

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NASSAU

-----X
IRVING SCHOENFELD, MORGAN
MARKETING LTD.,
RUSS LAND and BRIAN BEAVERS,

Plaintiffs,

- against -

XO COMMUNICATIONS, INC., HENRY R.
NOTHHAFT, DANIEL FRANCIS AKERSON,
JEFFREY S. RAIKES, SANDRA J. HORBACH,
CRAIG O. MCCAWE, NATHANIEL A. DAVIS,
NICOLAS KAUSER, SHARON L. NELSON,
JOSEPH L. COLE, DENNIS M. WEIBLING,
PETER C. WAAL, FORSTMANN LITTLE & CO.
and TELEFONOS DE MEXICO S.A. DE C.V.,

Defendants.

Hon. Geoffrey J. O'Connell

Index No. 01-018358

-----X
**ORDER REGARDING PROPOSED CLASS ACTION SETTLEMENT,
SETTLEMENT HEARING AND NOTICE OF PROPOSED SETTLEMENT**

The parties having made application, pursuant to Article 9 of the New York Civil Practice Law and Rules, for an Order approving the settlement of the above captioned class action (the "Action") in accordance with a Stipulation of Compromise and Settlement dated as of July __ (the "Stipulation"), a copy of which is annexed hereto as Exhibit A, which sets forth the terms and conditions for the proposed Settlement of this Action and for dismissal of this Action with prejudice; and the Court having read and considered the Stipulation and the exhibits annexed hereto; and capitalized terms used herein and not otherwise defined having been deemed to have the same meaning as set forth in the Stipulation; it is hereby ORDERED:

1. A hearing (the "Hearing") shall be held before this Court on _____, 2002 at _____ o'clock __m. in Courtroom ____ of the Supreme Court of the State of New York, County of Nassau, 100 Supreme Court Drive, Mineola, New York 11501, (i) to determine whether the proposed settlement of the Action on the terms and conditions provided for in the Stipulation are fair, reasonable and adequate and should be approved by the Court and whether a Final Judgment as provided in the Stipulation should be entered thereon, and (ii) to consider applications of counsel for plaintiffs and the plaintiff class for an award of attorneys' fees and expenses. The Court may adjourn the Hearing without further notice to members of the Class, as defined below.

2. For purposes of settlement only, this Action is conditionally certified as a class action, with the named plaintiffs as class representatives, pursuant to Article 9 of the Civil Practice Law and Rules, on behalf of a class (the "Class") consisting of all persons and entities who were public common shareholders of XO as of June 17, 2002, the date that XO, as Debtor, commenced a case under chapter 11 of the Bankruptcy Code in the Bankruptcy Court, Case No. 02-12947 (AJG), and excluding Defendants and any person, firm, trust, corporation or other entity related to or affiliated with any of the Defendants, and including the successors in interest to such public common shareholders through the date of Confirmation of XO's plan of reorganization filed with the Bankruptcy Court (the "Distribution Record Date"). The law firms of Abbey Gardy, LLP and Milberg Weiss Bershad Hynes & Lerach have been designated as Co-Lead Counsel for the plaintiff Class.

3. The Court approves, as to form and content, the Notice of Pendency of Class Action and Proposed Settlement and Hearing Thereon (the "Notice") annexed hereto as Exhibit B, and the Summary Publication Notice (the "Summary Notice") annexed hereto as

Exhibit C, and finds that the publication, mailing and distribution of the Notice and the Summary Notice substantially in the manner and form set forth in paragraph 4 of this Order meet the requirements of Article 9 of the Civil Practice Law and Rules, due process and the Rules of this Court, and is the best notice practicable under the circumstances and shall constitute due and sufficient notice for all purposes to all persons entitled thereto.

4. Plaintiffs' Co-Lead Counsel ("Class Counsel") are hereby empowered, subject to court order, to supervise and administer the notice procedures as set forth below:

(a) On or before _____, 2002, Class Counsel shall cause a copy of the Notice, substantially in the form annexed hereto as Exhibit B, to be mailed by first class mail to all persons appearing on the transfer records of XO as having been the record owners of XO common stock at their addresses listed on such transfer records as of June 17, 2002;

(b) On or before _____, 2002, Class Counsel shall cause a copy of the Summary Notice, substantially in the form annexed hereto as Exhibit C, to be published once in the national edition of The Wall Street Journal;

(c) At or prior to the Hearing provided for in paragraph 1 of this Order, Class Counsel shall file with the Court proof, by affidavit, of such publication and mailings;

(d) Defendants shall have no responsibility for the administration of the Settlement or the Settlement Fund or Successful Recovery Fund and shall have no liability to the Class in connection with such administration, except that XO shall use its best efforts to

provide Class Counsel, or its designated agent, with information necessary to disseminate notice to the shareholders of XO as of June 17, 2002 within five business days of preliminary approval of the Settlement;

(e) the costs and expenses associated with the administration of the Settlement, including, without limitation, the costs of identifying members of the Class and the actual costs of publication, printing and mailing notices, reimbursements to nominee owners for forwarding notice to their beneficial owners, and the administrative expenses incurred and fees charged by any claims administrator in connection with providing notice and processing the submitted claims, shall be paid by Plaintiffs and reimbursed out of the Settlement Fund, or in the event there is no Settlement Fund, then such costs and expenses shall be paid by XO or Reorganized XO, as applicable, up to a maximum of \$100,000, and the amount later deducted from any Successful Recovery Fund payable to the Class.

5. Each member of the Class shall be bound by all determinations and judgments in this Action whether favorable or unfavorable, unless such person shall mail, by first class mail, a written request for exclusion from the Class, postmarked no later than five (5) days prior to the date of the Hearing set forth above, addressed to Abbey Gardy, LLP, 212 East 39th Street, New York, New York 10016, Attn: Karin E. Fisch, Esq. or to Milberg Weiss Bershad Hynes & Lerach, One Pennsylvania Plaza, New York, New York 10119, Attn: Steven G. Schulman, Esq. Such request for exclusion shall be in a form that sufficiently identifies the name and address of the person so seeking exclusion, the identity, number or amount, and dates of acquisition (and sale, if any) of XO common stock held by such person and the name(s) in which such XO common stock is registered, and clearly indicates that the sender requests to be excluded from the Class. A request for exclusion shall not be effective unless it is received by

the firms set forth above and made within the time and substantially in the manner provided for herein. If a member of the Class duly requests to be excluded, he, she or it will not be bound by any orders or judgments entered in this Action or by any other provisions of the settlement set forth in the Stipulation.

