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November 7, 2002

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COMMISSION

**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 Long Distance Services, Inc. from XO Communications, Inc., Debtor-in-Possession, to a Reorganized XO Communications, Inc. Controlled by High River Limited Partnership and of New and Amended Secured Credit Facilities

Dear Ms. Bell:

This filing respectfully notifies the Commission of the proposed transfer of control of XO Long Distance Services, Inc. ("XO Long Distance") from its parent, XO Communications, Inc., Debtor-in-Possession ("XO" or the "Company"), to a newly reorganized XO Communications, Inc. ("Reorganized XO"), a majority of whose stock will be owned by High River Limited Partnership ("High River"), a Delaware limited partnership ultimately controlled by Carl C. Icahn, in accordance with a plan of reorganization for XO's emergence from its current bankruptcy proceeding. XO, XO Long Distance and Reorganized XO, as controlled by High River, are referred to herein collectively as "the Parties." This filing also notifies the Commission of new and amended secured credit facilities for Reorganized XO that will replace the current credit facility. Pursuant to the exemptions set forth in Administrative Case Nos. 359 and 370, the Parties believe that prior approval by this Commission is not required in connection the plan of reorganization described herein.

This is the second plan of reorganization of XO presented to this Commission. On May 23, 2002, XO and its subsidiary notified the Commission of a reorganization plan premised on the terms of a Stock Purchase Agreement dated January 15, 2002 ("Purchase Agreement"), that

contemplated an \$800 million investment by funds affiliated with Forstmann Little & Co. ("Forstmann Little") and by an indirect, wholly owned subsidiary of Telefonos de Mexico, S.A. de C.V. ("Telmex") in exchange for approximately 80% of Reorganized XO's equity and the elimination of most of the Company's unsecured debt and all of its existing equity (the "Forstmann Little/Telmex Plan"). As explained below, the Forstmann Little/Telmex Plan will not be implemented – the reorganization of XO will still be accomplished, however, pursuant to an alternate plan referred to herein as the "Stand-Alone Plan." Pursuant to the Stand-Alone Plan, the majority of stock of Reorganized XO will be owned, not by Forstmann Little and Telmex, but rather by High River. As noted below, the impact on Kentucky consumers of the transfer of control of XO Long Distance from XO to Reorganized XO and the public benefits associated therewith are generally the same under the Forstmann Little/Telmex Plan and the Stand-Alone Plan.

On June 17, 2002, subsequent to the time that XO notified the Commission of the Forstmann Little/Telmex Plan, XO filed for bankruptcy.<sup>1</sup> The bankruptcy reorganization plan developed by XO incorporated the Forstmann Little/Telmex Plan, but also contained an alternative reorganization plan – the Stand-Alone Plan. Although the reorganization of XO according to the Forstmann Little/Telmex Plan was confirmed by the Bankruptcy Court on August 26, 2002, and the Federal Communications Commission granted XO's applications on October 3, 2002, XO, Forstmann Little and Telmex have reached an agreement pursuant to which the Purchase Agreement will be terminated. In light of the pending termination of the Purchase Agreement, XO intends to proceed with the Stand-Alone Plan to emerge from bankruptcy, and the Parties hereby notify the Commission that the reorganization of XO is expected to be accomplished pursuant to this alternate plan.<sup>2</sup>

**The Stand-Alone Plan.** Like the Forstmann Little/Telmex Plan, the Stand-Alone Plan involves the elimination of \$3.7 billion in unsecured debt and all existing equity, amendment of the terms of the secured credit facility and the issuance of new equity. The principal difference is that under the Stand-Alone Plan, instead of issuing a controlling stock interest for new cash,

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<sup>1</sup> XO notified the Commission of its filing of a petition with the U.S. Bankruptcy Court for the Southern District of New York ("Bankruptcy Court") pursuant to Chapter 11 of the U.S. Bankruptcy Code, seeking temporary protection from claims of creditors while the Company reorganized its operations and restructured its finances. *See In re XO Communications, Inc.*, Case No. 02-12947 (AJG) (Bankr.S.D.N.Y.).

