THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

	X	
In re	:	
		Chapter 11 Case No
ALLEGIANCE TELECOM, INC., et al ,		**03-13057 (RDD)**
	.	
Debtors	:	**Jointly Administered**
	X	

DEBTORS' DISCLOSURE STATEMENT PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE

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Matthew A Cantor
Jonathan S Henes
Lisa G Laukitis

Dated New York, New York
March 18, 2004

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EXHIBITS[1]

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1 The Exhibits to the proposed Disclosure Statement are voluminous Accordingly, such Exhibits will be filed with the Bankruptcy Court but will not be annexed to the Disclosure Statement for purposes of service Parties can obtain copies of the Exhibits to the proposed Disclosure Statement from the website of the Debtors' notice and claims agent, Bankruptcy Management Corporation, at www bmccorp net/allegiance

1. INTRODUCTION

Allegiance Telecom, Inc., a Delaware corporation ("ATI"), Allegiance Telecom Company Worldwide, a Delaware corporation ("ATCW"), and ATCW's direct and indirect subsidiaries (the "Subsidiaries") (collectively the "Debtors" or "Allegiance"), as debtors and debtors in possession, submit this disclosure statement (the "Disclosure Statement"),[2] pursuant to section 1125 of title 11 of the United States Code (the "Bankruptcy Code"), to Holders of Claims against and Equity Interests in the Debtors in connection with (i) the solicitation of acceptances of the Debtors' Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated __________, 2004, as the same may be amended from time to time (the "Plan"), filed by the Debtors with the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") on _______, 2004, and (ii) the hearing to consider confirmation of the Plan (the "Confirmation Hearing") scheduled for _______, 2004, commencing at ___ _ m., prevailing Eastern Time

Attached as exhibits to this Disclosure Statement are copies of the following documents

(i) The Plan (Exhibit A),

(ii) The Purchase Agreement (Exhibit B),

(iii) Sale Order (Exhibit C),

(iv) The Order of the Bankruptcy Court, dated ________, 2004 (the "Disclosure Statement Order"), approving, among other things, this Disclosure Statement and establishing certain procedures with respect to the solicitation and tabulation of votes to accept or reject the Plan (Exhibit D),

(v) ATI's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (Exhibit E),

(vi) ATI's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002 (Exhibit F),

(vii) ATI's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2003 (Exhibit G),

(viii) Reorganized STFI's Projected Financial Information (Exhibit H),

(ix) The Debtors' Liquidation Analysis (Exhibit I),

(x) Reorganized STFI Equity Valuation (Exhibit J), and

(xi) XO Communications, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (Exhibit K)[3]

In addition, a Ballot for the acceptance or rejection of the Plan is enclosed with the Disclosure Statement submitted to the Holders of Claims that are entitled to vote to accept or reject the Plan.

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2 Unless otherwise defined herein, all capitalized terms contained herein shall have the meaning ascribed to them in the Plan

3 This Form 10-K of XO Communications, Inc was prepared by XO Communications, Inc. The Debtors did not review or otherwise participate in the preparation of such Form 10-K. As such, the Debtors do not take any position whatsoever with respect to the reliability of the information set forth therein

On __________, 2004, after notice and a hearing, the Bankruptcy Court entered the Disclosure Statement Order, approving this Disclosure Statement, pursuant to section 1125 of the Bankruptcy Code, as containing adequate information of a kind and in sufficient detail to enable a hypothetical, reasonable investor, typical of the Debtors' creditors, to make an informed judgment whether to accept or reject the Plan APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN

The Disclosure Statement Order, a copy of which is annexed hereto as Exhibit C, sets forth in detail the deadlines, procedures and instructions for voting to accept or reject the Plan and for filing objections to confirmation of the Plan, the record date for voting purposes and the applicable standards for tabulating Ballots In addition, detailed voting instructions accompany each Ballot EACH HOLDER OF A CLAIM ENTITLED TO VOTE ON THE PLAN SHOULD READ THE DISCLOSURE STATEMENT, THE PLAN, THE DISCLOSURE STATEMENT ORDER AND THE INSTRUCTIONS ACCOMPANYING THE BALLOT CAREFULLY AND IN THEIR ENTIRETY BEFORE VOTING ON THE PLAN These documents contain important information concerning the classification of Claims and Equity Interests for voting purposes, Distributions under the Plan and the tabulation of votes No solicitation of votes to accept the Plan may be made except pursuant to section 1125 of the Bankruptcy Code

A. HOLDERS OF CLAIMS ENTITLED TO VOTE

Pursuant to the provisions of the Bankruptcy Code, only Holders of Allowed Claims or Equity Interests in Classes that are Impaired and that are not deemed to have rejected the Plan are entitled to vote to accept or reject the Plan Holders of Claims or Equity Interests in classes that are Unimpaired, pursuant to section 1124 of the Bankruptcy Code, are deemed to have accepted the Plan and are not entitled to vote to accept or reject the Plan Holders of Claims or Equity Interests in Classes that will receive no recovery under the Plan are deemed to have rejected the Plan and are not entitled to vote to accept or reject the Plan For a detailed description of the treatment of Claims and Equity Interests under the Plan, see Article II below, entitled "OVERVIEW OF PLAN -- Summary of Classification and Treatment of Claims and Equity Interests Under the Plan "

In summary, Classes 4 and 5 under the Plan are Impaired and, to the extent Claims in such Classes are Allowed Claims, the Holders of such Claims will receive distributions under the Plan As a result, in accordance with sections 1126 and 1129 of the Bankruptcy Code, the Holders of Allowed Claims in each of these Classes are entitled to vote to accept or reject the Plan Classes 1, 2 and 3 under the Plan are Unimpaired As a result, in accordance with sections 1126 and 1129 of the Bankruptcy Code, the Holders of Allowed Claims in each of these Classes are conclusively presumed to have accepted the Plan, and the solicitation of acceptances with respect to such Classes is not required under section 1126(f) of the Bankruptcy Code By operation of law, any Class of Claims or Equity Interests that are not entitled to receive or retain any property of the Debtors under the Plan are deemed to have rejected the Plan and, therefore, the Holders of Subordinated Claims in Class 6 and Holders of Equity Interests in Class 7 are not entitled to vote on the Plan and are conclusively deemed to have rejected the Plan

The Bankruptcy Code defines "acceptance" of a plan by a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that actually timely cast ballots for acceptance or rejection of such plan Thus, acceptance of the Plan by Classes 4 and 5 will occur only if at least two-thirds in dollar amount and a majority in number of the Holders of such Claims in each Class that actually cast their Ballots vote in favor of acceptance of the Plan A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that such acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code For a more detailed description of the requirements for confirmation of the Plan, see Section 7 C below, entitled "Confirmation "

Any Holder of a Claim in Class 4 or 5 (i) that has a Claim listed by the Debtors in the Schedules filed with the Bankruptcy Court (provided that such Claim has not been scheduled as disputed, contingent or unliquidated) or (ii) that filed a proof of claim on or before November 26, 2003, or any proof of claim filed within any other applicable period of limitations or with leave of the Bankruptcy Court, provided that such Claim is not the subject of an objection or request for estimation, is entitled to vote on the Plan

Any Claim in Class 4 or 5 as to which an objection or request for estimation is pending, or which is scheduled by the Debtors as unliquidated, disputed or contingent and for which no proof of claim has been filed, is not entitled to vote unless the Holder of such Claim has obtained an order of the Bankruptcy Court temporarily allowing such Claim for the purpose of voting on the Plan

If a Class of Claims entitled to vote on the Plan rejects the Plan, the Debtors reserve the right, with the consent of the Creditors Committee, which shall not be unreasonably withheld, to amend the Plan or request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code or the "cramdown" provision or both Section 1129(b) permits the confirmation of a plan of reorganization notwithstanding the nonacceptance of a plan by one or more impaired classes of claims or equity interests Under that section, a plan may be confirmed by a bankruptcy court if it does not "discriminate unfairly" and is "fair and equitable" with respect to each nonaccepting class For a more detailed description of the requirements for confirmation of a nonconsensual plan, see Section 9 A 2 below, entitled "Non-Consensual Confirmation "