6. All members of the Class who do not request exclusion therefrom in the manner provided in paragraph 5 of this Order may, but need not, enter an appearance in this Action pro se or through counsel of their own choice. If they do not enter an appearance, they will be represented by Plaintiffs' Co-Lead Counsel.

7. Any member of the Class who has not requested exclusion therefrom in the manner provided in paragraph 5 of this Order may appear and show cause why the proposed Settlement should not be approved as fair, reasonable and adequate, or why a judgment should not be entered thereon, or why counsel for the plaintiffs' application for an award of attorneys' fees and expenses should not be granted, as requested; provided, however, that no member of the Class or any other person shall be heard or entitled to object to the approval of the terms and conditions of the proposed Settlement, the amount of attorneys' fees and expenses, or, if approved, the judgment to be entered thereon approving the same, without permission of the Court, unless on or before five (5) days prior to the date of the Hearing set forth above, that person has (i) served by hand or by first class mail a statement of the number of shares of XO common stock, and any written objections and copies of any papers and briefs upon Plaintiffs' Co-Lead Counsel, c/o Abbey Gardy, LLP, 212 East 39th Street, New York, New York 10016, Attn: Karin E. Fisch, Esq.; or Milberg Weiss Bershad Hynes & Lerach, One Pennsylvania Plaza, New York, New York 10119, Attn: Steven G. Schulman, Esq. and (ii) filed said objections, papers and briefs with the Clerk of the Supreme Court of the State of New

York, Nassau County, 100 Supreme Court Drive, Mineola, New York 11501 (which may be done by first class mail). Any member of the Class who does not make his, her or its objection in the manner provided in this paragraph shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness or adequacy of the proposed settlement as incorporated in the Stipulation.

8. Upon entry of a judgment approving the Stipulation and the settlement embodied therein, all members of the Class who have not requested exclusion as provided herein shall conclusively be deemed, on behalf of themselves, and their respective predecessors, successors, affiliates, heirs, executors, administrators, successors and assigns, and any persons they represent, to release and forever discharge, and shall forever be enjoined from prosecuting, any all claims, demands, debts, rights, causes of action or liabilities whatsoever, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, including known and unknown claims, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise, whether under state or federal law, and whether directly, indirectly, derivatively, representatively or in any other capacity, in connection with, based upon in whole or in part, arising out of or relating to any claim that has been or could have been brought in the Action or any of the acts, facts or events alleged in the Action or in connection with, based upon, arising out of or relating to any act or omission, transaction, event or other occurrence taking place on or prior to the effective date of XO's Plan of Reorganization filed in the Bankruptcy Court for the United States District Court for the Southern District of New York, or in any way relating to XO, its Chapter 11 Bankruptcy Case, its Bankruptcy Plan or the Disclosure Statement in connection therewith, or the Stipulation (including without limitation any claim relating to the commencement, prosecution or settlement of an Investor Litigation or the decision not to

commence or prosecute an Investor Litigation, but excluding any claim against XO to enforce the terms of the Stipulation).

9. All discovery and other pretrial proceedings in this Action are stayed and suspended until further order of this Court. Pending the final determination of the fairness, reasonableness and adequacy of the proposed settlement, no member of the Class may either directly, representatively, or in any other capacity, prosecute, institute or commence, on behalf of the Class or any subset thereof, any claim based upon in whole or in part, arising out of or relating to any claim that has been or could have been brought in the Action or any of the acts, facts or events alleged in the Action or any purchases or sales of XO common stock, any violation of law in connection therewith, or any public statements concerning or relating to XO made by any of the Defendants.

10. In the event the proposed settlement as provided for in the Stipulation is not approved by the Court, the conditions set forth in Section C of the Stipulation are not fulfilled or duly waived or for any reason the parties fail to obtain a Final Judgment as described in the Stipulation, substantially in the form of Exhibit D hereto, then in any of such events, the Stipulation shall become null and void and of no further force and effect, and the Parties shall be restored to their respective positions existing prior the execution of the Stipulation.

11. The Court reserves the right to approve the Stipulation with such modifications as may be agreed to by counsel to the parties to the Stipulation and without further notice to members of the Class, and retains jurisdiction to consider all further applications arising out of or connected with the proposed settlement, as well as any applications for an award of fees and expenses to counsel for Plaintiffs and the Class herein.

1066234.2

Dated: Mineola, New York
July ____, 2002

J. S. C.

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NASSAU

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IRVING SCHOENFELD, MORGAN
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Defendants.
-----X

Hon. Geoffrey J. O'Connell

Index No. 01-018358

NOTICE OF PENDENCY OF CLASS ACTION,
PROPOSED SETTLEMENT AND HEARING THEREON

**TO: ALL PERSONS AND ENTITIES WHO WERE PUBLIC COMMON
SHAREHOLDERS OF XO COMMUNICATIONS, INC. AS OF JUNE 17, 2002
(EXCLUDING DEFENDANTS AND ANY PERSON, FIRM, TRUST,
CORPORATION OR OTHER ENTITY RELATED TO OR AFFILIATED WITH
ANY OF THE DEFENDANTS) AND THEIR SUCCESSORS IN INTEREST
THROUGH THE DISTRIBUTION RECORD DATE (THE "CLASS").**

**PLEASE READ THIS NOTICE CAREFULLY AND IN ITS ENTIRETY. YOUR
RIGHTS WILL BE AFFECTED BY THE LEGAL PROCEEDINGS IN THIS
LITIGATION. IF YOU WERE NOT A BENEFICIAL HOLDER OF XO COMMON
STOCK BUT HELD XO COMMON STOCK FOR A BENEFICIAL HOLDER, PLEASE
TRANSMIT THIS DOCUMENT TO SUCH BENEFICIAL HOLDER.**