<sup>2</sup> The Stand-Alone Plan is described in the "Disclosure Statement With Respect to the Third Amended Plan of Reorganization for XO Communications, Inc.," dated July 22, 2002 ("Disclosure Statement") and filed with the Bankruptcy Court. Both plans were approved by creditors and in its "Order Confirming Third Amended Plan of Reorganization" issued on August 26, 2002, the Bankruptcy Court reserved XO's rights to proceed with the Stand-Alone Plan. It is currently anticipated that the Bankruptcy Court will hold a hearing to consider the confirmation of the Stand-Alone Plan in mid-November 2002.

\$500 million of the \$1 billion in existing loans under XO's secured credit facility would be converted into 95% of the new initial common stock of Reorganized XO, with the remaining \$500 million to be converted into a \$500 million pay-in-kind junior secured loan. As a result of High River's holding of 84.7% of XO's obligations under the secured credit facility, High River would be issued no less than 80% of the new initial common stock of Reorganized XO (before giving effect to the exercise of rights in the rights offering described below). XO note holders<sup>3</sup> and general unsecured creditors collectively would receive the remaining 5% of this initial common equity in Reorganized XO and would have the opportunity, along with other bankruptcy claimants, to acquire up to an additional 29.6% interest through the rights offering described below.

Reorganized XO also expects to obtain additional funds through a \$200 million rights offering. Pursuant to this rights offering, certain of the Company's creditors, including Meadow Walk, and certain holders of existing equity interests will have rights to acquire on a *pro rata* basis up to 40,000,000 shares of stock of Reorganized XO, after which the unexercised rights will be available to the holders of senior debt, including High River. However, even if all of these shares were issued to other parties, High River's equity interest in Reorganized XO would not be diluted below 50%. No shareholder other than High River is expected to hold 10% or more of the initial common stock of Reorganized XO. The Stand-Alone Plan also provides for the grant of stock options to Reorganized XO management and three series of warrants, exercisable over a seven-year period, to XO note holders and general unsecured creditors for the purchase of additional common stock at a premium.

As noted above, under the Stand-Alone Plan, half of the \$1 billion secured credit facility will be converted into equity of Reorganized XO. The existing credit agreement will be amended and restated to reduce the amount to \$500 million, extend maturity dates, modify certain financial covenants, make other modifications and subordinate this credit facility so that XO may, under certain conditions, borrow up to \$200 million in a new credit facility that would be senior to the amended facility. This additional borrowing could be used to make up for any shortfall in the rights offering described above.

**The Parties.** **XO.** As described in XO's initial filing, XO Long Distance is a wholly owned subsidiary of XO Communications, Inc., a Delaware corporation (XOXOQ on the OTC-Bulletin Board). Both are headquartered at 11111 Sunset Hills Road, Reston, Virginia 20190. Prior to the initiation of the bankruptcy proceeding, XO was controlled by Craig O. McCaw, but following reorganization, it is expected that Mr. McCaw will not hold any significant equity interest in XO. 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

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<sup>3</sup> Meadow Walk Limited Partnership ("Meadow Walk"), a Delaware limited partnership also ultimately controlled by Carl C. Icahn, holds XO notes which will entitle it to an approximate 1.4% equity interest in Reorganized XO. The majority and controlling interest in Reorganized XO, however, will be issued to High River.

nationwide, including in Kentucky, and is authorized to provide local exchange services in approximately 30 states, not including Kentucky.<sup>4</sup>

**Reorganized XO as Controlled By High River Limited Partnership.** Pursuant to the Stand-Alone Plan, XO – the parent of XO Long Distance – will emerge from bankruptcy. A majority of the stock of Reorganized XO will be held by High River, a Delaware limited partnership located at 767 Fifth Avenue, Suite 4700, New York, New York 10153. Carl C. Icahn, a U.S. citizen, ultimately controls and has a majority ownership interest in High River through his ultimate control and ownership of its general and limited partners. The general partner of High River is Barberrry Corp. (“Barberrry”), a Delaware corporation. Carl C. Icahn owns 100% of Barberrry’s stock. Barberrry holds an approximate 1% partnership interest in High River. High River has two limited partners. One limited partner is Chelonian Corp. (“Chelonian”), a New York corporation. Carl C. Icahn controls either directly or indirectly approximately 99% of Chelonian’s stock. Chelonian holds an approximate 91% partnership interest in High River. The other limited partner in High River is Highcrest Investors Corp. (“Highcrest”), a Delaware corporation. Carl C. Icahn controls either directly or indirectly approximately 99.5% of Highcrest’s stock. Highcrest holds an approximate 8% partnership interest in High River. High River is engaged in the business of buying, selling, investing and holding securities and debt obligations. Neither High River, Carl C. Icahn nor any of their affiliates controls or holds a substantial interest in any telecommunications company. Organizational charts showing XO’s ownership before and after reorganization are appended hereto as *Exhibit A*.<sup>5</sup>

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<sup>4</sup> XO Long Distance currently is authorized to provide intrastate interexchange services in Kentucky. The company’s tariff was effective as of May 22, 1999.

