TC99-001

CH/HB

DOCKET NO. TC99-001

In the Matter of

IN THE MATTER OF THE FILING FOR APPROVAL OF TRANSFER OF CERTIFICATE OF AUTHORITY FROM MIDCOM COMMUNICATIONS, INC. TO WINSTAR WIRELESS, INC.

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
12/31	98	Received;
1/5	99	Docketed;
1/8	99	Weekly Filing;
3/24	99	Application for Transfer of Assets and Certificate of Authority;
5/7	99	Revised Tariff;
5/11	99	Revised Tariff Pages;
5/18	99	Order Granting Transfer of C.O.A;
5/28	99	Surety Bond;
6/21	99	Sent COA;
6/21	99	Docket Closed.

TC99-001
ORIGINAL

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RECEIVED
DEC 31 1998
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

December 30, 1998

BY FEDERAL EXPRESS

Mr. William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501-5060

Re: Transfer of Assets and Operating Authority of MIDCOM Communications, Inc. to WinStar Wireless

Dear Mr. Bullard:

WinStar Communications, Inc. ("WinStar") and WinStar Wireless, Inc. ("WinStar Wireless) (together, the "Parties"), by their attorneys, hereby respectfully notify the South Dakota Public Utilities Commission ("Commission") *nunc pro tunc* of a transfer of assets from MIDCOM Communications, Inc. ("MIDCOM") to WinStar Wireless, Inc. and request that MIDCOM's Certificate of Public Convenience and Necessity and MIDCOM's interexchange tariff be transferred to WinStar Wireless.[1]

As described below, the transfer of assets, which already has been completed, was precipitated by voluntary Chapter 11 bankruptcy petitions filed by MIDCOM and two of its subsidiaries with the United States Bankruptcy Court of the Eastern District of Michigan, Detroit

1 It is our understanding that MIDCOM no longer exists as a corporate entity, and therefore MIDCOM is not a party to this notification. Please be advised that we have not been authorized to represent MIDCOM, and hence we cannot speak or act on its behalf.

DC01/KIRNR/69111.2

Division (the "Bankruptcy Court").[2] In compliance with the terms of the Bankruptcy Court order dated January 7, 1998, a closing was held on or about January 21, 1998, at which time MIDCOM transferred substantially all of the assets used in the conduct of its business, free and clear of all liens, claims, encumbrances, rights of first refusal, and other interest (except those expressly assumed by WinStar) to a special-purpose, wholly owned subsidiary of WinStar, WinStar MIDCOM Acquisition Corp. ("WinStar Acquisition").[3] Simultaneously, MIDCOM's physical assets were transferred to WinStar Wireless, another wholly owned subsidiary of WinStar. In addition, the customer accounts simultaneously were transferred to WinStar's primary operating subsidiary in each state. Thus, MIDCOM's customers will be served by WinStar Wireless, a qualified telecommunications provider. Unfortunately the Parties were unable to notify the Commission of this transfer of assets prior to its consummation. Therefore, in a good faith effort to comply with the Commission's rules *nunc pro tunc*, the Parties now submit this notification.

WinStar is a publicly held Delaware corporation that is headquartered at 230 Park Avenue, Suite 3126, New York, New York, 10169. WinStar is the ultimate corporate parent of the WinStar family of companies. WinStar, through its subsidiaries, operates as a facilities-based and resale provider of wireless private line and switched local and interexchange services throughout the United States. WinStar's customers are predominantly small and medium-sized businesses.

As wireless providers of telecommunications services, WinStar's subsidiaries have been authorized by the Federal Communications Commission ("FCC") to provide radio microwave services in the 38.6-40.0 GHz radio band.[4] Thus, the WinStar family of companies has

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[2] These cases are being jointly administered by the Bankruptcy Court as Bankruptcy Case No. 97-59044-S. The MIDCOM subsidiaries involved in the bankruptcy proceeding, Cel-Tech International Corp. and PacNet, Inc., are not telecommunications service providers and do not provide telecommunications services in South Dakota.

[3] A copy of the Bankruptcy Court Order is appended hereto as Attachment A. Pursuant to this Order, WinStar acquired substantially all of the *assets* of MIDCOM; not an equity interest, or control of, MIDCOM. Control of MIDCOM remains with the existing MIDCOM shareholders.

[4] The WinStar companies hold the largest amount of 38 GHz spectrum in the United States, which they use to carry high-speed, digital traffic including voice, data and video transmission. The technology employed by the WinStar network offers capabilities equivalent to those of a fiber optic network, without employing underground cable and conduits. Moreover, the frequency pairs that have been allocated by the FCC to WinStar have enabled WinStar to design high-speed microwave services that are cost-effective and reliable. WinStar has agreed to acquire an aggregate of 47 additional 38 GHz licenses in a series of transactions subject to the approval of the FCC. Upon completion of these acquisitions, WinStar and its subsidiaries will be able to provide telecommunications services in the 50 most populated Metropolitan Statistical Areas.

constructed, or is in the process of constructing, microwave networks for high capacity telecommunications services in metropolitan markets throughout the United States. Further, the WinStar companies are authorized to provide intrastate telecommunications services in over 40 states and the District of Columbia.

MIDCOM is a publicly held Washington corporation headquartered at 26899 Northwestern Highway, Suite 120, Southfield, Michigan 48034. MIDCOM is a reseller provider of intrastate interexchange telecommunications services in 48 states, including South Dakota.[5] MIDCOM also provides interstate and international telecommunications services pursuant to authority granted by the FCC.

On November 7, 1997 MIDCOM and two of its subsidiaries voluntarily filed petitions with the Bankruptcy Court seeking protection pursuant to Chapter 11 of Title 11 of the United States Code, 11 U.S.C. § 101 *et seq.* Thereafter, on December 11, 1997 WinStar and MIDCOM entered into an Asset Purchase Agreement ("Asset Agreement") pursuant to which WinStar tentatively agreed to purchase substantially all of the assets and properties of the MIDCOM companies relating to MIDCOM's telecommunications business for approximately $97 million. By Order dated January 7, 1997 the Bankruptcy Court approved the Asset Agreement and authorized the sale of most of MIDCOM's assets to WinStar.[6] In order to comply with the Bankruptcy Court's directive that the closing be held as soon as possible so as to preserve the value of MIDCOM's business as a going concern, the Parties completed the transaction on January 21, 1998 by transferring substantially all of MIDCOM's assets to WinStar Acquisition. Thereafter, MIDCOM's physical assets, such as telecommunications switches, office furniture, and the like, were transferred to WinStar Wireless. All of MIDCOM's customer accounts have been transferred to WinStar Wireless.

The transfer of assets was accomplished in a seamless fashion that did not, and will not, adversely affect the provision of telecommunications services to MIDCOM's former customers in South Dakota. MIDCOM's former customers should not experience any adverse effects as a

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5 The Commission granted MIDCOM authority to provide intrastate interexchange telecommunications services in South Dakota on June 19, 1992 in Docket No. TC92-032.

6 WinStar began negotiating with MIDCOM in late November and early December of 1997 for purchase of certain MIDCOM assets. WinStar and MIDCOM entered into the Asset Agreement on December 18, 1997. Thereafter, the Bankruptcy Court set a hearing date for approval of the Asset Agreement, established procedures for notification to creditors of MIDCOM regarding the Asset Agreement, and approved auction procedures. Pursuant to these auction procedures, MIDCOM's assets were offered for sale at auction on or about January 5, 1998. The Bankruptcy Court entered an order approving the sale of MIDCOM's assets to WinStar on January 7, 1998, subject to a 10-day right of appeal by creditors. Creditors' rights of appeal ended on January 20, 1998 and the transaction was completed.

result of this acquisition. The Parties will ensure that any former MIDCOM customer wishing to receive the same services at the same rates as they presently are receiving continue to receive such services, on a grandfathered basis. WinStar will take whatever steps are necessary to guarantee that no MIDCOM customer experiences either a material change in service or an increase in rates. Thus, the transfer will not detrimentally impact consumers in South Dakota. In addition, all of MIDCOM's former customers in South Dakota will be notified of this transaction, by bill insert, within 30 days of the date of this filing.

The WinStar family of companies are fully qualified to provide high quality, reliable and advanced telecommunications services to MIDCOM's former customers. The WinStar companies are managed by a team of experienced personnel, all of whom have extensive backgrounds in telecommunications.[7] WinStar's financial, managerial, and technical qualifications to compete effectively in the market for telecommunications services in South Dakota are well documented. Specifically, as of September 30, 1997, WinStar's financials demonstrate that WinStar had over $300 million in cash equivalents and short term investments.[8]

The transfer of assets is in the public interest. WinStar's acquisition of MIDCOM's assets, including its customer base, avoided any unnecessary interruption in the telecommunications service provided to MIDCOM's customers in South Dakota. Further, WinStar is fully qualified to provide high quality telecommunications services to MIDCOM's former customers at competitive prices, as evidenced by its authorization to operate as a telecommunications service provider in over 40 states. Therefore, from the perspective of affected customers, the transfer is, and will be, largely transparent, leaving unaltered the quality of service that they expect. In addition, the transfer will allow WinStar to realize significant economies of scale, thereby making it possible for WinStar to introduce new products and services in the state of South Dakota over time.

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7 Biographies of WinStar's top management personnel will be forwarded upon request.

8 Copies of WinStar's most current SEC Form 10-K and SEC Form 10-Q filings will be forwarded upon request.

Accordingly, the Parties hereby request that MIDCOM's Certificate of Public Convenience and Necessity and MIDCOM's interexchange tariff be transferred to WinStar Wireless.

Please do not hesitate to contact the undersigned if you have any questions regarding this proposed transaction.

Respectfully submitted,

FRONTIER CORPORATION, ALLNET COMMUNICATION SERVICES D/B/A FRONTIER COMMUNICATIONS SERVICES, and FRONTIER COMMUNICATIONS INTERNATIONAL INC.

By: Rebekah J. Kinnett

Danny E. Adams
Rebekah J. Kinnett
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Their Attorneys

ATTACHMENT A

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In the Matter of:

MIDCOM COMMUNICATIONS, INC., et. al,

Debtor.

Case No. 97-59044-S
Chapter 11
Hon. Walter Shapero

ORDER GRANTING
DEBTORS' MOTION FOR ORDER COMPELLING CERTAIN CARRIERS
TO PROVIDE SERVICE DURING TRANSITION PERIOD

This matter having come before the Court upon the Debtors', MIDCOM Communications, Inc., and its subsidiaries, Cal-Tech International Corp. and Pacnet Inc. (the "Debtors"), Motion For Order Compelling Certain Carriers to Provide Service During Transition Period (the "Motion"), the Court having granted an expedited hearing on the Motion and having approved notice of the Motion to the affected parties by facsimile the "Carriers" [illegible], and the Court finding that such notice was adequate and sufficient under the circumstances, objections having been raised at the hearing and the Court being otherwise duly informed [illegible] in the premises;

NOW, THEREFORE, for the reasons stated on the record, and the findings made therein, which are incorporated into the terms of this Order;
~~it is hereby ordered that the Debtors' Motion is granted;~~

It is ~~hereby~~ further ordered that the Debtors and the Carriers ~~shall~~ continue to comply with the various Stipulated Orders to Provide Adequate Assurance with Individual Carriers including the Michigan [illegible] or the Order Granting Debtor's Motion for Order Approving Proposal for Adequate Assurance of [illegible] dated [illegible], 1997,

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In the Matter of:

MIDCOM COMMUNICATIONS, INC., et. al.,

Debtor.