In the event that a Class of Claims entitled to vote on the Plan votes to reject the Plan, the Debtors' determination whether to request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code will be announced prior to or at the Confirmation Hearing

B VOTING PROCEDURES

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan If you hold Claims in more than one Class and you are entitled to vote such Claims in more than one Class, you will receive separate Ballots, which must be used for each separate Class of Claims Please vote and return your Ballot(s) to

(a) if by courier or hand delivery

Allegiance Telecom, Inc Ballot Processing Center
c/o Bankruptcy Management Corporation
1330 E Franklin Avenue
El Segundo, CA 90245

(b) if by mail

Allegiance Telecom, Inc Ballot Processing Center
c/o Bankruptcy Management Corporation
P O Box 909
El Segundo CA 90245-0909

DO NOT RETURN ANY NOTES, SECURITIES OR ANY OTHER DOCUMENTS WITH YOUR BALLOT

FOR YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN TO BE COUNTED, IT MUST BE RECEIVED BY NO LATER THAN 5 00 P.M , PREVAILING EASTERN TIME, ON __________, 2004 ANY EXECUTED BALLOT RECEIVED THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN SHALL BE DEEMED TO CONSTITUTE AN ACCEPTANCE OF THE PLAN

Pursuant to the Disclosure Statement Order, the Bankruptcy Court set __________, 2004 as the record date for voting on the Plan Accordingly, only Holders of record as of __________, 2004 that otherwise are entitled to vote under the Plan will receive a Ballot and may vote on the Plan

If you are a Holder of a Claim entitled to vote on the Plan and did not receive a Ballot, received a damaged Ballot or lost your Ballot, or if you have any questions concerning the Disclosure Statement, the Plan or the procedures for voting on the Plan, please call the Debtors' voting agent, Bankruptcy Management Corporation ("BMC"), at 1-888-909-0100 (toll free)

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN AND THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION STATED SINCE THE DATE HEREOF HOLDERS OF CLAIMS AND EQUITY INTERESTS SHOULD CAREFULLY READ THIS DISCLOSURE STATEMENT IN ITS ENTIRETY, INCLUDING THE PLAN, PRIOR TO VOTING ON THE PLAN

FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND EQUITY INTERESTS, THIS DISCLOSURE STATEMENT SUMMARIZES THE MATERIAL PROVISIONS AND TERMS OF THE PLAN IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THE DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING THE DISCLOSURE STATEMENT MAY NOT BE RELIED ON FOR ANY PURPOSE OTHER THAN TO DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, AND NOTHING STATED HEREIN SHALL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY, OR BE ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER PARTY, OR BE DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE PLAN ON THE DEBTORS OR HOLDERS OF CLAIMS OR EQUITY INTERESTS, OR CONSTITUTE A WARRANTY OR REPRESENTATION AS TO THE CONSIDERATION TO BE RECEIVED OR DISTRIBUTED UNDER THE PLAN CERTAIN OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, BY THEIR NATURE, ARE FORWARD-LOOKING AND CONTAIN ESTIMATES, PROJECTIONS AND ASSUMPTIONS THERE CAN BE NO ASSURANCE THAT SUCH STATEMENTS WILL BE REFLECTIVE OF ACTUAL OUTCOMES ALL HOLDERS OF CLAIMS SHOULD CAREFULLY READ AND CONSIDER FULLY THE RISK FACTORS SET FORTH IN ARTICLE IX OF THIS DISCLOSURE STATEMENT BEFORE VOTING TO ACCEPT OR REJECT THE PLAN

SUMMARIES OF CERTAIN PROVISIONS OF AGREEMENTS REFERRED TO IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE COMPLETE AND ARE SUBJECT TO, AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO, THE FULL TEXT OF THE APPLICABLE AGREEMENT, INCLUDING THE DEFINITIONS OF TERMS CONTAINED IN SUCH AGREEMENT

THE DEBTORS BELIEVE THE PLAN WILL ENABLE THEM TO SUCCESSFULLY REORGANIZE STFI, SELL THE MAJORITY OF THEIR ASSETS, DISTRIBUTED THE PROCEEDS OF THE SALE AND THE STOCK OF REORGANIZED STFI AND THEREBY ACCOMPLISH THE OBJECTIVES OF CHAPTER 11 AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF THE DEBTORS, THEIR CREDITORS AND EQUITY INTEREST HOLDERS

THE DEBTORS URGE THAT HOLDERS OF ALLOWED CLAIMS ENTITLED TO VOTE ON THE PLAN VOTE TO ACCEPT THE PLAN

II OVERVIEW OF THE PLAN

SUMMARY OF CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS UNDER THE PLAN[4]

The following is a brief overview of the material provisions of the Plan and is qualified in its entirety by reference to the full text of the Plan For a more detailed description of the terms and provisions of the Plan, see Article V below, entitled, "The Plan of Reorganization" The Plan provides for the classification and

[4] This summary is also included in Liquidation Analysis which is attached hereto as Exhibit I

treatment of Claims against and Equity Interests in the Debtors The Plan designates six (6) Classes of Claims and one (1) Class of Equity Interests, which classify all Claims against and Equity Interests in the Debtors These classes take into account the differing nature and priority under the Bankruptcy Code of the various Claims and Equity Interests as well as the compromise and settlement of certain issues discussed below

A DESCRIPTION OF PROPERTY TO BE DISTRIBUTED UNDER THE PLAN

Pursuant to the Plan, all of the Subsidiaries are being reorganized, XO Communications, Inc ("XO") is purchasing the stock of the Reorganized Subsidiaries and substantially all of the assets of ATI and ATCW however, some remaining assets will be liquidated and one Subsidiary, STFI, will be restructured and the stock or Reorganized STFI distributed to ATLT for the benefit of Holders of Allowed Unsecured Claims The Plan requires that a sale of substantially all of the assets of the Debtors (other than STFI and certain other assets) to XO (the "Sale Transaction") occur by the Initial Effective Date All remaining assets of the Debtors, other than STFI and the STFI Assets, will be liquidated and the proceeds distributed pursuant to the Plan STFI will be restructured through the Plan and will be owned by ATLT for the benefit of Holders of ATLT B Certificates

The Plan provides for a distribution of Available Cash to Holders of Claims entitled to distributions under the Plan The Plan also provides for distributions of certain additional non-Cash consideration to Holders of Claims entitled to distributions under the Plan

ATLT will be responsible for liquidating through prosecution, settlement or other disposition, Avoidance Actions, claims and Causes of Action of the Debtors, as well as any other assets remaining after the Sale Transaction is consummated

PURSUANT TO THE PLAN, ALL EXISTING EQUITY INTERESTS IN THE DEBTORS (INCLUDING ALL ISSUED AND OUTSTANDING COMMON STOCK) WILL BE EXTINGUISHED AND CANCELED

B SUMMARY OF CLASSIFICATION AND TREATMENT OF ALLOWED CLAIMS AND EQUITY INTERESTS UNDER THE PLAN

The following chart[5] summarizes distributions to Holders of Allowed Claims and Equity Interests under the Plan The recoveries set forth below are projected recoveries and may change based upon changes in Allowed Claims and proceeds available

Class	Claim/Equity Interest	Treatment of Claim/Equity Interest	Estimated Aggregated Amount of Allowed Claims or Equity Interests	Estimated Percentage Recovery of Allowed Claims or Equity Interests
Class 1	Priority Non-Tax Claims	Unimpaired	$100,000	100 0%
Class 2	Secured Claims	Unimpaired	$300,000	100 0%
Class 3	Senior Lender Claims	Unimpaired	$477 8 million	100 0%
Class 4	ATCW Unsecured Claims	Impaired	[to come]	[ ]
Class 5	ATI Unsecured Claims	Impaired	$677 2 million	[ ]
Class 6	Subordinated Claims	Impaired		0%

5 This chart is only a summary of the classification and treatment of Allowed Claims and Equity Interests under the Plan Reference should be made to the entire Disclosure Statement and the Plan for a complete description of the classification and treatment of Allowed Claims and Equity Interests

Class 7	Equity Interests	Impaired		0%

THE TREATMENT AND DISTRIBUTIONS PROVIDED TO HOLDERS OF ALLOWED CLAIMS PURSUANT TO THE PLAN ARE IN FULL AND COMPLETE SATISFACTION OF THE ALLOWED CLAIMS ON ACCOUNT OF WHICH SUCH TREATMENT IS GIVEN AND DISTRIBUTIONS ARE MADE.