<sup>5</sup> Shortly after High River and Meadow Walk acquire the stock of Reorganized XO, they may distribute such stock so that it will be held by Cardiff Holding LLC (“Cardiff”). Cardiff is a Delaware limited liability company which is ultimately controlled by Carl C. Icahn. Consequently, references in this filing to High River also refer, where appropriate, to Cardiff, as potential holder of the majority of the stock of Reorganized XO. Cardiff is a newly created limited liability company not currently engaged in any business but formed for the purpose of holding the interest in Reorganized XO, should it be deemed desirable to do so.

**Designated Contacts.** The designated contacts for communications concerning this filing are:

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Copies of any correspondence relating to this filing also should be sent to:

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**Public Interest Considerations.** The proposed transfer of control of XO Long Distance to Reorganized XO pursuant to the Stand-Alone Plan is in the public interest. The Stand-Alone Plan will reduce significantly XO's indebtedness and result in a recapitalized and reorganized XO that is expected to continue to operate through the same subsidiaries, under the same names and with the same operating authorities. The Stand-Alone Plan does not involve any transfer of authorizations or change in carriers providing service to customers, or any change in the rates, terms or conditions of service as a result of the transaction. Subject to direction of the Board of Directors, it is generally planned that XO's current management team will continue to operate XO's networks and provide service to the public. Accordingly, XO's management and the contact for customer and Commission inquiries will remain the same for the operating subsidiaries of XO after the transfer of control. The transfer of control of XO Long Distance should be transparent to customers and should not have any adverse impact on them.

As stated in XO's previous filing, the proposed reorganization is necessary for XO to survive in the telecommunications market. XO and other emerging telecommunications companies have suffered over the past year amid the downturn in the technology and communications markets, slowing demand, and a marked tightening of capital markets as investors shied away from funding enterprises that were not generating net profits or had unfunded business plans. XO's results of operations have remained relatively strong. However, XO has not had access to the capital markets to address its funding needs and XO's business plan is not fully funded. Therefore, without this restructuring, XO's financial stability could be significantly compromised. At that point, services to consumers in Kentucky and elsewhere

Ms. Stephanie Bell  
November 6, 2002  
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could be adversely affected. The proposed reorganization pursuant to the Stand-Alone Plan will allow XO to build upon its solid foundation with a strengthened balance sheet, significantly reduced debt and additional funding. The proposed transaction should enable XO to continue to provide high quality local, long distance, and broadband services to its customer base, thereby serving the public interest.

Upon review of Kentucky's statutes, applicable case law and Commission rules, the Parties understand that, like the transfer of control of XO Long Distance pursuant to the Forstmann Little/Telmex Plan, prior Commission approval of the transfer of control of XO Long Distance pursuant to the Stand-Alone Plan as described herein, and of the new and amended secured credit facilities, is not required. The Parties therefore submit this letter for the Commission's information only and request that it be retained in the appropriate file. Enclosed are ten copies of this filing, a duplicate copy and a self-addressed, postage-paid envelope. Please date-stamp the duplicate upon receipt and return it in the envelope provided.

