedness, liens, dividend payments and certain investments and transactions, and contains certain covenants with respect to minimum cash balance and EBITDA (earnings before interest, taxes, depreciation and amortization) requirements and maximum capital expenditures. Under certain circumstances, the New Credit Agreement permits the Company to obtain a senior secured facility of up to \$200.0 million, subject to reduction in an amount equal to any proceeds received from the exercise of rights in the Rights Offering. At June 30, 2003, long-term debt of \$517.3 million including \$500.0 million principal amount outstanding on the New Credit Agreement and \$17.3 million of accrued interest thereon. Approximately 85% of the underlying loans of the New Credit Agreement are held by Arnos Corp., an entity controlled by Mr. Carl C. Icahn, ("Mr. Icahn") Chairman and controlling shareholder of XO.

The Company is not required to pay cash interest accrued on the principal amount under the New Credit Agreement 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 New Credit Agreement 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 June 30, 2003, the annualized weighted average interest rate applicable to outstanding borrowings under the New Credit Agreement was 7.54%.

Also upon the Effective Date, all of XO Parent's pre-petition unsecured senior notes and pre-petition general unsecured claims were cancelled in exchange for (i) 4.75 million shares of New Common Stock of the reorganized Company, (ii) warrants to purchase shares up to an additional 23.75 million shares of New Common Stock of the reorganized Company (iii) rights to purchase shares of New Common Stock in accordance with the terms of the Rights Offering and (iv) a portion of the cash consideration 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. As part of the distribution process, XO Parent is holding approximately 1.0 million shares of New Common Stock and warrants to purchase approximately 6.2 million shares of New Common Stock in a reserve for distribution to holders of XO Parent's pre-petition unsecured senior notes and pre-petition general unsecured claims. These securities will be distributed upon final resolution of disputed XO Parent bankruptcy claims. Holders of pre-petition subordinated notes of XO Parent had their securities cancelled, and received a cash payment under certain terms as defined by the Plan of Reorganization and are entitled to participate in the Rights Offering.

8. 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 June 30, 2003, approximately 95.7 million shares of New Common Stock had been issued, more than 80% of which were owned and controlled by Cardiff Holding LLC ("Cardiff"), a Delaware limited liability company controlled by Mr. Icahn. As part of the distribution process, XO Parent is holding approximately 1.0 million shares of New Common Stock for distribution to XO Parent's pre-petition unsecured senior notes and pre-petition unsecured general claims after the resolution of disputed bankruptcy claims.

As a result of the cancellation of the pre-petition senior notes and pre-petition general unsecured claims, discussed in note 2, pursuant to the Plan of Reorganization on January 16, 2003, such holders were granted, 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.

As part of the distribution process, XO Parent is holding Series A Warrants to purchase approximately 2.5 million shares of New Common Stock, Series B Warrants to purchase approximately 1.8 million shares of New Common Stock and Series C Warrants to purchase approximately 1.8 million shares of New Common Stock in a reserve for distribution to holders of XO Parent's pre-petition unsecured senior notes and pre-petition general unsecured claims after the resolution of disputed bankruptcy claims. The warrants are included in reorganized XO's common stock in the accompanying condensed 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. Upon final distribution of warrants under the Plan of Reorganization, XO estimates Cardiff will own Series A Warrants to purchase approximately 3.0 million shares of New Common Stock, Series B Warrants to purchase approximately 2.3 million shares of New Common Stock, and Series C Warrants to purchase approximately 2.3 million shares of New Common Stock.

In accordance with the Plan of Reorganization, XO Parent intends to issue 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 up to 40.0 million shares of New Common Stock, at \$5.00 per share, through the Rights Offering. In addition, pursuant to the Stockholder Stipulation, holders of shares of pre-petition class A common stock of XO Parent will receive additional nontransferable rights exercisable for up to 3.3 million shares of New Common Stock to the extent that the rights otherwise allocable to such holders in the Rights Offering are exercisable for less than 3.3 million shares of New Common Stock at \$5.00 per share. Accordingly, not less than 40.0 million shares and not more than 43.3 million shares will be offered in the Rights Offering. XO Parent filed a registration statement with the Commission on July 22, 2003 with respect to the shares of New Common Stock issuable upon exercise of these rights. The Rights Offering is not expected to commence prior to final disposition by the Bankruptcy Court of pending general unsecured claims. Any proceeds will be used to pay down principal outstanding under the New Credit Agreement.

The Company's pre-petition Class A common stock stopped trading on the National Association of Securities Dealers, Inc. Over-the-Counter Bulletin Board (the "OTCBB") as of the Effective Date, and the Company's New Common Stock began trading on the OTCBB and the pink sheets (www.pinksheets.com) under the symbol "XOCM" shortly thereafter. Pursuant to the Plan of Reorganization, all interests in the Company's pre-petition Class A and Class B common stock were terminated as of the Effective Date. As discussed in note 2, the Company's pre-petition redeemable preferred stock was cancelled and discharged and the holders of such securities received no distribution under the Plan of Reorganization, but are entitled to participate in the Rights Offering.

The Company has a stock option plan that can further dilute investors if exercised. This plan is discussed further in note 11. On June 30, 2003, there were 9.5 million in-the-money warrants and 2.6 million exercisable in-the-money stock options, which, if exercised, would have resulted in an additional 12.1 million shares of New Common Stock being issued.

9. OPERATING SEGMENTS

The Company operates its business as one telecommunications segment and classifies its products and services revenues offered by its telecommunications services segment into voice services, data services and integrated voice and data services (dollars in thousands):

	Reorganized XO Three months ended June 30, 2003	Predecessor XO Three months ended June 30, 2002	Reorganized XO Six months ended June 30, 2003	Predecessor XO Six months ended June 30, 2002
Voice services.....	\$ 150,020	\$ 175,321	\$ 300,743	\$ 344,155
Data services.....	97,321	118,630	199,298	254,391
Integrated voice and data.....	<u>36,577</u>	<u>31,529</u>	<u>69,970</u>	<u>60,339</u>

Total revenue \$ 283,918 | \$ 325,480 | \$ 570,011 | \$ 658,885

10. RELATED PARTY TRANSACTIONS

After the initial distribution of New Common Stock pursuant to the Plan of Reorganization, Cardiff Holding LLC, a Delaware limited liability company controlled by Mr. Icahn, holds more than 80% of the outstanding shares of New Common Stock. Of the warrants to be distributed under the Plan of Reorganization to holders of the pre-petition senior unsecured notes, it is estimated Cardiff will receive Series A Warrants to purchase approximately 3.0 million shares of New Common Stock, Series B Warrants to purchase approximately 2.3 million shares of New Common Stock, and Series C Warrants to purchase approximately 2.3 million shares of New Common Stock. As companies controlled by Mr. Icahn owned portions of XO's predecessor unsecured debt, they are claimants in the Company's bankruptcy reorganization and will receive approximately 30% of the rights to participate in its Rights Offering. If the Icahn affiliates elect to exercise these rights they could acquire additional shares of New Common Stock. In addition, approximately 85% of the \$500.0 million in loans outstanding under the New Credit Agreement are held by Arnos Corp., an entity which is also controlled by Mr. Icahn.

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.

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. In connection with Dixon's purchase of the building, it assumed the Company's existing lease agreement and amended the lease to include certain terms that are more favorable to the Company. Pursuant to the assumed lease agreement, XO has paid \$1.6 million in lease expense to Dixon through June 30, 2003 and XO is obligated to pay approximately \$17.0 million in the aggregate to Dixon through the expiration of the initial term of the lease, which is November 30, 2007.

XO Parent has entered into a Tax Allocation Agreement, dated January 16, 2003, between XO Parent and Starfire Holding Corporation ("Starfire"), the parent entity of the affiliated group of corporations controlled by Mr. Icahn, which in turn indirectly controls Cardiff, because it is contemplated that these entities will be filing consolidated federal income tax returns, and possibly combined returns for state tax purposes. The Tax Allocation Agreement, which was approved by the Bankruptcy Court in connection with XO Parent's Chapter 11 proceedings, establishes the methodology for the calculation and payment of income taxes in connection with the consolidation of the Company with Starfire for income tax purposes. Generally, the Tax Allocation Agreement provides that Starfire will pay all consolidated federal income taxes on behalf of the consolidated group that includes the Company, and the Company 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.

The Company provides certain telecommunications services to companies affiliated with Mr. Icahn. For the three and six months ended June 30, 2003, the total revenue recognized and contracted on such services was less than \$0.3 million.

11. STOCK-BASED COMPENSATION

Upon the Effective Date of the Plan of Reorganization, all options under the predecessor XO stock option plans were cancelled and the plans were terminated. Upon the Effective Date of the Plan of Reorganization, the XO Communications, Inc. 2002 Stock Incentive Plan ("the 2002 Stock Incentive Plan") was adopted. 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. Non-qualified options to purchase 10.0 million shares of New Common Stock have been granted and are outstanding as of June 30, 2003.

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 will be granted in the third quarter of 2003, fifty percent of which will be 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 eighty percent of the fair market value of one share of Common Stock on the effective date of the Retention Plan, or \$5.84. Any compensation expense will be recorded based on the associated vesting period.

12. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is not currently a party to any legal proceedings, other than regulatory and other proceedings that are in the normal course of business. However, as discussed above, although XO Parent has consummated its Plan of Reorganization and emerged from its Chapter 11 proceedings, disputes with respect to the amount of allowed claims owed by XO Parent to certain of its general unsecured creditors, and claims of certain professionals remain outstanding. In addition, a party has filed a complaint in the Bankruptcy Court seeking relief from the court's order confirming the Plan of Reorganization and a declaratory judgment that such party's derivative suit for the benefit of the Company against a former director of XO Parent and an affiliate of that director should not be released by the confirmation order. While the outcome of these matters, or any other relief that may be granted, is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Investment in Debt Securities

During the second quarter of 2003, XO liquidated its entire portfolio of marketable securities which consisted of an investment portfolio containing U.S. government agency issued and other securities with a duration of less than one year. The Company invested a portion of the proceeds, \$158.5 million, in \$761.1 million principal amount of senior secured bank debt of Global Crossing, a telecommunications company which is currently in reorganization proceedings. The debt trades in a thin market primarily between dealers but is neither listed on any exchange nor on any over-the-counter NASDAQ or National Quotation Bureau systems. If the Company chooses to liquidate its investment in this debt, it may not be able to locate a buyer that would allow it to liquidate the debt in a timely fashion to recover the amount paid. Accordingly, it cannot be assured that the Company will be able to dispose of the investment for an amount equal to or greater than the amount it paid for it, or that any distribution that may be received upon consummation of Global Crossing's bankruptcy case will have a value equal to or greater than this investment.

Bid to Purchase Assets

In August 2003, XO bid at a Bankruptcy Court auction on certain of the assets and business of Touch America, Inc., ("Touch America"), a facilities-based telecommunications provider serving enterprise and carrier customers in the Western, Central and Southern United States. XO's final bid of approximately \$42.5 million, less \$5.6 million of pass through revenue, was the second-highest bid received in the auction. As a result, under the rules governing the auction, if the winning bidder fails to close its proposed purchase, Touch America will have the right, but not the obligation, to accept XO's final bid. XO's final bid was subject to a number of contractual terms including, without limitation, Touch America's compliance with representations and warranties, the absence of any material adverse change in Touch America's business, additional covenants, regulatory approval, and other conditions.

Prepaid Calling Card Tax Matter

On July 26, 2002, the Company was advised by the staff of the Commission that it was conducting an informal inquiry primarily relating to the Company's obligations with respect to, and its accrual of liabilities for, specified federal excise and state sales tax and similar tax obligations arising in connection with prepaid calling card services and relating to certain other matters. On July 29, 2003, the Company was notified by the Commission that the investigation was terminated and no enforcement action has been recommended.

Unfunded Affiliate Pension Obligation

As affiliates of Mr. Icahn hold over 80% of the outstanding New Common Stock of XO Parent, applicable pension and tax laws make each member of a plan sponsor's "controlled group" (generally defined as entities in which there is at least an 80% common ownership interest) is 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 more than 80% ownership interest in XO Parent by Mr. Icahn's affiliates, XO Parent and its subsidiaries will be subject to the pension liabilities of any entities in which Mr. Icahn has a direct or indirect ownership interest of at least 80%, which includes ACF Industries, Inc. ("ACF"), which is the sponsor of certain pension plans. As most recently determined by the ACF plans' actuaries, pension plans maintained by ACF are underfunded in the aggregate by approximately \$14 million on an ongoing actuarial basis and by approximately \$102 million if those plans were terminated. As a member of the same controlled group, XO Parent and each of its subsidiaries would be liable for any failure of ACF to make ongoing pension contributions or to pay the unfunded liabilities upon a termination of the ACF pension plans.

The current underfunded status of the ACF pension plans requires ACF to notify the PBGC if XO Parent or its subsidiaries cease to be a member of the ACF controlled group. In addition, so long as the Company remains a member of the ACF controlled group, certain other "reportable events," including certain extraordinary dividends and stock redemptions, must be reported to the PBGC.

PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking and Cautionary Statements

Some of the statements contained in this filing discuss future expectations and business strategies or include other "forward-looking" information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. We undertake no obligation to publicly update or revise any forward-looking statements.

Overview

We provide a comprehensive array of voice and data telecommunications services to business customers. Our voice services include local and long distance, both bundled and standalone, other voice-related services such as audio conferencing, domestic and international toll free services and voicemail, and transactions processing services for prepaid calling cards. Our data services include Internet access, private data networking, including dedicated transmission capacity on our networks, virtual private network services and Ethernet services, and hosting services. We also combine many of these services in flat rate service packages. These services are offered to a variety of customers, including small, medium and large retail business, multi-location businesses and carrier or wholesale customers.