This Notice is given pursuant to an Order of the Supreme Court of the State of New York, Nassau County, in accordance with Article 9 of the Civil Practice Law and Rules, to inform you of certain proceedings and of the proposed settlement of the above class action. There will be a hearing (the "Hearing") before the Court on _____, 2002 at _____ o'clock __m. in Courtroom ___ at the Supreme Court of the State of New York, Nassau County Courthouse, 100 Supreme Court Drive, Mineola, New York 11501, to determine whether the proposed settlement of this class action should be approved as fair, reasonable and adequate and in the best interests of the class and whether judgment should be entered dismissing the action with prejudice and without costs, and whether the request by Plaintiffs' Co-Lead Counsel for an award of attorneys' fees, costs and disbursements should be granted. It is not necessary for any member of the Class, or any other shareholder of XO, to appear at the hearing. See THE SETTLEMENT HEARING, below.

THE COURT HAS NOT PASSED ON THE MERITS OF ANY OF THE CONTENTIONS OF THE PARTIES IN THIS ACTION AND THEREFORE NO INFERENCES REGARDING THE MERITS OF THE ACTION OR LACK THEREOF SHOULD BE DRAWN FROM THE SETTLEMENT OR THE SENDING OF THIS NOTICE.

BACKGROUND

On November 28, 2001, XO Communications, Inc. ("XO") entered into a non-binding term sheet with the Investors (as defined below), with respect to an \$800 million investment in XO, conditioned on, among other things, a substantially deleveraged balance sheet, and the following morning announced publicly the material terms and conditions of the proposed investment (the "Proposed Transaction").

Between December 5, 2001 and December 11, 2001, Plaintiffs, on behalf of a class of themselves and all public shareholders of XO (excluding defendants and persons or entities affiliated with them), filed three class action complaints against XO and its directors and the Investors, seeking to enjoin the Proposed Transaction or, alternatively, to rescind the transaction and/or recover damages in the event that the Proposed Transaction were consummated, alleging generally that the Proposed Transaction constituted a breach of fiduciary duty on the part of XO's directors, allegedly aided and abetted by the Investors.

On January 15, 2002, XO entered into a binding Stock Purchase Agreement, dated January 15, 2002, by and among XO and the Investors (the "Investment Agreement"), reflecting the terms and conditions of the Proposed Transaction, and subject to satisfaction of a number of conditions, including that certain pending or threatened litigation against XO, the Investors or their respective officers and directors be resolved in a manner satisfactory to each Investor in its discretion (the "Litigation Condition").

By order dated April 5, 2002, this Court ordered that the three complaints filed by Plaintiffs relating to the Proposed Transaction be consolidated, allowing Plaintiffs to file a consolidated amended complaint, and appointed the law firms of Abbey Gardy, LLP and Milberg Weiss Bershad Hynes & Lerach LLP as co-lead Plaintiffs' counsel for the consolidated action. On or about May 23, 2002, Plaintiffs filed their Consolidated Class Action Complaint in the above-captioned action, containing materially the same allegations and seeking materially the same relief as the earlier-filed actions.

On June 6, 2002, counsel to the Investors delivered a letter to counsel for XO stating that they considered it "virtually impossible" that the conditions to the Investment

Agreement, including the Litigation Condition, would ever be satisfied and asking XO to release the Investors from their obligations under the Investment Agreement, at the same time acknowledging that the Investment Agreement remains in full force and effect.

XO, through its counsel, subsequently advised the Investors that it disagreed with the assertion that it is "virtually impossible" that those conditions would ever be satisfied, and reminded the Investors that the Investment Agreement requires each Investor to "use its reasonable best efforts to take, or cause to be taken, all further actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by the Agreement."

The Investors then advised XO that they intended to avail themselves of any available conditions to their obligations under the Investment Agreement applicable at the time of the closing that would allow the Investors not to complete the transactions contemplated by the Investment Agreement. At present, however, the Investors have not terminated or purported to terminate the Investment Agreement, or asserted that they currently have any right to do so.

At the request of the steering committee of its Senior Secured Lenders, XO developed a standalone restructuring plan as a contingency plan, to be implemented if the Investment Agreement were to be terminated, or if XO, after consultation with its Senior Secured Lenders, were to conclude that the Investors will not comply with their obligation to close under the Investment Agreement upon satisfaction of the applicable conditions thereunder.

Recognizing what it considered to be both the superior financial recovery to creditors offered by the transactions contemplated by the Investment Agreement and the uncertainty engendered by the conditions thereto, on June 17, 2002, XO filed a petition for relief

under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") and concurrently filed a proposed plan of reorganization setting forth two alternative restructuring plans: one contemplated by the Investment Agreement and the second the standalone contingency plan supported by the steering committee of XO's Senior Secured Lenders subject to customary approvals.

If the Investment Agreement were to be terminated, or XO, after consultation with its Senior Secured Lenders concludes that the Investors will not comply with their obligations to close thereunder upon satisfaction of the applicable conditions, XO presently intends (unless a superior alternative is presented to XO and subject to the approval of the Bankruptcy Court) to consummate the restructuring contemplated by the standalone contingency plan.

If XO concludes that the Investors have wrongfully terminated the Investment Agreement, or wrongfully failed to close thereunder, XO may elect to pursue claims in a lawsuit against the Investors for, inter alia, breach of contract, and seek damages and/or specific performance as remedies for said breach. Both XO and Plaintiffs believe that such a lawsuit could have substantial value,

In light of the significant changes in circumstances since the filing of the initial lawsuits, Plaintiffs, on behalf of themselves and the Class, XO, and its Senior Secured Lenders, consider it in their respective interests that this litigation be promptly resolved so as to facilitate the satisfaction of the Litigation Condition to the Investment Agreement, with a view toward (a) consummating the transactions contemplated by the Investment Agreement and securing for XO and its creditors the superior financial recovery offered by the transactions contemplated thereby;

out of which recovery the Senior Secured Lenders will compensate the Class -- at no additional cost to the Investors -- in consideration of Plaintiffs and the Class agreeing to dismiss their claims in this Action; or alternatively (b) providing XO with the basis for a meritorious and potentially valuable cause of action against the Investors should they wrongfully terminate the Investment Agreement or breach their obligations by failing to complete the transactions contemplated thereby notwithstanding satisfaction of the conditions thereto, in which event the Class could also share the benefits of any recovery in consideration of dismissing their claims in this Action.