Case No. 97-59044-S
Chapter 11
Hon. Walter Shapero

ORDER GRANTING DEBTORS' MOTION FOR ORDER COMPELLING CERTAIN CARRIERS TO PROVIDE SERVICE DURING TRANSITION PERIOD

This matter having come before the Court upon the Debtors', MIDCOM Communications, Inc., and its subsidiaries, Cel-Tech International Corp. and Pacnet Inc. (the "Debtors"), Motion For Order Compelling Certain Carriers to Provide Service During Transition Period (the "Motion"), the Court having granted an expedited hearing on the Motion and having approved notice of the Motion to the affected parties (the "Carriers" as identified on the group of [illegible] to the Motion, attached hereto) by facsimile, and the Court finding that such notice was adequate and sufficient under the circumstances, objections having been raised at the hearing and the Court being otherwise duly informed in the premises;

NOW, THEREFORE, for the reasons stated on the record, and the findings made therein, which are incorporated into the terms of this Order;
~~it is hereby ordered that the Debtors' Motion is granted;~~

It is ~~further~~ hereby ordered that the Debtors and the Carriers shall continue to comply with the various Stipulated Orders to Provide Adequate Assurance with Individual Carriers (including the written Stipulation and Order dated November 26, 1997) for the Order Granting Debtor's Motion for Order Approving Proposal for Adequate Assurance of

Payment to Carriers Under Section 366 of the Bankruptcy Code (collectively, the "Adequate Assurance Orders");

It is further ordered that, from and after the closing, through the earlier of (a) June 30, 1998, (b) the expiration of the Contracts by their own terms, (c) an order authorizing rejection of a Contract entered prior to June 30, 1998, or (d) such time as the Customer traffic is no longer carried on the Carrier's network (the "Transition Period"), WinStar will make the required payments under the Adequate Assurance Orders for such period on behalf of the Debtors directly to the Carriers, but such payments by WinStar shall not be construed to create a direct contractual relationship between the Carrier and WinStar. Notwithstanding the foregoing, WinStar is a party in interest under Section 1109(b).

It is further ordered that the contracts ("Contracts") between the Debtors and the Carriers are executory, and subject to the terms of the Adequate Assurance Orders, will continue to govern during the Transition Period. The Debtors will either assume or reject each Contract by June 30, 1998, unless such Contract has expired by its own terms or has been rejected before that date.

It is further ordered that, except for Contracts which terminated by their terms prior to June 30, 1998, should the Debtors fail to assume or reject the Contracts by June 30, 1998, the Contracts shall be rejected effective as of July 1, 1998, unless otherwise agreed by the parties or ordered by the Court.

It is further ordered that, on the earlier of (a) the expiration of a Contract, (b) an order authorizing the rejection of a Contract or (c) July 1, 1998, the Carriers shall be authorized to terminate all services under their Contracts, without the need of a Court order or notice and hearing, and the automatic stay of 11 U.S.C. Section 362 is hereby modified to permit such termination.

It is further ordered that, at the conclusion of the Transition Period, the Debtors or WinStar and the Carriers shall reconcile promptly, and the Carriers and WinStar or the Debtors shall remit promptly to the other party (overpayments to be remitted directly to WinStar), amounts due pursuant to the Contracts, as modified by the Adequate Assurance Orders and this Order.

It is further ordered that any notice required to be given by a Carrier under its Adequate Assurance Order shall also be given to WinStar (atten: Ken Schwarz, facsimile number 703-645-5190 and David Alan Miller, facsimile number 212-818-8881) by the same means as required to be given to the Debtors, and the Debtors and or WinStar shall promptly notify the Committee (atten: Larry K. Snider, facsimile number 312-701-7711) thereof.

Dated: January 21, 1998

United States Bankruptcy Judge

A TRUE COPY
CLERK, U.S. BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
BY: ____________
Deputy Clerk
Dated: JAN 21 1998

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In the Matter of:

MIDCOM COMMUNICATIONS INC., et al.
a Washington Corporation,

Debtors.

Case Nos. 97-59044, 97-59057,
97-59064, 97-59052

Chapter 11
Hon. Walter Shapero

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF WAYNE)

MaryEllen Leopold, being first duly sworn, deposes and says that she is employed by PEPPER HAMILTON LLP; and that on the 20th day of January, 1998, she served, by telecopy, a copy of Brief in Support of Debtors' Motion for Order Compelling Certain Carriers to Provide Service During Transition Period upon everyone listed below at their respective telecopy numbers:

AT&T Corp Att: Bob Imhoff	732-805-6094
WilTel Inc. and Worldcom Network Services Att: Natalie Clay	630-516-6023
Teleport Comm. Group Att: Colleen	303-749-1998
MFS Telecom Inc. Att: Heather Morris	213-489-3712
Qwest Communications Corp. Att: Lisa	303-291-1444
Northern Telecom, Inc. Att: Pat Kramer	972-684-3889
LCI International Telecom Att: Angel	888-524-2070
Consolidated Communications Operator Services Att: Cindy Simpson	217-234-2810
Zero Plus Dialing Inc./USBI Att: Patty Mennerich	210-692-1887

Howard Levine	503-248-0130
Michael Khoury	313-965-8252
Pat Mears	616-776-7373
Jeffrey Deller	412-392-2128
Timothy Graham	212-922-1637
D[illegible]d Steinberg	732-392-3475
Bill Oberlin	248-208-9225
Jonathon S. Green	313-496-8450
Howard Sher/Stephen Schulsinger	248-649-2920
Larry Snider	312-701-7711
Ben Silver	310-479-2690
Jerry Minnitz	312-332-2196
John Greco	212-818-8881
Steve Goldman	248-945-1904
Sharon Levine/Bob Towey	973-228-6080

MaryEllen Leopold

MaryEllen Leopold
PEPPER HAMILTON LLP
100 Renaissance Center – Ste 3600
Detroit, MI 48243
313/259-7110

Subscribed and sworn to before me
this 20th of January, 1998.

Anne M. Kupstas

NOTARY PUBLIC

ANNE M. KUPSTAS
Notary Public, Wayne County, MI
My Commission Expires Oct. [illegible]

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In the Matter of:

MIDCOM COMMUNICATIONS INC., et al.
a Washington Corporation,

Debtors.

Case Nos. 97-59044, 97-59057,
97-59064, 97-59052

Chapter 11
Hon. Walter Shapero

ORDER UNDER 11 U.S.C. §§ 105(a), 363(b), (f), (l) AND (m), 365, AND 1146(c), AND FED. R. BANKR. P. 2002, 6004, 6006, 9014: (A) APPROVING AMENDED AND RESTATED ASSET PURCHASE AGREEMENT WITH WINSTAR COMMUNICATIONS, INC. AND WINSTAR MIDCOM ACQUISITION CORP.; (B) AUTHORIZING (I) SALE OF SUBSTANTIALLY ALL OF DEBTORS' ASSETS FREE AND CLEAR OF LIENS, CLAIMS, INTERESTS AND ENCUMBRANCES, (II) ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND LEASES, AND (III) ASSUMPTION OF CERTAIN DEBTS; AND (C) GRANTING RELATED RELIEF

This matter having come before the Court upon the December 22, 1997 Motion (the "Sale Motion")[1] of Midcom Communications Inc. ("Midcom") and its enumerated wholly-owned subsidiaries, Cal-Tech International Corp. and Pacnet Inc. (the "Subsidiaries"), debtors and debtors-in-possession (Midcom and the Subsidiaries collectively, the "Debtors"), for an order under 11 U.S.C. §§ 105(a), 363(b), (f), (l) and (m), 365, and 1146(c) and Fed. R. Bankr. P. 2002, 6004, 6006, and 9014 authorizing (A) the sale of substantially all of the Assets used in the conduct of the Business of Midcom and its Subsidiaries as sellers (the "Debtors"), free and clear of all liens, claims, encumbrances, rights of first refusal, and other interests (except those expressly assumed by the Purchaser or otherwise expressly stated as obligations of the Purchaser) (the "Sale"), pursuant to and as described in the Amended and Restated Asset Purchase Agreement, dated as of December

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1 Unless otherwise defined, capitalized terms used herein shall have the meaning ascribed to them in the Sale Motion, the Purchase Agreement (as defined hereafter), or the Bankruptcy Code. A copy of the Purchase Agreement as executed is attached hereto as Exhibit A.

[illegible]

17, 1997, as amended, and related Company Disclosure Letter and Purchaser Disclosure Letter (together the "Purchase Agreement"), between the Debtors and WinStar Communications, Inc. ("WinStar"), a Delaware corporation, and WinStar Midcom Acquisition Corp., a Delaware corporation, and its assigns ("Purchaser"); (B) the Debtors' assumption and assignment to the Purchaser of the Assumed Contracts identified or described in the Purchase Agreement, free and clear of liens, claims, encumbrances, rights of first refusal and other interests; and (C) granting related relief; the court having entered the Overbid Procedures Order, pursuant to which, among other things, the Court: (a) ordered that an auction (the "Auction") for the sale of the Assets and the assumption and assignment of certain executory contracts and unexpired leases be held on January 5, 1998; (b) approved certain bidding terms, conditions, and procedures with respect to the Auction; (c) approved the form of the notices (the "Notices") to be given with respect to the Sale Motion and the relief sought therein; (d) directed Debtors to serve the Notices upon various "entities" (as that term is defined in §101 (15) of the Bankruptcy Code); and (e) consistent with Federal Rules of Bankruptcy Procedure 2002(m) and 9008, found and ordered that the notice required by the Overbid Procedures Order was appropriate and reasonably calculated to apprise creditors (including all persons and other entities who have a Claim (as defined in section 101(5) of the Bankruptcy Code) against Debtors' estates) and all other parties in interest (including those entities claiming an interest in the Assets) of the Sale Motion, the Purchase Agreement, and the transactions contemplated therein, and to provide such persons and other entities with an adequate and sufficient opportunity to respond to the Sale Motion, the Purchase Agreement, and the transactions contemplated therein and that such notice constituted sufficient notice under the Bankruptcy Code and the Federal Rules of Bankruptcy Procedure; and hearings on the Sale Motion having been held on January 6 and 7, 1998 (the "Sale Hearing"), at which time all interested parties were offered an opportunity to be heard with respect to the Sale Motion; and the Court having considered (i) the Sale Motion, (ii) the objections thereto, and (iii) the arguments of counsel made, and the evidence proffered or adduced, at the Sale Hearing; and it appearing that the relief requested in the Sale Motion is in the best interests of the Debtors, their estates, their creditors and other parties in interest; and upon the record of the Sale Hearing and these cases; and after due deliberation thereon; and good cause appearing therefor;

IT IS HEREBY FOUND AND DETERMINED THAT:[2]

1. The Court has jurisdiction over this Sale Motion pursuant to 28 U.S.C. §§ 157 and 1334, and over the entities which are subject to the terms of this Order, including but not limited to all creditors, all persons and entities who have a claim (as defined in §101(5) of the Bankruptcy Code) against the Debtors or their bankruptcy estates, and all parties in interest, including those entities claiming an interest in the Assets and those entities who are parties to the Contracts. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue of these cases and the Sale Motion in this district is proper under 28 U.S.C. §§ 1408 and 1409.