To serve our customers' broad and expanding telecommunications needs, we operate a network comprised of a series of rings of fiber optic cables located in the central business districts of numerous metropolitan areas, which we refer to as metro fiber networks, that are connected primarily by a network of numerous dedicated wavelengths on fiber optic cables, which we refer to as an intercity network. By integrating these networks with advanced telecommunications technologies, we are able to provide a comprehensive array of telecommunications services entirely over a network that we own or control, from the initiation of the voice or data transmission to the point of termination, which we refer to as end-to-end service. This capability enables us to provide telecommunication services between customers connected to our network and among customers with multiple locations entirely over our network.

To develop these networks, we have assembled a collection of metro and intercity network assets in the United States, substantially all of which we own or control, making us a facilities-based carrier. These 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 operate 37 metro broadband fiber optic networks in 22 states and the District of Columbia, including 25 of the 30 largest metropolitan areas in the U.S. We have constructed or acquired many of these metro networks, which consist of up to 432 strands of fiber optic cable and, in some cases, additional empty fiber conduits through which fiber optic cable can be deployed. For our inter-city network, we have acquired dedicated, high-capacity wavelengths on fiber optic cables, onto which we have deployed our own switching, routing and optical equipment, thereby giving us greater control over the transmission of voice and data information. We also hold indefeasible exclusive rights to use 18 unlit fiber optic strands on the routes served by our intercity networks pursuant to arrangements with Level 3 Communications, Inc.

Recent Events

Announcement of Offer to Acquire All of the Assets of Global Crossing Ltd. and Global Crossing Holdings Ltd.

On May 30, 2003, we made the first of a series of offers to acquire all of the assets and business of Global Crossing Ltd. and Global Crossing Holdings, Ltd. which we collectively refer to as Global Crossing, a telecommunications company which is currently in Chapter 11 reorganization proceedings. Thereafter, we made several modifications to, and enhancements of, our initial offer, and, on June 24, 2003, commenced an offer to purchase all of the senior secured bank debt of Global Crossing that we did not already own. As a result of these series of offers, we paid approximately \$158.5 million to acquire approximately \$761.1 million principal amount of the approximately \$2,214.0 million principal amount of such debt outstanding.

On July 1, 2003, the United States Bankruptcy Court for the Southern District of New York approved Global Crossing's request to extend until October 28, 2003 the exclusivity period of its existing purchase agreement with Singapore Technologies PTE. We intend to actively monitor Global Crossing's reorganization and the regulatory proceedings that are conditions to any closing under the Singapore Technologies PTE agreement.

Bid to Purchase Assets

In August 2003, XO bid at a Bankruptcy Court auction on certain of the assets and business of Touch America, Inc., a facilities-based telecommunications provider serving enterprise and carrier customers in the Western, Central and Southern United States. XO's final bid of approximately \$42.5 million, less \$5.6 million of pass through revenue, was the second-highest bid received in the auction. As a result, under the rules governing the auction, if the winning bidder fails to close its proposed purchase, Touch America will have the right, but not the obligation, to accept XO's final bid. XO's final bid was subject to a number of contractual terms including, without limitation, Touch America's compliance with representations and warranties, the absence of any material adverse change in Touch America's business, additional covenants, regulatory approval, and other conditions.

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.

Our Chapter 11 Reorganization and Emergence

The Reorganization Proceedings

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, the Effective Date, XO Parent consummated the plan of reorganization and it emerged from its Chapter 11 reorganization proceedings with a significantly restructured balance sheet. As described in more detail in our annual report on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on March 21, 2003, hereinafter referred to as the 2002 Annual Report, the consummation of the Plan of Reorganization resulted in the following changes in our debt and equity capital structure:

- The conversion of \$1.0 billion of loans under XO Parent's pre-petition senior secured credit facility, which we refer to as the Pre-Petition Credit Facility, into \$500.0 million of outstanding principal amount which we refer to as the New Credit Agreement;
- The extinguishment of all amounts due under our pre-petition unsecured senior and subordinated notes and certain general unsecured obligations; and
- The cancellation of all outstanding shares and interest in our pre-petition preferred stock and pre-petition common stock.

Under our Plan of Reorganization, the following equity securities have been or will be distributed to holders of XO Parent's Pre-Petition Credit Facility, pre-petition unsecured senior subordinated notes, and pre-petition general unsecured claims:

- 95.0 million shares of common stock of the reorganized company, which we refer to as the New Common Stock;
- 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.

In accordance with the terms of our Plan of Reorganization we filed a registration statement with the Securities and Exchange Commission on July 22, 2003, under which XO Parent intends to issue to certain holders of claims and/or interests 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. In addition, holders of shares of pre-petition Class A common stock of XO Parent will receive additional nontransferable rights for up to 3.3 million shares of New Common Stock at \$5.00 per share to the extent that the rights otherwise allocable to such holders in the Rights Offering are exercisable for less than 3.3 million shares of New Common Stock. Accordingly, not less than 40.0 million and not more than 43.3 million shares will be offered in the Rights Offering. The Rights Offering is not expected to commence prior to final disposition by the Bankruptcy Court of pending general unsecured claims. Any proceeds from the Rights Offering will be used to retire outstanding debt of the New Credit Agreement discussed further in Liquidity and Capital Resources.

Distributions to and Interests Held by Entities Controlled by Mr. Carl C. Icahn

After the initial distribution of New Common Stock pursuant to the Plan of Reorganization, Cardiff Holding LLC, a Delaware limited liability company controlled by Mr. Carl C. Icahn, Chairman of XO, holds more than 80% of the outstanding shares of New Common Stock. Upon final distribution of warrants under the Plan of Reorganization, we estimate Cardiff will receive Series A Warrants to purchase approximately 3.0 million shares of New Common Stock, Series B Warrants to purchase approximately 2.3 million shares of New Common Stock, and Series C Warrants to purchase approximately 2.3 million shares of New Common Stock. As companies controlled by Mr. Icahn owned portions of our predecessor unsecured debt, they are claimants in our reorganization and will receive approximately 30% of the rights to participate in our Rights Offering. If they elect to exercise these rights they could acquire additional shares of New Common Stock. In addition, approximately 85% of the \$500.0 million in loans outstanding under the New Credit Agreement are held by Arnos Corp., an entity which is also controlled by Mr. Icahn.

Accounting Impact of Implementing the Plan of Reorganization

Due to XO Parent's emergence from its Chapter 11 proceeding, we have implemented the "fresh start" accounting provisions of the American Institute of Certified Public Accountants, or the AICPA, Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code," to our financial statements. Fresh start requires that, upon our emergence, we establish a "fair value" basis for the carrying value of the assets and liabilities for reorganized XO. 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, we 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 January 1, 2003 balance sheet included in the accompanying condensed consolidated financial statements set forth in Item 1 above, and in note 2 to such financial statements, illustrates the impact of applying fresh start.

Comparison of Financial Results

As a consequence of the Chapter 11 reorganization, the financial results for the three and six months ended June 30, 2003 have been separately presented under the label "Reorganized XO." The results for "Predecessor XO" for January 1, 2003 reflect solely the impact of the application of fresh start on that date. 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 three and six months ended June 30, 2003 are discussed below.

Three and Six Months Ended June 30, 2003 versus Three and Six Months Ended June 30, 2002

Revenue. Total revenue for the three months ended June 30, 2003 decreased 12.8% to \$283.9 million from \$325.5 million in the same period of 2002 while total revenue for the six months ended June 30, 2003 decreased 13.5% to \$570.0 million from \$658.9 million for the same period of 2002. This decline is primarily due to a high level of customer disconnects due to reduced demand from other telecommunications companies, customer

bankruptcies in the telecommunication industry, and the weakened economy. In addition, sales productivity has declined due to fewer direct sales representatives and adverse public perception that accompanied our Chapter 11 proceedings. To increase sales activity in 2003, we have hired and continue to hire additional direct sales personnel. Programs launched in 2002 to decrease customer disconnects will continue. Given our January 16, 2003 emergence from bankruptcy and continued uncertainty in the economy and in the telecommunications industry specifically, we are unable to predict revenue trends in future periods. Revenue was earned from providing the following services (dollars in thousands):

	Reorganized XO		Predecessor XO		
	Three Months Ended		Three Months Ended		
	June 30,		June 30,		
	2003	% of Revenue	2002	% of Revenue	% Change
Voice services.....	\$ 150,020	52.8%	\$ 175,321	53.9%	(14.4%)
Data services.....	97,321	34.3%	118,630	36.4%	(18.0%)
Integrated voice and data.....	36,577	12.9%	31,529	9.7%	16.0%
Total revenue.....	<u>\$ 283,918</u>	<u>100.0%</u>	<u>\$ 325,480</u>	<u>100.0%</u>	(12.8%)

	Reorganized XO		Predecessor XO		
	Six Months Ended		Six Months Ended		
	June 30,		June 30,		
	2003	% of Revenue	2002	% of Revenue	% Change
Voice services.....	\$ 300,743	52.7%	\$ 344,155	52.2%	(12.6%)
Data services.....	199,298	35.0%	254,391	38.6%	(21.7%)
Integrated voice and data.....	69,970	12.3%	60,339	9.2%	16.0%
Total revenue.....	<u>\$ 570,011</u>	<u>100.0%</u>	<u>\$ 658,885</u>	<u>100.0%</u>	(13.5%)

Voice services revenue includes revenue from bundled 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 three months ended June 30, 2003 decreased to \$150.0 million from \$175.3 million for the same period of 2002, and for the six months ended June 30, 2003, decreased to \$300.7 million from \$344.2 million in the same period of 2002. The decrease is primarily attributable to customer disconnects and usage reductions arising from customers' downsizing due to the state of the domestic economy and reduction in sales productivity while we were in bankruptcy.

Data services revenue includes revenue from Internet access, network access and web applications hosting services. Data services revenue for the three months ended June 30, 2003 decreased to \$97.3 million from \$118.6 million for the same period of 2002, and for the six months ended June 30, 2003, it decreased to \$199.3 million from \$254.4 million for the same period of 2002. The decline was attributable to customer bankruptcies, continued customer disconnects, and a lower demand from large customers due to reductions in those customers' data capacity needs. The sale of our European operations in February 2002 also partially 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 for the three months ended June 30, 2003 increased to \$36.6 million from \$31.5 million for the same period in 2002, and for the six months ended June 30, 2003, it increased to \$70.0 million from \$60.3 million in the same period of 2002. The increase is due to the 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		Predecessor XO		
	Three Months Ended		Three Months Ended		
	June 30,		June 30,		
	2003	% of Revenue	2002	% of Revenue	% Change
Costs and expenses:					
Cost of service.....	\$104,898	36.9 %	\$ 134,346	41.3%	(21.9%)
Selling, operating and general.....	165,042	58.1%	188,253	57.8%	(12.3%)
Stock-based compensation.....	—	—	8,891	2.7%	NM
Depreciation and amortization.....	27,238	9.6 %	167,843	51.6%	(83.8%)
Restructuring and asset write-downs	—	—	2,918	0.9%	NM

Total	<u>\$297,178</u>			<u>\$ 502,251</u>		(40.8%)
	Reorganized XO			Predecessor XO		
	Six Months Ended			Six Months Ended		
	June 30,			June 30,		
	2003	% of		2002	% of Revenue	% Change
		Revenue				
Costs and expenses:						
Cost of service	\$ 212,404	37.3 %		\$ 274,713	41.7%	(22.7%)
Selling, operating and general.....	331,277	58.1 %		393,503	59.7%	(15.8%)
Stock-based compensation.....	—	—		17,986	2.7%	NM
Depreciation and amortization.....	53,605	9.4%		329,199	50.0%	(83.7%)
Restructuring and asset write-downs.	—	—		2,918	0.4%	NM
Total.....	<u>\$597,286</u>			<u>\$ 1,018,319</u>		(41.3%)

NM - Not Meaningful

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 three and six months ended June 30, 2003 decreased in absolute dollars and as a percentage of revenue compared to the same period in 2002. The year over year decline was due primarily to cost optimization programs which reduced expenses by transferring traffic from leased facilities onto our owned or controlled facilities, reduced costs due to customer disconnects, and \$12.4 million of favorable resolution of disputed third party costs during the first half of 2003. The decline was partially offset by our adoption of an accounting policy during the first quarter of 2003 (in connection with the implementation of fresh start accounting), to cease the deferral of costs associated with the installation of customer services and instead, to expense such installation costs as incurred.

We anticipate that cost of service will increase to historical levels as a percentage of revenue in future periods, based on our expectation that the reduction in expenses resulting from favorable dispute resolutions will be less than we experienced in the six months ended June 30, 2003. In addition, we expect cost of service will fluctuate based on trends in revenue, product mix, the impact of customer bankruptcies, the extension of services into new markets, and regulatory decisions.

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 three months ended June 30, 2003 was \$165.0 million versus \$188.3 million for the same period in 2002. For the six months ended June 30, 2003, selling, operating and general expense was \$331.3 million versus \$393.5 million for the same period in 2002. Selling, operating and general expense decreased in part due to the centralization of many functions, cost reduction and restructuring initiatives that included significant headcount reductions and the February 2002 divestiture of our European operations. In addition, recording our real estate contracts at their fair value, as required by fresh start, contributed to the decrease. During June 2003, a new Employee Retention and Incentive Plan, hereinafter referred to as the 2003 Retention Plan, was implemented which provides for both cash and equity based awards. Eligible employees were permitted to elect the Retention Plan in lieu of our existing cash only bonus plan. As a result, the Company reduced its bonus liability and selling, operating and general costs by approximately \$5.4 million. The reduction was partially offset by our adoption of the policy of expensing internal labor costs directly associated with customer installation and the construction of our network.

We expect selling, operating and general expense to increase in absolute dollars for the remainder of 2003 due primarily to new sales incentive and marketing programs.