In light of the contingent nature of the recoveries available from either a consummation of the Investment Agreement or a successful lawsuit for breach thereof, XO, the Senior Secured Lenders and Plaintiffs believe it appropriate that, in consideration for Plaintiffs' Class agreeing to settle this lawsuit, the rights of the common shareholders of XO under the standalone contingency plan be vested, clarified and enhanced, to better assure them of a right to purchase equity in the reorganized XO, irrespective of whether XO were to maintain a successful lawsuit for breach of the Investment Agreement by the Investors.

The parties desire to facilitate satisfaction of the Litigation Condition to the Investment Agreement to enable the transactions thereunder to be consummated and the benefits thereunder to be achieved, at the same time providing material and substantial consideration to XO's common shareholders.

For their part, the defendants in the Actions have strenuously denied, and continue strenuously to deny, each and every allegation of liability and wrongdoing made against them in each of the complaints filed in the Actions and assert that they have meritorious defenses to those

claims, that the conduct of the defendants has, at all times, been lawful and proper in all respects and that judgment or judgments should be entered dismissing all claims against the defendants with prejudice.

The parties have engaged in extensive arm's-length negotiations regarding settlement of the claims asserted in this action. The Plaintiffs, on the one hand, and the XO Defendants, on the other, desire to resolve their disputes by settlement and to avoid, among other things, any further litigation among them.

The named plaintiffs in this Action and the other Actions, and their counsel, recognize and acknowledge the expense, length and difficulty of continued proceedings necessary to prosecute the Actions against the defendants through trial and appeals. Counsel for the plaintiff Class have concluded that the defendants have significant defenses to the plaintiffs' claims and that the outcome of the Actions is uncertain. Counsel for the plaintiff Class have also taken into account the risks inherent in any litigation, including the likelihood of protracted proceedings and appellate review. In view of the foregoing, the plaintiffs and their counsel have concluded that it is desirable to settle the Actions on the terms and conditions hereinafter set forth, and deem such settlement to be fair, reasonable and adequate and in the best interests of the named plaintiffs and the other members of the Class.

**SUMMARY OF THE TERMS OF
THE PROPOSED SETTLEMENT**

The terms and conditions of the proposed settlement of the Actions are embodied in the Stipulation of Compromise and Settlement described above. The Stipulation has been filed with the Court; the following is only a summary of its terms.

A. Upon the Effective Date of this Settlement, Plaintiffs and each member of the Class on behalf of themselves, and their respective predecessors, successors, affiliates, heirs, executors, administrators, successors and assigns, and any persons they represent, shall, by operation of the Final Order and Judgment, release and be deemed to release and shall be enjoined from prosecuting, any Settled Claims against any of the Released Parties (generally, Defendants and their respective affiliates and current and former officers, partners, directors, employees, agents, members, shareholders, advisors (including any attorneys, financial advisors, investment bankers and other professionals retained by such persons). Settled claims generally means all claims or causes of action, known or unknown, under state or federal law, in a direct, derivative, representative or any other capacity, in connection with, based upon in whole or in part, arising out of or relating to any claim that has been or could have been brought in the Action or any of the acts, facts or events alleged in the Action or in connection with, based upon, arising out of or relating to any act or omission, transaction, event or other occurrence taking place on or prior to the effective date of the Bankruptcy Plan filed by XO in any way relating to the Investment Agreement, the Debtor, the Chapter 11 Case, the Plan or the Disclosure Statement or this Settlement (including without limitation any claim relating to the commencement, prosecution or settlement of an Investor Litigation or the decision not to commence or prosecute an Investor Litigation, but excluding claims against XO to enforce the terms of the Stipulation).

The obligations pursuant to the Stipulation shall be in full and final disposition and dismissal of this Action as against the Defendants.

As consideration for Plaintiffs and the Class giving the Releases described above and agreeing to a full and final disposition and dismissal of this Action, XO agrees that:

(a) If the transactions contemplated by the Investment Agreement are consummated:

(i) The Senior Secured Lenders shall waive their right to receive the first twenty million dollars (\$20,000,000) in cash interest otherwise payable to them upon consummation of the Plan and Investment, which XO or Reorganized XO, as applicable, shall pay into escrow on behalf of the Class within seven (7) business days after the later of (a) consummation of the Plan and the Investment; or (b) the date such interest would otherwise be due and payable.

(ii) The \$20,000,000 to be paid and any interest earned thereon shall be referred to as the "Settlement Fund" and shall be distributed on the Distribution Date or as soon thereafter as is practicable to those members of the Class who are public common shareholders of XO on the Distribution Record Date, less applicable taxes and costs of administration of the Settlement and any attorneys' fees and expenses awarded by the Court.

(b) If the standalone contingency plan or an alternative transaction is implemented:

Then the Class will be entitled to (i) a contingent recovery based on successful litigation, settlement or alternative transaction, as described below; and (ii) the right to purchase certain equity in the newly-reorganized XO, as follows:

(i) Contingent Recovery

If XO brings a successful lawsuit against the Investors for breach of the Investor Agreement (or receives a cash settlement in connection with such a lawsuit), then the Class will

be entitled to receive 33 1/3% of the proceeds of any recovery by XO ("Successful Recovery") up to a maximum of \$20,000,000 (i.e., the Class will be entitled to one-third of any Successful Recovery by XO up to \$60,000,000, with one-third or \$20,000,000 being the maximum amount payable to the Class). In addition, the Class will be entitled to receive three percent (3%) of any Successful Recovery beyond \$60,000,000 (collectively, the "Successful Recovery Fund").