2. The statutory predicates for the relief sought in the Sale Motion are sections 105(a), 363(b), (f), (l), and (m), 365, and 1146(c) of the United States Bankruptcy Code, 11 U.S.C. 101 et seq., as amended (the "Bankruptcy Code" or the "Code"), and Fed. R. Bankr. P. 2002, 6004, 6006, and 9014.

3. As evidenced by the affidavits of service previously filed with the Court, and based on the representations of counsel at the Sale Hearing, (1) proper, timely, adequate and sufficient notice of the Sale Motion, the Sale Hearing and the Sale has been provided in accordance with the Bankruptcy Code, Federal Rules of Bankruptcy Procedures, including 11 U.S.C. §§ 102(1), 363, and 365 and Fed. R. Bankr. P. 2002, 6004, 6006, and 9014, the Local Bankruptcy Rules, and in compliance with this Court's Overbid Procedures Order, signed December 19, 1997, (2) such notice was good and sufficient, and appropriate under the particular circumstances, and (3) no other or further notice of the Sale, the Sale Motion, or the Sale Hearing shall be required.

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2 Findings of fact shall be construed as conclusions of law and conclusions of law shall be construed as findings of fact when appropriate. See Fed. R. Bankr. P. 7052.

[illegible]

4. A reasonable opportunity to object or be heard with respect to the Sale Motion and the relief requested therein has been afforded to all interested persons and entities, including (i) the United States Trustee; (ii) the Creditors' Committee appointed in the case of MIDCOM Communications Inc.; (iii) any and all entities known to have expressed an interest in a merger or acquisition transaction regarding the Debtors or their assets during the past twelve (12) months; (iv) all entities known to have asserted any lien, claim, encumbrance, right of first refusal, or other property interest in or upon any of the Assets and Contracts which are to be sold or assigned pursuant to the Purchase Agreement; (v) all entities who had filed a notice of appearance and request for service of papers in these cases; and (vi) all parties to executory contracts or unexpired leases proposed to be assumed and assigned under the Purchase Agreement.

5. Each Debtor (i) has full corporate power and authority to execute the Purchase Agreement and all other documents contemplated thereby, and the sale of the Assets of the Business by the Debtors has been duly and validly authorized by all necessary corporate action of each of the Debtors, (ii) has all of the corporate power and authority necessary to consummate the transactions contemplated by the Purchase Agreement, (iii) has taken all corporate action necessary to authorize and approve the Purchase Agreement and the consummation by such Debtor of the transactions contemplated thereby, and (iv) requires no further consents or approvals, other than those expressly provided for in the Purchase Agreement or otherwise explicitly set forth herein, to consummate such transactions.

6. On January 5, 1998, the Debtors conducted an auction pursuant to this Court's Overbid Procedures Order, and the Debtors having received no other bid for the Assets complying with the terms of the Overbid Procedures Order which was higher and better than Purchaser's bid (as contained in the Purchase Agreement), at the conclusion of the Auction the Debtors determined that Purchaser has made the highest and best offer to purchase the Assets.

7. Approval of the Purchase Agreement and consummation of the Sale at this time are in the best interests of the Debtors, their creditors, their estates, and the public, particularly the Debtors' numerous customers who rely upon the Debtors' service.

8. The Debtors have demonstrated both (i) good, sufficient, and sound business purpose and justification and (ii) compelling circumstances for the Sale pursuant to the applicable provisions of the Bankruptcy Code, including 11 U.S.C. §§ 105 and 363 prior to, and outside of, a plan of reorganization in that, among other things:

(A) On the Petition Date, the Debtors were in default under their $23 million credit agreement with Foothill Capital Corporation ("Foothill");

(B) On the Petition Date, the Debtors were unable to borrow under their existing credit facilities;

(C) The cash generated by the Debtors' operating activities is insufficient to fund the non-discretionary capital expenditure requirements necessary to maintain their present operations and facilities as well as the scheduled debt service requirements of their notes payable and term obligations;

(D) The Debtors do not have the capacity to pursue new development projects which are critical to continued growth and profitability in their competitive industry; and

(E) To solve their immediate financing problems, the Debtors entered into the Order Authorizing Debtors to: (A) Use Cash Collateral; (B) Incur Post-Petition Debt; and (C) Grant Adequate Protection and Provide Other Security with Foothill, as amended by the First Order Amending Order Authorizing Debtors To: (A) Use Cash Collateral; (B) Incur Post-Petition Debt; and (C) Grant Adequate Protection and Provide Other Security. This financing allows the Debtors to use their cash collateral and borrow up to an additional approximate $17 million, subject to various conditions.

If the Sale and related transactions are not approved and consummated promptly, the Business could deteriorate to the point where the Purchaser could terminate the Purchase Agreement, thereby relegating the Debtors to a disorganized liquidation that would achieve far less value for creditors than the transactions contemplated by the Purchase Agreement or a sale involving a significantly reduced purchase price.

9. The Debtors diligently and in good faith marketed the Assets of the Business to secure the highest and best offer therefor. In that regard, the Debtors sought bids for all of their Business and Assets. The terms and conditions set forth in the Purchase Agreement, and the Sale to the Purchaser pursuant thereto, represent a fair and reasonable purchase price and constitute the highest and best offer obtainable for the Business and the Assets.

10. A sale of the Assets is the only viable alternative for preserving and capturing the value of the Assets and ensuring the continuation of the Business. The Debtors cannot continue to operate the Business for the time required to confirm and consummate a plan of reorganization without risking an immediate and material decline in the value of the Business and Assets. Thus, the only way to preserve and maximize value is to consummate the Sale and sell the Assets of the Business, thereby insuring an orderly and equitable sale process and distribution of proceeds.

11. Potentially significant and long-term claims against the Debtors' estates will be minimized as a result of the prompt consummation of the Sale, and the concomitant assumption and assignment of the Contracts to the Purchaser.

12. A sale of the Assets of the Business at this time to the Purchaser would result in the highest possible purchase price therefor. Thus, unless the Sale to the Purchaser is concluded expeditiously, as provided for in the Sale Motion and under the Purchase Agreement, the value of the Business and Assets will decline and the Debtors, their estates and their creditors may realize little or no value for the Business or the Assets.

13. Similarly, with each passing day, the probability increases that the Debtors' customers will procure alternative service for their needs. To preserve the value of the Assets of the Business, preserve the jobs of many of the Debtors' employees, and preserve and maximize the value of the Debtors' estates for the benefit of all interested parties, the Debtors must be authorized to consummate the sale expeditiously.

14. All Interests (as hereafter defined) shall attach to the proceeds of the Sale. The cash proceeds of the Sale paid to the Debtors at the Closing will be distributed to make the "cure payments" and other payments required under this Order, and the balance of the proceeds shall be distributed to Foothill Capital Corporation pursuant to the First Order Amending Order Authorizing Debtors To: (A) Use Cash Collateral; (B) Incur Postpetition Debt; and (C) Grant Adequate Protection and Provide Other Security and the Interim Order, as defined therein and then to the Debtors.

15. The Purchase Agreement was negotiated, proposed and entered into by the Debtors and the Purchaser without collusion, in good faith, and from arm's-length bargaining positions. None of the Debtors or the Purchaser or its affiliates has engaged in any conduct that would cause or permit the Purchase Agreement to be avoided under 11 U.S.C. § 363(n).

16. The Purchaser is an entity purchasing and leasing property in good faith within the meaning of 11 U.S.C. § 363(m) and, as such, is entitled to the protections afforded thereby. The Purchaser will be acting in good faith within the meaning of 11 U.S.C. § 363(m) in closing the transactions contemplated by the Purchase Agreement.

17. The consideration provided by the Purchaser for the Assets of the Business pursuant to the Purchase Agreement constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, or the District of Columbia.

18. The consideration offered in the Purchase Agreement is the highest and best consideration offered for the Assets of the Business and will provide a greater recovery for the Debtors' creditors than would be provided by any other practical available alternative.

19. The Sale must be approved and consummated promptly in order to preserve the value of the Business as a going concern.

20. The transfer of the Assets to the Purchaser upon the Closing will be a legal, valid, and effective transfer of the Assets and vest the Purchaser with all right, title, and interest of the Debtors to the Assets free and clear of mortgages, security interests, conditional sale or other title retention agreements, pledges, liens, claims, judgments, demands, easements, charges, encumbrances, defects, security interests, options, rights of first refusal, restrictions of all kind and any other interest (including, without limitation, liens, claims, encumbrances and interests (i) that purport to give to any party a right or option to effect any forfeiture, modification or termination of the Debtors' or the Purchaser's interest in the Assets, (ii) in respect of Taxes, or (iii) which arise as a result of any Employee Benefit Plan) (collectively, "Interests").

21. The Purchaser would not have entered into the Purchase Agreement and would not consummate the transactions contemplated thereby, thus adversely affecting the Debtors, their estates, and their creditors, if the Sale of the Assets of the Business to the Purchaser and the assignment of the Contracts to the Purchaser were not free and clear of all Interests.

22. The Debtors may sell the Assets of the Business free and clear of all Interests because, in each case, the requirements of the Bankruptcy Code, including one or more of the standards set forth in 11 U.S.C. § 363(f)(1) - (5) have been satisfied or such sale otherwise is authorized pursuant to 11 U.S.C. §105. Those (A) holders of Interests, (B) non-debtor parties to Contracts and (C) other parties in interest who did not object, or who withdrew their objections, to the Sale, the Sale Motion or the assumption and assignment of Contracts are deemed to have consented to the transactions contemplated in the Purchase Agreement pursuant to 11 U.S.C. §§

363(f) (2) and 365. Those holders of Interests who did object fall within one or more of the other subsections of 11 U.S.C. § 363(f) are adequately protected by having their Interests, if any, attach to the cash proceeds of the Sale ultimately attributable to the property in which they claim an Interest as set forth in this Order.

23. Except with respect to the Assumed Liabilities, neither (A) the transfer of the Assets of the Business to the Purchaser nor (B) the assumption by the Debtors and assignment to and assumption by the Purchaser of the Assumed Contracts will subject the Purchaser to any liability by reason of such transfer or assignment and assumption under the laws of the United States, any state, territory, or possession thereof, or the District of Columbia, based, in whole or in part, directly or indirectly, on any theory of law, including, without limitation, any theory of antitrust or successor or transferee liability or otherwise.