III. GENERAL INFORMATION

A OVERVIEW OF CHAPTER 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code Under chapter 11 of the Bankruptcy Code, a debtor is authorized to reorganize its business for the benefit of itself, its creditors and its equity interest holders In addition to permitting the rehabilitation of a debtor, another goal of chapter 11 is to promote equality of treatment for similarly situated creditors and similarly situated equity interest holders with respect to the distribution of a debtor's assets

The commencement of a chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the commencement date The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor in possession"

The consummation of a plan of reorganization is the principal objective of a chapter 11 reorganization case A plan of reorganization sets forth the means for satisfying claims against and interests in a debtor Confirmation of a plan of reorganization by the bankruptcy court binds the debtor, any issuer of securities under the plan, any Person acquiring property under the plan and any creditor or equity interest holder of a debtor Subject to certain limited exceptions, the order approving confirmation of a plan discharges a debtor from any debt that arose prior to the date of confirmation of the plan and substitutes therefor the obligations specified under the confirmed plan

Certain holders of claims against and interests in a debtor are permitted to vote to accept or reject the plan Prior to soliciting acceptances of the proposed plan, however, section 1125 of the Bankruptcy Code requires a debtor to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding the plan The Debtors are submitting this Disclosure Statement to Holders of Claims against and Equity Interests in the Debtors to satisfy the requirements of section 1125 of the Bankruptcy Code

B DESCRIPTION AND HISTORY OF BUSINESS

1. **The Debtors** Allegiance is a facilities-based national local exchange carrier that provides integrated telecommunications products and services to small and medium-sized business customers, large businesses (i.e., national customers with multiple locations), governmental entities, national service providers and other institutional users Allegiance offers its customers a variety of services, including

- local and long distance voice services, including basic telephone services and advanced calling features,
- broadband and other Internet and data services, including high-speed Internet access, wide area network interconnection, domain name registration, web hosting, email and colocation services,
- integrated local long distance/Internet access offerings, which provide customers with integrated voice and Internet access over a single broadband line,

- services to other regional and national service providers, including equipment colocation, managed modem ports and Internet protocol traffic aggregation, and

- customer premise equipment sales and maintenance services

As of December 31, 2003, Allegiance served more than 100,000 business customers in major markets throughout the United States As of December 31, 2003, Allegiance employed approximately 3,000 people, of which approximately 91 employees are covered by collective bargaining agreements As of December 31, 2003 Allegiance is colocated in 849 central offices and has a Tier 1 internet backbone

2. The Debtors' Business Operations In 1997, a management team of industry veterans launched Allegiance and focused on building a reliable nationwide network based on proven technologies, a nationwide direct sales force primarily focused on the small to medium-sized business enterprise and a state-of-the-art information processing system to support its operations Allegiance was one of the first major local exchange carriers to open markets utilizing the "smart build" strategy This strategy allowed a more rapid ramp-up in operations than the traditional competitive local exchange model in which extensive networks were built, including fiber networks, prior to the generation of significant revenues In contrast, Allegiance's initial network build-out simply required (a) deploying digital switching platforms and (b) leasing transport facilities from the incumbent local exchange carriers and other competitive local exchange carriers to connect its switches with its transmission equipment colocated in the incumbent local exchange carrier's central offices Once traffic volume justified further "success-based" investment, Allegiance leased dark fiber or built specific network segments This strategy offered two major economic benefits First, it enabled Allegiance to enter new markets with alacrity and reduce up-front capital requirements for entering individual markets prior to revenue generation Second, in contrast to the traditional competitive local exchange carriers that generally built their networks in highly concentrated downtown areas due to the high cost of constructing fiber networks, Allegiance's business model enabled it to provide services to customers in downtown areas as well as the more geographically dispersed, less competitive areas of its targeted markets

Allegiance's initial business plan proposed entering into 24 of the largest metropolitan areas in the United States Subsequently, management expanded its business plan to (a) increase the total number of target markets to 36, (b) increase its service area, i e, its colocation "footprint" in its original 24 markets, and (c) acquire long-term rights to use dark fiber rings to replace certain network elements leased by the Debtors from the incumbent local exchange carriers

In addition to internal growth, Allegiance's business plan included growth through strategic acquisitions For example, in December 2001, Allegiance acquired certain assets of Intermedia Business Internet (the "IBI Acquisition") The IBI Acquisition enabled Allegiance to (a) become a Tier 1 Internet access provider, (b) provide the capability to transmit large quantities of data at high-speeds over the Internet to and from a customer's premises, (c) efficiently exchange traffic with other Internet backbone providers giving Allegiance greater control over its Internet access, and (d) leverage its local service presence to provide additional services to its target market In June 2003, Allegiance acquired certain assets of STFI Fairchild (the "STFI Acquisition") The STFI Acquisition (a) added customer premises equipment sales, installation and maintenance to Allegiance's portfolio of integrated products and services, (b) strategically enhanced Allegiance's target market of small to medium-size business enterprises, and (c) allowed Allegiance to provide a complete communications solution to business customers

As of December 31, 2003, the Debtors had approximately $282 2 million of unrestricted cash on hand As of December 31, 2003, the Debtors' consolidated books and records reflected assets totaling approximately $1 139 billion and liabilities totaling approximately $1 337 billion For the twelve months ending December 31, 2003, the Debtors, on a consolidated basis, reported revenues of approximately $777 3 million and net losses of approximately $360 million

3 Market Information As of the date hereof, Allegiance provides its telecommunications services in major metropolitan areas across the United States, including the following 36 markets. Atlanta, Austin, Baltimore, Boston, Chicago, Cleveland, Dallas, Denver, Detroit, Fort Lauderdale, Fort Worth, Houston, Long Island, Los Angeles, Miami, Minneapolis/St. Paul, New York City, Northern New Jersey, Oakland, Ontario/Riverside, CA, Orange County, Philadelphia, Phoenix, Pittsburgh, Portland, Sacramento, St Louis, San Antonio, San Diego, San Francisco, San Jose, Seattle, Tampa, Washington, D C , West Palm Beach/Boca Raton and White Plains

4. Prepetition Capital Structure

(a) Capital Stock ATI has two classes of authorized stock (a) 750,000,000 shares of common stock, with par value of $0 01 per share and (b) 1,000,000 shares of preferred stock, with par value of $0 01 per share As of December 31, 2003, ATI had (i) 120,350 803 shares of common stock issued and outstanding, with 295 registered Holders and at least 20,000 beneficial owners, and (ii) no shares of preferred stock outstanding ATI's common stock is publicly traded on the Over the Counter Bulletin Board under the symbol "ALGXQ OB "

ATI owns 100% of the capital stock of ATCW, and ATCW directly or indirectly owns 100% of the capital stock of each of the Subsidiaries