Respectfully submitted,

XO COMMUNICATIONS, INC., DEBTOR-IN-POSSESSION,  
XO LONG DISTANCE SERVICES, INC. AND  
XO COMMUNICATIONS, INC. [AS REORGANIZED]

By:

Heather J. Hendrickson / BF

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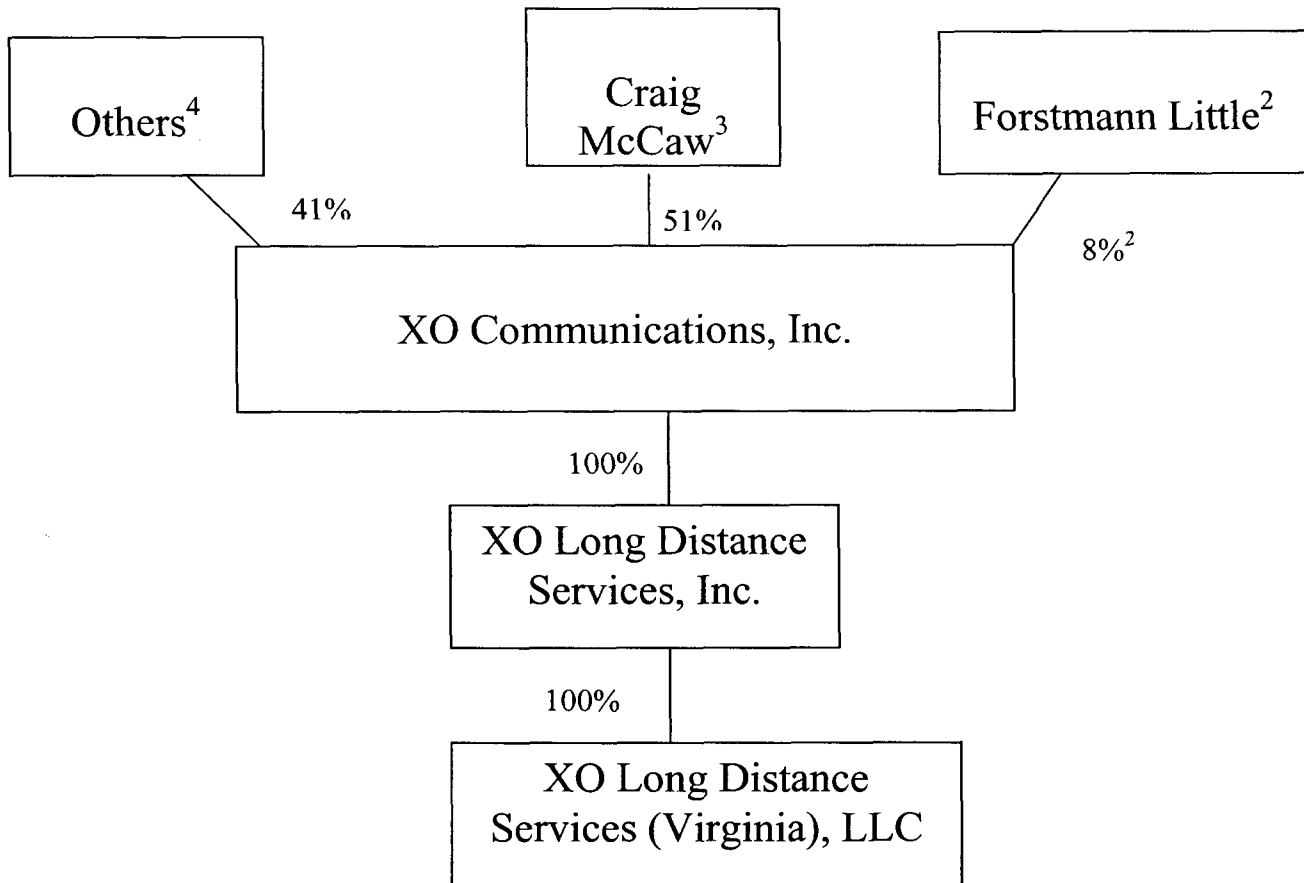
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Enclosures