24. The transfer of the Assets of the Business to the Purchaser is a transfer pursuant to 11 U.S.C. § 1146(c) and, accordingly, shall not be taxed under any law imposing a stamp tax or similar tax.

25. The Debtors have demonstrated that it is an exercise of their sound business judgment to assume and assign the Assumed Contracts to the Purchaser in connection with the consummation of the Sale, and the assumption and assignment of the Assumed Contracts is in the best interests of the Debtors, their estates, and their creditors. The Assumed Contracts being assigned to the Purchaser are an integral part of the operations of the Debtors being purchased by the Purchaser and, accordingly, such assumption and assignment of the Assumed Contracts is reasonable, enhances the value of the Debtors' estates, and does not constitute unfair discrimination.

26. The Debtors have, by agreeing to pay from the Purchase Price paid at Closing all costs of cure where there is no dispute as to the amount thereof and the undisputed portion of costs of cure where there is a dispute as to the amount thereof with interest and by escrowing the disputed portion (which shall follow the principal)

claimed by the non-Debtor party where there is a dispute, (i) provided adequate assurance that they will promptly cure any default which arises or accrues prior to the Closing Date under any of the Assumed Contracts, within the meaning of 11 U.S.C. § 365(b)(1)(A), and (ii) provided compensation or adequate assurance that they will promptly provide compensation to any party to the Assumed Contracts, other than the Debtors, for any actual pecuniary loss to such party resulting from a default under any of the Assumed Contracts which arises or accrues prior to the Closing Date, within the meaning of 11 U.S.C. § 365(b)(1)(B); and the Purchaser has provided adequate assurance of future performance of the Assumed Contracts, within the meaning of 11 U.S.C. § 365(b)(1)(C).

27. The Sellers have good and marketable title to the Assets;

28. All findings of facts and conclusions of law made herein or announced in open court in connection with the Sale Motion or the Overbid Procedures Order are incorporated herein.

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED THAT:

General Provisions

(1) All of the findings of fact and conclusions of law set forth above are incorporated herein by reference, and the Sale Motion as modified by announcements in open court is granted, as further described herein.

(2) All objections, responses, and requests for continuances concerning the Sale Motion or the relief requested therein are resolved in accordance with the terms of this Order and as set forth in the record of the Sale Hearing, and those that have not been withdrawn, waived, or settled, and all reservations of rights included in such objections, are overruled on the merits.

Approval of Purchase Agreement

(3) the Purchase Agreement and the transactions contemplated therein, including the transfer of the Assets by the Sellers to the Purchaser as provided in the Purchase Agreement are approved and authorized under the Bankruptcy Code, including Sections 105, 363 and 365 of the Bankruptcy Code;

(4) the transfer of the Assets by Sellers to Purchaser upon Closing will be a legal, valid, and effective transfer of the Assets notwithstanding any requirement for approval or consent by any entity (as defined in Section 101(15) of the Bankruptcy Code);

(5) the transfer of the Assets by Sellers to Purchaser vests the Purchaser with good and indefeasible title to the Assets free and clear of all Interests, except those expressly assumed by the Purchaser thereunder; and any such Interests which existed prior to the Closing shall attach to the proceeds of the sale (after taking into account any purchase price adjustments, "cure payments" for Assumed Contracts, or indemnification adjustments provided for in the Purchase Agreement) in the same order and priority as existed before the sale.

(6) the transfer of the Assets is in exchange for consideration being paid by the Purchaser that constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, or the District of Columbia;

(7) except with respect to the Assumed Liabilities, the transfer of the Assets of the Business, and the assumption and assignment of the Assumed Contracts, (including without limitation the Customer accounts and contracts with Customers) does not and will not subject the Purchaser to any liability by reason of such transfers and assignments under the laws of the United States, any state, territory or possession thereof or the District of Columbia based, in whole or in part, directly or indirectly, on any theory of law, including, without limitation, any theory of successor or transferee liability;

(8) the Purchaser is designated as the presubscribed telecommunications carrier for all Customers of Sellers as of the Closing Date, and the Purchaser shall have all legal right to implement such designation immediately without Customer consent;

(9) any carrier currently providing network services to Sellers or any sales agent or distributor currently under contract to Sellers is prohibited from interfering with or impairing (i) the

transfer of Customers to Purchaser, (ii) Purchaser's continued service after Closing or (iii) the transfer of Customers to any underlying carrier designated by Purchaser.*

(10) the Bankruptcy Court retains jurisdiction to interpret and enforce the provisions of the Purchase Agreement, any related agreement to which one or more of the Debtors is party, and this Order, including, without limitation, jurisdiction to (a) protect the Purchaser against any claims or other liabilities related to the transactions contemplated by the Purchase Agreement or otherwise, in accordance with the provisions of the Purchase Agreement, (b) resolve any and all objections to, or disputes among the parties to the Purchase Agreement regarding, all issues or disputes with respect to claims for indemnification or otherwise payable under the Purchase Agreement, provided, however, that in the event the court abstains from exercising, or declines to exercise, jurisdiction with respect to any matter referred to in this Paragraph or is without jurisdiction, such abstention, refusal, or lack of jurisdiction shall have no effect upon and shall not control, prohibit, or limit the exercise of jurisdiction of any other court or arbitral body having competent jurisdiction with respect to any such matter;

(11) the transactions contemplated by the Purchase Agreement are undertaken by the Purchaser in good faith, as that term is used in Section 363(m) of the Bankruptcy Code, and the Purchaser is entitled to the rights and protection granted thereby;

(12) there exist exigent business reasons for the sale of the Assets to the Purchaser;

(13) the sale is in the best interests of the Debtors' estates, their creditors, and their Customers and is otherwise in the public interest;

(14) there has been such notice as is appropriate in the particular circumstances given to all entities required by law to receive notice of the sale and such opportunity for hearing as is appropriate in the particular circumstances;

(15) the Business and the Assets have been adequately marketed and will lose value absent a sale;

DC: [illegible]

13

*provided the foregoing shall not ~~prohibit~~ preclude: AT&T and AT&T Wireless from legitimate competition for the business of these customers if their Contracts are not Assumed Contracts.

(16) all of the requirements of Sections 105 and 363 of the Bankruptcy Code for a sale free and clear of Interests have been met; and

(17) the Debtors' previous execution and delivery of the Purchase Agreement are hereby authorized, and the Debtors are authorized to consummate, pursuant to the terms of the Purchase Agreement, the sale of the Assets to Purchaser and related transactions (including, without limitation, the payment of amounts to cure defaults under the Assumed Contracts) and to negotiate, execute, and deliver such other and further documents as may be necessary or appropriate to implement and consummate the Purchase Agreement.

(and AGT and AT&T Wireless as to them)

Assumption and Assignment to Purchaser of Contracts

(18) Purchaser shall, on or before January 16, 1998, notify Debtors of those Contracts which Purchaser elects to have assumed by Debtors and assigned to Purchaser at the Closing (i.e., the Assumed Contracts);

(19) the assumption by Debtors and assignment to Purchaser of the Assumed Contracts is approved and shall become effective upon Closing;

(20) Sellers shall promptly after the Closing notify all other parties to each of the Contracts whether or not its Contract has been assumed by Debtors and assigned to Purchaser at the Closing;

(21) all defaults of Sellers under the Assumed Contracts arising or accruing prior to the Closing (without giving effect to any acceleration clauses or any default provisions in such contracts of a kind specified in Section 365(b)(2) of the Bankruptcy Code) shall be promptly cured by Sellers from that portion of the Purchase Price paid to Sellers at Closing, and Purchaser shall have no liability or obligation with respect to any default or obligation arising or accruing prior to the Closing;

(22) any actual pecuniary loss incurred by any party (other than the Debtors) to an Assumed Contract resulting from a default by Sellers prior to the Closing Date shall be promptly compensated by Sellers from that portion of the Purchase Price paid to Sellers at Closing, and

Purchaser shall have no liability or obligation with respect to any such loss arising or accruing prior to the Closing;

(23) the amounts to be paid to the parties to the Assumed Contracts by the Debtors shall be: (a) with respect to parties that filed written objections that have not been or are not hereafter resolved, the amount to be ordered by this Court; (b) with respect to parties that filed written objections that have been or are hereafter resolved, the amounts agreed to by the parties and set forth on the record of the Sale Hearing or in a subsequent written agreement between the Debtors and the other party to the Assumed Contract; (c) with respect to parties that failed to file written objections, the amounts set forth in the Notice of Proposed Assumption of Leases and Executory Contracts in Connection With the (i) Proposed Sale of Substantially All Assets of Midcom Communications and Certain Subsidiaries, (ii) Assumption and Assignment of Certain Related Executory Contracts and Unexpired Leases, and (iii) Opportunity to Submit Competitive Bids.

(24) the Purchaser has provided adequate assurance of future performance of the Assumed Contracts within the meaning of Section 365(f)(2) of the Bankruptcy Code; and

(25) the Assumed Contracts shall remain in full force and effect for the benefit of the Purchaser, notwithstanding any provisions in such Assumed Contracts or in applicable law (including, without limitation, those described in Sections 365(b)(2) and (f) of the Bankruptcy Code) that prohibit, restrict, or limit in any way such assignment or transfer;

(26) the Debtors, the Purchaser and its affiliates, and each of their agents and assigns, are authorized to transfer the Debtors' customers' telecommunications services to Purchaser or its assigns without further or prior approval of any regulatory agency or other governmental body and without further order of this Court, and none of them shall have any liability for making such transfers or causing such transfers to be made; provided, however, that Purchaser shall give notice to such Customers, with their normal monthly billings, that their telecommunications services have been transferred to, and are being provided by, Purchaser or its assigns;

Miscellaneous

(27) payment of the Debtors' obligations under the Purchase Agreement, the Escrow Agreement, this Order and as set forth on the record of the Sale Hearing, including any purchase price adjustment and indemnification amounts are immediately payable if and when the obligations of the Debtors arise under the Purchase Agreement, related agreements, this Order, or as set forth on the record of the Sale Hearing and may be paid without further order of the Court;

(28) the Debtors and each other entity having duties or responsibilities under the Purchase Agreement, the related agreements, or this Order, and their respective directors, officers, general partners, agents, representatives, and attorneys, are authorized and empowered to carry out all of the provisions of the Purchase Agreement and other related agreements; to issue, execute, deliver, file, and record, as appropriate, such other and further documents as may be necessary evidencing and consummating the Purchase Agreement and other related agreements; and to take any and all actions contemplated by the Purchase Agreement, the related agreements, or this Order, and to issue, execute, deliver, file, and record, as appropriate, such other contracts, instruments, releases, indentures mortgages, deeds, bills of sale, assignments, leases, or other agreements or documents and to perform such other acts and execute and deliver such other documents, as are consistent with, and necessary or appropriate to implement, effectuate, and consummate, the Purchase Agreement, the related agreements, and this Order and the transactions contemplated thereby and hereby, all without further application to, or order of, the Court or further action by their respective directors, stockholders, or partners, and with like effect as if such actions had been taken by unanimous action of the respective directors, stockholders, and partners of such entities. All such additional agreements, documents, and instruments shall be deemed to be "related agreements" for purposes of this Order. The Secretary or any assistant Secretary of each of the Debtors shall be, and hereby is, authorized to certify or attest to any of the foregoing actions (but no such certifications or attestation shall be required to make any such action valid, binding, and enforceable). The