(b) Prepetition Notes In 1998, ATI issued two series of notes (i) 11 3/4% Senior Discount Notes with a face value of $445 million, due on February 15, 2008 (the "Senior Discount Notes") and (ii) 12 7/8% Senior Notes with a face value of $205 million, due on May 15, 2008 (the "Senior Notes," and, together with the Senior Discount Notes, the "ATI Notes") The Senior Discount Notes were issued under that certain Indenture, dated as of February 3, 1998, between ATI and The Bank of New York, as Indenture Trustee The Senior Notes were issued under that certain Indenture, dated as of July 7, 1998, between ATI and The Bank of New York, as Indenture Trustee Neither the Senior Discount Notes nor the Senior Notes are secured by any assets of the Debtors or guaranteed by any of the Debtors

(c) Prepetition Credit Agreement Prior to the Commencement Date ATCW entered into that certain Credit and Guaranty Agreement, dated as of February 15, 2000, as amended as of November 27, 2002 (the "Credit Agreement"), among ATCW, as borrower, all of the other Debtors, as guarantors, Goldman Sachs Credit Partners L P ("Goldman Sachs"), as syndication agent and sole lead arranger, General Electric Capital Corporation ("GECC") (as successor to Toronto Dominion (Texas), Inc), as administrative agent, BankBoston, N A ("BankBoston") and Morgan Stanley Senior Funding, Inc ("Morgan Stanley"), as co-documentation agents, Goldman Sachs, GECC, BankBoston, Morgan Stanley, certain managing agents, and lenders party thereto from time to time (collectively, the "Senior Lenders") As of the Commencement Date, the amount outstanding under the Credit Agreement was approximately $465 3 million Certain Senior Lenders funded loans under the Credit Agreement after the Commencement Date As a result, on December 31, 2003, the amount outstanding under the Credit Agreement was approximately $477 8 million The Debtors have pledged substantially all of their assets as collateral under the Credit Agreement, including (a) the capital stock of ATCW and (b) substantially all of the assets of ATCW and its direct and indirect subsidiaries, including the capital stock owned by ATCW in each of its Debtor subsidiaries As of the Commencement Date, there were 27 Senior Lenders under the Credit Agreement

C. EVENTS LEADING TO THE COMMENCEMENT OF THE CHAPTER 11 CASES

The distressed economic environment in the United States that followed the economic boom of the late 1990s has had a global and adverse impact on the telecommunications industry In the late 1990s, in an effort to finance operations and build their networks, telecommunications companies borrowed significant amounts of money from lenders and the public through the issuance of debt The resulting significant indebtedness incurred by telecommunications companies combined with poor economic conditions, required many companies, including the Debtors, to focus on reducing their debt either through out of court restructurings or the chapter 11 process

Many of Debtors' existing and potential customers have experienced their own financial difficulties, thereby decreasing customer demand for existing and new services The financial difficulties of the Debtors' customers has led to non-payment, partial payment, or slow payment of bills for services provided by the Debtors The financial instability of other companies in the telecommunications industry has adversely affected the willingness of potential customers to move their telecommunications services to the Debtors In addition, certain of the Debtors' suppliers have requested deposits, letters of credit, or other types of security Moreover, telecommunications carriers that owe reciprocal and/or intercarrier compensation to the Debtors have either refused to pay or failed to pay in a timely manner for the services provided by the Debtors

As a consequence of the foregoing, the Debtors' business operations were adversely impacted and, due to revenue trends and continuing operating and net losses, the Debtors determined that their current level of indebtedness needed to be significantly reduced Thus, in order to maximize the long-term wealth generating capacity of their business operations, the Debtors, among other things, retained restructuring advisors, and commenced extensive negotiations with the Senior Lenders and Holders of the Senior Discount Notes and the Senior Notes

The Debtors, in the exercise of their sound business judgment - and in recognition of the distressed economic environment and the need for the Debtors' businesses to focus on profitability instead of high revenue growth - determined that a meaningful de-leveraging of their capital structure was crucial for the preservation and maximization of the value of their businesses The Debtors, in conjunction with their financial advisors and the Board of Directors of ATI, commenced the process of determining the appropriate capital structure for their business operations After determining the appropriate capital structure, the Debtors commenced negotiations with the Senior Lenders and the Ad Hoc Committee (as defined below) to effectuate a restructuring transaction

In October of 2002, Allegiance began negotiations with its Senior Lenders regarding a potential restructuring of its long-term debt On November 27, 2002, Allegiance and its Senior Lenders entered into that certain First Amendment to the Credit Agreement (the "Amendment") Pursuant to the Amendment, the Debtors obtained a moratorium on defaults under their financial covenants through April 30, 2003 In exchange for the Amendment, Allegiance agreed, among other things, (a) that an event of default would occur on April 30, 2003 unless it reduced its long term debt to a level not to exceed $645 million, and (b) to repay $15 million to the Senior Lenders on account of debt owed under the Credit Agreement During the latter part of 2002 and early 2003 and to meet covenants under the Amendment, the Debtors significantly lowered their capital expenditures, reduced headcount, substantially decreased growth, eliminated less profitable products and services, and continued to optimize their existing network assets

After entering into the Amendment, the Debtors commenced negotiations with the Senior Lenders to consummate a permanent restructuring In connection with the negotiations regarding the permanent restructuring, the Debtors commenced negotiations with an *ad hoc* committee of bondholders, comprised of certain Holders of the Senior Notes and the Senior Discount Notes (the "Ad Hoc Committee") The Debtors, the Senior Lenders and the Ad Hoc Committee were not able to reach an agreement concerning the permanent restructuring prior to the deadline of April 30, 2003 On April 29, 2003, in order to avoid the occurrence of certain events of default under the Credit Agreement, the Debtors and the Senior Lenders entered into a forbearance agreement (the "Forbearance Agreement") which expired on May 15, 2003 The Forbearance Agreement provided for, among other things, a pay down of $5 million of principal owed under the Credit Agreement and the forbearance by the Senior Lenders of any action on Debtor's default under the Credit Agreement

After entering into the Forbearance Agreement, the Debtors continued their negotiations with the Senior Lenders and the Ad Hoc Committee However, the parties were unable to reach an agreement prior to the expiration of the term of the Forbearance Agreement Consequently, the Debtors, in the exercise of their prudent business judgment, determined that it was in the best interests of all of their stakeholders and for the maximization of the value of their businesses to commence the Chapter 11 Cases and consummate a restructuring of their indebtedness under the auspices of the Bankruptcy Court

IV. EVENTS DURING THE CHAPTER 11 CASES

On May 14, 2003, the Debtors commenced the Chapter 11 Cases in the Bankruptcy Court The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code

The following is a brief description of certain major events that have occurred during the Chapter 11 Cases

A. APPOINTMENT OF THE CREDITORS COMMITTEE

On May 28, 2003, the United States Trustee for the Southern District of New York appointed the Official Committee of Unsecured Creditors (the "Creditors Committee") in these Chapter 11 Cases

CREDITORS COMMITTEE MEMBERS

Nortel Networks, Inc
c/o Lovells
900 Third Avenue, 16th Floor
New York, NY 10022

Broadwing Communications Services, Inc [6]
1122 Capital of Texas Highway, S.
Legal Department
Austin, TX 78746

BellSouth Telecommunications, Inc
675 West Peachtree Street, Suite 4300
Atlanta GA 30375
Attn Mary Jo Peed

The Bank of New York, as Trustee
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CREDITORS COMMITTEE PROFESSIONALS

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Industry and Technology Advisors to the Creditors Committee
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18 Corporate Woods Boulevard, Third Floor
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Since the formation of the Creditors Committee, the Debtors have kept the Creditors Committee informed about their business operations and have sought the concurrence of the Creditors Committee in connection with certain actions and certain transactions taken by the Debtors outside of the ordinary course of business The Creditors Committee has participated actively, together with the Debtors' management and professionals, in, among other things, reviewing the Debtors' business operations and actions taken in the Chapter 11 Cases to begin the process of rehabilitating and reorganizing the Debtors' business capital structure and corporate structure