**EXHIBIT A**

**ORGANIZATIONAL CHARTS**

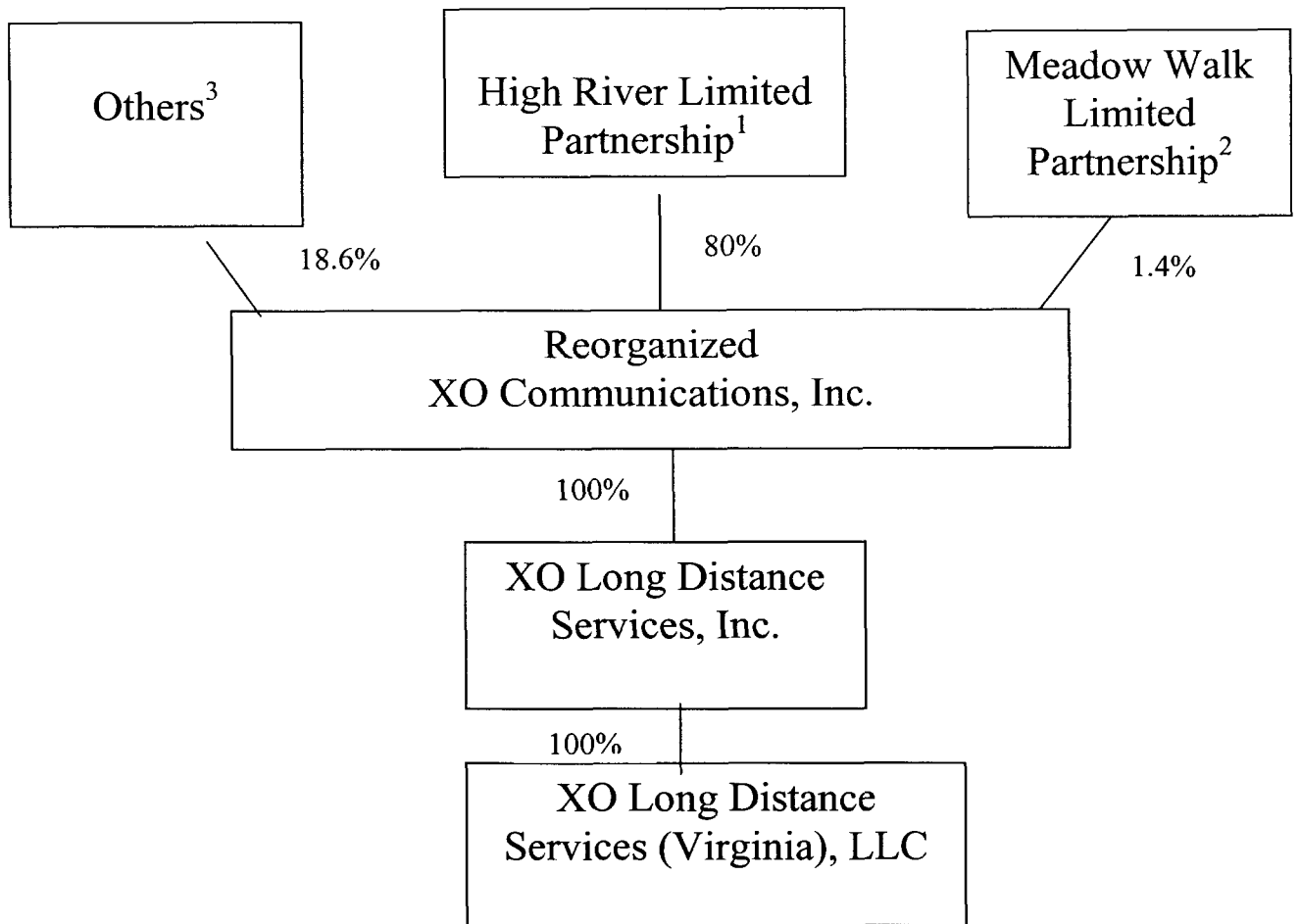
# XO Pre-Bankruptcy Reorganization<sup>1</sup>



1. These diagrams show ownership as approximate percentages of the voting interests in XO Communications, Inc. ("XO")
2. Forstmann Little & Co.'s 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. Prior to XO's bankruptcy, Craig McCaw controlled 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. However, in light of XO's current Debtor-in-Possession status, Mr. McCaw's control of XO is very limited.



## XO Post-Bankruptcy Reorganization Under the Stand-Alone Plan



1. Upon issuance of the initial Reorganization Common Stock, High River Limited Partnership (“High River”) will be issued no less than 80% of the equity of Reorganized XO Communications, Inc. (“Reorganized XO”). At the time the Rights Offering expires, High River will, in any event, still control in excess of 50% of the total issued and outstanding Reorganization Common Stock.
2. Meadow Walk Limited Partnership and High River may distribute their stock of Reorganized XO to Cardiff Holding LLC.
3. No other shareholder is expected to hold 10% or more of the initial Reorganization Common Stock.