Debtors are further authorized and empowered to cause to be filed with the secretary of state of any state or other applicable officials of any applicable governmental units any and all certificates, agreements, or amendments necessary or appropriate to effectuate the transactions contemplated by the Purchase Agreement, the related agreements, and this Order, including amended and restated certificates or articles of incorporation and by-laws or certificates or articles of amendment, and all such other actions, filings, or recordings as may be required under appropriate provisions of the applicable laws of all applicable governmental units, or as any of the officers of the Debtors may determine are necessary or appropriate. The execution of any such document, or the taking of any such action shall be, and hereby is, deemed conclusive evidence of the authority of such entity to so act. Without limiting the generality of the foregoing, this Order shall constitute all approvals and consents, if any, required by the general corporation law of the state of incorporation of each of the entities and all other applicable business corporation, trust, and other laws of the applicable governmental units with respect to the implementation and consummation of the Purchase Agreement, the related agreements, and this Order and the transactions contemplated thereby and hereby;

(29) all entities in possession of some or all of the Assets are directed to surrender possession of the Assets to the Purchaser on the Closing Date or at such time thereafter as Purchaser may request;

(30) on the Closing Date, each of the Debtors' creditors is directed to execute such documents and take all other actions as may be necessary to release its liens on or claims against the Assets, if any, as such liens or claims may have been recorded or may otherwise exist;

(31) this Order is and shall be binding upon and govern the acts of all entities including without limitation, all filing agents, filing officers, title agents, title companies, recorders of mortgages, recorders of deeds, registrars of deeds, administrative agencies, governmental departments, secretaries of state, federal, state, and local officials, and all other Persons and entities who may

be required by operation of law, the duties of their office, or contract, to accept, file, register or otherwise record or release any documents or instruments, or who may be required to report or insure any title or state of title in or to any of the Assets;

(32) each and every federal, state, and local governmental agency or department is hereby directed to accept any and all documents and instruments necessary and appropriate to consummate the transactions contemplated by the Purchase Agreement, the related agreements and this Order;

(33) if any Person or entity that has filed financing statements or other documents or agreements evidencing liens on or interests in the Assets shall not have delivered to the Debtors prior to the closing, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, releases of all liens or other interests which the Person or entity has with respect to the Assets, the Debtors are hereby authorized and directed to execute and file such statements, instruments, releases and other documents on behalf of the person or entity with respect to the Assets immediately prior to the Closing;

(34) all Persons are enjoined from in any way pursuing the Purchaser or its affiliates to recover any claim which such Person has against the Debtors or the Assets, except with respect to (1) Assumed Liabilities and (2) any claim which is independently assertable against the Purchaser or its affiliates and does not arise directly or indirectly from their dealings with the Debtors or the assignments and transfers contemplated by this Order;

(35) the Purchase Agreement, the related agreements, and all other documents, agreements, and instruments necessary to effectuate and consummate the transactions contemplated by the Purchase Agreement and the Escrow Agreement, together with the terms and provisions of this Order, shall be binding upon and shall inure to the benefit of the Debtors, the Purchaser, and their respective successors and assigns, notwithstanding any subsequent appointment of a trustee for one or more of the Debtors, under any chapter of the Bankruptcy Code,

as to which trustee such documents, agreements, and instruments (and the terms and provisions thereof) otherwise shall be binding;

(36) the Purchase Agreement and any related agreement may be modified, amended, or supplemented by agreement of the Debtors and the Purchaser without further action of the Court, provided that any such modification, amendment, or supplement is not material and substantially conforms to and effectuates the Purchase Agreement;

(37) nothing in this Order shall constitute an assumption or rejection of any executory contract or unexpired lease except, upon the Closing, as specifically provided in this Order, the Purchase Agreement, and the designation of Assumed Contracts. Debtors' ability to assume or reject any other executory contract or unexpired leases shall not be affected by this Order;

(38) Foothill shall not be obligated to provide financing to the Debtors in excess of $35 million prior to the Closing unless Purchaser provides written evidence satisfactory to Foothill of an agreement with Sprint contemplated by Section 8.3(i) of the Purchase Agreement;

(39) WinStar and the Purchaser shall provide to the Committee and Foothill, through their counsel, all notices they provide to the Debtors at the time such notices are given to Debtors; and Section 9.8(b) of the Purchase Agreement is amended to provide that a notice thereunder shall be given within 20 days after WinStar or the Purchaser learns that a claim has been made against it for which it may seek indemnification; and

(40) notwithstanding any of the terms or provisions of this Order, if the sum of (i) the Debtors' outstanding indebtedness to Foothill which will be due at the Closing, plus (ii) the aggregate amount that must be paid by the Debtors under the Purchase Agreement to cure the Assumed Contracts (which Purchaser shall designate by written notice to the Debtors, the Committee, and Foothill, such written notice to be received by such parties by no later than 10:00 a.m. on January 16, 1998) exceeds $48.5 million, then, at the Committee's option, the Court shall hold a hearing on

January 16, 1998, at 3:00 p.m., at which time the Committee may request that this Order be set aside and determined to be of no force or effect. If the Committee requests such a hearing, none of the findings of fact, conclusions of law, or any other provision of this Order shall be of any force or effect at the hearing, and all parties shall bear the same evidentiary burdens that they would have borne in connection with the Sale Motion if this Order had not been entered by the Court.

WALTER SHAPERO

THE HONORABLE WALTER SHAPERO
UNITED STATES BANKRUPTCY JUDGE

Dated: January 7, 1998

A TRUE COPY
CLERK, U.S. BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
By: ______
Deputy Clerk
Date: JAN 07 1998

South Dakota Public Utilities Commission

WEEKLY FILINGS

For the Period of December 31, 1998 through January 6, 1999

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this filing. Phone: 605-773-3705. Fax: 605-773-3809.

NATURAL GAS

NG98-014 In the Matter of the Filing by MidAmerican Energy Company for Approval of its 1998 Economic Development Report and its 1999 Economic Development Plan.

On December 31, 1998, the Public Utilities Commission (Commission) received MidAmerican Energy Company's (MidAmerican) 1998 Economic Development Annual Report and proposed Economic Development Plan for 1999. The proposed plan was filed in accordance with Docket No. NG95-006.

Staff Attorney: Karen Cremer
Staff Analyst: Michele Farris
Date Filed: 12/31/98
Intervention Deadline: n/a

TELECOMMUNICATIONS

TC99-001 In The Matter of the Filing for Approval of Transfer of Certificate of Authority from MIDCOM Communications, Inc. to WinStar Wireless, Inc.

WinStar Wireless, Inc., by their attorneys, notified the Commission of a transfer of assets from MIDCOM Communications, Inc. to WinStar Wireless, Inc. and requested that MIDCOM's Certificate of Authority and MIDCOM's tariff be transferred to WinStar Wireless.

Staff Attorney: Camron Hoseck
Staff Analyst: Harlan Best
Date Filed: 12/31/98
Intervention Deadline: 01/22/99

TC99-002 In The Matter of the Filing by U S WEST Communications, Inc. for Approval of Resale Agreement between U S WEST Communications, Inc. and Tel West Communications, L.L.C.

Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than January 29, 1999. Parties to the agreement may file written responses to the comments no later than February 9, 1999.

Staff Attorney: Camron Hoseck
Date Filed: 01/06/99
Comments Due: 01/29/99

TC99-003 In The Matter of the Filing by U S WEST Communications, Inc. for Approval of Resale Agreement between U S WEST Communications, Inc. and Topp Comm, Inc.

Any party wishing to comment on the agreement may do so by filing written comments with the Commission and the parties to the agreement no later than January 29, 1999. Parties to the agreement may file written responses to the comments no later than February 9, 1999.

Staff Attorney: Camron Hoseck
Date Filed: 01/06/99
Comments Due: 01/29/99

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March 25, 1999

RECEIVED
MAR 26 1999
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

BY FEDERAL EXPRESS

Mr. William Bullard Jr.
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501-5070

Re: Transfer of Assets and Operating Authority of MIDCOM Communications to WinStar Wireless, Inc.
Docket No. TC99-001

Dear Mr. Bullard:

Enclosed for filing in the above-referenced docket please find an original and 10 copies of the Application for Transfer of Assets and Certificate of Authority of MIDCOM Communications to WinStar Wireless, Inc. Enclosed please also find (1) a check in the amount of $250 in payment of the applicable fee; (2) a duplicate of this filing; and (3) a self-addressed, postage-prepaid envelope. Kindly date-stamp the duplicate upon receipt and return it in the envelope provided.

Please do not hesitate to contact me if you have any questions regarding this filing.

Very truly yours,

Rebekah J. Kinnett

Enclosures

cc: Harlan Best (by FedEx)

RECEIVED

MAR 26 1999

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Before the
STATE OF SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

Application for Transfer of Assets and Certificate of Authority from MIDCOM COMMUNICATIONS, INC., to WINSTAR WIRELESS, INC.	))))	Docket No. TC99-001

APPLICATION FOR TRANSFER OF ASSETS AND CERTIFICATE OF AUTHORITY

WinStar Communications, Inc. ("WinStar") and WinStar Wireless, Inc. ("WinStar Wireless" or the "Applicant") (together, the "Companies"), by their attorneys and pursuant to ARSD 20:10:24:04:01 and ARSD 20:10:24:02, hereby respectfully request the approval of the South Dakota Public Utilities Commission ("Commission") *nunc pro tunc* of a transfer of assets and certificate of authority to provide interexchange services from MIDCOM to WinStar Wireless.[1]

As described below, the transfer of assets, which already has been completed, was precipitated by voluntary Chapter 11 bankruptcy petitions filed by MIDCOM and two of its subsidiaries with the United States Bankruptcy Court of the Eastern District of Michigan, Detroit Division (the "Bankruptcy Court").[2] In compliance with the terms of the Bankruptcy Court

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1 It is our understanding that MIDCOM no longer exists as a corporate entity, and therefore MIDCOM is not a party to this Application. Please be advised that we have not been authorized to represent MIDCOM, and hence we cannot speak or act on its behalf.