Stock-based compensation. Stock-based compensation expense represents non-cash charges recorded in connection with the grant of compensatory stock options and restricted stock to employees whose compensation is included in selling, operating and general expense. During the three months and six months ended June 30, 2003, XO incurred no stock-based compensation expense as its deferred compensation balance was eliminated in conjunction with fresh start. XO incurred \$8.9 million in deferred compensation expense in the second quarter of

2002 and \$18.0 million in the first half of 2002. The reorganized company will recognize stock-based compensation with respect to new grants of compensatory stock options and restricted stock when such awards are granted at less than fair market value on the grant date.

Depreciation and amortization. As discussed above, we implemented fresh start on January 1, 2003 which resulted in a reduction of the carrying value of our property and equipment to its estimated fair value which is significantly lower than historical cost. Consequently, depreciation expense decreased to \$20.7 million for the three months ended June 30, 2003, versus \$141.5 million for the same period in 2002 and to \$40.5 million for the first six months of 2003 versus \$276.5 million in the first six months of 2002. Amortization expense includes the amortization of fixed wireless licenses and other intangible assets with definite lives. As a result of fresh start accounting, the carrying value of fixed wireless licenses and intangible assets was adjusted to their estimated fair value. The aggregate estimated fair value of these assets is significantly lower than their historical cost. Total amortization expense decreased to \$6.5 million for the three months ended June 30, 2003 versus \$26.4 million for the same period in 2002 and it decreased to \$13.1 million for the first six months of 2003 versus \$52.7 million for the first six months of 2002.

We expect depreciation and amortization expense for the remainder of the year to continue to track with the first half of 2003. As of June 30, 2003, we had approximately \$598 million of long-lived assets, including approximately \$98 million of construction-in-progress and certain fixed wireless licenses that are not currently ready for their intended use or placed into service and, accordingly, are not currently being depreciated or amortized.

Interest income. Interest income for the three months ended June 30, 2003 increased to \$4.7 million from \$4.2 million for the same period in 2002. The increase is due to the gain recognized on available-for-sale marketable securities that were sold to purchase the Global Crossing debt securities discussed in Recent Events. Prior to selling the marketable securities, the unrealized gains on these investments were recognized in comprehensive income. For the six months ended June 30, 2003, interest income decreased to \$7.8 million versus \$9.8 million for the first six months of 2002. The decrease in interest income is due primarily to reduced interest rates on lower invested balances, offset by the gain recognition.

Interest expense, net. Interest expense, net for the reorganized Company for the three and six months ended June 30, 2003 was \$11.7 million and \$21.4 million, respectively. For the three and six months ended June 30, 2002, interest expense was \$104.4 million and \$225.1 million, respectively. The significant reduction was caused by the cancellation of our pre-petition senior notes, pre-petition convertible subordinated notes and the Pre-Petition Credit Facility upon consummation of our Plan of Reorganization. Interest expense for the six months ended June 30, 2003 primarily relates to interest on the New Credit Agreement. Proceeds from the Rights Offering will be used to retire outstanding debt of the New Credit Agreement, discussed further in Liquidity and Capital Resources.

Critical Accounting Policies

Our significant accounting policies are more fully described in the notes to the consolidated financial statements in our 2002 Annual Report. The preparation of the condensed 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 condensed 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 condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Investment in Debt Securities

Investment in debt securities at June 30, 2003 consist primarily of investments in senior secured bank debt of Global Crossing, a telecommunications company which is currently in Chapter 11 reorganization proceedings. The debt trades in a thin market primarily between dealers but is neither listed on any exchange nor on any over-the-counter NASDAQ or National Quotation Bureau systems. Accordingly, we currently report all Global Crossing debt securities at cost, which approximates fair value, and have not accrued any interest income on this investment.

Long-Lived Assets

Our long-lived assets include property and equipment, fixed wireless licenses, and identifiable intangible assets to be held and used. Property and equipment acquired prior to December 31, 2002 is stated at fair value as required by fresh start, net of accumulated depreciation. Additions to property and equipment during 2003 are stated at historical cost, net of accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. 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. Costs of additions and improvements (other than internal labor costs related to network construction, as discussed below) 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.

Investments in fixed wireless licenses acquired prior to December 31, 2002 are stated at fair value as required by fresh start, net of accumulated amortization. We are amortizing these over the license period of 10 years as determined by the Federal Communications Commission. Other intangibles 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 the estimated useful lives of three years. The XO trade name was determined to have an indefinite life and is not being amortized, but is reviewed at least annually for impairment, as required under Statement of Financial Accounting Standards, or SFAS, No. 142 "Goodwill and Other Intangible Assets," or SFAS No. 142.

Depreciation or amortization of the long-lived asset begins when the asset is substantially complete or placed into service. At June 30, 2003, our balance sheet includes approximately \$598 million of long-lived assets, including approximately \$98 million of construction-in-process and certain fixed wireless licenses, that were either not ready for their intended use or not placed into service, and accordingly are not being depreciated or amortized.

Long-lived assets 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," or SFAS No. 144. The criteria for determining impairment for 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 and their eventual disposition. We believe that no impairment existed under SFAS No. 144 as of June 30, 2003. In the event that there are changes in the planned use of our long-lived assets or our expected future undiscounted cash flows are reduced significantly, our assessment of our ability to recover the carrying value of these assets under SFAS No. 144 could change.

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 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, 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 June 30, 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.

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 we receive upfront cash payments and are 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.

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.

Income Taxes

We account 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.

As of December 31, 2002, we had net operating loss carryforwards of approximately \$4.0 billion and capital loss carryforwards of approximately \$0.5 billion. As of the Effective Date, we recognized a substantial amount of taxable income from the cancellation of indebtedness, eliminating a substantial portion of these capital and net operating loss carryforwards. Other tax attributes, including property bases, have also been reduced. Any surviving capital or net operating loss carryforwards will be subject to limitations imposed under the ownership change rules in the U.S. Internal Revenue Code. As discussed in more detail in note 10 to the accompanying Condensed Consolidated financial statements, we will join with the affiliated group of corporations controlled by Mr. Carl C. Icahn in filing a consolidated federal income tax return for periods following the Effective Date.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, or FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," or 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 5 to the accompanying condensed consolidated financial statements.

Effective January 1, 2003, we adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002" or 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 Accounting Principles Board Opinion, or APB, 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". The adoption of SFAS No. 145 had no effect on our financial position or results of operations for the three and six months ended June 30, 2003 and 2002. We recognized extraordinary gains from debt repurchases in the third and fourth quarters of 2001. In the future, such gains will be reclassified in the respective consolidated statements of operations in accordance with SFAS No. 145.

Effective January 1, 2003, we adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" or 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. In the first half of 2003, we did not have any exit or disposal activities initiated after December 31, 2002; however, the provisions of SFAS No. 146 were implemented in conjunction with our implementation of fresh start accounting. Accordingly, as disclosed in note 5 to the accompanying condensed consolidated financial statements, our remaining restructuring accrual has been reduced to its net present value.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," or SFAS No. 148 which amends SFAS No. 123, "Accounting for Stock-Based Compensation," or SFAS No. 123, to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28, "Interim Financial Reporting," or 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. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 28. Effective January 1, 2003, we adopted the disclosure provisions of SFAS No. 148. 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, "Accounting for Stock Issued to Employees," or APB No. 25.

In May 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," or 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. We do not believe that the adoption of SFAS No. 149 will have a material impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," or 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 2004. We do not believe the adoption of SFAS No. 150 will have a material impact on our consolidated financial statements.

Liquidity and Capital Resources

Our goal is to provide our customers complete, integrated, voice and data network applications and services primarily through networks that we own or control. We believe that the consummation of our Plan of

Reorganization and the changes in our capital structure as a result of our emergence from Chapter 11 bankruptcy along with the various initiatives we have undertaken to reduce operating costs and capital expenditures over the past two years, position us to be able to successfully execute our business plans and generate cash flow over the long term. However, in the near term we expect to incur net negative cash flows from operating and investing activities.

Our balance of cash, marketable securities, and investments in debt securities decreased to \$521.9 million at June 30, 2003 from \$561.0 million at December 31, 2002. During the second quarter of 2003 we liquidated our entire portfolio of marketable securities containing U.S. government agency issued securities. We made an offer to acquire any and all of the outstanding senior secured bank debt of Global Crossing. As a result, we paid \$158.5 million to purchase \$761.1 million principal amount of secured bank debt of Global Crossing Holdings Ltd. and Global Crossing North America, Inc., telecommunications companies which are currently in reorganization proceedings. We now hold approximately 34% of the \$2.214 billion principal amount of such debt outstanding. These Global Crossing securities are classified as investment in debt securities, they are significantly higher in risk than our previous marketable securities as they are thinly traded between dealers, not listed on any exchange or on the over-the-counter market and may not be recoverable at our cost should Global Crossing's financial condition deteriorate or reorganization plan be further delayed or not consummated.

Capital Resources and Liquidity Assessment

We expect that, in the near term, our business will use existing cash to fund capital expenditures and 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 optical equipment, channel banks, routers, servers or other 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 remaining 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. Part of our working capital requirements are commitments under lease and contractual obligations for software licenses and ongoing support of software for IT and network applications.

There are no additional borrowings available under our New Credit Agreement, although, under certain circumstances, the New Credit Agreement permits us to obtain a senior secured facility of up to \$200.0 million, less the amount of any proceeds from the Rights Offering, so long as the terms are satisfactory to the administrative agent and holders of a majority of the principal amount of the loans outstanding under the New Credit Agreement. We have no current debt service requirements since automatic and permanent quarterly reductions of the principal amount outstanding under the New Credit Agreement do not commence until October 15, 2007. We are not required to pay cash for interest accrued on the principal amount under the New Credit Agreement until we meet certain financial ratios. As previously noted, XO filed the Rights Offering registration statement with the Commission on July 22, 2003. We cannot predict at this time how much capital will be raised, but all proceeds will be used to pay down principal outstanding under the New Credit Agreement and will reduce the amount permissible under the \$200.0 million senior secured facility discussed above.

We expect that our current cash balance of \$361.2 million will be sufficient to fund our working capital and capital expenditure needs and allow us to successfully execute our business plans. Current economic conditions of the telecommunications industry, however, have created potential opportunities for XO to acquire companies or portions of companies at attractive prices. We may in the future make offers to acquire additional debt instruments or control of, or otherwise invest in, lend to or otherwise do business with Global Crossing, as well as acquire additional telecommunication companies or assets. If we do so, we do not know what the terms of any such transactions would be. Such transactions, if any, involving cash consideration could significantly and adversely affect our liquidity. To support further business expansion, including investments in or acquisitions of other companies, we may consider additional equity and debt financings.

Our current financial projections do not assure that we will have sufficient cash to repay debt amounts due in 2006 under the New Credit Agreement. We expect to be able to refinance the debt outstanding under our New Credit Agreement in or prior to 2006, and expect to be in position to do so on commercially reasonable terms, however no assurance can be given that we will be successful in refinancing this debt or under the terms that are commercially reasonable. Approximately 85% of the underlying loans of the New Credit Agreement are currently held by an entity controlled by Mr. Icahn.

Off-Balance Sheet Transactions

We are not currently engaged in the use of off-balance sheet derivative financial instruments, to hedge or partially hedge interest rate exposure.

Credit Risk

During the second quarter of 2003, XO liquidated its entire portfolio of marketable securities which consisted of an investment portfolio containing U.S. government agency issued and other securities with a duration of less than one year. XO invested a portion of the proceeds, \$158.5 million, in \$761.1 million principal amount of senior secured bank debt of Global Crossing, a telecommunications company which is currently in reorganization proceedings. The debt trades in a thin market primarily between dealers but is neither listed on any exchange nor on any over-the-counter NASDAQ or National Quotation Bureau systems. If XO chooses to liquidate its investment in this debt, it may not be able to locate a buyer that would allow it to liquidate the debt in a timely fashion to recover the amount paid. Accordingly, it cannot be assured that XO will be able to dispose of the investment for an amount equal to or greater than the amount it paid for it, or that any distribution that may be received upon consummation of Global Crossing's bankruptcy case will have a value equal to or greater than this investment.

Other financial instruments that potentially subject us to concentrations of credit risk consist primarily of trade receivables. Although our trade receivables are geographically dispersed and include customers in many different industries, a portion of our 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. We believe that our established valuation and credit allowances are adequate as of June 30, 2003 to cover these risks.

Regulatory Overview

Overview

The Telecommunications Act of 1996, or the "Telecom Act", which substantially revised the Communications Act of 1934, has established the regulatory framework for the introduction of competition for local telecommunications services throughout the United States by new competitive 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.

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 provisions relating to these matters is critical to the success of the competitive regime 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 challenges to existing and proposed regulations by the incumbent carriers. 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 communication 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 and international services. In addition, we have obtained FCC authorizations for the operation of our Local Multipoint Distribution System (LMDS) and 39 GHz fixed 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 on an ongoing basis for interstate access (rates charged among carriers for access to their networks). The FCC, however, has issued a decision that required us (with only minor exceptions) to withdraw 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 most important for full local 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 customers of ours to exchange traffic with customers connected to other networks;
- Local loop unbundling, which allows us to selectively gain access to incumbent carriers' facilities and wires that connect the incumbent carriers' central offices with customer premises, thereby enabling us to serve customers, on a facilities basis, 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 the incumbent carrier; and
- Collocation of telecommunications equipment in incumbent central offices, which enables us to have direct access to unbundled loops and other network elements and facilitates their 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 Supreme Court confirmed the FCC's role in establishing national telecommunications policy, and thereby created greater certainty regarding the rules governing local competition going forward.

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 Supreme 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. The Court of Appeals stated that it had remanded the order because it felt that:

- the FCC had adopted uniform national rules with respect to almost every unbundled element for every geographic market without regard to the state of competition in any particular market; and
- the FCC’s determination of when cost disparities impair a competitor’s ability to provide service without unbundled elements was too broad.