The administration, distribution and tax payments on the Successful Recovery Fund shall be handled in the same manner as set forth above in connection with the Settlement Fund and distributions therefrom shall be made to those members of the Class who are public common shareholders of XO on the Distribution Record Date.

In the event that a Successful Recovery involves the receipt by any party of consideration other than cash or cash equivalents (including, without limitation, an alternative transaction superior in value to the transactions contemplated by the standalone contingency plan), then the value of the Successful Recovery will be determined by agreement of two independent financial advisors hired by Plaintiffs and XO, respectively, and if they cannot agree, then by a neutral third advisor. The value as determined will then be paid in cash by XO and distributed in the same manner and to the same persons or entities as any cash consideration portion of a Successful Recovery; provided, however, that the amounts payable to Plaintiffs and the Class in respect of any non-cash consideration portion of a Successful Recovery shall in no event exceed twenty million dollars (\$20,000,000).

Plaintiffs and the Class shall be given a right of consultation regarding strategic decisions in any such litigation brought by XO against the Investors for breach of the Investment Agreement (an "Investor Litigation"), including its commencement; however, all decisions as to

whether to initiate an Investor Litigation; counsel to be retained for any Investor Litigation; whether to settle any Investor Litigation; and whether to appeal any rulings in connection with any Investor Litigation, shall be subject to the sole, exclusive and final judgment of XO or Reorganized XO made in good faith, and neither XO, Reorganized XO nor the Senior Secured Lenders shall be deemed representatives, agents, fiduciaries, partners, or joint venturers of or with Plaintiffs or the Class in connection with any Investor Litigation.

(ii) Rights Offering

If the standalone contingency plan is implemented, the bankruptcy plan proposed by XO will contain a rights offering of equity securities in Reorganized XO no less favorable to the Class than the following: (i) XO will make a rights offering to its creditors and equity holders of Nontransferable Rights of no less than \$50 million to purchase Reorganized XO Common Stock, (ii) provision will be made to ensure that Nontransferable Rights to invest at least \$16,666,666 are made available to common stockholders on a pro rata basis based on the number of shares held, and, in the event such amount is not taken up in full on that basis, on a pro rata basis based upon subscription request amounts by such common stockholders, (iii) common stockholders shall have the opportunity, on an equal basis with holders of subordinated note and preferred stock claims, to exercise Nontransferable Rights prior to their reversion to holders of senior secured claims pro rata based on subscription request amounts.

In accordance with the terms of the Stipulation, the parties to the Actions have agreed, and the Court has entered an Order, that for purposes of settlement only, the Action captioned above shall be conditionally certified as a class action with the named plaintiffs as class representatives, pursuant to Article 9 of the New York Civil Practice Law and Rules, on behalf of a class (the "Class") consisting of all persons or entities who were public common

shareholders of record of XO as of June 17, 2002 (except the Defendants and any person, firm, trust, corporation or other entity related to or affiliated with any of the Defendants) and their successors in interest through the Confirmation Date of XO's plan of reorganization filed with the Bankruptcy Court.

Counsel for plaintiffs in the Actions have determined and informed counsel for the defendants that, based upon their investigation, (i) a settlement of the Actions on the terms enumerated above, and (ii) the Stipulation, and the settlement embodied therein, are fair, reasonable and adequate and in the best interests of the shareholders of XO.

**THE EFFECT OF THE
SETTLEMENT ON YOUR RIGHTS**

If you are a member of the Class, you will remain a member of the Class and your rights will be affected by this class action and the proposed settlement described herein, if approved, unless you request, in writing, to be excluded from the Class in the manner set forth below in the section of this Notice captioned **REQUESTS FOR EXCLUSION BY MEMBERS OF THE CLASS**.

If the Court approves the settlement provided for in the Stipulation, a final judgment or judgments shall be entered in due and proper form in this Action:

B. approving the proposed settlement; adjudging the terms thereof to be fair, reasonable and adequate; directing consummation of its terms and provisions; awarding Plaintiffs' counsel such fees, expenses and disbursements as the Court deems appropriate,

C. dismissing with prejudice the complaint in this Action in accordance with the terms of the Stipulation and permanently releasing and barring and

enjoining the prosecution, against the Released Parties, by any member of the Class who has not timely requested exclusion therefrom, both on behalf of themselves, and their respective predecessors, successors, affiliates, heirs, executors, administrators, successors and assigns, and any persons they represent, of any and all claims, demands, debts, rights, causes of action or liabilities whatsoever, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, including known and unknown claims, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise, whether under state or federal law, and whether directly, indirectly, derivatively, representatively or in any other capacity, in connection with, based upon in whole or in part, arising out of or relating to any claim that has been or could have been brought in the Action or any of the acts, facts or events alleged in the Action or in connection with, based upon, arising out of or relating to any act or omission, transaction, event or other occurrence taking place on or prior to the effective date of XO's Plan of Reorganization filed in the Bankruptcy Court for the United States District Court for the Southern District of New York, or in any way relating to XO, its Chapter 11 Bankruptcy Case, its Bankruptcy Plan or the Disclosure Statement in connection therewith, or the Stipulation (but excluding any claims against XO to enforce the terms of the Stipulation).

D. containing such other and further provisions consistent with the terms and provisions of the Stipulation as the Court may deem advisable.

If the proposed settlement of the Actions is not approved for any reason, the Settlement shall become null and void and shall be of no further force or effect, and the parties shall be returned to their respective positions immediately preceding the execution of the Stipulation.

STAY OF PROCEEDINGS

The Court has ordered that, pending the final determination of the fairness, reasonableness and adequacy of the proposed settlement, no member of the Class may either directly, representatively, or in any other capacity, prosecute, institute or commence, on behalf of the Class or any subset thereof, any claim based upon in whole or in part, arising out of or relating to any claim that has been or could have been brought in the Action or any of the acts, facts or events alleged in the Action or any purchases or sales of XO common stock, any violation of law in connection therewith, or any public statements concerning or relating to XO made by any of the Defendants.