2 These cases have been jointly administered by the Bankruptcy Court as Bankruptcy Case No. 97-59044-S. The MIDCOM subsidiaries involved in the bankruptcy proceeding,

(continued...)

order dated January 7, 1998, and in order to preserve the value of MIDCOM's business as a going concern, a closing was held on or about January 21, 1998. At that time MIDCOM transferred substantially all of the assets used in the conduct of its business, free and clear of all liens, claims, encumbrances, rights of first refusal, and other interest (except those expressly assumed by WinStar) to a special-purpose, wholly owned subsidiary of WinStar, WinStar MIDCOM Acquisition Corp.[3]

Simultaneously, MIDCOM's physical assets were transferred to WinStar Wireless, another wholly owned subsidiary of WinStar. In addition, the customer accounts simultaneously were transferred to WinStar's primary operating subsidiary in each state; in South Dakota, that subsidiary is WinStar Wireless. Thus, MIDCOM's customers will be served by WinStar Wireless, a qualified telecommunications provider. As the Companies previously advised the Commission, they were unable to request approval of this transfer of assets prior to its consummation. Therefore, in support of this Application, the Companies now provide the following information:

1. WinStar Wireless is headquartered at 230 Park Avenue, 31st Floor, New York, NY 10169 (212-584-4000). In addition, WinStar Wireless has offices at 1146 19th Street, N.W., Suite 250, Washington, D.C. 20036. Questions concerning this application should be directed

...(continued)

Cel-Tech International Corp. and PacNet, Inc., are not telecommunications service providers and do not provide telecommunications services in South Dakota.

3 A copy of the Bankruptcy Court Order is appended hereto as Attachment A. Pursuant to this Order, WinStar acquired substantially all of the assets of MIDCOM, not an equity interest in, or control of, MIDCOM.

first to the undersigned counsel, and, if directly to WinStar Wireless, to the attention of Russell C. Merbeth in the Washington, D.C. office (202-530-7659).

2. The Applicant will provide services under the name WinStar Wireless, Inc.

3. WinStar Wireless was incorporated in Delaware on February 8, 1994. A copy of its certificate to transact business in the state of South Dakota is appended hereto as Attachment B. WinStar Wireless does not have a principal office in South Dakota. Its current registered agent is HIQ Corporate Services, Inc., 919 Main Street, N.W., Rapid City, South Dakota 57701.

4. WinStar Wireless is a wholly owned subsidiary of WinStar Communications, Inc., a publicly held Delaware corporation. WinStar is the ultimate corporate parent of the WinStar family of companies. WinStar, through its subsidiaries, operates as a facilities-based and resale provider of wireless private line and switched local and interexchange services throughout the United States. WinStar's customers are predominantly small and medium-sized businesses. As wireless providers of telecommunications services, WinStar's subsidiaries have been authorized by the Federal Communications Commission to provide radio microwave services in the 38.6-40.0 GHz radio band. Thus, the WinStar family of companies has constructed, or is in the process of constructing, microwave networks for high capacity telecommunications services in metropolitan markets throughout the United States. The WinStar companies are authorized to provide intrastate telecommunications services in over 40 states and the District of Columbia.

5. WinStar Wireless will operate as a reseller of intraLATA and interLATA intrastate telecommunications services to the public throughout the state of South Dakota. Specifically, WinStar Wireless will provide the same services as those formerly provided by MIDCOM, including a full range of 1+ interexchange services. The Commission granted

MIDCOM authority to provide resale intrastate interexchange telecommunications services in South Dakota on June 19, 1992 in Docket No. TC92-032.

6. As noted above, the WinStar family of companies acquired substantially all of the assets of MIDCOM, including all MIDCOM assets located in South Dakota. WinStar Wireless will ensure that any former MIDCOM customer wishing to receive the same services at the same rates as those provided by MIDCOM will continue to receive such services. WinStar Wireless is a reseller of the services of MCI, Sprint, WorldCom, and AT&T.

7. WinStar Wireless will provide services throughout the state of South Dakota.

8. As a wholly owned subsidiary of WinStar, WinStar Wireless has access to the financial resources of the WinStar family of companies. Copies of WinStar's most recent SEC Form 10-Q and Form 10-K are appended hereto as Attachments C and D, respectively. Because WinStar Wireless will provide service to MIDCOM's former customers in South Dakota at the same terms and conditions, WinStar Wireless respectfully requests that the Commission permit it to adopt the tariff of MIDCOM currently on file with the Commission. In the event that the Commission determines that WinStar Wireless must file a new tariff incorporating all such existing terms and conditions, WinStar Wireless will do so.[4]

9. Customer complaints and billing inquiries are handled by a full service customer service department, available 24 hours a day, seven days a week, 365 days a year, at 888-961-8800 (voice) and 888-275-0032 (fax). In addition, written complaints may be addressed to WinStar Wireless, Inc., 1146 19th Street, N.W., Suite 250, Washington, D.C. 20036 (*fax*, 202-530-0977). Commission inquiries regarding complaints and regulatory matters may be directed

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4 Copies of WinStar's latest annual report and report to stockholders will be forwarded to the Commission as soon as possible, if the Commission deems receipt of these materials necessary to its review of this Application.

to Jane Chadwick, WinStar Communications, Inc., 7799 Leesburg Pike, Falls Church, Virginia 22043 (703-917-9117).

10. WinStar Wireless, directly and through its operating subsidiaries, currently is certificated or registered to provide telecommunications services in Arizona, Arkansas, California, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Maine, Maryland, Michigan, Minnesota, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Washington, West Virginia, Wyoming, and Vermont. WinStar Wireless and its operating subsidiaries are in good standing with the appropriate regulatory agencies in the states in which it is registered or certified. By order dated September 21, 1998 in Docket No. TC98-062 this Commission denied the application of WinStar Wireless for a certificate of authority to provide resale interexchange services because WinStar Wireless failed to provide certain additional data requested by the Commission.

11. At this time WinStar Wireless is focusing in South Dakota on MIDCOM's former customers. More generally, primarily through WinStar, WinStar Wireless markets its services using in-person sales calls, direct mail, print, radio, and media advertising. WinStar Wireless will not engage in multilevel or telemarketing in the State of South Dakota. WinStar Wireless serves both business and residential customers.

12. WinStar Wireless will provide only fully competitive services in the State of South Dakota, and hence no cost support is required for its rates. In any case, the rates WinStar Wireless will charge for its provision of services to MIDCOM's former customers will be identical to those charged by MIDCOM.

13. WinStar Wireless's federal tax identification number is 13-3758650.

14. No complaints have been filed against WinStar Wireless with any state or federal regulatory commission regarding the unauthorized switching of a customer's telecommunications provider or the act of charging customers for services that have not been ordered.

15. The WinStar family of companies, and WinStar Wireless specifically, are fully qualified to provide high quality, reliable, and advanced telecommunications services to MIDCOM's former customers. The WinStar companies are managed by a team of experienced personnel, all of whom have extensive backgrounds in telecommunications.[5] WinStar's financial, managerial, and technical qualifications to compete effectively in the market for telecommunications services in South Dakota are well documented, as demonstrated, for example, in Attachment D. Further, the transfer of assets is in the public interest. WinStar's acquisition of MIDCOM's assets, including its customer base, avoided any unnecessary interruption in the telecommunications service provided to MIDCOM's customers in South Dakota. WinStar is fully qualified to provide high quality telecommunications services to MIDCOM's former customers at competitive prices, as evidenced by its authorization to operate as a telecommunications service provider in over 40 states. Therefore, from the perspective of affected customers, the transfer is, and will be, seamless and largely transparent, leaving unaltered the quality of service that they expect: the transfer did not, and will not, adversely affect the provision of telecommunications services to MIDCOM's customers in South Dakota. Further, all affected customers have received notice of the transaction. Finally, the transfer will

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[5] Biographies of WinStar's top management personnel will be forwarded to the Commission upon request.

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In the Matter of: Case No. 97-59044-S
Chapter 11
MIDCOM COMMUNICATIONS, INC., et. al., Hon. Walter Shapero

Debtor.

ORDER GRANTING
DEBTORS' MOTION FOR ORDER COMPELLING CERTAIN CARRIERS TO PROVIDE SERVICE DURING TRANSITION PERIOD

This matter having come before the Court upon the Debtors', MIDCOM Communications, Inc., and its subsidiaries, Cel-Tech International Corp. and Pacnet Inc. (the "Debtors"), Motion For Order Compelling Certain Carriers to Provide Service During Transition Period (the "Motion"), the Court having granted an expedited hearing on the Motion and having approved notice of the Motion to the affected parties by facsimile (the "Carriers" as identified in the [illegible] [illegible] the listing attached hereto), and the Court finding that such notice was adequate and sufficient under the circumstances, objections having been raised at the hearing and the Court being otherwise duly informed in the premises;

NOW, THEREFORE, for the reasons stated on the record, and the findings made therein, which are incorporated into the terms of this Order;

~~It is hereby ordered that the Debtors' Motion is granted;~~

It is hereby ~~further~~ ordered that the Debtors and the Carriers shall continue to comply with the various Stipulated Orders to Provide Adequate Assurance with Individual Carriers (including the Uniform Stipulation and Order dated December 26, 1997), the Order Granting Debtor's Motion for Order Approving Proposal for Adequate Assurance of

Payment to Carriers Under Section 366 of the Bankruptcy Code (collectively, the "Adequate Assurance Orders");

It is further ordered that, from and after the closing, through the earlier of (a) June 30, 1998, (b) the expiration of the Contracts by their own terms, (c) an order authorizing rejection of a Contract entered prior to June 30, 1998, or (d) such time as the Customer traffic is no longer carried on the Carrier's network (the "Transition Period"), WinStar will make the required payments under the Adequate Assurance Orders for such period on behalf of the Debtors directly to the Carriers, but such payments by WinStar shall not be construed to create a direct contractual relationship between the Carrier and WinStar. Notwithstanding the foregoing, WinStar is a party in interest under Section 1109(b).

It is further ordered that the contracts ("Contracts") between the Debtors and the Carriers are executory, and subject to the terms of the Adequate Assurance Orders, will continue to govern during the Transition Period. The Debtors will either assume or reject each Contract by June 30, 1998, unless such Contract has expired by its own terms or has been rejected before that date.

It is further ordered that, except for Contracts which terminated by their terms prior to June 30, 1998, should the Debtors fail to assume or reject the Contracts by June 30, 1998, the Contracts shall be rejected effective as of July 1, 1998, unless otherwise agreed by the parties or ordered by the Court.

It is further ordered that, on the earlier of (a) the expiration of a Contract, (b) an order authorizing the rejection of a Contract or (c) July 1, 1998, the Carriers shall be authorized to terminate all services under their Contracts, without the need of a Court order or notice and hearing, and the automatic stay of 11 U.S.C. Section 362 is hereby modified to permit such termination.

It is further ordered that, at the conclusion of the Transition Period, the Debtors or WinStar and the Carriers shall reconcile promptly, and the Carriers and WinStar or the Debtors shall remit promptly to the other party (overpayments to be remitted dire ly to WinStar), amounts due pursuant to the Contracts, as modified by the Adequate Assurance Orders and this Order.