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 February 20, 2003, the FCC held an open meeting and adopted its Triennial Review decision. The full text of what is expected to be a voluminous order is not yet available, so we have only a broad outline of the FCC’s actions without the detail required to clearly understand all of the ramifications of this important decision. Based on the FCC’s press release and the comments of each FCC Commissioner at the meeting, it appears that, under that order, our ability to obtain access to certain unbundled network elements and incumbent network upgrades will be curtailed or more costly in the future. Also, it appears that the order would delegate to the states the overall responsibility for deciding what unbundled elements should be 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 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.

Based on the FCC’s press release announcing the Triennial Review decision and related comments of the Commissioners, the following matters may impact us and many of our competitors once the order is issued:

- **Curtailed Access to Broadband:** It appears that the order will adopt new rules that would 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 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 it appears that incumbents would be 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:** It appears that the order will make a general, national finding that competitive carriers should have access to certain unbundled loops of the incumbent carriers. The states, however, may remove competitive carriers’ access to such loops based on the results of specified competitive analyses. Incumbent carriers will no longer be required to provide competitive carriers with access to certain very high-capacity loops. We believe that the net result of such an order would not have a significant impact on us, as the access to the vast majority of unbundled loops that we use today would be preserved.
- **Unbundled Transport:** It appears from the FCC’s press release announcing the Triennial Review decision that the order will change the definition of “dedicated transport” in such a way that competitive carriers would have to purchase certain transport facilities at higher rates than they do today. It appears that the order would maintain access to many types of transport between incumbent facilities, such as transport between incumbent central offices, but it redefines transport to eliminate the unbundling of other transport. It also appears that the order would set forth a test that the states must follow in considering whether transport should be available in local markets within the states. It appears that the order will provide that certain very high-capacity 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. Although it is not possible to gauge the full effect of these changes without reviewing the text of the order and accompanying regulations, we believe that it is likely that these actions would raise our costs for transport services in the future.

- **Enhanced Extended Links and Co-Mingling:** It appears that the order will facilitate the ability of competitive carriers like us to obtain a loop and transport combination of unbundled elements known as “enhanced extended links”, provided that the underlying loop and transport elements are available on an unbundled basis. It also appears that the order will permit competitive carriers to mix unbundled network elements with retail services instead of requiring them to artificially segregate unbundled elements from the remainder of our network. Because we currently take advantage of both services from the incumbent carriers, we believe that these developments could result in cost savings for us.
- **Calculation of Unbundled Element Rates:** It appears that the order will allow the 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 elements in the future.

As indicated above, the text of the Triennial Review decision has not yet been released. We anticipate that, once the FCC’s new unbundling rules are effective, incumbent carriers and other entities will pursue appellate review, seek to institute 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.

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 federally-tariffed physical collocation services, as required under current FCC regulations applicable to most incumbent carriers. Verizon asked the FCC to require its competitors instead to order collocation services solely pursuant to terms and conditions approved by state public service commissions. Verizon’s application remains pending but, if this authority is granted, such discontinuance would make it more costly and difficult for competitors such as us to obtain 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 to engage in costly and lengthy negotiations in different states. If Verizon is successful, the RBOCs and other large incumbent carriers are likely to seek and receive comparable relief.

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.

The FCC has granted each of the RBOCs the authority to provide long distance service in a number of states. Verizon and BellSouth have been granted authority to provide long distance service in every state they operate. SBC has authority to provide long distance service in most of the states where it operates and is currently seeking authority to provide long distance service in the five remaining states (Ohio, Wisconsin, Michigan, Illinois, Indiana). Qwest has been granted authority to provide long distance in every state where it operates except for Arizona. We expect that the RBOCs will receive authority with respect to all of the remaining states in the near term. Although we cannot predict when such approvals are likely to occur, RBOC authorization to provide in-region long distance services could have an adverse affect on our ability to compete if not accompanied by effective post-approval safeguards 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 its Triennial Review decision, appears to have greatly curtailed the extent to which the incumbents must unbundle the broadband portion of their networks for their competitors. Despite this apparent victory, the RBOCs have vowed to continue to push for further deregulation through federal and state legislative efforts. For example, broadband deregulation legislation is currently under consideration in several states, including Georgia, Texas and Missouri. 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 result in a further diminishment of incumbent carriers' requirement 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 Triennial Review decision significantly restricts the availability on an unbundled basis of certain network elements deploying fiber or packet-switching technologies. That decision, in conjunction with a decision in this proceeding, 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. In a 1999 decision, the U.S. Court of Appeals for the Fifth Circuit issued a ruling that had the net effect of lowering our contribution of revenues to universal service, which stands at 7.28% of end user telecommunications revenues for the first quarter of 2003. The FCC has subsequently 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 has 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, both of which are being considered for reform.

Interstate Access Charges. Long distance carriers pay local facilities-based carriers, including us, interstate access charges for both originating and terminating the calls of long distance customers on the local carriers' networks. Historically, the RBOCs 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 the rates that competitive local carriers charge to long distance carriers at a level that will gradually decrease over three years from a current 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. The FCC is also considering, in a declaratory ruling proceeding commenced in November 2002, the question of whether voice over the Internet services or services utilizing an Internet protocol should be made subject to interstate access charges in the same manner as traditional telephone traffic. Like a growing number of carriers, we utilize an Internet protocol for a portion of our traffic as do some of our customers. 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.

AT&T Declaratory Ruling Re: VOIP. AT&T has asked the FCC to find that voice over IP services (VOIP), including phone to phone services, are exempt from switched access charges. This proceeding has broad implications for the future of IP-based services, since a positive ruling will make VOIP extremely attractive. An adverse ruling would place VOIP services in the same regulatory category as traditional telecommunications services and therefore subject the services to access charges.

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. The FCC is expected to initiate a new proceeding to consider significantly revamping the current TELRIC costing methodology applicable to pricing UNEs. We expect a Notice of Proposed Rulemaking to be released within the next couple of months. An adverse ruling in the new

proceeding will allow the incumbent carriers to increase UNE rates and this would raise our costs for leasing unbundled elements in the future.

Forward-Looking and Cautionary Statements

Some statements and information contained in this document 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 Management’s Discussion and Analysis of Financial Condition and Results of Operations above.

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 in the “Liquidity Assessment” and “Risks and Uncertainties” discussion and the “Risk Factors” section of our 2002 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 3. Quantitative and Qualitative Disclosures about Market Risk

We had \$500.0 million in secured loans as of June 30, 2003. Currently we do not pay cash interest on the loans under the New Credit Agreement.

During the second quarter of 2003, XO liquidated its entire portfolio of marketable securities which consisted of an investment portfolio containing U.S. government agency issued and other securities with a duration of less than one year. The Company invested a portion of the proceeds, \$158.5 million, in \$761.1 million principal amount of senior secured bank debt of Global Crossing, a telecommunications company which is currently in reorganization proceedings. The debt trades in a thin market primarily between dealers but is neither listed on any exchange nor on any over-the-counter NASDAQ or National Quotation Bureau systems. If the Company chooses to liquidate its investment in this debt, it may not be able to locate a buyer that would allow it to liquidate the debt in a timely fashion to recover the amount paid. Accordingly, it cannot be assured that the Company will be able to dispose of the investment for an amount equal to or greater than the amount it paid for it, or that any distribution that may be received upon consummation of Global Crossing’s bankruptcy case will have a value equal to or greater than this investment.

We are not currently engaged in the use of off-balance sheet derivative financial instruments, to hedge or partially hedge interest rate exposure.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The term disclosure controls and procedures is defined in Rules 13a-14(c) and 15d-14(c) 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 a date within 90 days before the filing of this quarterly report which we refer to as the Evaluation Date, and they have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information was disclosed on a timely basis in our reports filed under the Exchange Act.

Changes in Internal Controls

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 six months ended June 30, 2003, there were no significant changes to our internal controls or in other factors that could significantly affect our internal controls.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

XO is not currently a party to any other legal proceedings, other than regulatory and other proceedings that are in the normal course of business. However, as discussed above, although XO Parent has consummated its Plan of Reorganization and emerged from its Chapter 11 proceedings, disputes with respect to the amount of allowed claims owed by XO Parent to certain of its general unsecured creditors, and claims of certain professionals remain outstanding. In addition, party has filed a complaint in the Bankruptcy Court seeking relief from the court's order confirming the Plan of Reorganization and a declaratory judgment that such party's derivative suit for the benefit of XO against a former director of XO Parent and an affiliate of that director should not be released by the confirmation order. While the outcome of these matters, or any other relief that may be granted, is currently not determinable, we do not expect that the ultimate costs to resolve these matters, or any other relief that may be granted, will have a material adverse effect on the our financial position, results of operations, or cash flows.

Item 2. Changes in Securities and Use of Proceeds

None.

Recent Sales of Unregistered Securities

The following securities were issued by us within the past year pursuant to the Plan of Reorganization without registration under the Securities Act:

- (a) approximately 95.0 million shares of New Common Stock to our pre-petition senior secured creditors in exchange for their claims;
- (b) 7-year warrants to purchase approximately:
 - (i) 9.5 million shares of New Common Stock at \$6.25 per share;
 - (ii) 7.1 million shares of New Common Stock at \$7.50 per share; and
 - (iii) 7.1 million shares of New Common Stock at \$10.00 per share.

Each of the transactions above is exempt from registration under the Securities Act pursuant to Section 1145 of the Chapter 11 of the United States Code or, in the case of certain affiliates of XO Parent, Section 4(2) of the Securities Act.

Item 3.Defaults Upon Securities

None.

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

No matters were submitted to a vote of security holders during the quarter ended June 30, 2003.

Item 5.Other Information

None.

Item 6.Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Rule 13a - 14(a)/15(d) - 14(a) Certification

31.2 Rule 13a - 14(a)/15(d) - 14(a) Certification

32.1 Certificate pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certificate pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

- (1) Current Report on Form 8-K filed on June 3, 2003, reporting under Item 5, the Company's offer to acquire all of the assets of Global Crossing LTD., and Global Crossing Holdings LTD.
- (2) Current Report on Form 8-K filed on July 23, 2003, reporting under Item 4, the Company's filing of its Registration on Form S-1 for the shares of New Common Stock to be issued in the Rights Offering

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

XO Communications, Inc.

Date: August 14, 2003

By: _____
Wayne M. Rehberger
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Rule 13a – 14(a)/15(d) – 14(a) Certification

I, Carl J. Grivner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of XO Communications, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

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

Rule 13a – 14(a)/15(d) – 14(a) Certification

I, Wayne M. Rehberger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of XO Communications, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-11(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

Wayne M. Rehberger
Executive Vice President and Chief
Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 of XO Communications, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carl J. Grivner, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2003

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

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

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003 of XO Communications, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wayne M. Rehberger, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

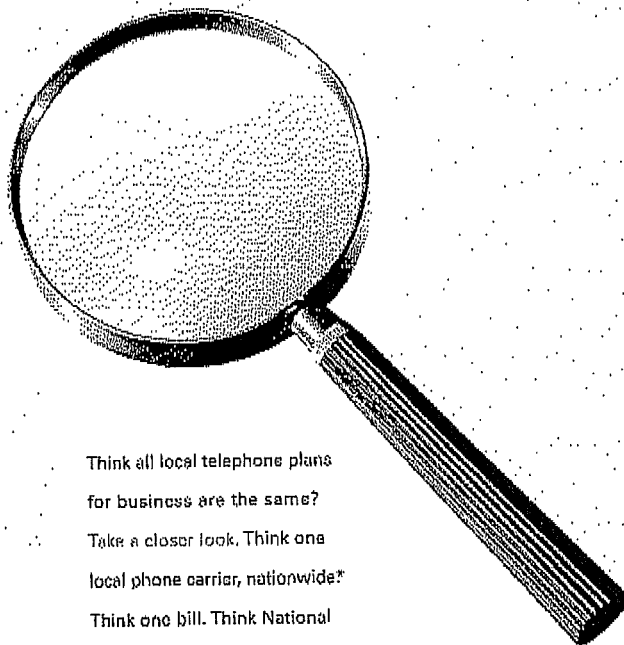
Date: August 14, 2003

Wayne M. Rehberger
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

EXHIBIT G

MARKETING MATERIALS

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VOICE/DATA/INTERNET ACCESS/WEB HOSTING

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EXHIBIT H

PRODUCT DESCRIPTION

XO™ NATIONAL LOCAL

Strategic Discounts for Local Services on a National Scale

XO VOICE SERVICES

Designed for businesses with large telecom budgets and multiple locations, XO™ National Local maximizes your savings potential. National Local offers aggressive discounts for XO Local Services in locations across the U.S., based on actual monthly spending or annual commitment levels.

Local Solutions with National Discounts

National Local is especially beneficial for companies with large telecom expenses and multiple locations. With National Local you can combine expenses from all your locations and receive deep discounts. The discount strategies are based on actual monthly spending or annual committed revenue.

With XO™ National Local, you can:

- Realize additional discounts off our already competitive Local Services rates, based on your actual monthly spending or annual commitment with XO™;
- Increase discount levels as your spending levels increase; and
- Aggregate all your local services across the U.S. – even with multiple locations in multiple markets receiving separate statements – under one provider and one agreement.

Now you can improve your communications with reliable local services. With XO, you get a wide range of local service offerings – provided in our 65 markets nationwide – at competitive rates. So whether you need a Business Trunk in New York, or a Centrex line in L.A., XO can provide it all, with one point of contact and a choice of either one bill or individual branch location reporting and remittance. The National Local program offers additional discounts to the XO local service solutions!

Services included in National Local

National Local discounts apply to the Local Services portfolio of products including:

- Basic Business Lines & features
- Business Trunks & features
- Centrex & Centrex features
- Local and IntraLATA usage
- Voice Messaging

- Advanced Directory
- Directory Assistance
- Calling Card usage
- ISDN PRI

In addition, XO offers other products outside of the Local Services suite that can contribute towards your monthly telecom spending or annual revenue commitment discount, such as such as XOptions™, Integrated Access, DSL or DIA Internet access, Web hosting and Inbound PRI.