THE SETTLEMENT HEARING

As set forth above, the Court has scheduled a hearing on _____ 2002, to consider the fairness, reasonableness and adequacy of the proposed settlement of the Action and to consider the requests of counsel for the plaintiffs in this Action for an award of their reasonable attorneys fees, costs and expenses. The Hearing may be adjourned by the Court without further notice to members of the Class.

It is not necessary for any member of the class, or any other shareholder of XO, to appear at the hearing. If you do not appear, you will be represented by Plaintiffs' Co-Lead Counsel in the Action, the law firms of Abbey Gardy, LLP, 212 East 39th Street, New York, New York 10016, and Milberg Weiss Bershad Hynes & Lerach, One Pennsylvania Plaza, New York, New York 10119.

Any member of the Class who has not previously requested exclusion therefrom may appear at the Hearing, in person or by counsel, and show cause why the proposed settlement of the Class Action should not be approved as fair, reasonable and adequate, or in the best interests of the Class, or why Plaintiffs' Co-Lead Counsel should not be awarded fees and expenses as requested or why a judgment should not be entered dismissing the Action, provided, however, that no Class member or any other person shall be heard or entitled to contest any of these matters unless, on or before five (5) days prior to the date of the Hearing set forth above, that person has served by hand or first-class mail: (a) a notice of intention to appear; (b) a statement submitted under penalty of perjury of the number of shares of XO common stock; (c) a statement of such Class member's specific objections to the settlement and the judgment to be

entered thereon, and/or the application of Plaintiffs' Co-Lead Counsel for attorneys' fees, costs and expenses; and (d) all other documents and writings which such Class member desires the Court to consider, upon:

Karin E. Fisch, Esq.
Abbey Gardy, LLP
212 East 39th Street
New York, New York 10016

or

Steven G. Schulman, Esq.
Milberg Weiss Bershad
Hynes & Lerach LLP,
One Pennsylvania Plaza
New York, New York 10119

with a copy to:

Stephen Greiner, Esq.
Willkie Farr & Gallagher
787 Seventh Avenue
New York, New York 10019-6099

and filed said objections, papers and briefs with the Clerk of the Supreme Court of the State of New York, Nassau County, 100 Supreme Court Drive, Mineola, New York 11501 (which may be done by first class mail). Any such objections should bear the caption of the Schoenfeld Action set forth above. Any member of the Class who does not make his, her or its objection in this manner shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness or adequacy of the proposed settlement as described herein.

ATTORNEYS' FEES AND COSTS

Counsel for the plaintiffs in the Action intend to apply to the Court for an award of attorneys' fees, as follows:

(1) If the transactions contemplated by the Investment Agreement are consummated, an amount not to exceed 25% of the Settlement Fund; or (2) if the standalone contingency plan is implemented or an Alternative Transaction occurs, (a) an amount not to exceed 25% of the Successful Recovery Fund; and (b) the opportunity to exercise Nontransferable Rights in an amount not to exceed 25% of the Rights Shares; and (3) reimbursement of expenses and disbursements (including expert or consulting fees), together with interest, to be paid by Plaintiffs and reimbursed out of the Settlement Fund, or in the event there is no Settlement Fund, to be paid by XO or Reorganized XO, as applicable, up to a maximum of \$100,000 (inclusive of any notice and administration costs and expenses paid by XO or Reorganized XO), and later to be deducted from any Successful Recovery Fund payable to the Class.

REQUESTS FOR EXCLUSION BY MEMBERS OF THE CLASS

If you wish to be excluded from the Class, you may ask the Court to exclude you from the Class by filing a Request for Exclusion stating "I wish to be excluded from the XO Class action." Your Request for Exclusion must be in writing and postmarked on or before five (5) days prior to the Hearing date set forth above. You should include your name and address, and any names in which your XO stock was or is held, if different from your own. All Requests for Exclusion must be mailed to:

Karin E. Fisch, Esq.
Abbey Gardy, LLP
212 East 39th Street
New York, New York 10016

or

Steven G. Schulman, Esq.
Milberg Weiss Bershad
Hynes & Lerach LLP,
One Pennsylvania Plaza
New York, New York 10119

with a copy to:

Stephen Greiner, Esq.
Willkie Farr & Gallagher
787 Seventh Avenue
New York, New York 10019-6099

If you properly and timely request exclusion from the Class, you will not be bound by any judgment entered in this Action. You will be free to pursue whatever legal rights you may have, if any, against any of the defendants at your own expense. If you do not request exclusion from the Class in the manner provided above you will be bound by the settlement and final judgment entered in this lawsuit pursuant thereto.

INQUIRIES

For a more detailed statement of the matters involved in the proposed settlement of this Action, you are referred to the pleadings, to the Stipulation relating to the settlement of the Actions and to all other papers filed therein, which may be inspected at the Office of the Clerk of the Supreme Court of the State of New York, Nassau County, 100 Supreme Court Drive, Mineola, New York 11501.

SHOULD YOU HAVE ANY QUESTIONS CONCERNING THIS NOTICE, THIS ACTION, THE PROPOSED SETTLEMENT OR THE HEARING THEREON, YOU SHOULD RAISE THEM WITH YOUR OWN COUNSEL OR DIRECT THEM TO

PLAINTIFFS' CO-LEAD COUNSEL IN THIS ACTION, AT THE ADDRESSES SET FORTH ABOVE. PLEASE DO NOT CONTACT THE CLERK OF THE COURT.

Dated: Mineola, New York
_____, 2002

_____, Clerk of the Court
Supreme Court of the State of
New York, Nassau County

IMPORTANT NOTICE TO ALL PERSONS AND ENTITIES WHO WERE PUBLIC COMMON SHAREHOLDERS OF XO COMMUNICATIONS, INC. AS OF JUNE 17, 2002 (EXCLUDING DEFENDANTS AND ANY PERSON, FIRM, TRUST, CORPORATION OR OTHER ENTITY RELATED TO OR AFFILIATED WITH ANY OF THE DEFENDANTS) AND THEIR SUCCESSORS IN INTEREST THROUGH THE DISTRIBUTION RECORD DATE (THE "CLASS").

