

KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP

WASHINGTON HARBOUR, SUITE 400

3050 K STREET, NW

WASHINGTON, DC 20007

(202) 342-8400

FACSIMILE

(202) 342-8451

www.kelleydrye.com

DIRECT LINE: (202) 342-8819

NEW YORK, NY
LOS ANGELES, CA
CHICAGO, IL
STAMFORD, CT
PARSIPPANY, NJ

BRUSSELS, BELGIUM

AFFILIATE OFFICE
MUMBAI, INDIA

March 18, 2014

Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
Capitol Building, 1st floor
500 E. Capitol Ave.
Pierre, SD 57501-5070

Electronically Filed

Re: *Informational Filing* of XO Communications Services, LLC Regarding Its Intent to Provide Security in Connection with Financing

Dear Ms. Van Gerpen:

XO Communications Services, LLC (“XOCS” or the “Company”), by its counsel, hereby respectfully advises the South Dakota Public Utilities Commission (“Commission”) of its intent to provide its guarantee, pledge its equity interests and assets, or to otherwise provide security in connection with financings being arranged for its parent company, XO Communications, LLC (“XO” and, together with XOCS, the “Companies”), as described below.

The Parties

XO and XOCS are Delaware limited liability companies located at 13685 Sunrise Valley Drive, Herndon, Virginia 20171, (703) 547-2000. XO is a leading national provider of local and long distance telecommunications services, interexchange access services, advanced communications, managed network and IT infrastructure services to business, large enterprise and wholesale customers. XO delivers its services over its own network of metropolitan fiber rings and long haul fiber optic facilities and through the use of facilities and services leased or purchased from third party carriers, including incumbent local exchange carriers. XO is wholly owned by XO Holdings (“XO Holdings”), a Delaware general partnership and a holding company. Through its subsidiaries, primarily XOCS, XO is authorized to provide intrastate interexchange services in 49 states and to provide competitive local exchange services in 48 states and the District of Columbia. In South Dakota, XOCS is authorized to provide intrastate

KELLEY DRYE & WARREN LLP

South Dakota Public Utilities Commission
March 18, 2014
Page Two

telecommunications services.¹ XOCS is also authorized to provide interstate and international telecommunications services.

Description of the Transaction

XOCS intends to provide its guarantee, pledge its equity interests and assets, or to otherwise provide security in connection with financing that will be undertaken by its parent, XO, as further described below. XO is arranging to obtain this financing through one or more arrangements with banks, other financial institutions and/or other types of investors. The currently planned financing, to be obtained through a syndicate of lenders, includes an initial \$500 million senior secured term loan facility, with the ability to add an incremental facility or facilities in an aggregate amount equal to the sum of \$250 million plus a projected amount of \$600 million based on XO's ratio of first lien indebtedness to EBITDA.²

Funding Providers: As currently planned, UBS AG as administrative agent and collateral agent for a syndicate of banks, financial institutions, and other institutional lenders. The participants in the syndicate may change over the life of the Financing.

Amount: XO's planned financing will consist of an initial \$500 million term loan facility, with the ability to add an incremental facility or facilities in an aggregate amount equal to the sum of \$250 million plus a projected amount of \$600 million based on XO's ratio of first lien indebtedness to EBITDA. These incremental amounts may be in the form of term loan facilities and/or revolving credit facilities.

Maturity: The planned financing is expected to mature in 2021.

Interest: Interest for the planned financing will be tied to market rates for similar financings. At XO's option, interest will be determined either as (a) a base rate (highest of (i) the Federal Funds Rate plus 0.50%, (ii) the current prime commercial lending rate of UBS AG / Stamford Branch; or (iii) LIBOR plus 1.00 % and not less than 2.00 % per annum) plus applicable interest margin; or (b) a rate equal to the London Interbank Offered Rate (LIBOR) plus applicable interest margin.

¹ *In the Matter of the Filing for Approval of Transfer of Certificate of Authority from XO Network Services, Inc. to XO Communications Services, Inc.*, Docket No. TC04-145, Order Granting Transfer of Certificate of Authority and Order Granting Petition for Waiver (Dec. 29, 2004).

² EBITDA is an accounting acronym for Earnings Before Interest, Taxes, Depreciation and Amortization.