National Local Discount Structures

Based on your total XO™ Local Services expenditures for contracts of two (2) or more years*, you can earn discounts between 10% and 25% off our already competitive Local Services base rates.

Choose from the two National Local Discount Plans:

Plan #1 provides a discount on local services based on *actual monthly telecom spending* for businesses that submit one remittance for all of their locations. The key benefit is that spending for all locations is aggregated on one invoice, with the availability of call detail for any or all locations.

Plan #2 is a discount applied to *annual volume commitments* and is advantageous for businesses that require branch locations to remit their individual telecom expenses. Total company expenses are aggregated so that each location receives National Local savings based on annual commitment levels.

Contact XO™

For more information, please contact your XO Sales Representative or visit www.xo.com.

*St. Louis, MO – No minimum term commitment requirement



EXHIBIT I

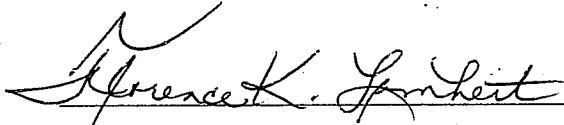
AFFILIATES

SUBS. OF XO COMMUNICATIONS, INC.

NEW NAME	OLD NAME	STATE OF INCORP.	REGISTERED TO DO BUSINESS	DATE OF INCORP.	FEIN	MERGERS/DISSOLUTION
Falcon Administration, LLC	Falcon Administration, LLC	WA	WA	11/12/1996	NONE	Acquired by Nextel
ITC	ITC	UT	NV, UT, CO, NM	5/30/1985	87-0423381	
LHP Equipment, Inc.		DE	DE, AZ, CA, CO, CT, DC, FL, GA, ID, IL, MD, MA, MI, MN, MO, MS, NE, NV, NJ, NY, NC, OH, PA, TN, TX, UT, VA, WA	12/27/2000	54-2016747	
XO Flight, Inc.	NEXTFLIGHT, Inc.	WA	WA	3/22/1999	91-1959539	Merged into XO Technology 12/31/00
XO Alabama, Inc.	NEXTLINK Alabama, Inc.	WA	AL, WA	12/9/1997	91-1893464	
XO Arizona, Inc.	NEXTLINK Arizona, Inc.	WA	AZ, WA	10/16/1997	91-1855809	
XO California, Inc.	NEXTLINK California, Inc.	WA	CA, WA	5/13/1998	91-1907538	
XO Capital, Inc.	NEXTLINK Capital, Inc.	WA	WA	3/19/1996	91-1716062	Merged into XO Communications 3/4/02
XO Colorado, LLC	NEXTLINK Colorado, L.L.C.	WA	CO, WA	12/23/1996	54-1983517	
XO Communications Merger Subsidiary, Inc.	NEXTLINK Communications Merger Subsidiary, Inc.	WA	WA	4/23/1999	91-2030562	Merged into XO Technology 12/31/00
XO Connecticut, Inc.	NEXTLINK Connecticut, Inc.	WA	CT, WA	4/30/1998	91-1922773	
XO Delaware, Inc.	NEXTLINK Delaware, Inc.	WA	DE, WA	9/17/1997	91-1831689	
XO Domestic Holdings, Inc.	NEXTLINK Domestic Holdings, Inc.	DE	DE, AZ, CA, CO, CT, FL, GA, IL, IN, MD, MA, MO, NV, NJ, NM, NY, NC, OH, PA, TN, TX, UT, VA, WA	1/5/2000	91-2019476	
XO D.C., Inc.	NEXTLINK D.C., Inc.	WA	DC, WA	9/17/1997	91-1831714	
XO Employment Services, Inc.	NEXTLINK Employment Services, Inc.	DE	DE	12/7/1999	91-2010617	Merged into XO Technology 12/31/00
XO Florida, Inc.	NEXTLINK Florida, Inc.	WA	FL, WA	9/17/1997	91-1831758	
XO Georgia, Inc.	NEXTLINK Georgia, Inc.	WA	GA, WA	7/24/1997	91-1842212	
XO Global Communications, Inc.		DE	DE	6/24/2003	20-0075913	
XO Hawaii, Inc.	NEXTLINK Hawaii, Inc.	WA	WA	12/9/1997	91-1883922	
XO Holdings, Inc.	NEXTLINK Holdings, Inc.	NV	AZ, NV	5/19/1999	91-1979049	Merged into XO Technology 12/31/00
XO Idaho, Inc.	NEXTLINK Idaho, Inc.	WA	ID, WA	4/30/1998	91-1941619	
XO Illinois, Inc.	NEXTLINK Illinois, Inc.	WA	IL, WA	3/11/1997	91-1814141	
XO Indiana, Inc.	NEXTLINK Indiana, Inc.	WA	IN, WA	4/21/1998	91-1922772	
XO Interactive, Inc.	NEXTLINK Interactive, Inc.	WA	WA, OR, RI, FL, IN, NY, TX, MA, NH	5/13/1998	91-1907534	
XO International Holdings, Inc.	NEXTLINK International Holdings, Inc.	DE	DE	7/1/1999	91-1995175	
XO Kansas, Inc.	NEXTLINK Kansas, Inc.	WA	KS, WA	5/13/1999	91-1984875	
XO Kentucky, Inc.	NEXTLINK Kentucky, Inc.	WA	KY, WA	12/9/1997	91-1883919	
XO Leasing of Utah, LLC	NEXTLINK Leasing of Utah, L.L.C.	WA	UT, WA	12/3/1996	NONE	Merged into XO Utah 12/31/00
XO LMDS Holdings No. 1, Inc.	NEXTLINK Holdings No. 2, Inc.	NV	NV	9/8/1999	91-2008276	
XO LMDS Holdings No. 2, Inc.	PCO Acquisition Corp.	DE	DE	12/15/1998	91-1944890	Merged into XO LMDS No. 1 6/30/01
XO LMDS Holdings No. 3, LLC	NEXTBAND Communications, L.L.C.	WA	WA	1/16/1998	NONE	Merged into XO LMDS No. 1 6/30/01
XO Long Distance Services, Inc.	NEXTLINK Long Distance Services, Inc.	WA	HI, IN, KS, KS, MD, MS, MO, NM, OH, SC, VA, WV, WI	2/26/99	91-1957034	
XO Louisiana, Inc.	NEXTLINK Louisiana, Inc.	WA	WA	12/15/1997	91-1883918	
XO Maine, Inc.	NEXTLINK Maine, Inc.	WA	WA	12/9/1997	91-1883917	
XO Management Services, Inc.	NEXTLINK Management Services, Inc.	WA	WA, UT, NV	5/13/1998	91-1907537	
XO Maryland, LLC	NEXTLINK Maryland, L.L.C.	WA	MD, WA	4/30/1998	NONE	
XO Massachusetts, Inc.	NEXTLINK Massachusetts, Inc.	WA	MA, WA	7/24/1997	91-1845957	
XO Michigan, Inc.	NEXTLINK Michigan, Inc.	WA	MI, WA	7/24/1997	91-1845958	
XO Minnesota, LLC	NEXTLINK Minnesota, L.L.C.	WA	MN, WA	11/13/1996	NONE	
XO Mississippi, Inc.	NEXTLINK Mississippi, Inc.	WA	MS, WA	12/9/1997	91-1883916	
XO Missouri, Inc.	NEXTLINK Missouri, Inc.	WA	MO, WA	5/8/1998	91-1922774	
XO Network Services, Inc.	Same Tax ID as XO LD	WA	AL, AR, CT, IA, KY, LA, ME, MT, NE, NH, ND, OK, RI, SD, VT, WV, WY			
XO Nevada Merger Sub, Inc.		DE	DE	6/25/2001	91-2138572	
XO New Hampshire, Inc.	NEXTLINK New Hampshire, Inc.	WA	WA	12/9/1997	91-1883915	

NEW NAME	OLD NAME	STATE OF INCORP.	REGISTERED TO DO BUSINESS	DATE OF INCORP.	FEIN	MERGERS/DISSOLUTION
XO New Jersey, Inc.	NEXTLINK New Jersey, Inc.	WA	NJ, WA	9/17/1997	91-1831716	
XO New Mexico, Inc.	NEXTLINK New Mexico, Inc.	WA	NM, WA	4/30/1998	91-1924104	
XO New York, Inc.	NEXTLINK New York, Inc.	WA	NJ, NY, WA	4/13/1998	91-1907539	
XO North Carolina, Inc.	NEXTLINK North Carolina, Inc.	WA	NC, WA	12/11/1997	91-1883910	
XO Ohio, Inc.	NEXTLINK Ohio, Inc.	WA	OH, WA	5/13/1998	91-1907540	
XO One, Inc.	NEXTLINK One, Inc.	DE	MI, CA, AZ, TN, TX, OH, DE, IL, DC, CO, MO	7/19/1985	75-2052519	
XO Opportunity, Inc.	NEXTLINK Opportunity, Inc.	WA	DC, WA	5/18/1999	91-1983701	Merged into XO Technology 12/31/00
XO Oregon, Inc.	NEXTLINK Oregon, Inc.	WA	OR, WA	9/17/1997	91-1831759	
XO Pennsylvania, Inc.	NEXTLINK Pennsylvania, Inc.	WA	PA, WA	5/13/1998	91-1907541	
XO Pennsylvania Merger Company II, Inc.	NEXTLINK Pennsylvania Merger Company II, Inc.	WA	PA, WA	8/13/1997	91-1852909	Merged into XO Pennsylvania 12/31/00
XO Rhode Island, Inc.	NEXTLINK Rhode Island, Inc.	WA	WA	12/9/1997	91-1883904	
XO Services, Inc.	-	DE	DE, CA	12/27/2000	54-2016206	
XO Solutions, Inc.	NEXTLINK Solutions, Inc.	WA	MI, WA	5/13/1998	91-1907535	Merged into XO Technology 12/31/00
XO South Carolina, Inc.	NEXTLINK South Carolina, Inc.	WA	SC, WA	12/11/1997	91-1883897	
XO Technology Services, Inc.	NEXTLINK Technology Services, Inc.	WA	TX, WA	7/15/1998	91-1935255	Merged into XO Comm. 6/30/01
XO Tennessee, Inc.	NEXTLINK Tennessee, Inc.	WA	TN, WA	5/13/1998	91-1907543	
XO Texas, Inc.	NEXTLINK Texas, Inc.	WA	TX, WA	9/17/1997	91-1831715	
XO Utah, Inc.	NEXTLINK Utah, Inc.	WA	UT, WA	5/13/1998	91-1907544	
XO Virginia, LLC	NEXTLINK Virginia, LLC	WA	VA, WA	4/23/1998	NONE	
XO Washington, Inc.	NEXTLINK Washington, Inc.	WA	WA	5/13/1998	91-1907545	
XO West Virginia, Inc.	NEXTLINK West Virginia, Inc.	WA	WV, WA	12/9/1997	91-1883896	
XO Wisconsin, Inc.	NEXTLINK Wisconsin, Inc.	WA	WI, WA	12/23/1997	91-1883894	
40% Telecommunications of Nevada LLC, dba XO Communications, A Limited Liability Company		DE	DE, NV	4/11/1996		
Anaserve, Inc.	-	CA			33-0670939	Merged into XO Comm. 6/30/01
Delta Internet Services, Inc.	-	CA			33-0695445	Merged into XO Comm. 6/30/01
Interlex Information Services, Inc.	-	CA			94-3186524	Merged into XO Comm. 6/30/01

TC03-187

KELLEY DRYE & WARREN LLP 1200 19TH STREET, N.W. WASHINGTON, DC 20036		7846
PAY TO THE ORDER OF <u>South Dakota Public Utilities Commission</u>		15-122/540 BRANCH 00480
DATE <u>October 15, 2003</u>		
\$ <u>250.00</u>		
Two hundred fifty and 00/100-----		DOLLARS
FIRST UNION First Union National Bank firstunion.com Org. 052 R/T 054001220		<input type="checkbox"/> Security features included. Details on back.
047035.0003		
@00007846@ :054001220:2000034690853@		

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
10/15/2003	filing fee requested by Lori Williams fo rNick Leverett 047035.0003	\$250.00

South Dakota Public Utilities Commission
WEEKLY FILINGS

For the Period of October 16, 2003 through October 22, 2003

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

CE03-003 In the Matter of the Complaint filed by John Reints, Rapid City, South Dakota, against Black Hills Power Regarding its Flat Monthly Charge.

On October 21, 2003, the Commission received a complaint filed by John Reints, Rapid City, South Dakota, against Black Hills Power Regarding its Flat Monthly Charge. The Complainant is requesting that the Commission prevent Black Hills Power from charging its minimum flat monthly fee for service.

Staff Analyst: Jim Mehlhaff
Staff Attorney: Kelly Frazier
Date Docketed: 10/21/03
Intervention deadline: N/A

TELECOMMUNICATIONS

TC03-187 In the Matter of the Application of XO Network Services, Inc. for a Certificate of Authority to Provide Local Exchange Services in South Dakota.

On October 16, 2003, XO Network Services, Inc. filed an application seeking a Certificate of Authority to provide local exchange telecommunications services in South Dakota. The Applicant is requesting authority to operate as a CLEC for the entire State of South Dakota, except in those areas serviced by a rural telephone company. The Applicant intends to provide a full array of local exchange services including, but not limited to, basic voice, exchange access, private line and data transmission services.

Staff Analyst: Keith Senger
Staff Attorney: Kelly Frazier
Date Docketed: 10/16/03
Intervention Deadline: 11/07/03

TC03-188 In the Matter of the Application of Granite Telecommunications, LLC for a Certificate of Authority to Provide Interexchange Telecommunications Services and Local Exchange Services in South Dakota.