It is further ordered that any notice required to be given by a Carrier under its Adequate Assurance Order shall also be given to WinStar (atten: Ken Schwarz, facsimile number 703-645-5190 and David Alan Miller, facsimile number 212-818-8881) by the same means as required to be given to the Debtors, and the Debtors and or WinStar shall promptly notify the Committee (atten: Larry K. Snider, facsimile number 312-701-7711) thereof.

United States Bankruptcy Judge

Dated: January 21, 1998

A TRUE COPY
CLERK, U.S. BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
BY: Susan B. [illegible]
Deputy Clerk
Dated: JAN 21 1998

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In the Matter of:

MIDCOM COMMUNICATIONS INC., et al.
a Washington Corporation,

Debtors.

Case Nos. 97-59 44, 97-59057, 97-59084, 97-59052

Chapter 11
Hon. Walter Shapero

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF WAYNE)

MaryEllen Leopold, being first duly sworn, deposes and says that she is employed by PEPPER HAMILTON LLP; and that on the 20th day of January, 1998, she served, by telecopy, a copy of Brief in Support of Debtors' Motion for Order Compelling Certain Carriers to Provide Service During Transition Period upon everyone listed below at their respective telecopy numbers:

AT&T Corp Att: Bob Imhoff	732-805-6094
WilTel Inc. and Worldcom Network Services Att: Natalie Clay	630-516-6023
Teleport Comm. Group Att: Colleen	303-749-1998
MFS Telecom Inc. Att: Heather Morris	213-489-3712
Qwest Communications Corp. Att: Lisa	303-291-1444
Northern Telecom, Inc. Att: Pat Kramer	972-684-3889
LCI International Telecom Att: Angel	888-524-2070
Consolidated Communications Operator Services Att: Cindy Simpson	217-234-2810
Zero Plus Dialing Inc./USBI Att: Patty Mesnarich	210-692-1887

Howard Levine	503-248-0130
Michael Khoury	313-965-8252
Pat Mears	616-776-7573
Jeffrey Deller	412-392-2128
Timothy Graham	212-922-1637
David Steinberg	732-392-3475
Bill Oberlin	248-208-9225
Jonathan S. Green	313-496-8450
Howard Shea/Stephen Schubiner	248-649-2920
Larry Snider	312-701-7711
Ben Silver	310-479-2690
Jerry Mintz	312-332-2196
John Greco	212-818-8881
Steve Goldman	248-945-1904
Sharon Levine/Bob Towey	973-228-6080

MaryEllen Leopold

MaryEllen Leopold
PEPPER HAMILTON LLP
100 Renaissance Center - Ste 3600
Detroit, MI 48243
313/259-7110

Subscribed and sworn to before me
this 20th of January, 1998.

Anne M. Kupstas
NOTARY PUBLIC

ANNE M. KUPSTAS
Notary Public, Wayne County, MI
My Commission Expires Oct. [illegible]

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In the Matter of:

MIDCOM COMMUNICATIONS INC., et al.
a Washington Corporation,

Debtors.

Case Nos. 97-59044, 97-59057,
97-59064, 97-59052

Chapter 11
Hon. Walter Shapero

ORDER UNDER 11 U.S.C. §§ 105(a), 363(b), (f), (l) AND (m), 365, AND 1146(c), AND FED. R. BANKR. P. 2002, 6004, 6006, 9014: (A) APPROVING AMENDED AND RESTATED ASSET PURCHASE AGREEMENT WITH WINSTAR COMMUNICATIONS, INC. AND WINSTAR MIDCOM ACQUISITION CORP.; (B) AUTHORIZING (I) SALE OF SUBSTANTIALLY ALL OF DEBTORS' ASSETS FREE AND CLEAR OF LIENS, CLAIMS, INTERESTS AND ENCUMBRANCES, (II) ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND LEASES, AND (III) ASSUMPTION OF CERTAIN DEBTS; AND (C) GRANTING RELATED RELIEF

This matter having come before the Court upon the December 22, 1997 Motion (the "Sale Motion")[1] of Midcom Communications Inc. ("Midcom") and its enumerated wholly-owned subsidiaries, Cal-Tech International Corp. and Pacnet Inc. (the "Subsidiaries"), debtors and debtors-in-possession (Midcom and the Subsidiaries collectively, the "Debtors"), for an order under 11 U.S.C. §§ 105(a), 363(b), (f), (l) and (m), 365, and 1146(c) and Fed. R. Bankr. P. 2002, 6004, 6006, and 9014 authorizing (A) the sale of substantially all of the Assets used in the conduct of the Business of Midcom and its Subsidiaries as sellers (the "Debtors"), free and clear of all liens, claims, encumbrances, rights of first refusal, and other interests (except those expressly assumed by the Purchaser or otherwise expressly stated as obligations of the Purchaser) (the "Sale"), pursuant to and as described in the Amended and Restated Asset Purchase Agreement, dated as of December

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1 Unless otherwise defined, capitalized terms used herein shall have the meaning ascribed to them in the Sale Motion, the Purchase Agreement (as defined hereafter), or the Bankruptcy Code. A copy of the Purchase Agreement as amended is attached hereto as Exhibit A.

[illegible]

17, 1997, as amended, and related Company Disclosure Letter and Purchaser Disclosure Letter (together the "Purchase Agreement"), between the Debtors and WinStar Communications, Inc. ("WinStar"), a Delaware corporation, and WinStar Midcom Acquisition Corp., a Delaware corporation, and its assigns ("Purchaser"); (B) the Debtors' assumption and assignment to the Purchaser of the Assumed Contracts identified or described in the Purchase Agreement, free and clear of liens, claims, encumbrances, rights of first refusal and other interests; and (C) granting related relief; the court having entered the Overbid Procedures Order, pursuant to which, among other things, the Court: (a) ordered that an auction (the "Auction") for the sale of the Assets and the assumption and assignment of certain executory contracts and unexpired leases be held on January 5, 1998; (b) approved certain bidding terms, conditions, and procedures with respect to the Auction; (c) approved the form of the notices (the "Notices") to be given with respect to the Sale Motion and the relief sought therein; (d) directed Debtors to serve the Notices upon various "entities" (as that term is defined in §101 (15) of the Bankruptcy Code): and (e) consistent with Federal Rules of Bankruptcy Procedure 2002(m) and 9008, found and ordered that the notice required by the Overbid Procedures Order was appropriate and reasonably calculated to apprise creditors (including all persons and other entities who have a Claim (as defined in section 101(5) of the Bankruptcy Code) against Debtors' estates) and all other parties in interest (including those entities claiming an interest in the Assets) of the Sale Motion, the Purchase Agreement, and the transactions contemplated therein, and to provide such persons and other entities with an adequate and sufficient opportunity to respond to the Sale Motion, the Purchase Agreement, and the transactions contemplated therein and that such notice constituted sufficient notice under the Bankruptcy Code and the Federal Rules of Bankruptcy Procedure; and hearings on the Sale Motion having been held on January 6 and 7, 1998 (the "Sale Hearing"), at which time all interested parties were offered an opportunity to be heard with respect to the Sale Motion; and the Court having considered (i) the Sale Motion, (ii) the objections thereto, and (iii) the arguments of counsel made, and the evidence proffered or adduced, at the Sale Hearing; and it appearing that the relief requested in the Sale Motion is in the best interests of the Debtors, their estates, their creditors and other parties in interest; and upon the record of the Sale Hearing and these cases; and after due deliberation thereon; and good cause appearing therefor;

IT IS HEREBY FOUND AND DETERMINED THAT:[2]

1. The Court has jurisdiction over this Sale Motion pursuant to 28 U.S.C. §§ 157 and 1334, and over the entities which are subject to the terms of this Order, including but not limited to all creditors, all persons and entities who have a claim (as defined in §101(5) of the Bankruptcy Code) against the Debtors or their bankruptcy estates, and all parties in interest, including those entities claiming an interest in the Assets and those entities who are parties to the Contracts. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue of these cases and the Sale Motion in this district is proper under 28 U.S.C. §§ 1408 and 1409.

2. The statutory predicates for the relief sought in the Sale Motion are sections 105(a), 363(b), (f), (l), and (m), 365, and 1146(c) of the United States Bankruptcy Code, 11 U.S.C. 101 et seq., as amended (the "Bankruptcy Code" or the "Code"), and Fed. R. Bankr. P. 2002, 6004, 6006, and 9014.

3. As evidenced by the affidavits of service previously filed with the Court, and based on the representations of counsel at the Sale Hearing, (1) proper, timely, adequate and sufficient notice of the Sale Motion, the Sale Hearing and the Sale has been provided in accordance with the Bankruptcy Code, Federal Rules of Bankruptcy Procedures, including 11 U.S.C. §§ 102(1), 363, and 365 and Fed. R. Bankr. P. 2002, 6004, 6006, and 9014, the Local Bankruptcy Rules, and in compliance with this Court's Overbid Procedures Order, signed December 19, 1997, (2) such notice was good and sufficient, and appropriate under the particular circumstances, and (3) no other or further notice of the Sale, the Sale Motion, or the Sale Hearing shall be required.

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2 Findings of fact shall be construed as conclusions of law and conclusions of law shall be construed as findings of fact when appropriate. See Fed. R. Bankr. P. 7052.

4. A reasonable opportunity to object or be heard with respect to the Sale Motion and the relief requested therein has been afforded to all interested persons and entities, including (i) the United States Trustee; (ii) the Creditors' Committee appointed in the case of MIDCOM Communications Inc.; (iii) any and all entities known to have expressed an interest in a merger or acquisition transaction regarding the Debtors or their assets during the past twelve (12) months; (iv) all entities known to have asserted any lien, claim, encumbrance, right of first refusal, or other property interest in or upon any of the Assets and Contracts which are to be sold or assigned pursuant to the Purchase Agreement; (v) all entities who had filed a notice of appearance and request for service of papers in these cases; and (vi) all parties to executory contracts or unexpired leases proposed to be assumed and assigned under the Purchase Agreement.

5. Each Debtor (i) has full corporate power and authority to execute the Purchase Agreement and all other documents contemplated thereby, and the sale of the Assets of the Business by the Debtors has been duly and validly authorized by all necessary corporate action of each of the Debtors, (ii) has all of the corporate power and authority necessary to consummate the transactions contemplated by the Purchase Agreement, (iii) has taken all corporate action necessary to authorize and approve the Purchase Agreement and the consummation by such Debtor of the transactions contemplated thereby, and (iv) requires no further consents or approvals, other than those expressly provided for in the Purchase Agreement or otherwise explicitly set forth herein, to consummate such transactions.

6. On January 5, 1998, the Debtors conducted an auction pursuant to this Court's Overbid Procedures Order, and the Debtors having received no other bid for the Assets complying with the terms of the Overbid Procedures Order which was higher and better than Purchaser's bid (as contained in the Purchase Agreement), at the conclusion of the Auction the Debtors determined that Purchaser has made the highest and best offer to purchase the Assets.