B. STABILIZATION OF BUSINESS AND OPERATIONAL RESTRUCTURING ADVISOR

During the initial stages of the Chapter 11 Cases, the Debtors devoted substantial efforts to stabilizing their operations and restoring their relationships with vendors, customers, employees and utilities that had been impacted by the commencement of the Chapter 11 Cases

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6 On August 16, 2003, Broadwing Communications Services, Inc resigned from membership in the Creditors Committee

7 On January 20, 2004, Romulus Holdings, Inc & Affiliates resigned from membership in the Creditors Committee

1. First Day Orders. Shortly after the Commencement Date, the Bankruptcy Court entered several orders authorizing the Debtors to pay various prepetition Claims These orders were designed to ease the strain on the Debtors' relationships with employees, vendors, and taxing authorities as a consequence of the commencement of the Chapter 11 Cases and to provide for an orderly transition into chapter 11 The Bankruptcy Court entered orders authorizing the Debtors to, among other things, pay substantially all of the Debtors' prepetition wages and certain benefits to employees, pay certain prepetition Claims held by trade vendors deemed by the Debtors to be "critical" to the operation of their business, and pay certain pre-petition tax obligations

2. Stabilizing Operations. The Debtors devoted substantial efforts to responding to the disruption to their businesses caused by the commencement of the Chapter 11 Cases and stabilizing their business operations In that regard, the Debtors engaged in in-depth and detailed communications with critical suppliers and customers and employees to provide them with an understanding of the Debtors' financial situation and general plan for emergence from chapter 11 As a result, the Debtors believe that they have generally controlled the adverse impact of the commencement of the Chapter 11 Cases

3 Cash Collateral On June 23, 2003, the Bankruptcy Court entered the Final Order Authorizing Use of Cash Collateral By Consent (the "Cash Collateral Order") Pursuant to the Cash Collateral Order, the Debtors were authorized to use cash collateral of the Senior Lenders in the ordinary course of business in accordance with an agreed upon budget that is updated throughout the Chapter 11 Cases On June 26, 2003, the Bankruptcy Court approved the First Amended Cash Collateral Order On December 18, 2003, the Bankruptcy Court approved the Second Amended Cash Collateral Order On March 1, 2003, the Bankruptcy Court approved the Stipulation and Consent Order Extending the Expiration Date of the Second Amended Final Order Authorizing Use of Cash Collateral by Consent

4. The Key Employee Retention Program. Prior to the Commencement Date, the Debtors implemented a key employee retention program This program was designed to stem employee attrition and increase morale In connection with the restructuring process, the Debtors have significantly reduced the employee headcount, which has had the attendant affect of increasing employees' concerns that their jobs may not be secure The commencement of the Chapter 11 Cases exacerbated this situation As a result, on August 11, 2003, the Debtors filed a Motion for an Order Approving and Authorizing the Key Employee Retention Program (the "KERP Motion") On August 22, 2003, the Bankruptcy Court approved the KERP Motion as it related to certain priority key employees On September 4, 2003, the Court approved the KERP Motion as it related to all remaining key employees (other than the top ten executives) On September 29, 2003, the Bankruptcy Court approved the KERP Motion as it related to three additional key employees (other than the top six executives) On November 7, 2003, the Bankruptcy Court approved the KERP Motion, as it relates to the top six executives

5. Retention of an Operational Restructuring Advisory Firm. In connection with the negotiations between the Debtors and the Senior Lenders regarding a restructuring plan, the Senior Lenders requested that the Debtors retain a restructuring advisory firm to assist the Debtors in their operational restructuring After extensive discussions with the Senior Lenders and significant internal consideration, the Debtors determined that retaining the services of such a firm was desirable In that regard, the Debtors located a number of potential candidates, which were based on referrals from the Senior Lenders and other parties, to interview for the position After conducting extensive interviews of each candidate, the Debtors selected Impala Partners LLC ("Impala") to be the Debtor's Operational Restructuring Advisory Firm Accordingly, on July 11, 2003, the Debtors filed the Motion to Approve the Services Agreement with Impala, and on July 29, 2003, the Bankruptcy Court approved the Services Agreement with Impala on an interim basis The Services Agreement was approved by the Bankruptcy Court on a final basis on October 14, 2003 Impala focused its efforts analyzing the Debtors' business operations including its cost structure, working with the Debtors' management team to determine the long-term strategic business plan for the Debtors and preparing such business plan

6. Other Professionals To assist them in carrying out their duties as debtors in possession and to otherwise represent their interests in the Chapter 11 Cases, the Debtors employed, with authorization from the Bankruptcy Court the following professionals Kirkland & Ellis LLP as counsel, Greenhill & Co. LLC ("Greenhill") as financial advisors and investment bankers, Ernst & Young LLP as auditors, and Bankruptcy Management Corporation as noticing and ballot agent Nationwide, the Debtors employ numerous attorneys and other professionals to represent or assist them in a variety of situations Such professionals are referred to as

"Ordinary Course Professionals." By Order of the Bankruptcy Court dated May 14, 2003, (the "OCP Order"), to prevent loss of professional services and disruption to their operations, the Debtors were authorized to employ and pay Ordinary Course Professionals for post-Commencement Date services required to assist and advise the Debtors in the operation of their businesses and to defend the Debtors in matters arising in the ordinary course of the Debtors' businesses Pursuant to the OCP Order, the Debtors have the right to amend the list of retained Ordinary Course Professionals

7. Settlement with Certain Senior Lenders Prior to the commencement Date, pursuant to a notice properly issued under the Credit Agreement, dated June 20, 2002 (the "2002 Funding Notice"), the Debtors requested an advance by the Senior Lenders of the remaining portion of the then unfunded Revolving Loan Commitments (as defined in the Credit Agreement) Bayerische Hypo-und Vereinsbank AG ("Bayerische"), Bank Austria Creditanstalt Corporate Finance, Inc ("Bank Austria") and Dresdner Bank AG ("Dresdner and together with Bayerische and Bank Austria, the "Defaulting Lenders") declined to fund their respective pro rata share of such unfunded Revolving Loan Commitments The Defaulting Lenders' refusal to fund their respective pro rata share of the 2002 Funding Notice resulted in a dispute between the Defaulting Lenders and the Debtors relating to the Defaulting Lenders' respective obligations under the Credit Agreement to honor the 2002 Funding Notice (the "Funding Dispute") On July 29 2003, the Bankruptcy Court approved of the terms of that certain Settlement Agreement and Release, dated as of July 15, 2003, among the Debtors, Bayerische and Bank Austria, settling the Funding Dispute as it relates to Bayerische and Bank Austria On November 19, 2003, the Bankruptcy Court approved of the terms of that certain Settlement Agreement and Release, dated as of October 24, 2003, between the Debtors and Dresdner, settling the Funding Dispute as it relates to Dresdner

8. Settlement with Level 3 Communications Subsequent to the Commencement Date, and after extensive negotiations, the Debtors resolved a complex dispute with Level 3 Communications LLC ("Level 3"), the Debtors' largest customer This dispute was related to, among other things, alleged breaches by the Debtors of that certain Integrated Network Solution Purchase Agreement (the "INSPA"), between ATCW and Level 3 (as successor in interest to Genuity Solutions, Inc), and alleged actions taken by Level 3 with regard to their activities in connection with the INSPA As a result, subject to Bankruptcy Court approval, ATCW and Level 3 have entered into that certain Confidential Settlement Agreement and Mutual Release, dated as of February 27, 2004 (the "Level 3 Settlement Agreement") The Debtors anticipate that XO will join as a party to the Settlement Agreement On March 5, 2004, the Debtors filed a Motion of the Debtors for an Order, Pursuant to (A) Rule 9019 of the Federal Rules of Bankruptcy Procedure, Approving the Confidential Settlement Agreement and Mutual Release, Dated February 27, 2004, Among Level 3 Communications, LLC and the Debtors, (B) Section 363 of the Bankruptcy Code Authorizing the Transfer, as a Part of Such Settlement, of Certain Assets Free and Clear of Liens, Claims and Encumbrances, and (C) Section 365 of the Bankruptcy Code, Approving and Authorizing, as a Part of Such Settlement, the Assumption and Assignment of an Executory Contract (the "Level 3 Motion") The Level 3 Motion is set for a hearing on March 25, 2004