On October 17, 2003, Granite Telecommunications, LLC filed an application seeking a Certificate of Authority to provide interexchange services throughout South Dakota and local exchange services in the service area currently served by Qwest Communications Corporation. The Applicant intends to provide all forms of local exchange services including, but not limited to, basic local service and CLASS services. The applicant intends to provide switched and dedicated "One Plus," Toll-Free and travel card interexchange services.

Staff Analyst: Keith Senger
Staff Attorney: Karen Cremer
Date Docketed: 10/17/03
Intervention Deadline: 11/07/03

TC03-189 In the Matter of the Filing for Approval of a Reciprocal Transport and Termination Agreement between Brookings Municipal Utilities d/b/a Swiftel Communications and Midcontinent Communications.

On October 20, 2003, the Commission received for approval a filing of a Reciprocal Transportation and Termination Agreement between Midcontinent Communications (Midcontinent) and Swiftel Communications (Swiftel). According to the filing, the parties wish to put in place an arrangement for the mutual exchange and reciprocal compensation of telecommunications traffic in accordance with the 1996 Telecommunications Act which is intended to supersede any previous arrangements between the parties relating to such traffic. 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 November 10, 2003. 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: Kelly Frazier
Date Docketed: 10/20/03
Initial Comments Due: 11/10/03

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You may subscribe or unsubscribe to the PUC mailing lists at <http://www.state.sd.us/puc>**

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JAKARTA, INDONESIA

MUMBAI, INDIA

TOKYO, JAPAN

December 11, 2003

RECEIVED

DEC 15 2003

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION**

VIA OVERNIGHT DELIVERY

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

Re: XO Long Distance Services, Inc. Application for Local Exchange
Telecommunications Authority. SDPUC Docket No. TC03-187

Dear Ms. Bonrud:

XO Long Distance Services, Inc. ("XO") filed an Application for Local Exchange Telecommunications Authority with the South Dakota Public Utilities Commission ("Commission") on October 15, 2003. On October 31, 2003, Commission staff responded with a request for additional information. Below, please find the questions posed in that request for additional information, along with XO's responses in bold.

1-1. Provide the facsimile number and E-mail address as required by ARSD 20:10:32:03.

Facsimile: 801-951-2171

Email: rex.knowles@xo.com

1-2. Is the list of officers and directors provided on page two of the application the officers and directors for XO Network Services, Inc. or for XO Communications Inc.? If they are for XO Communications Inc. provide for XO Network Services, Inc.

XO Network Services, Inc's Officers and Directors are as follows:

Carl J. Grivner

Chief Executive Officer & President

John Jacquay

President, Business Market Sales

Brian Oliver

**Executive Vice President, Strategy & Corporate
Development**

Doug Kelly

Executive Vice President, Network Services

Wayne M. Rehberger Executive Vice President, Chief Financial Officer
Lee Weiner Senior Vice President, General Counsel & Secretary
Kathy Isaac Vice President, Controller
Michael O'Day Chief Tax Officer
Kristi Jung Treasurer

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DEC 15 2003

Directors: Carl Grivner and Wayne M. Rehberger

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

1-3. Provide the "business address of each corporate officer and director" [ARSD 20:10:32:03(2)]

The officers and directors can all be contacted at the Company's address of 1111 Sunset Hills Road, Reston, Virginia 20190.

1-4. Provide "the date of incorporation." [ARSD 20:10:32:03(4)(c)].

NextLink Long Distance Services, Inc. was incorporated on February 26, 1999. Through a series of name changes, NextLink Long Distance Services, Inc. became XO Long Distance Services, Inc. and finally XO Network Services, Inc.

1-5. Provide "the dates and nature of state or federal authorization to provide the services." [ARSD 20:10:32:03(5)]

Please see *Attachment A*.

1-6. Provide "information indicating the classes of customers the applicant intends to serve," and "information indicating the extent to and time-frame by which applicant will provide service through the use of its own facilities, the purchase of unbundled network elements, or resale." [ARSD 20:10:32:03(7)(a) & (b)]

XO's services will be provided to business customers primarily. 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. Applicant intends to begin offering service on January 1, 2004.

Provide "information regarding policies, personnel, or arrangements made by the applicant which demonstrates the applicant's ability to" ... "perform facility and equipment maintenance necessary to ensure compliance with any commission quality of service requirements." [ARSD 20:10:32:03(9)(b)]

As noted above, Applicant initially plans to offer service via UNE-P and resale, thus maintenance and quality assurance will be performed by the incumbent.

1-7. The applicant's response to ARSD 20:10:32:10 indicates that the applicant will offer "where technically and economically feasible." However ARSD 20:10:32:10 requires a local provider to provide these to all customers it services. Please readdress ARSD 20:10:32:02(10).

XO will offer the required services to all customers.

1-8. The financial statements submitted were for XO Communications, Inc. Please submit the financial statements for the applicant. [ARSD 20:10:32:03(11)]

In lieu of financial statements, the Applicant has a bond on file with South Dakota. A copy of this bond is attached hereto as *Exhibit B*.

- 1-9. Submit "information detailing the following matters associated with interconnection to provide proposed local exchange services:
- (a) The identity of all local exchange carriers with which the applicant plans to interconnect;
 - (b) The likely timing of initiation of interconnection service and a statement as to when negotiations for interconnection started or when negotiations are likely to start; and
 - (c) A copy of any request for interconnection made by the applicant to any local exchange carrier." [ARSD 20:10:32:03(12)]

(a): At this time, Applicant initially intends to interconnect with Qwest.

(b): Applicant is currently in negotiations with Qwest and expects to come to an agreement in December 2003.

(c): Please see *Exhibit C*, a copy of an email sent by XO.

- 1-10. Does the applicant engage in multilevel marketing?[ARSD 20:10:32:03(12)]
No.

- 1-11. Provide "a list of the states in which the applicant is registered or certified to provide telecommunications services." [ARSD 20:10:32:03(17)]

The Applicant is registered or certified to provide long distance telecommunications services in all fifty states. In addition, it is certified to offer local service in Alabama, Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, and Wisconsin.

- 1-12. Response to ARSD 20:10:32:03(18) only provides the contact information regarding the applicant's petition. Provide "the names, addresses, telephone numbers, E-mail addresses, and facsimile numbers of the applicant's representatives to whom all inquiries must be made regarding customer complaints and other regulatory matters. [ARSD 20:10:32:03(18)]

**David LaFrance
111 East Broadway
Salt Lake City, Utah 84111
Phone: 801-983-1624
Facsimile: 801-951-2171
Email: david.lafrance@xo.com**

- 1-13. Provide "information concerning the applicant's policies relating to solicitation of new customers and a description of the efforts the applicant shall use to prevent the unauthorized switching of local service customers by the applicant, its employees, or agents." [ARSD 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 D*, please find a copy of the Letter of Authorization used by XO to convert new customers.

- 1-14. In order to protect South Dakota consumers, the South Dakota Public Utilities Commission (SD PUC) requires applicants with unknown or marginal financial capabilities to submit a bond naming the South Dakota Public Utilities Commission and the consumers of South Dakota as beneficiaries.

Based on the financial information received, the applicant has not demonstrated adequate financial capability; therefore, I am requesting the applicant submit a \$25,000 surety bond. The bond requirement will be placed in the Commission order granting authority. The applicant is free to apply to the Commission for removal of the bond requirement once financial capability improves or is made known. I am enclosing a sample bond form that the Commission has accepted in the past. Please provide the bond by the deadline stated below.

If the bond requirement is unacceptable, the applicant may agree to restrictions from offering prepaid calling cards/services and from collecting customer deposits and advance payments. These restrictions are placed in the Commission order granting authority. This would mean that the applicant would have to bill the monthly fees (including custom calling features and for reoccurring monthly fees) in arrears. The applicant is free to apply to the Commission for removal of the restrictions once financial capability improves or is made known. If the applicant chooses the restrictions, please state such and revise the proposed tariff where necessary.

As discussed above, please see the bond attached as *Exhibit B*.

- 1-15. Please replace "30 days" with "180 days" in section 2.5.2(b) and 2.5.3 of the proposed tariff.

This change has been made to section 2.5.3. During a phone conversation, South Dakota staff agreed that the change to 2.5.2(b) was unnecessary. Please see *Exhibit E*

- 1-16. Please add the Commission address and telephone number (as indicated on the letterhead of this letter) to section 2.5.3 of the proposed tariff.

This change has been made to section 2.5.3. Please see *Exhibit E*.

- 1-17. The proposed tariff attempts to limit the liability of the company. Under South Dakota law found at 49-13-1 and 49-13-1.1, an entity has the right to claim damages from a telecommunications company by coming before the Commission or a court of competent jurisdiction. Please delete the phrase "limited to the lesser of \$500 ... or joint use and the sole liability of the Company" and replace with "determined in accordance with SDCL 49-13-1, 49-13-1.1 and any other applicable law." Please delete sections 2.1.4 (b), 2.1.4(L) 2.1.4(m) and 2.1.4(n). Should the reference to Section 2.6(b) in Section 2.3.3(e) be 2.6(c) instead?

Sections 2.1.4 (b), 2.1.4(L) 2.1.4(m) and 2.1.4(n) have been deleted. The reference is Section 2.3.3(e) has been changed. Please see *Exhibit E*.

If you have any questions or concerns regarding the liability language issues, please contact staff attorney, Kelly Frazier.

- 1-18. Also submitted with the application was a switched access tariff with rates. This tariff and rates are improperly filed. Commission rules, in general, require companies who file switched access tariffs to file company-specific cost-based switched access rates. These cost-based rates shall be determined through the use of the Commission's cost model, shall be supported by historical cost data, are subject to the Commission's accounting and rate-making procedures and shall be filed no less than once every three years. However, a telecommunications company may petition the Commission to be exempt from developing company-specific cost-based rates.

Please review Commission rules regarding switched access rates, including ARSD chapters 20:10:27, 20:10:28 and 20:10:29. The company can either withdraw the switched access tariff until such time when the applicant becomes facilities based with South Dakota or re-file the tariff and rates in accordance with the appropriate rules.

Attached as *Exhibit F* is a petition for waiver of certain provisions of the Commission's rules. The Applicant believes that if the waiver is granted, its switched access tariff complies with all other Commission requirements. If this understanding is incorrect, or if the waiver is not granted, the Applicant wishes to withdraw the switched access tariff until such time when the applicant become facilities based.

- 1-19. Pursuant to our telephone conversation, the Commission will process this application for local exchange authority under the entity name "XO Networks Services, Inc." and will also treat the cover letter as notice to the Commission of name change for the IXC authority. If this is incorrect, please advise.

This is correct.

Enclosed please find an original, ten copies and a duplicate copy of this filing, along with a self-addressed, postage-paid envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided. Thank you for your assistance in this matter.

Respectfully submitted,



Nicholaus G. Leverett

Enclosures

EXHIBIT A

Authorizations

CERTIFICATION MATRIX

	<u>Local</u>	<u>Docket/Order #</u>	<u>Date</u>	<u>IXC</u>	<u>Docket/Order #</u>	<u>Date</u>	<u>214</u>	<u>Date</u>	<u>FEIN #</u>	<u>OCN #</u>	<u>Notes:</u>
Alabama											
XO Long Distance Services Inc.	No			Yes	27339	3/13/00	Yes	4/2/99	91-1957034		Toll Resale Only
Alaska											
XO Long Distance Services Inc.	No			Yes	Certificate #001 Docket #U-99-40(1)	10/6/99	Yes	4/2/99	91-1957034		Order does not mention facilities based or resale
Arkansas											
XO Long Distance Services Inc.	No			Yes	99-100-U	6/22/99	Yes	4/2/99	91-1957037		
Arizona											
XO Arizona, Inc.	Yes	T-03601A-98-0417*	1/29/99	Yes	T-03601A-98-0417*	1/29/99	Yes	9/8/98	91-1855809	4793	Decision No. 61373
ITC dba XO Affinity				*	U-3348-97-164*				87-0423381		* Order pending.
XO Long Distance Services Inc.	No			Yes	T-03775A_99_0494*	8/2/00	Yes	4/2/99	91-1957034		Decision No. 62770/Resale & Facilities Based
California											
XO California, Inc.	Yes	95-12-057 Facilities 96- 02-072 Resale	12/20/95	Yes			Yes	6/24/97	91-1907538	7262	Ltr. sent to PUC 7/7/98 re: LLC to Inc conversion - notification req'd only. Local = Facilities Based
XO Long Distance Services Inc.	No			Yes	99-11-061	11/22/99	Yes	4/2/99	91-1957034		Resale Only
Colorado											
XO Colorado, LLC	Yes	97A-502T	12/11/97	Yes	97A-502T	12/11/97	Yes	1/27/98		8980	Facilities Based & Resale
XO Long Distance Services Inc.	No			Yes	99A-425T	11/19/99	Yes	4/2/99	91-1957034		Facilities Based & Resale
Connecticut											
XO Connecticut, Inc.							Yes	9/8/98	91-1922773		
XO Long Distance Services, Inc.	No			Yes	99-11-08	7/7/00	Yes	4/2/99	91-1957034		Facilities Based & Resale
Delaware											
XO Delaware, Inc.	Yes	98-111	6/9/98	Yes	98-73	6/9/98	Yes	9/8/98	91-1831689	4124	Resale Only
XO Long Distance Services, Inc.	No			Yes	00-32	8/15/00	Yes	4/2/99	91-1957034		Order No. 5519