South Dakota Public Utilities Commission
March 18, 2014
Page Three

Security: The loans to XO are expected to be secured by perfected first priority pledges of the equity interests in certain of XO's direct and indirect subsidiaries, including XOCS, and perfected first priority security interests and mortgages on the tangible and intangible assets of XO and the guarantors, including XOCS.

Use of Proceeds: Proceeds will be available for investment in telecommunications assets, capital expenditures, general corporate purposes and working capital.

Public Interest Considerations

The planned financing will serve the public interest by enhancing the ability of XOCS to grow and compete in the highly competitive markets for telecommunications services in South Dakota and nationwide. The XO financing transaction described herein is not expected to have any direct effect upon the rates of XOCS, nor to have any adverse effect whatsoever upon the services provided by the Companies. Moreover, consummation of the transaction will not result in any change in control of XOCS. Instead, the financing arrangement will provide the XO companies, including XOCS, with the financial resources needed to further grow and expand their business and to compete in today's highly competitive telecommunications environment. Indeed the primary purpose of the borrowing is for investment in the XO network.

XOCS competes in South Dakota and other markets with numerous other interexchange carriers and enhanced service providers as well as the incumbent local exchange carrier(s) and other competitive local exchange carriers. Because XOCS is a non-dominant carrier, it is not subject to rate of return regulation and its capital structure should not be a matter of concern to the Commission. In addition, because of the highly competitive environment in which it operates, the rates charged customers are subject to market discipline and the services offered generally are available from numerous other carriers. As a result, the source of funds and capital structure of XOCS have little effect on customers in South Dakota or elsewhere. In the unlikely event that XOCS' capital structure becomes too costly, leading to an increase in its rates, customers may simply migrate to other carriers with more competitive rates. Thus, any adverse consequences that might arise from financing decisions such as described above would impact XOCS equity interest holders rather than its customers, while any favorable consequences will benefit both consumers and equity interest holders through improved service offerings and competitive standing.

Moreover, as the Commission has recognized and asserted on many occasions, the public interest in South Dakota is best served by assuring the presence of numerous telecommunications competitors. Towards that goal, it is important to provide such competitors with the flexibility to arrange financing in the manner they deem most appropriate to carry on their businesses provided there is no adverse impact on the public. To deny such flexibility would discourage new competitors from entering the state and would encourage existing competitors in South

KELLEY DRYE & WARREN LLP


South Dakota Public Utilities Commission
March 18, 2014
Page Four

Dakota to seek a more favorable regulatory environment elsewhere, neither of which developments would enhance the public interest. In contrast, access of competitive carriers to adequate and flexible financing arrangements such as discussed in this notice will measurably benefit South Dakota consumers.

XOCS submits that no prior Commission approval is required for its intended commitments with respect to the financing of its parent, XO. Should the Commission believe that any action is required, the Companies respectfully request that the Commission notify the undersigned counsel at its earliest convenience. Should the Commission have any questions, please contact Winafred Brantl at (202) 342-8819 or via email at wbrantl@kelleydrye.com.

Respectfully submitted,

XO Communications Services, LLC

By: 

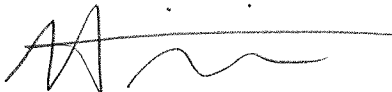
Thomas Cohen
Winafred Brantl
Kelley Drye & Warren, LLP
3050 K Street, NW Suite 400
Washington, DC 20007
Telephone: (202) 342-8819
Facsimile: (202) 342-8451
E-mail: wbrantl@kelleydrye.com

Its Attorneys

VERIFICATION


I, Navid C. Haghighi, state that I am Executive Vice President, General Counsel & Secretary of XO Communications, LLC; that I am authorized to represent XO Communications, LLC and its subsidiaries, and to make this verification on their behalf; that the statements in the foregoing document relating to XO Communications, LLC and its subsidiaries, except as otherwise specifically attributed, are true and correct to the best of my knowledge and belief.

I declare under penalty of perjury that the foregoing is true and correct.



Navid C. Haghighi
XO Communications, LLC

Subscribed and sworn to before me this 14th day of March 2014.



Notary Public

My Commission expires: 8/31/2016