C. ANALYSIS OF UNEXPIRED LEASES AND EXECUTORY CONTRACTS AND RELATED TRANSACTIONS

Shortly after the Commencement Date, the Debtors, together with their attorneys, commenced the process of reviewing and analyzing each of their unexpired leases and executory contracts to determine which, if any, of such leases or contracts should be assumed or rejected during the Chapter 11 Cases In that regard, the Debtors have filed motions to reject numerous burdensome executory contracts and unexpired leases The Debtors are continuing to review their executory contracts and unexpired leases As a result, the Debtors anticipate that prior to the Confirmation Date, they may file additional motions to assume beneficial executory contracts and unexpired leases or reject additional burdensome executory contracts and unexpired leases

1. Personal Property Leases and Other Executory Contract Rejections As part of the aforementioned review and analysis, the Debtors analyzed their personal property lease portfolio To date, the Bankruptcy Court has authorized the Debtors' rejection of approximately 26 personal property leases and 369 executory contracts As a result, with respect to the personal property leases, the Debtors have realized savings of approximately \$21,000 per month and over \$343,000 in total With respect to executory contracts, the Debtors have realized savings of approximately \$814,000 per month and over \$11 million in total

2. **Nonresidential Real Property Leases; Extension of Time to Assume or Reject.** On the Commencement Date, the Debtors were parties to 120 unexpired leases of nonresidential real property Pursuant to section 365(d)(4) of the Bankruptcy Code, absent an extension of time by the Bankruptcy Court, the Debtors were required to assume or reject their unexpired leases of nonresidential real property on or before July 14, 2003 By order dated July 2, 2003, the Bankruptcy Court extended the Debtors' time to assume or reject their unexpired leases through and including January 14, 2004 By order dated January 9, 2004, the Bankruptcy Court extended the Debtors' time to assume or reject their unexpired leases through the date of confirmation of a plan of reorganization Since the Commencement Date, the Debtors have rejected approximately 36 unexpired leases of nonresidential real property, which has realized approximately $716,000 of monthly gross savings for the estates and over $4 4 million of savings in total As of the date hereof, the Debtors are parties to approximately 85 unexpired leases of nonresidential real property

3 **Collective Bargaining Agreements.** STFI employs 91 employees who are covered by one of the two collective bargaining agreements entered into by a predecessor in interest to STFI, with (a) IBEW Local 3, dated May 10, 2001, and (b) IBEW Local 164, dated August 15, 2002 The Debtors are continuing to analyze these collective bargaining agreements and their impact on the Debtors' reorganization The Debtors anticipate that prior to the Initial Effective Date such analysis will be completed

D. CLAIMS PROCESS AND BAR DATES

1 **Schedules and Statements.** On or about July 15, 2003, the Debtors filed their Statements of Financial Affairs, Schedules of Assets and Liabilities, Schedules of Executory Contracts and Unexpired Leases and Lists of Equity Security Holders (collectively, the "Schedules") with the Bankruptcy Court for 29 of the Debtors On July 22, 2003, the Debtors filed the Schedules for the remaining 10 Debtors On September 5, 2003, the Debtors filed supplements to Schedule F for 29 of the Debtors and supplements to Schedule G for two of the Debtors

2. **Bar Dates**

(a) Bar Date for Filing Proofs of Claim In accordance with the provisions of the Bankruptcy Code and Bankruptcy Rules, the Debtors requested that the Bankruptcy Court issue an order (the "Bar Date Order") establishing the date (the "Bar Date") by which proofs of Claims against the Debtors are to be filed in the Chapter 11 Cases Additionally, the Debtors requested that the Bankruptcy Court direct that Claims arising from the rejection of executory contracts and unexpired leases subsequent to the relevant Bar Date are to be filed no later than thirty days after issuance of an order authorizing rejection By Order dated September 23, 2003, the Bankruptcy Court approved the Debtors requests and authorized a Bar Date of November 26, 2003 Notice of the Bar Date was published in USA Today (National Edition) and posted on the Debtors' website (http www algx com) Proof of Claim forms were mailed to all known Holders of Claims on or about September 30, 2003, approximately 57 days before the Bar Date

(b) Administrative Expense Claims Bar Date The Bankruptcy Court has fixed the date that is the forty-fifth (45^{th}) day following the Initial Effective Date as the deadline by which creditors must file requests for allowance of Administrative Expense Claims The Administrative Expense Claims Bar Date applies to all unpaid Administrative Expense Claims arising from and after the Petition Date through and including the Initial Effective Date, except for (i) Administrative Expense Claims of professionals retained pursuant to sections 327, 328 and 1103 of the Bankruptcy Code, (ii) expenses of members of the Creditors Committee, (iii) all fees payable and unpaid under 28 U S C § 1930, and (iv) any fees or charges assessed against the estates of the Debtors under 28 U S C § 123 The Debtors have given notice of the Administrative Expense Claims Bar Date by First Class United States Mail to (i) all parties who have requested notice pursuant to Bankruptcy Rule 2002, (ii) the United States Trustee, (iii) counsel to Creditors Committee, (iv) counsel to the Senior Lenders, (v) all of the Debtors' lessors and any party who has provided post-Commencement Date goods or services to the Debtors, and (vi) all other parties known by the Debtors that may hold Administrative Expense Claims In addition to serving the notice on the foregoing, in order to provide notice of the Administrative Expense Claims Bar Date to unknown Creditors in accordance with Bankruptcy Rule 9008, the Debtors will also publish notice of the Administrative Expense Claims Bar Date in the National Edition of USA Today within 10 days of the Initial Effective Date

E DEVELOPMENT OF BUSINESS PLAN AND INITIAL PLAN NEGOTIATIONS

1. **Business Plan** After achieving an initial stabilization of their business operations during the early stages of the Chapter 11 Cases, the Debtors engaged in an extensive review and evaluation of the constituent parts of their business in the context of formulating a long-range business plan (the "Business Plan") and, eventually, a plan of reorganization

2. **Initial Plan Negotiations**

Shortly after the Commencement Date, the Debtors commenced negotiations with the Senior Lenders regarding a stand-alone restructuring of the Debtors' businesses. On May 22, 2003, the Debtors met with the Senior Lenders to discuss the terms of such stand-alone restructuring Based on the meeting and the views and information exchanged in connection therewith, on June 11, 2003, the Debtors provided the Senior Lenders with a term sheet for a stand-alone restructuring, which was intended to act as the foundation for a chapter 11 plan of reorganization As set forth above, the Debtors engaged Impala as their chief restructuring officer Impala, together with the Debtors' management team, began preparing the Debtors' strategic long term business plan The Senior Lenders were reluctant to engage in meaningful plan negotiations until after the Debtors business plan was substantially complete On July 30, 2003, the Debtors' management team and Impala met with the Senior Lenders and provided them with an update on the Debtors' progress with respect to the preparation of the business plan and the significant and beneficial operational changes and cost cutting measures that the Debtors had implemented On July 31 2003, the Debtors' management and Impala made a similar presentation to the Creditors Committee