	<u>Local</u>	<u>Docket/Order #</u>	<u>Date</u>	<u>IXC</u>	<u>Docket/Order #</u>	<u>Date</u>	<u>214</u>	<u>Date</u>	<u>FEIN #</u>	<u>OCN #</u>	<u>Notes:</u>
Florida											
XO Florida, Inc.	Yes	980470-TX	6/13/98	Yes	980472-TI	5/22/98	Yes	9/8/98	91-1831758	6100	
XO Long Distance Services, Inc.	No			Yes	PSC-99-2449-PAA-TI	12/15/99	Yes	4/2/99	91-1957034		Order does not mention facilities based or resale
Georgia											
XO Georgia, Inc.	Yes	8169-UJ	3/19/98	Yes	6977-UJ	12/8/98	Yes	1/27/98	91-1842212	8758	
XO Long Distance Services, Inc.	No			Yes	11251-U/36357*	2/0/00	Yes	4/2/99	91-1957034		docket #/document #/Resale Only
Hawaii											
XO Long Distance Services, Inc.	No			Yes	99-0208/17493	1/25/00	Yes	4/2/99	91-1957034		Resale Only
Idaho											
XO Idaho, Inc.	Yes	Case # GNK-1-99-1 Order # 28134	8/27/99	Yes	Case # GNK-1-99-1 Order # 28134	8/27/99			91-1941619	3052	
XO Long Distance Services, Inc.	No			Yes	*	3/27/00	Yes	4/2/99	91-1957034		* Idaho PUC does not issues orders/CPCN's
Illinois											
XO Illinois, Inc.	Yes	97-0145	7/9/97	Yes	97-0145	7/9/97	Yes	1/27/98	91-1814141	7056	Facilities Based & Resale
XO Long Distance Services, Inc.	No			Yes	99-0415	10/20/99	Yes	4/2/99	91-1957034		Facilities Based & Resale
Indiana											
XO Indiana, Inc.	Yes	CTA* #9708-10	12/9/98	Yes	CTA* #9708-10	12/9/98	Yes	9/8/98	91-1922772	4359	Resale Only
XO Long Distance Services, Inc.	No			Yes	CTA #9911-7	11/30/99	Yes	4/2/99	91-1957034		Resale Only
Chadwick Telecommunications	No			Yes	40610	1/23/97					
Iowa											
XO Long Distance Services, Inc.	No			Yes	N/A		Yes	4/2/99	91-1957034		
Kansas											
XO Kansas, Inc.	Yes	00-NLKT-169-COC	10/18/99								Order does not specify facilities or resale
XO Long Distance Services, Inc.	No			Yes	99-NLLC-759-COC	11/18/99	Yes	4/2/99	91-1957034		Resale Only

	<u>Local</u>	<u>Docket/Order #</u>	<u>Date</u>	<u>IXC</u>	<u>Docket/Order #</u>	<u>Date</u>	<u>214</u>	<u>Date</u>	<u>FEIN #</u>	<u>OCN #</u>	<u>Notes:</u>
Kentucky											
XO Kentucky, Inc.							Yes	1/20/99	91-1883919		
XO Long Distance Services, Inc.	No			Yes	*		Yes	4/2/99	91-1957034		KY PSC does not issue orders
Louisiana											
XO Louisiana, Inc.							Yes	1/20/99	91-1883918		
XO Long Distance Services, Inc.	No			Yes	TSP00341-A	9/1/00	Yes	4/2/00	91-1957034		Facilities Based & Resale
Maine											
XO Long Distance Services, Inc.	No			Yes	1999-763	6/2/00	Yes	4/2/99	91-1967034		Resale Only
Maryland											
XO Maryland, LLC	Yes	TF-2938	9/16/98	Yes	TE-1679	10/16/96	Yes	9/8/98	LLC - NO FEIN #	4773	
Massachusetts											
XO Massachusetts, Inc.	Yes	*	4/7/99	Yes	*	4/7/99	Yes	9/8/98	91-1845957	4536	*No order issued/only stamped cover letter
XO Long Distance Services, Inc.	No			Yes	*	11/4/99	Yes	4/2/99	91-1957034		*No order issued/Order does not mention facilities based or resale
Michigan											
XO Michigan, Inc.	Yes	U-11668	7/13/98	N/A	LD not regulated		Yes	1/27/98	91-1845958	4125	Facilities Based & Resale
XO Long Distance Services, Inc.	No			Yes	On-line Registration	8/13/99	Yes	4/2/99	91-1957034		Toll Reseller & Facility Based Toll Provider
Minnesota											
XO Minnesota, LLC	Yes	P-5736/NA-99-22	6/21/99	Yes	P-5736/NA-99-22	6/21/99	Yes	1/22/99	LLC - NO FEIN #	2557	Facilities Based & Resale
XO Long Distance Services, Inc.	No			Yes	P5814/NA-99-1205	2/22/00	Yes	4/2/99	91-1957034		Order does not mention facilities based or resale
Mississippi											
XO Mississippi, Inc.	Yes	98-AD-90	3/26/99	Yes	98-AD-90	3/26/99	Yes	9/8/98	91-1883916	2749	Facilities Based & Resale
XO Long Distance Services, Inc.	No			Yes	1999-UA-957	1/26/00	Yes	4/2/99	91-1957034		Facilities Based & Resale

	<u>Local</u>	<u>Docket/Order #</u>	<u>Date</u>	<u>IXC</u>	<u>Docket/Order #</u>	<u>Date</u>	<u>214</u>	<u>Date</u>	<u>FEIN #</u>	<u>OCN #</u>	<u>Notes:</u>
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Missouri

XO Missouri, Inc.	Yes	TA-99-48	1/12/99	Yes	TA-99-220	1/29/99	Yes	9/8/98	91-1922774	2796	
XO Long Distance Services, Inc.	No			Yes	TA-2000-253	12/17/99	Yes	4/2/99	91-1957034		Order does not mention facilities based or resale

Montana

XO Long Distance Services, Inc.	No			Yes	On-line Registration	4/20/99	Yes	4/2/99	91-1957034		PSC does not issue orders/Facilities Based & Resale
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Nebraska

XO Long Distance Services, Inc.	No			Yes	C-2147	12/7/99	Yes	4/2/99	91-1957034		Facilities Based & Resale
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Nevada

Telecommunications of NV, I.L.C. dba XO Nevada											
ITC dba XO Affinity	Yes	96-5050	8/5/96	Yes	96-5050	8/5/96	Yes	7/18/97	88-0357892	7521	LD - Resale Only
XO Long Distance Services, Inc.	No			Yes	97-7006	9/22/97			87-0423381		
XO Long Distance Services, Inc.	No			Yes	99-8049	11/10/99	Yes	4/2/99	91-1957034		Facilities Based & Resale

New Hampshire

XO Long Distance Services, Inc.	No			Yes	Order No. 22473 Auth. No. 39799	12/1/99	Yes	4/2/99	91-1957034		Order does not mention facilities based or resale
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New Jersey

XO New Jersey, Inc.	Yes	TE98010009	7/30/98	Yes	TE98010009	7/30/98	Yes	1/27/98	91-1831716	4123	
XO Long Distance Services, Inc.	No	withdrawn		Yes	TE99090636	4/10/00	Yes	4/2/99	91-1957034		Facilities Based & Resale

New Mexico

XO New Mexico, Inc.				Yes	3039	6/20/00					
ITC dba XO Affinity				Yes	95-527-TC	9/20/95			87-0423381		

New York

XO New York, Inc.	Yes	97-C-0993	9/10/97	Yes	97-C-0993	9/10/97	Yes	1/27/98	91-1907539	8340	Resale Only NOT PSC did not issue an order. Facilities Based & Resale
XO Long Distance Services, Inc.	No			Yes	99-C1112*	10/1/99	Yes	4/2/99	91-1957034		

Local Docket/Order # Date IXC Docket/Order # Date 214 Date FEIN # OCN # Notes:

North Carolina

XO North Carolina, Inc.	Yes	P-619	6/19/97	Yes	P-352	2/15/94	Yes	1/20/99	91-1883910	4792	*two docket #s on order
XO Long Distance Services, Inc.	No			Yes	P-890	7/11/00	Yes	4/2/99	91-1957034		Facilities Based Only

North Dakota											
XO Long Distance Services, Inc.	No			Yes	Case #99-C-1112	8/25/99	Yes	4/2/99	91-1957034		Resale Only

Ohio											
XO Ohio, Inc.	Yes	96-1036-T-ACTE	3/27/97	Yes	96-385-C-T-ACTE	6/24/96	Yes	10/1/96	91-1709167	7520	Facilities Based & Resale
XO Long Distance Services, Inc.	No			Yes	99-1010-C-T-ACTE	2/24/99	Yes	4/2/99	91-1957034		Order does not mention facilities based or resale

Oregon											
XO Oregon, Inc.	Yes	99-227	3/18/99	Yes	99-227	3/18/99	Yes	1/20/99	91-1831759	4980	Resale Only
TTC dba XO Affinity	No			Yes	97-181	5/21/97			87-0423381		Resale only
XO Long Distance Services, Inc.	No			Yes	99-00562	9/24/99	Yes	4/2/99	91-1957034		Facilities Based & Resale

Pennsylvania											
XO Pennsylvania, Inc.	Yes	A-310260190002	5/23/96	Yes	A-310674A-3106740002	2/10/00	Yes	4/2/99	91-1957034	7341	Facilities Based and Resale
XO Long Distance Services, Inc.	No			Yes	A-310575	9/12/97			91-1852009		Facilities Based
NL PA Merger Co. II, Inc.				Yes							

Rhode Island											
XO Long Distance Services, Inc.	No			Yes	2262(12)/3176	06/25/90	Yes	4/2/99	91-1957034		Docket # 2262(12) = Resale Docket #3176 = Facilities Based

South Carolina											
XO Long Distance Services, Inc.	No			Yes	1999-374-C	5/24/00	Yes	4/2/99	91-1957034		Facilities Based & Resale

South Dakota											
XO Long Distance Services, Inc.	No			Yes	TC99-102	1/18/00	Yes	4/2/99	91-1957034		Resale Only

Tennessee											
XO Tennessee, Inc.	Yes	98-02502	9/29/95	Yes	98-02502	9/29/95	Yes	10/1/96	91-1669405	7344	Resale Only

	Local	Docket/Order #	Date	IXC	Docket/Order #	Date	214	Date	FEIN #	OCN #	Notes
XO North Carolina, Inc.	Yes	P-619	6/19/97	Yes	P-352	2/15/94	Yes	1/20/99	91-1883910	4792	*two docket #s on order
XO Long Distance Services, Inc.	No			Yes	P-890	7/11/00	Yes	4/2/99	91-1957034		Facilities Based Only
North Dakota											
XO Long Distance Services, Inc.	No			Yes	Case #99-C-1112	8/25/99	Yes	4/2/99	91-1957034		Resale Only
Ohio											
XO Ohio, Inc.	Yes	96-1036-T-ACTE	3/27/97	Yes	96-385-C-T-ACTE	6/24/96	Yes	10/1/96	91-1709167	7520	Facilities Based & Resale
XO Long Distance Services, Inc.	No			Yes	99-1010-C-T-ACTE	2/24/99	Yes	4/2/99	91-1957034		Order does not mention facilities based or resale
Oregon											
XO Oregon, Inc.	Yes	99-227	3/18/99	Yes	99-227	3/18/99	Yes	1/20/99	91-1831759	4980	Resale Only
TTC dba XO Affinity	No			Yes	97-181	5/21/97			87-0423381		Resale only
XO Long Distance Services, Inc.	No			Yes	99-00562	9/24/99	Yes	4/2/99	91-1957034		Facilities Based & Resale
Pennsylvania											
XO Pennsylvania, Inc.	Yes	A-310260190002	5/23/96	Yes	A-310674A-3106740002	2/10/00	Yes	4/2/99	91-1957034	7341	Facilities Based and Resale
XO Long Distance Services, Inc.	No			Yes	A-310575	9/12/97			91-1852009		Facilities Based
NL PA Merger Co. II, Inc.				Yes							
Rhode Island											
XO Long Distance Services, Inc.	No			Yes	2262(12)/3176	06/25/90	Yes	4/2/99	91-1957034		Docket # 2262(12) = Resale Docket #3176 = Facilities Based
South Carolina											
XO Long Distance Services, Inc.	No			Yes	1999-374-C	5/24/00	Yes	4/2/99	91-1957034		Facilities Based & Resale
South Dakota											
XO Long Distance Services, Inc.	No			Yes	TC99-102	1/18/00	Yes	4/2/99	91-1957034		Resale Only
Tennessee											
XO Tennessee, Inc.	Yes	98-02502	9/29/95	Yes	98-02502	9/29/95	Yes	10/1/96	91-1669405	7344	Resale Only

Texas											
	Local	Docket/Order #	Date	IXC	Docket/Order #	Date	214	Date	FEIN #	OCN #	Notes
XO Texas, Inc.	Yes	19028	5/6/98	Yes	19028	5/6/98	Yes	1/20/99	91-1831715	8958	Facilities Based & Resale
XO Long Distance Services, Inc.	No			Yes	*		Yes	4/2/99	91-1957034		TX PUC does not issue orders

Utah											
	Local	Docket/Order #	Date	IXC	Docket/Order #	Date	214	Date	FEIN #	OCN #	Notes
XO Utah, Inc.	Yes	95-2208-01	5/29/96	Yes	95-2208-01	5/29/96	Yes	10/1/96	91-1907544	7541	Facilities Based & Resale
XO Long Distance Services, Inc.	No			Yes	*		Yes	4/2/99	91-1957034		UT PUC did not issue an order

Vermont											
	Local	Docket/Order #	Date	IXC	Docket/Order #	Date	214	Date	FEIN #	OCN #	Notes
XO Long Distance Services, Inc.	No			Yes	CPIC No. 484	2/16/00	Yes	4/2/99	91-1957034		Resale Only

Virginia											
	Local	Docket/Order #	Date	IXC	Docket/Order #	Date	214	Date	FEIN #	OCN #	Notes
XO Virginia, LLC	Yes	PUC980065	7/29/98	Yes	PUC980065	7/29/98	Yes	9/8/98	91-1957034	4772	Virginia remaining LLC/Facilities Based & Resale
XO Long Distance Services, Inc.	No			Yes	*		Yes	4/2/99			VA PUC did not issue an order

Washington											
	Local	Docket/Order #	Date	IXC	Docket/Order #	Date	214	Date	FEIN #	OCN #	Notes
XO Washington, Inc.	Yes	UT-940647	6/8/94	Yes	UT-940647	6/8/94	Yes	10/1/96	91-1907545	7340	Order does not mention facilities based or resale
XO Long Distance Services, Inc.	No			Yes	UT-991391	12/8/99	Yes	4/2/99	91-1957034		Order does not mention facilities based or resale

Washington DC											
	Local	Docket/Order #	Date	IXC	Docket/Order #	Date	214	Date	FEIN #	OCN #	Notes
XO DC, Inc.	Yes	892	4/23/98	Yes	892	4/23/98	Yes	9/8/98	91-1831714	8964	Facilities Based & Resale
NEXTINK Long Distance Services, Inc.	Yes			Yes	*		Yes	4/2/99	91-1957034		VA DC PUC did not issue an order

West Virginia											
	Local	Docket/Order #	Date	IXC	Docket/Order #	Date	214	Date	FEIN #	OCN #	Notes
XO West Virginia, Inc.	Yes			Yes	96-1131-T-PC	5/19/97	Yes	4/2/99	91-1957034		LD transferred from Chadwick 6/18/98
XO Long Distance Services, Inc.	Yes			Yes	99-1600-T-CN	3/20/99	Yes	4/2/99			Facilities Based & Resale

Wisconsin											
	Local	Docket/Order #	Date	IXC	Docket/Order #	Date	214	Date	FEIN #	OCN #	Notes
XO Wisconsin, Inc.	Yes	4145-NC-100	9/15/98	Yes	4145-NC-100	9/15/98	Yes	9/8/98	91-1883894	4126	Facilities Based & Resale
XO Long Distance Services, Inc.	No			Yes	5-9300-59C-Conf-00	1/27/00	Yes	4/2/99	91-1957034		Resale Only

Wyoming

XO Long Distance Services, Inc.

