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May 23, 2002

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**VIA FEDERAL EXPRESS**

Ms. Stephanie Bell  
Executive Director  
Commonwealth of Kentucky  
Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40602

Re: Notification Regarding the Transfer of Control of XO Communications, Inc., Sole Shareholder of XO Long Distance Services, Inc.

Dear Ms. Bell:

XO Long Distance Services, Inc. ("XO Long Distance"), and its parent, XO Communications, Inc. ("XO" and collectively with its subsidiaries, the "Company"), by their attorneys, hereby respectfully notify the Kentucky Public Service Commission ("Commission") of the proposed transfer of ownership and control of XO, and thus its operating subsidiaries, from Craig O. McCaw<sup>1</sup> and the existing shareholders of XO to the shareholders of the restructured and recapitalized XO, including Forstmann Little & Co. Equity Partnership-VII, L.P., Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-

<sup>1</sup> Craig O. McCaw currently controls, primarily through control of Eagle River Investments, L.L.C., or has rights to vote shares of common stock that in the aggregate represent more than 50% of the voting power of XO common stock.

VIII, L.P. (together "Forstmann Little") and an indirect, wholly owned subsidiary of Telefonos de Mexico, S.A. de C.V.<sup>2</sup> ("Telmex" and together with Forstmann Little, the "Investors").<sup>3</sup>

This notification and its contents are premised on the terms of a Stock Purchase Agreement, dated January 15, 2002 (the "Stock Purchase Agreement"), among XO, Forstmann Little, and Telmex. If the transaction is implemented in accordance with the terms of the Stock Purchase Agreement, then the descriptions in this filing regarding the transaction will hold. However, in light of the Company's ongoing negotiations with other parties regarding its restructuring, the terms discussed herein are subject to change, and any material changes will be provided to the Commission by amendment of this notice, as necessary.

Upon completion of the proposed transfer of control, each Investor is expected to hold approximately 40%<sup>4</sup> of XO's voting power and have corresponding representation on XO's Board of Directors. This transfer of control will result from XO's planned restructuring involving the modification of XO's existing credit facility, the elimination of all equity and outstanding notes and the purchase of new common stock in XO by the Investors for \$800 million. Importantly, no new party will be able to unilaterally control XO after the transfer of control. The Investors will hold their interests independently of one another and have no agreement to act in concert with respect to the future operations of XO and its subsidiaries, except with respect to the election of Directors, as set forth below.

The parties are not transferring any operating authority. Throughout the restructuring process and upon completion of the proposed transfer of control, the Company will continue to provide intrastate telecommunications services in Kentucky under its same name and pursuant to its existing authorizations and tariffs.<sup>5</sup> Accordingly, the contemplated transaction will be transparent to customers in Kentucky. Upon review of Kentucky's statutes and Commission rules, and pursuant to exemptions set forth in Administrative Case Nos. 359 and 370, XO understands that prior Commission approval is not required to complete the transfer of control described herein. The Company therefore submits this letter for the Commission's information and requests that it be retained in the appropriate file.

The Parties to the Transaction. **The Company.** XO Long Distance is a 100% wholly owned subsidiary of XO Communications, Inc., a Delaware corporation (XOXO on the OTC-

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<sup>2</sup> Through intermediate holding companies, Telmex owns 100% of the capital stock of Teninver, S.A. de C.V., the Mexican entity through which Telmex proposes to make its investment in XO.

<sup>3</sup> Applications related to this transaction were filed with the Federal Communications Commission on February 21, 2002, and the Public Notice was released March 11, 2002.

<sup>4</sup> Negotiations with various parties in connection with the restructuring of XO are ongoing and may result in some adjustments to the ultimate equity holdings. Accordingly, the anticipated equity interests of Telmex and Forstmann Little are approximations.

<sup>5</sup> XO Long Distance currently are authorized to provide intrastate interexchange services in Kentucky, the company's tariff was effective as of May 22, 1999.