On (a) September 19, 2003 and (b) September 22, 2003, the Debtors' management and Impala separately met with the Senior Lenders and the Creditors Committee to provide both constituencies with the proposed business plan for a reorganized Allegiance Thereafter, the Debtors and the Senior Lenders (but not the Creditors Committee) commenced meaningful negotiations over the terms of a stand-alone restructuring plan After extensive negotiations, the Debtors and the Senior Lenders agreed to the terms of a stand-alone restructuring plan After obtaining the support of the Senior Lenders, the Debtors presented the plan to the Creditors Committee to garner its support therefor The Creditors Committee did not support the stand-alone plan, as the terms of the stand-alone plan provided unsecured creditors with a de minimis recovery The Debtors determined that a sale transaction might provide greater value to the Debtors' creditors In an effort to find a plan alternative that might win the joint support of the Senior Lenders and the Creditors Committee, the Debtors investigated their options for selling their businesses

F. EVALUATION OF OFFERS TO PURCHASE THE DEBTORS

During the course of the chapter 11 proceedings, the Debtors received varying degrees of interest from third parties regarding a potential purchase of substantially all of their businesses Two parties delivered letters of intent to the Debtors Representatives of the Debtors met with these parties to gauge the level of their respective interest Based on these meetings, the Debtors directed their management team and professionals to establish a process that would enable all interested parties to conduct business and legal due diligence in connection with a potential sale transaction At the same time, the Debtors met with any and all parties who expressed interest in acquiring the Debtors businesses and permitted them to conduct due diligence in a limited and less formal manner

After consulting with the Senior Lenders and the Creditors Committee and collectively determining that the Debtors could realize greater value through a sale transaction, the Debtors determined it was in the best interests of their estates to authorize their management team and professionals to commence negotiations regarding a potential sale transaction (while finalizing the negotiations (which as described above were finalized) with the Senior Lenders regarding a potential stand-alone restructuring) On October 17, 2003, the Debtors' financial advisors, Greenhill, sent a letter (the "Stalking Horse Letter") to each of the three most interested potential bidders inviting them to submit non-binding offers for the Debtors' businesses In exchange for the receipt of such non-binding offers, the Debtors agreed to provide such interested parties with certain access to the Debtors' management, financial advisors and facilities to supplement their due diligence and evaluation of the Debtors' businesses

On October 21, 2003, in response to the Stalking Horse Letter, two of the three parties (the "Potential Stalking Horse Bidders") submitted non-binding offers to purchase substantially all of the Debtors' businesses Based on a comparison of these non-binding bids to the negotiated stand-alone restructuring plan, the Debtors determined that it was in the best interests of their estates to attempt to negotiate a "stalking horse" asset purchase agreement with the Potential Stalking Horse Bidders. Accordingly, the Debtors and their professionals commenced negotiations with each of the Potential Stalking Horse Bidders with respect to an asset purchase agreement

The negotiations with each of the Potential Stalking Horse Bidders were extensive and conducted in good faith and at arm's-length In addition, the Debtors communicated their progress and provided multiple drafts of the respective asset purchase agreements to each of the Senior Lenders and the Creditors Committee At the conclusion of these negotiations with the Potential Stalking Horse Bidders,[8] the Debtors considered, among other things, the value of the offers, the financing of the offers and the conditionality of both agreements After extensive deliberation regarding the merits and risks of both asset purchase agreements, the Debtors determined that it was in the best interests of the estates to select Qwest Communications International, Inc ("Qwest") as the stalking horse bidder On December 18, 2003, the Debtors executed an asset purchase agreement with Qwest (the "Qwest Purchase Agreement") On January 9, 2004, the Court approved an order (the "Bid Procedures Order") establishing the bidding procedures and the date of an auction for the sale of the Debtors and approving the break-up fee (the "Break-Up Fee") and related bid protections contemplated in the purchase agreement

G. AUCTION AND XO'S SUCCESSFUL BID TO PURCHASE THE DEBTORS

On February 9, 2004, the Bid Deadline established pursuant to the Bid Procedures Order, XO submitted the only Qualified Bid (as defined in the Bid Procedures Order) for the purchase of substantially all of the Debtors' assets Accordingly, the Debtors commenced an auction for substantially all of the assets of the Debtors in the New York offices of Kirkland & Ellis LLP, Citigroup Center, 153 East 53rd Street, New York, New York on February 12, 2004 At the conclusion of the auction, after over twenty hours of bidding, the Debtors, in consultation with the Senior Lenders and the Creditors Committee, determined that XO had submitted the "highest and best" bid for the Acquired Assets

On February 19, 2004, the Bankruptcy Court considered, *inter alia*, the Debtors' sale of the Acquired Assets to XO, and the assumption of the Assumed Liabilities by XO in accordance with the terms and conditions of the Purchase Agreement On February 20, 2004, the Bankruptcy Court entered the Sale Order, which among other things, approved the sale of the Acquired Assets to XO in accordance with the terms and conditions set forth in the Sale Order and in the Purchase Agreement Unless an Early Closing Election (described below) is made, the Confirmation Order shall provide any other Bankruptcy Court authorizations necessary or required to consummate the purchase and sale of the Acquired Assets to XO, the assumption of the Assumed Liabilities and all transactions contemplated in connection therewith, on the terms and conditions set forth in the Purchase Agreement and the Plan, provided, however, that in the event of any inconsistency between the Purchase Agreement and the Plan, the terms of the Purchase Agreement shall control

The summary of the Purchase Agreement set forth below is qualified in its entirety by reference to the provisions of the Purchase Agreement In the event of any inconsistency between the terms of the Purchase Agreement and this Disclosure Statement, the terms of the Purchase Agreement shall control

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8 The Debtors received two additional non-binding offers from third parties The Debtors shared these offers with each of the Senior Lenders and the Creditors Committee The Debtors expended significant time and effort negotiating with these third parties, however, due to their late entry into the process and the structure of their bids (which were not optimal as compared with the structure of the bids received from the Potential Stalking Horse Bidders) the Debtors focused their efforts on the Potential Stalking Horse Bidders, but, nevertheless, continued to communicate and share information with these third parties throughout the negotiations

1. **XO**

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

XO provides business customers with a comprehensive array of telecommunications services, including local and long distance voice, Internet access, private data networking and hosting services XO's services are designed to be provided through its network assets, which are capable of carrying high volumes of all types of telecommunications traffic XO markets its services primarily to business customers, including small and middle-market businesses, Fortune 500 companies, and carrier and wholesale customers XO's services include voice services, data services and integrated voice and data services XO conducts its business primarily through the more than 70 subsidiaries that it owns and manages

2. **XO's Business Operations**

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

On June 17, 2002 XO 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's plan of reorganization, and, on January 16, 2003, XO consummated the plan of reorganization and emerged from its Chapter 11 reorganization proceedings with a significantly restructured balance sheet In December 2001, XO voluntarily delisted its pre-petition class A common stock from the Nasdaq National Market, which was traded under the symbol "XOXO", and, on December 17, 2001, began trading on the Over-the-Counter Bulletin Board, or OTCBB As of January 16, 2003, XO's pre-petition class A common stock stopped trading on the OTCBB and all interests in XO's prepetition class A common stock were terminated pursuant to the plan of reorganization The shares of common stock issued by the reorganized XO pursuant to its plan of reorganization began trading in January 2003 on the OTCBB and in the Pink Sheets under the symbol "XOCM OB" shortly after the first distribution of common stock pursuant to its plan of reorganization

3 ***Significant Provisions of the Purchase Agreement***

(a) Early Funding Date. The Purchase Agreement contemplates that upon the satisfaction of certain of the conditions to closing (including, without limitation, the expiration or early termination of any waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act")) and the receipt by the parties of FCC Consent (as defined in the Purchase Agreement) (the "Early Funding Date"), XO shall transfer the Purchase Price (as described below) into escrow, and XO shall commence operating the Acquired Assets pursuant to the Operating Agreement subject to the Debtors' ultimate control and as required under applicable law. At the Closing the Purchase Price will be released from escrow to ATI (on behalf of the sellers) and title of the Acquired Assets shall pass to XO