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF MINEOLA

-----x
:

IRVING SCHOENFELD, MORGAN :

MARKETING LTD., :

RUSS LAND and BRIAN BEAVERS, :

Plaintiffs, :

- against - :

XO COMMUNICATIONS, INC., HENRY R. :

NOTHHAFT, DANIEL FRANCIS AKERSON, :

JEFFREY S. RAIKES, SANDRA J. HORBACH, :

CRAIG O. MCCAWE, NATHANIEL A. DAVIS, :

NICOLAS KAUSER, SHARON L. NELSON, :

JOSEPH L. COLE, DENNIS M. WEIBLING, :

PETER C. WAAL, FORSTMANN LITTLE & CO. :

and TELEFONOS DE MEXICO S.A. DE C.V., :

Defendants. :

-----x

Hon. Geoffrey J. O'Connell
Index No. 01-018358

SUMMARY NOTICE OF CLASS
ACTION DETERMINATION AND SETTLEMENT
OF CLASS ACTIONS

PLEASE TAKE NOTICE, that, pursuant to an Order of the Court dated _____, 2002, the action captioned above (the "Class Action") has been conditionally certified as a class action on behalf of all persons or entities who were public common shareholders of XO Communications, Inc. ("XO") as of June 17, 2002 (except the Defendants

and any person, firm, trust, corporation or other entity related to or affiliated with any of the Defendants) and their successors in interest through the date of confirmation of XO's bankruptcy plan of reorganization (the "Distribution Record Date").

Plaintiffs have agreed to settle the Class Action by, among other things, granting a release of all claims that any member of the Class may have against the Defendants and their respective affiliates, agents, officers, directors and other representatives, based upon or relating to XO or any of the facts or events alleged in the Class Action, in exchange for (1) \$20,000,000 to be paid to the common shareholders of XO as of the Distribution Record Date in the event that XO closes its investment agreement dated January 15, 2002 (the "Investment Agreement") with Forstmann Little & Co. and certain of its affiliates ("Forstmann Little") and Teléfonos de México, S.A. de C.V., ("Telmex"); or (2) (a) certain rights on the part of XO common shareholders to share in any successful recovery by XO in any lawsuit it might bring against Forstmann Little and/or Telmex for breach of the Investment Agreement; and (b) the right of common shareholders of XO to purchase certain equity rights in the newly-reorganized XO pursuant to a bankruptcy plan of reorganization to be implemented by XO in the event the Investment Agreement does not close.

A Hearing will be held on _____, 2002 at ____ o'clock __.m. before the Honorable _____, Justice of the Supreme Court, Nassau County, in Courtroom ____ at the Supreme Court of the State of New York, Nassau County Courthouse, 100 Supreme Court Drive, Mineola, New York 11501, for the purpose of determining whether the proposed settlement of the Class Action should be approved by the Court as fair, reasonable and adequate and in the best interests of the Class, and whether the request of Plaintiffs' Co-Lead Counsel for an award of attorneys' fees, costs and disbursements should be granted. **IT IS NOT NECESSARY FOR**

ANY MEMBER OF THE CLASS, OR ANY OTHER SHAREHOLDER OF XO, TO APPEAR AT THE HEARING.

If you are a member of the Class, you may exclude yourself from the Class by sending a request for exclusion to Plaintiffs' Co-Lead Counsel at the address set forth in the next paragraph five (5) prior to the date of the Hearing set forth above. If you do not exclude yourself from the Class, you will be bound by the final order and judgment of the Court, and you will be deemed to have released any and all claims that have or could have been brought in this Action.

The foregoing is only a summary. A more detailed notice (the "Notice"), including a detailed description of the proposed settlement of this Action, the Hearing thereon, and the rights of Class members has been mailed to all persons and entities appearing on the transfer records of XO as holders of XO common stock as of June 17, 2002. If you have not received a copy of the Notice, you may obtain one by making a request in writing to one of Plaintiffs' Co-Lead Counsel: Karin E. Fisch, Esq., Abbey Gardy, LLP, 212 East 39th Street, New York, N.Y. 10016 or Steven G. Schulman, Esq., Milberg Weiss Bershad Hynes & Lerach, One Pennsylvania Plaza, New York, New York 10119, or by calling 800-_____. Also, the complete court file in this Action is available for inspection in the office of the Clerk of the Court, Supreme Court of the State of New York, Nassau County, 100 Supreme Court Drive, Mineola, New York 11501.

If you have any questions concerning this notice, you may raise them with your own counsel or direct them to Plaintiffs' Co-Lead Counsel in this Action, at the address set forth above. DO NOT CONTACT THE CLERK OF THE COURT.

1066234.2

Dated: Mineola, New York
_____, 2002

_____, Clerk of the Court
SUPREME COURT OF THE STATE OF NEW YORK
NASSAU COUNTY

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NASSAU

-----X
IRVING SCHOENFELD, MORGAN
MARKETING LTD.,
RUSS LAND and BRIAN BEAVERS,

Plaintiffs,

- against -

XO COMMUNICATIONS, INC., HENRY R.
NOTHHAFT, DANIEL FRANCIS AKERSON,
JEFFREY S. RAIKES, SANDRA J. HORBACH,
CRAIG O. MCCA W, NATHANIEL A. DAVIS,
NICOLAS KAUSER, SHARON L. NELSON,
JOSEPH L. COLE, DENNIS M. WEIBLING,
PETER C. WAAL, FORSTMANN LITTLE & CO.
and TELEFONOS DE MEXICO S.A. DE C.V.,

Defendants.
-----X

Hon. Geoffrey J. O'Connell

Index No. 01-018358

ORDER AND FINAL JUDGMENT APPROVING
SETTLEMENT AND AWARDING FEES AND EXPENSES

The above captioned class action (the "Action") having come on for hearing, as noticed, on _____, 2002 at ___ o'clock __.m., pursuant to the Order of this Court dated _____, 2002 (the "Hearing Order"), to consider and determine the matters set forth in said Hearing Order; and the Court having heard and considered the matter, including all papers filed in connection therewith, and the oral presentation of counsel at said hearing, and good cause appearing therefore,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED as follows:

1. Capitalized terms used herein and not otherwise defined shall have the same meaning as set forth in the Stipulation of Compromise and Settlement dated July __, 2002 (the "Stipulation"), and the settlement set forth therein (the "Settlement").