Bulletin Board). Both are headquartered at 11111 Sunset Hills Road, Reston, Virginia 20190. Through its operating subsidiaries, XO provides bundled local and long distance as well as dedicated voice and data telecommunications services primarily to business customers. XO is authorized, through its subsidiaries, to provide intrastate interexchange services virtually nationwide, including in Kentucky, and is authorized to provide local exchange services in approximately 30 states, not including Kentucky. The Company also offers domestic and international telecommunications services pursuant to FCC Section 214 authorizations. The Company's international offering is incidental to its core domestic business.

**Forstmann Little.** Forstmann Little & Co. is a private equity firm formed in 1978. The address for Forstmann Little and its affiliates is 767 Fifth Avenue, New York, New York 10153. Since its formation, Forstmann Little & Co., through several limited partnerships ultimately controlled by individual general partners, has made 29 acquisitions and significant equity investments, including an existing investment in XO.<sup>6</sup> Funds affiliated with Forstmann Little & Co. have made equity investments in XO of \$850 million in January 2000, \$400 million in July 2000, and \$250 million in the spring of 2001, which investments give those funds the right to designate two directors.

**Telmex.** Telefonos de Mexico, S.A. de C.V. (NYSE:TMX; NASDAQ:TFONY), a Mexican corporation, provides telecommunications services in Mexico.<sup>7</sup> Telmex and its subsidiaries offer a wide range of advanced telecommunications, data and video services, Internet, as well as integrated telecommunications solutions for corporate customers, through an extensive fiber optic digital network. Teninver, the Telmex subsidiary that will hold the XO shares, is a holding company formed under the laws of Mexico. The address for Telmex and Teninver is Parque Via 190, Colonia Cuauhtemoc, 06599 Mexico, D.F. Privatized in 1990, Telmex has no state ownership. Telmex is controlled by Carso Global Telecom, S.A. de C.V., a Mexican holding company.

The Transaction. Pursuant to the Stock Purchase Agreement, XO will, among other things, issue new common shares to the Investors, each of whom will pay \$400 million in cash for the shares, for a total aggregate investment in XO of \$800 million. Each of Forstmann Little and Telmex are expected to hold approximately 40% of the total outstanding equity securities of XO.<sup>8</sup> The remaining 20% will be divided between management (approximately 2%) and other

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<sup>6</sup> These companies include McLeodUSA, Incorporated ("McLeod"), a facilities-based competitive local exchange carrier providing integrated communications services in approximately 28 states. An investor in McLeod since September 1999, funds affiliated with Forstmann Little have recently invested \$175 million in the Company in conjunction with a financial restructuring. Funds affiliated with Forstmann Little are now McLeod's largest shareholder with a 58% share of McLeod's voting stock.

<sup>7</sup> Telmex has an indirect, wholly owned subsidiary, Telmex USA, L.L.C., that is authorized to provide international switched resale services in the United States. Telmex USA, L.L.C. currently is authorized as a long distance reseller in approximately 16 states.

<sup>8</sup> Under the contemplated restructuring, existing equity in XO held by funds affiliated with Forstmann Little would be treated similarly to the other existing equity in XO.

holders (approximately 18%).<sup>9</sup> The purchase by and issuance of the new shares to the Investors will occur at the closing of the contemplated transactions. Closing is subject to the satisfaction or waiver of certain conditions set forth in the Stock Purchase Agreement, including the restructuring of XO,<sup>10</sup> the receipt of certain regulatory approvals, and the resolution of certain pending litigation.

In addition to the Investors' acquisition of equity interests in XO, upon the closing of the transactions contemplated by the Stock Purchase Agreement, pursuant to the amended and restated certificate of incorporation, restated bylaws and a stockholders agreement contemplated by the Stock Purchase Agreement, Forstmann Little and Telmex also will be able to designate persons to XO's Board of Directors proportionate to their equity interests (initially unaffiliated directors in Telmex's case) so long as they hold more than 10% of XO's common stock. Each of the Investors has agreed to vote their shares for the designees to the Board of Directors of the other Investor. In addition to representation on XO's Board of Directors, the Investors have certain other approval rights for major corporate actions. These types of investor protections are not uncommon and are designed to encourage investment.

Neither Investor will be directly involved in the day-to-day operations of XO. XO currently plans to retain its current senior management team and will continue to rely on its experienced professionals. It is thus not contemplated that there will be significant changes in XO's current management occasioned by this investment or the restructuring, and the current senior management is expected to continue to oversee the day-to-day operations of its operating subsidiaries. Of course, over time there may be management changes as deemed appropriate by the Board of Directors.