(b) Purchased Assets. At Closing, the Debtors agree to sell to XO, free and clear of all Liens and Liabilities (other than certain Permitted Liens) and Interests (as defined in the Sale Order) and XO agrees to purchase from the Debtors the Acquired Assets, which include, among other things, the following by way of summary only (i) the Equipment (as defined in the Purchase Agreement), (ii) all Communications Licenses and any other Licenses (as defined in the Purchase Agreement), (iii) the Assumed Contracts (as defined in the Purchase Agreement), (iv) all equity interests including capital stock held by ATCW in each of its direct and indirect subsidiaries (except STFI), (v) certain Claims, (vi) any books, records files or papers of the Debtors (excluding STFI), and (vii) the Intellectual Property (as defined in the Purchase Agreement)

(c) Excluded Assets. The Purchase Agreement provides for Excluded Assets including, among others, Cash and Cash Equivalents assets used primarily in the Shared Hosting Business, STFI, the Owned Real Property, and the Avoidance Actions and other Causes of Action

(d) Assumed Liabilities On the Closing Date, XO shall assume, among others, the following Liabilities of the Debtors (i) certain Liabilities arising out of or relating to the ownership of the Acquired Assets and the operation of the Business by XO or any of its assignees after the Early Funding Date, (ii) certain Liabilities under the Assumed Contracts arising post-Commencement Date, (iii) certain Liabilities under trade accounts payable arising in the Ordinary Course of Business arising after the Early Funding Date(iv) Liabilities for fifty percent (50%) of any and all Transfer Taxes due as a result of the transactions contemplated by the Purchase Agreement, if any, (v) certain Liabilities for severance costs, and (f) certain Liabilities associated with customers of the Business arising after the Early Funding Date

(e) Excluded Liabilities The Purchase Agreement provides that the Excluded Liabilities are not assumed by XO, including, among others, (i) any Liabilities arising out of or in connection with any indebtedness of the Debtors to their lenders, noteholders or otherwise, (ii) Liabilities related to the Owned Real Property, (iii) Liabilities related to STFI or the Shared Hosting Business (as defined in the Purchase Agreement), (iv) all Liabilities arising from or relating to the employment, or termination of employment, of any of the Debtors' employees, including pursuant to Employee Benefit Plans (as defined in the Purchase Agreement), other than those specifically assumed pursuant to Section 2 3 or 6 8 of the Purchase Agreement, and (v) any Liabilities that arise, whether before, on or after the Closing, out of, or in connection with, the Excluded Assets, including any contract that is not an Assumed Contract

(f) Early Closing Election. At any time prior to the Closing, the Debtors may deliver an election (an "Early Closing Election") to XO that the Debtors choose to close the transactions contemplated by the Purchase Agreement pursuant to an asset sale rather than a sale of stock of the subsidiaries of ATCW XO shall be entitled to make an Early Closing Election (i) if the Debtors fail to comply with the timeline on Exhibit J to the Purchase Agreement, or (ii) any time from and after June 30, 2004

(g) Purchase Price. In consideration for the Acquired Assets, and subject to the terms and conditions of the Purchase Agreement, XO shall (a) pay to ATI (on behalf of the Debtors) in immediately available funds, by wire transfer to an account or accounts designated by ATI an amount in cash equal to $311,200,000 (subject to adjustment), (b) deliver 45,380,000 shares of common stock of XO, par value $ 01 per share (the "XO Common Stock") (subject to adjustment for stock splits, stock dividends, share exchanges, recapitalizations, share combinations and reorganizations and other similar transactions after the date of execution of the Purchase Agreement) ((a) and (b) are referred to herein as the "Purchase Price"), and (c) assume the Assumed Liabilities

(h) Conditions to Closing:

(i) Approval of Plan Unless there has been an Early Closing Election, all conditions to the "Initial Effective Date" set forth in the Plan (as defined in the Purchase Agreement) (including the entry of the Confirmation Order (as defined in the Purchase Agreement) by the Bankruptcy Court) shall have been satisfied, or duly waived with the express written consent of XO, in accordance with the applicable provisions of the Plan and the transactions contemplated by the Plan to occur on or prior to the Closing shall have been or shall be consummated simultaneously with the Closing in accordance with the Plan

(ii) HSR and FCC Consent Any applicable waiting period under the HSR Act shall have expired or shall have been earlier terminated. In addition, the parties shall have received the FCC Consent (as defined in the Purchase Agreement)

(iii) Non-Transferred Assets The Non-Transferred Assets shall have been retained by the Debtors

(iv) Sellers' Deliveries The Debtors shall have delivered to XO all items set forth in Section 3 1(b) of the Purchase Agreement

(v) Buyer's Deliveries XO shall have delivered to the Debtors all items set forth in Section 3 1(c) of the Purchase Agreement

4. Business Justifications for the Sale The Debtors' Chapter 11 Cases have been pending for nine months During that time period, the Debtors have worked diligently to reduce operating expenses, dispose of unprofitable operations, develop strategic initiatives for the foundation of a chapter 11 plan and perform valuations with respect to their assets

The Sale Transaction provides the Debtors with a known amount of proceeds to be distributed to creditors pursuant to a plan of reorganization Moreover, since the sale of the Debtors' assets was subject to higher and better offers, the Debtors have been ensured of realizing the best price obtainable for the assets

Immediately after the entry of the Sale Order, the Debtors engaged in arms-length negotiations with the Senior Lenders, the Creditors Committee, XO and other parties in interest regarding the terms of a chapter 11 plan During the course of these negotiations, the Debtors have shared all relevant financial and other information with the Creditors Committee, the Senior Lenders and XO and have consulted with these parties prior to taking any significant actions related to resolution of the outstanding chapter 11 plan issues As a result of protracted negotiations and having resolved, compromised and settled the significant and complex disputes existing between and among the Debtors and the major creditor constituencies, the Debtors have formulated and filed the Plan, which is supported by the Senior Lenders and the Creditors Committee

V. THE PLAN OF REORGANIZATION

This Section of the Disclosure Statement summarizes the Plan, which is set forth in its entirety as Exhibit A hereto This summary is qualified in its entirety by reference to the Plan **YOU SHOULD READ THE PLAN CAREFULLY AND IN ITS ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.**

The Plan provides for the liquidation and discharge of all the debt from the Debtors' capital structure Specifically, the Plan provides for the cancellation of approximately [$477 8] million of debt under the Credit Agreement and approximately [$668 7] million of the Senior Notes and Senior Discount Notes The Plan further provides for a distribution of XO Common Stock and New STFI Common Stock to ATLT for the benefit of Holders of Allowed Unsecured Claims The Debtors believe that through the Plan, Holders of Allowed Claims will obtain a greater recovery from the estates of the Debtors than the recovery that they would receive if the assets of the Debtors were liquidated under chapter 7 of the Bankruptcy Code

The Plan is annexed hereto as Exhibit A and forms a part of this Disclosure Statement The summary of the Plan set forth below is qualified in its entirety by reference to the provisions of the Plan

A. RATIONALE UNDERLYING PLAN TREATMENT OF CLAIMS

The terms of the Plan are the result of arm's-length negotiations among the Debtors, the Creditors Committee, certain Holders of Senior Lender Claims and the ATI Notes Trustees In that regard, the Plan incorporates certain compromises and settlements with respect to the following issues (i) the proofs of Claim filed by the ATI Note Trustees regarding the amount and nature of the Claims held by the Holders of ATI Note Claims, (ii) whether Holders of ATI Note Claims are entitled to an equitable lien on certain assets of the Debtors as a result of certain liens and guaranties granted by the Debtors to the Senior Lenders, (iii) whether the Holders of Senior Lender Claims have a lien on the Unencumbered Cash (as defined below), (iv) whether the Holders of ATI Note Claims are entitled to equal and ratable guarantees from each of the Debtors, (v) the recharacterization of or