No

Yes

Z4442-IT-99-2

1/3/00

Yes

4/2/99

91-1957034

Order does not mention facilities based or resale

EXHIBIT B

Indemnity Bond

INDEMNITY BOND
To the
PEOPLE OF THE STATE OF SOUTH DAKOTA

COPY

Supercedes and Replaces Fireman's
Fund Bond No. 11141748001
Bond No. 45039962

We, XO Long Distance Services, Inc., the principal and applicant for a CERTIFICATE OF AUTHORITY to resell long distance telecommunications services within the State of South Dakota, and Greenwich 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 \$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 applicable provisions of South Dakota State Law, and reimburse customers of XO Long Distance 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 hereon and shall remain in force and effect until the surety is released from liability by the written order of the Public Utilities 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 30th day of May, 2002.

To be effective this 30th day of May, 2002.

XO Long Distance Services, Inc.

Greenwich Insurance Company

Diane S. Loughry, Attorney-in-Fact

Countersigned this _____ day of _____, 2002.

By N/A
Resident Agent

All correspondence and claims in regard to this bond should be sent to:

Greenwich Insurance Company
One Exchange Place-Suite 501
Jersey City, NJ 07302

EXHIBIT C

Request for Interconnection

Leverett, Nicholas G.

From: Knowles, Rex [rex.knowles@xo.com]
Sent: Thursday, November 13, 2003 9:51 PM
To: Nancy Donahue; Luba Hromyk
Subject: Request to adopt SGATs for 7 states

Nancy and Luba,

First, how're ya'll doing? I'm doing well (busy, but well).

XO would like to adopt SGATs for the following states:

Iowa
Montana
Nebraska
New Mexico
North Dakota
South Dakota
Wyoming

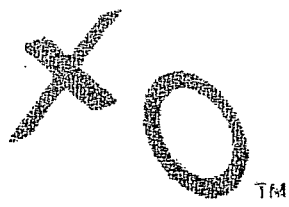
As usual, I'd like to have them as soon as possible (can you let me know about how long it will take). Can you let me know what else you need from me?

Thanks in advance!

Rex Knowles
Vice President, Regulatory
XO Communications
111 E Broadway, Suite 1000
Salt Lake City, UT 84111
rex.knowles@xo.com
801 983 1504
801 983 1667

EXHIBIT D

Letter of Authorization



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:

12/12/2003 11:31 FAX 614 416 1179 XO Communications 001

EXHIBIT E

Tariff Pages

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.

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

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.

ISSUED: XXXXX, 2003

EFFECTIVE: XXXXX, 2003

EXHIBIT F

Waiver Request

**Before the
STATE OF SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION**

In the Matter of the Petition of)
)
XO Long Distance Services, Inc.)
)
for a Waiver of ARSD 20:10:27:07) TC03-187
)
Requiring the Development of Company-)
Specific Cost-Based Switched Access)
Rates; a Waiver of ARSD 20:10:27:12, so)
as to Mirror Qwest Corporation Tariffed)
Access Rates, and Approval of its Proposed)
Switched Access Tariff)

PETITION

COMES NOW XO Long Distance Services, Inc. (“XO” or “Petitioner”), pursuant to ARSD 20:10:27:02 and 20:10:27:11, and shows the South Dakota Public Utilities Commission the following:

I. PARTIES

The Petitioner is XO Long Distance Services, Inc., 11111 Sunset Hills Road, Reston, Virginia 20190. All notices, pleadings, and other communications concerning this Petition should be directed to:

Nicholaus G. Leverett
Nicole Oden
KELLEY DRYE & WARREN LLP
1200 19th Street, N.W., Suite 500
Washington, D.C. 20036
Telephone: (202) 887-1212
Facsimile: (202) 955-9792
Email: nleverett@kelleydrye.com

II. FACTS

- A. XO has applied for a certificate of authority to provide local exchange service in South Dakota.
- B. XO requests a waiver of the requirement contained in ARSD 20:10:27:07 to file cost data in support of its switched access service tariff for the following reasons:
 - 1. XO does not have the necessary resources to determine company-specific cost-based intrastate switched access rates.
 - 2. The additional costs associated with developing company-specific cost-based intrastate switched access rates outweigh any benefit to the consumer or customer.
 - 3. XO will initially provide service through the unbundled network element platform (“UNE-P”) obtained from Qwest Communications, the incumbent local exchange company (“ILEC”).
 - 4. Because XO will initially obtain all of its switched access elements from the ILEC, its costs for switched access service elements are at least as much as the ILEC’s costs for those elements.
 - 5. XO proposes to mirror the intrastate switched access rates of the ILEC contained in the Qwest South Dakota Access Service Tariff, Sections 3.9 and 6.8.

6. The use of rates identical to the ILEC's rates for intrastate switched access will result in less confusion to carrier customers and to customers that review and evaluate the companies' rates for provision of switched access services.
- C. XO requests a waiver of ARSD 20:10:27:12 for the following reasons:
1. ARSD 20:10:27:12 would require XO to base its intrastate switched access rates on the costs of all the South Dakota telecommunications companies with fewer than 100,000 access lines.
 2. Under ARSD 20:10:27:12, XO would be required to charge a substantially higher intrastate switched access rate than the ILEC.
 3. The Petitioner's proposed South Dakota switched access rates follow the Federal Communications Commission guidelines that generally prohibit switched access rates (albeit *interstate* rates) higher than those charged by the ILEC. *In the Matter of Access Charge Reform, Seventh Report and Order and Further Notice of Proposed Rulemaking*, FCC 01-146 (rel. Apr. 27, 2001).
- D. XO requests expedited approval of its proposed tariff with an effective date as early as permitted by South Dakota statutes and Commission rules.
1. The Petitioner's proposed switched access rates mirror the ILEC's rates contained in the Qwest South Dakota Access Service Tariff, Sections 3.9 and 6.8.
 2. The ILEC's rates have been reviewed and approved by this Commission.

3. The Petitioner's proposed South Dakota switched access rates follow Federal Communications Commission guidelines that generally prohibit switched access rates (albeit *interstate* rates) higher than those charged by the ILEC. *In the Matter of Access Charge Reform, Seventh Report and Order and Further Notice of Proposed Rulemaking*, FCC 01-146 (rel. Apr. 27, 2001).

III. LEGAL AUTHORITY

Because the proposed tariff is an intrastate switched access tariff, the Public Utilities Commission has jurisdiction over this matter; authority to temporarily waive or suspend any rule in Chapters 20:10:27 to 20:10:29, inclusive; and authority to waive company-specific cost-based switched access rates pursuant to SDCL Chapter 49-1-11, 49-31-5, and 49-31-18, and ARSD 20:10:27:01 et seq.

IV. RELIEF REQUESTED

XO respectfully requests (1) waiver of the requirement to develop company-specific cost-based switched access rates under ARSD 20:10:27:07; (2) waiver of the requirement under ARSD 20:10:27:12 to base its switched access rates on the costs of all of the telecommunications companies with fewer than 100,000 access lines; (3) approval of its proposed intrastate switched access tariff containing rates that mirror Qwest's South Dakota switched access rates; and (4) expedited approval of its proposed switched access


tariff with an effective date as early as allowed by South Dakota statutes and Commission rules.

Dated: December 11, 2003

Respectfully submitted,

XO Long Distance Services, Inc.

By:



Nicholaus G. Leverett

Nicole Oden

KELLEY DRYE & WARREN LLP

1200 19th Street, N.W., Suite 500

Washington, D.C. 20036

Telephone: (202) 887-1212

Facsimile: (202) 955-9792

Email: nleverett@kelleydrye.com

October 16, 2003

Re: Application of XO Long Distance Services, Inc.

I called Nicholas Leverett about this application because in the first paragraph it states: "Applicant hereby respectfully notifies the Commission of its intent to change its name to XO Network Services, Inc." I called him because I wanted to know if he wanted the COA issued in the name as stated in the caption or issued to XO Network Services, Inc. He told me the correct name is XO Network Services, Inc. I have no idea why he would have captioned it: Application of XO Long Distance Services, Inc., and then mention in the first paragraph they want to change the name to XO Network Services, Inc. It seems to me that the application should have come in under the name of XO Network Services, Inc. Anyway I am captioning this docket under the name of XO Network Services, Inc. as per Mr. Leverett.

DK

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF)	ORDER GRANTING
XO NETWORK SERVICES, INC. FOR A)	CERTIFICATE OF
CERTIFICATE OF AUTHORITY TO PROVIDE)	AUTHORITY
LOCAL EXCHANGE SERVICES IN SOUTH)	
DAKOTA)	TC03-187

On October 16, 2003, the Public Utilities Commission (Commission) received an application for a certificate of authority from XO Network Services, Inc. (XO Network Services) and for approval of its intrastate switched access tariff. Additionally, XO Network Services requested an exemption from the requirement to develop intrastate switched access rates based on company specific costs.

XO Network Services proposes to provide a full array of local exchange services, including, but not limited to, basic voice, exchange access, private line and data transmission services. Proposed local exchange and switched access tariffs were filed by XO Network Services.

On October 23, 2003, the Commission electronically transmitted notice of the filing and the intervention deadline of November 7, 2003, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled December 16, 2003, meeting, the Commission considered XO Network Services' request for a certificate of authority, and its intrastate switched access tariff and a waiver from establishing switched access rates based on company specific costs. Commission Staff recommended granting a certificate of authority, subject to a continuous \$25,000 surety bond, and subject to rural safeguards. Commission Staff further recommended a waiver of ARSD 20:10:27:07 and 20:10:32:03(11). Staff recommended approving the switched access tariff and granting the exemption for three years.

The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-31, specifically 49-31-18, 49-31-19 and 49-31-69 and ARSD 20:10:27:11 and 20:10:32:03. The Commission finds that XO Network Services has met the legal requirements established for the granting of a certificate of authority. XO Network Services has, in accordance with SDCL 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 waive ARSD 20:10:27:07 and subparagraph (11) of ARSD 20:10:32:03 and grant the petition for exemption from developing company specific cost-based switched access rates pursuant to ARSD 20:10:27:11 for three years and approve XO Network Services' intrastate switched access tariff.

The Commission approves XO Network Services' application for a certificate of authority, subject to a continuous \$25,000 surety bond, and subject to rural safeguards, and grants the petition for exemption from developing company specific cost-based

switched access rates pursuant to ARSD 20:10:27:11 for three years and approves XO Network Services' intrastate switched access tariff. The certificate of authority for XO Network Services 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 Network Services choose to provide local exchange services statewide, with respect to rural telephone companies, XO Network Services 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 XO Network Services' application for a certificate of authority to provide local exchange services is granted, subject to a continuous \$25,000 surety bond; and it is

FURTHER ORDERED, that XO Network Services 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 Network Services 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 the Commission waives ARSD 20:10:27:07 and subparagraph (11) of ARSD 20:10:32:03; and it is

FURTHER ORDERED, that XO Network Services' petition to be exempt from establishing company specific cost-based switched access rates is granted for three years and its intrastate switched access tariff is approved.

Dated at Pierre, South Dakota, this 23rd day of December, 2003.

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: <u>Alaine Kolbo</u>
Date: <u>12/23/03</u>
(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 as of the date of the
Order Granting Certificate of Authority
Docket No. TC03-187

This is to certify that

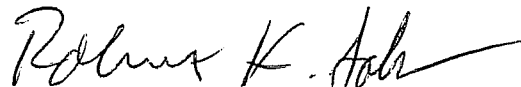
XO NETWORK SERVICES, INC.

is authorized to provide local exchange services in nonrural areas in
South Dakota.

This certificate is issued in accordance with SDCL 49-31-69 and ARSD
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 23rd day of December, 2003.

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION:**


ROBERT K. SAHR, Chairman


GARY HANSON, Commissioner


JAMES A. BURG, Commissioner

The bond in TC 03-102 for XO's IXC services also covers this docket for local exchange service.