Public Interest Considerations. The proposed transfer of control of XO is in the public interest. After consummation of the transaction described herein, the Company will continue to operate under its same names and operating authorities as at present. This transaction does not

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<sup>9</sup> *Exhibit 1* is a diagram of the ownership of XO before and after the transaction described herein.

<sup>10</sup> The investment described herein is conditioned on the availability of XO's existing credit facility, as modified, or a replacement credit facility that provides for a term loan or term loans and revolving loans, in each case on terms that are reasonably acceptable to the Investors. In February 2002, the Company and a committee of the lending institutions reached a tentative understanding regarding the treatment of the Company's borrowings pursuant to its credit facility. The tentative understanding provided that the \$1 billion of principal owed to the lending institutions would remain outstanding, but the scheduled maturity dates would be extended by three years. In addition, modifications would be made to certain financial and negative covenants to which XO is subject and certain other minor amendments to the credit facility would be made. In light of the ongoing negotiations regarding XO's restructuring and the passage of time, this tentative understanding is itself subject to further negotiation. The process of restructuring may include a reorganization of XO's capital structure through a Chapter 11 proceeding.

involve any transfer of authorizations or change in carriers providing service to customers or any change in the rates, terms or conditions of service. The Company's contact for customer and Commission inquiries will remain the same for the operating subsidiaries of XO after the transfer of control.<sup>11</sup> Thus, the transfer of control will be transparent to customers and will not have any adverse impact on them. The only change is in the ultimate ownership of the Company. The proposed infusion of capital by Forstmann Little and Telmex will allow XO to build upon its solid foundation with a strengthened balance sheet and is projected to result in a fully funded business plan. Specifically, XO expects to have sufficient funds and cash generated from operations to pay for operating expenses through the time at which the business is cash-flow positive. The simple fact is that, without additional funding, XO may be forced to decrease services and investment, and perhaps cease operations altogether. By contrast, the proposed transaction should enable XO to provide high quality local, long distance, and broadband services to its customer base.

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<sup>11</sup> Cathy Massey, Vice President – External Affairs/Assistant General Counsel, XO Communications, Inc., 1730 Rhode Island Avenue NW, Suite 1000, Washington DC 20036, Tel (202) 721-0983; Fax (202) 721-0995. Email [cathy.massey@xo.com](mailto:cathy.massey@xo.com).

Given the nature of this change in ownership, as described above, it is our understanding that no formal approval of this transaction is required, and this information is, therefore, being submitted solely to keep the Commission advised and its records current. Also enclosed, is a duplicate copy of this filing and a self-addressed, postage-paid envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided. Should you have any questions regarding this filing or believe that further action is required, please do not hesitate to contact Leila Baheri at (202) 887-1228.

Respectfully submitted,

XO LONG DISTANCE SERVICES, INC. AND XO  
COMMUNICATIONS, INC.