2. Pursuant to Article 9 of the CPLR:

(a) The Court finds that (i) the Class (as defined herein) is so numerous that joinder of all members is impracticable, (ii) there are questions of law and fact common to the Class which predominate over any questions affecting only individual members, (iii) the claims of the representative parties are typical of the claims of the Class, (iv) the representative parties and their counsel have fairly and adequately protected the interests of the Class, and (v) the questions of law and fact common to the members of the Class predominate over any questions affecting only individual members and a class action is superior to other available methods for the fair and efficient adjudication of the controversy.

(b) The Action is hereby certified as a class action on behalf of a class (the "Class") consisting of all persons and entities who were public common shareholders of XO as of June 17, 2002 (except the Defendants and any person, firm, trust, corporation or other entity related to or affiliated with any of the Defendants) and their successors in interest through the date of confirmation of XO's bankruptcy plan of reorganization (the "Distribution Record Date").

(c) Plaintiffs in the Action are hereby certified as class representatives and their counsel are certified as Class Counsel; and

(d) The Court finds that the requirements of Article 9 have been satisfied.

3. Due and adequate notice of the proceedings having been given and a full opportunity having been offered to the members of the Class to participate in this hearing, or object to the certification of the Class and the Settlement, it is hereby determined that all members of the Class are bound by this Order and Final Judgment entered herein.

4. The terms of the Stipulation and Settlement are fair, reasonable and adequate and in the best interests of the Class (as defined in the Hearing Order), and the same are hereby approved, and the parties thereto are hereby directed to consummate the Settlement in accordance with the terms and conditions of the Stipulation.

5. The complaint in this class action (the "Complaint") is hereby dismissed on the merits and with prejudice as to all defendants named therein, with each party to bear his, her or its own costs, except as otherwise provided herein.

6. The named plaintiffs in this Action and all other members of the Class on behalf of themselves, and their respective predecessors, successors, affiliates, heirs, executors, administrators, successors and assigns, and any persons they represent, except those persons who have timely requested exclusion pursuant to Article 9 of the Civil Practice Law and Rules and the Order of this Court (the "Releasers"), are hereby deemed to have released and forever discharged (i) the Defendants (ii) the Forstmann Little Entities; (iii) Reorganized XO; (iv) the current and former directors, officers and employees of XO; (v) the Senior Secured Lenders and the Administrative Agent; (vi) the respective affiliates and current and former officers, partners, directors, employees, agents, members, shareholders, advisors (including any attorneys, financial advisors, investment bankers and other professionals retained by such persons), and professionals of the foregoing (collectively, the "Released Parties") from any and all claims,

demands, debts, rights, causes of action or liabilities whatsoever, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, including known and unknown claims, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise, whether under state or federal law, and whether directly, indirectly, derivatively, representatively or in any other capacity, in connection with, based upon in whole or in part, arising out of or relating to any claim that has been or could have been brought in the Action or any of the acts, facts or events alleged in the Action or in connection with, based upon, arising out of or relating to any act or omission, transaction, event or other occurrence taking place on or prior to the effective date of XO's Plan of Reorganization filed in the Bankruptcy Court for the United States District Court for the Southern District of New York, or in any way relating to XO, its Chapter 11 Bankruptcy Case, its Bankruptcy Plan or the Disclosure Statement in connection therewith, or the Stipulation (including without limitation any claim relating to the commencement, prosecution or settlement of an Investor Litigation as defined in the Stipulation or the decision not to commence or prosecute an Investor Litigation but excluding any claims against XO to enforce the terms of the Stipulation).

7. The Court hereby awards Plaintiffs' counsel attorneys' fees, costs and expenses as follows:

(a) If the transactions contemplated by the Investment Agreement are consummated, an amount not to exceed 25% of the Settlement Fund; or (2) if the Stand Alone Events or an Alternative Transaction Occur, (a) an amount not to exceed 25% of the Successful Recovery Fund; and (b) the opportunity to exercise Nontransferable Rights in an amount not to exceed 25% of the Rights Shares; and (3) reimbursement of expenses (including expert or

consulting fees), together with interest, to be paid by Plaintiffs and reimbursed out of the Settlement Fund, or in the event there is no Settlement Fund, to be paid by XO or Reorganized XO, as applicable, up to a maximum of \$100,000 (inclusive of any notice and administration costs and expenses paid pursuant to Section B. 2 (c)(xi) of the Stipulation) and later to be deducted from any Successful Recovery Fund payable to the Class. Such attorneys' fees, expenses, and interest as are awarded by the Court shall be paid from the Settlement Fund or Successful Recovery Fund, as the case may be, to Plaintiffs' Counsel promptly after such award, notwithstanding the existence of any timely filed objections thereto, or potential for appeal therefrom, or collateral attack on the Settlement or any part thereof, subject to Plaintiffs' Counsel's obligation to make appropriate refunds or repayments to the Settlement Fund or Successful Recovery Fund, plus accrued interest at the same net rate as is earned by the Settlement Fund or Successful Recovery Fund, if and when, as a result of any appeal and/or further proceedings on remand, or successful collateral attack, the fee or cost award is reduced or reversed.

8. Without in any way affecting the finality of this Order and Final Judgment, this Court shall retain continuing jurisdiction over this Action and the parties to the Stipulation in order to enter any further orders as may be necessary to effectuate the Stipulation and the Settlement provided for therein and the provisions of this Order and Final Judgment.

Dated: Mineola, New York
_____, 2002

J.S.C.