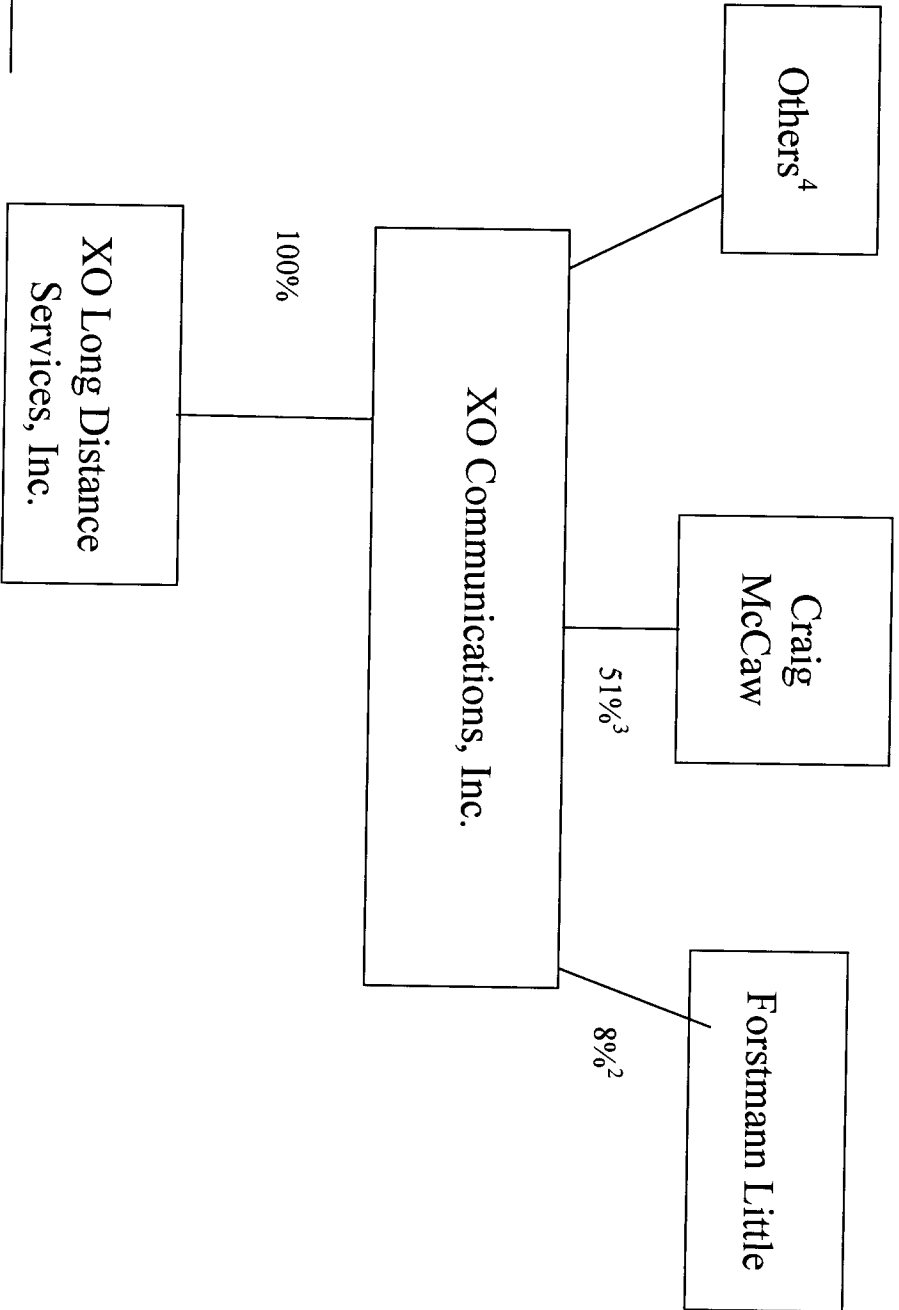
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Its Attorneys

Dated: May 23, 2002

**EXHIBIT 1**  
**Ownership Diagrams of XO Pre- and Post-**  
**Transfer of Control**

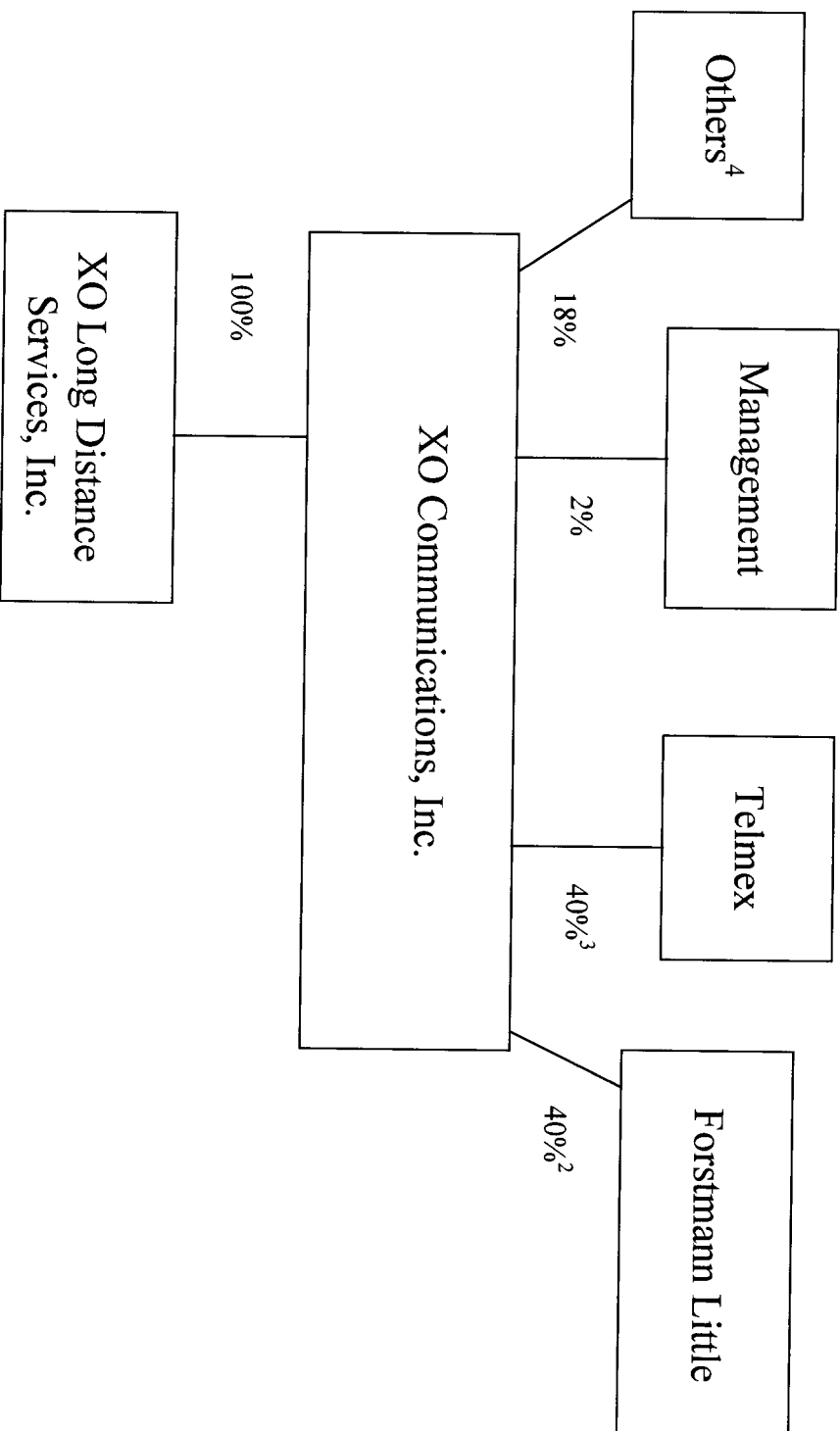
Current<sup>1</sup>



1. These diagrams show ownership as approximate percentages of the voting interests in XO.
2. Forstmann Little & Co.'s current interest is held primarily by Forstmann Little & Co. Equity Partnership-VI, L.P. and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VII, L.P. Minor interests held by persons affiliated with Forstmann Little & Co. also are included.
3. Craig McCaw currently controls XO through his ownership interest in Eagle River Investments, L.L.C., through other holdings of XO securities and pursuant to various voting arrangements, the primary one with shareholder Wendy P. McCaw, his former wife. Mr. McCaw holds a proxy to vote the number of shares of XO stock held by Mrs. McCaw necessary for Mr. McCaw to hold 51% of the interest in XO.
4. No individual shareholder holds a voting interest greater than 10%.



## Post-Transfer of Control<sup>1</sup>



1. Because negotiations with various parties in connection with the restructuring of XO are ongoing, each Investor's interest is an approximation as indicated in footnote 4 of the Application.
2. Forstmann Little & Co. Equity Partnership-VII, L.P. will hold approximately 25%, and Forstmann Little & Co. Subordinated Debt and Equity Management Buyout Partnership-VIII, L.P. will hold approximately 15%.
3. Telmex's investment is through its wholly owned subsidiary, Controladora de Servicios de Telecomunicaciones, S.A. de C.V., which owns Teninver, S.A. de C.V., which will own approximately 40% of XO.
4. It is not anticipated that any individual shareholder will hold a voting interest greater than 10%.