7. Approval of the Purchase Agreement and consummation of the Sale at this time are in the best interests of the Debtors, their creditors, their estates, and the public, particularly the Debtors' numerous customers who rely upon the Debtors' service.

8. The Debtors have demonstrated both (i) good, sufficient, and sound business purpose and justification and (ii) compelling circumstances for the Sale pursuant to the applicable provisions of the Bankruptcy Code, including 11 U.S.C. §§ 105 and 363 prior to, and outside of, a plan of reorganization in that, among other things:

(A) On the Petition Date, the Debtors were in default under their $23 million credit agreement with Foothill Capital Corporation ("Foothill");

(B) On the Petition Date, the Debtors were unable to borrow under their existing credit facilities;

(C) The cash generated by the Debtors' operating activities is insufficient to fund the non-discretionary capital expenditure requirements necessary to maintain their present operations and facilities as well as the scheduled debt service requirements of their notes payable and term obligations;

(D) The Debtors do not have the capacity to pursue new development projects which are critical to continued growth and profitability in their competitive industry; and

(E) To solve their immediate financing problems, the Debtors entered into the Order Authorizing Debtors to: (A) Use Cash Collateral; (B) Incur Post-Petition Debt; and (C) Grant Adequate Protection and Provide Other Security with Foothill, as amended by the First Order Amending Order Authorizing Debtors To: (A) Use Cash Collateral; (B) Incur Post-Petition Debt; and (C) Grant Adequate Protection and Provide Other Security. This financing allows the Debtors to use their cash collateral and borrow up to an additional approximate $17 million, subject to various conditions.

If the Sale and related transactions are not approved and consummated promptly, the Business could deteriorate to the point where the Purchaser could terminate the Purchase Agreement, thereby relegating the Debtors to a disorganized liquidation that would achieve far less value for creditors than the transactions contemplated by the Purchase Agreement or a sale involving a significantly reduced purchase price.

9. The Debtors diligently and in good faith marketed the Assets of the Business to secure the highest and best offer therefor. In that regard, the Debtors sought bids for all of their Business and Assets. The terms and conditions set forth in the Purchase Agreement, and the Sale to the Purchaser pursuant thereto, represent a fair and reasonable purchase price and constitute the highest and best offer obtainable for the Business and the Assets.

10. A sale of the Assets is the only viable alternative for preserving and capturing the value of the Assets and ensuring the continuation of the Business. The Debtors cannot continue to operate the Business for the time required to confirm and consummate a plan of reorganization without risking an immediate and material decline in the value of the Business and Assets. Thus, the only way to preserve and maximize value is to consummate the Sale and sell the Assets of the Business, thereby insuring an orderly and equitable sale process and distribution of proceeds.

11. Potentially significant and long-term claims against the Debtors' estates will be minimized as a result of the prompt consummation of the Sale, and the concomitant assumption and assignment of the Contracts to the Purchaser.

12. A sale of the Assets of the Business at this time to the Purchaser would result in the highest possible purchase price therefor. Thus, unless the Sale to the Purchaser is concluded expeditiously, as provided for in the Sale Motion and under the Purchase Agreement, the value of the Business and Assets will decline and the Debtors, their estates and their creditors may realize little or no value for the Business or the Assets.

13. Similarly, with each passing day, the probability increases that the Debtors' customers will procure alternative service for their needs. To preserve the value of the Assets of the Business, preserve the jobs of many of the Debtors' employees, and preserve and maximize the value of the Debtors' estates for the benefit of all interested parties, the Debtors must be authorized to consummate the sale expeditiously.

14. All Interests (as hereafter defined) shall attach to the proceeds of the Sale. The cash proceeds of the Sale paid to the Debtors at the Closing will be distributed to make the "cure payments" and other payments required under this Order, and the balance of the proceeds shall be distributed to Foothill Capital Corporation pursuant to the First Order Amending Order Authorizing Debtors To: (A) Use Cash Collateral; (B) Incur Postpetition Debt; and (C) Grant Adequate Protection and Provide Other Security and the Interim Order, as defined therein and then to the Debtors.

15. The Purchase Agreement was negotiated, proposed and entered into by the Debtors and the Purchaser without collusion, in good faith, and from arm's-length bargaining positions. None of the Debtors or the Purchaser or its affiliates has engaged in any conduct that would cause or permit the Purchase Agreement to be avoided under 11 U.S.C. § 363(n).

16. The Purchaser is an entity purchasing and leasing property in good faith within the meaning of 11 U.S.C. § 363(m) and, as such, is entitled to the protections afforded thereby. The Purchaser will be acting in good faith within the meaning of 11 U.S.C. § 363(m) in closing the transactions contemplated by the Purchase Agreement.

17. The consideration provided by the Purchaser for the Assets of the Business pursuant to the Purchase Agreement constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, or the District of Columbia.

18. The consideration offered in the Purchase Agreement is the highest and best consideration offered for the Assets of the Business and will provide a greater recovery for the Debtors' creditors than would be provided by any other practical available alternative.

19. The Sale must be approved and consummated promptly in order to preserve the value of the Business as a going concern.

20. The transfer of the Assets to the Purchaser upon the Closing will be a legal, valid, and effective transfer of the Assets and vest the Purchaser with all right, title, and interest of the Debtors to the Assets free and clear of mortgages, security interests, conditional sale or other title retention agreements, pledges, liens, claims, judgments, demands, easements, charges, encumbrances, defects, security interests, options, rights of first refusal, restrictions of all kind and any other interest (including, without limitation, liens, claims, encumbrances and interests (i) that purport to give to any party a right or option to effect any forfeiture, modification or termination of the Debtors' or the Purchaser's interest in the Assets, (ii) in respect of Taxes, or (iii) which arise as a result of any Employee Benefit Plan) (collectively, "Interests").

21. The Purchaser would not have entered into the Purchase Agreement and would not consummate the transactions contemplated thereby, thus adversely affecting the Debtors, their estates, and their creditors, if the Sale of the Assets of the Business to the Purchaser and the assignment of the Contracts to the Purchaser were not free and clear of all Interests.

22. The Debtors may sell the Assets of the Business free and clear of all Interests because, in each case, the requirements of the Bankruptcy Code, including one or more of the standards set forth in 11 U.S.C. § 363(f)(1) - (5) have been satisfied or such sale otherwise is authorized pursuant to 11 U.S.C. §105. Those (A) holders of Interests, (B) non-debtor parties to Contracts and (C) other parties in interest who did not object, or who withdrew their objections, to the Sale, the Sale Motion or the assumption and assignment of Contracts are deemed to have consented to the transactions contemplated in the Purchase Agreement pursuant to 11 U.S.C. §§

363(f) (2) and 365. Those holders of Interests who did object fall within one or more of the other subsections of 11 U.S.C. § 363(f) are adequately protected by having their Interests, if any, attach to the cash proceeds of the Sale ultimately attributable to the property in which they claim an Interest as set forth in this Order.

23. Except with respect to the Assumed Liabilities, neither (A) the transfer of the Assets of the Business to the Purchaser nor (B) the assumption by the Debtors and assignment to and assumption by the Purchaser of the Assumed Contracts will subject the Purchaser to any liability by reason of such transfer or assignment and assumption under the laws of the United States, any state, territory, or possession thereof, or the District of Columbia, based, in whole or in part, directly or indirectly, on any theory of law, including, without limitation, any theory of antitrust or successor or transferee liability or otherwise.

24. The transfer of the Assets of the Business to the Purchaser is a transfer pursuant to 11 U.S.C. § 1146(c) and, accordingly, shall not be taxed under any law imposing a stamp tax or similar tax.

25. The Debtors have demonstrated that it is an exercise of their sound business judgment to assume and assign the Assumed Contracts to the Purchaser in connection with the consummation of the Sale, and the assumption and assignment of the Assumed Contracts is in the best interests of the Debtors, their estates, and their creditors. The Assumed Contracts being assigned to the Purchaser are an integral part of the operations of the Debtors being purchased by the Purchaser and, accordingly, such assumption and assignment of the Assumed Contracts is reasonable, enhances the value of the Debtors' estates, and does not constitute unfair discrimination.

26. The Debtors have, by agreeing to pay from the Purchase Price paid at Closing all costs of cure where there is no dispute as to the amount thereof and the undisputed portion of costs of cure where there is a dispute as to the amount thereof and by escrowing with interest (which shall follow the principal) the disputed portion

claimed by the non-Debtor party where there is a dispute, (i) provided adequate assurance that they will promptly cure any default which arises or accrues prior to the Closing Date under any of the Assumed Contracts, within the meaning of 11 U.S.C. § 365(b)(1)(A), and (ii) provided compensation or adequate assurance that they will promptly provide compensation to any party to the Assumed Contracts, other than the Debtors, for any actual pecuniary loss to such party resulting from a default under any of the Assumed Contracts which arises or accrues prior to the Closing Date, within the meaning of 11 U.S.C. § 365(b)(1)(B); and the Purchaser has provided adequate assurance of future performance of the Assumed Contracts, within the meaning of 11 U.S.C. § 365(b)(1)(C).

27. The Sellers have good and marketable title to the Assets;

28. All findings of facts and conclusions of law made herein or announced in open court in connection with the Sale Motion or the Overbid Procedures Order are incorporated herein.

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED THAT:

General Provisions

(1) All of the findings of fact and conclusions of law set forth above are incorporated herein by reference, and the Sale Motion as modified by announcements in open court is granted, as further described herein.

(2) All objections, responses, and requests for continuances concerning the Sale Motion or the relief requested therein are resolved in accordance with the terms of this Order and as set forth in the record of the Sale Hearing, and those that have not been withdrawn, waived, or settled, and all reservations of rights included in such objections, are overruled on the merits.

Approval of Purchase Agreement

(3) the Purchase Agreement and the transactions contemplated therein, including the transfer of the Assets by the Sellers to the Purchaser as provided in the Purchase Agreement are approved and authorized under the Bankruptcy Code, including Sections 105, 363 and 365 of the Bankruptcy Code;

(4) the transfer of the Assets by Sellers to Purchaser upon Closing will be a legal, valid, and effective transfer of the Assets notwithstanding any requirement for approval or consent by any entity (as defined in Section 101(15) of the Bankruptcy Code);

(5) the transfer of the Assets by Sellers to Purchaser vests the Purchaser with good and indefeasible title to the Assets free and clear of all Interests, except those expressly assumed by the Purchaser thereunder; and any such Interests which existed prior to the Closing shall attach to the proceeds of the sale (after taking into account any purchase price adjustments, "cure payments" for Assumed Contracts, or indemnification adjustments provided for in the Purchase Agreement) in the same order and priority as existed before the sale.

(6) the transfer of the Assets is in exchange for consideration being paid by the Purchaser that constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and under the laws of the United States, any state, territory, possession, or the District of Columbia;

(7) except with respect to the Assumed Liabilities, the transfer of the Assets of the Business, and the assumption and assignment of the Assumed Contracts, (including without limitation the Customer accounts and contracts with Customers) does not and will not subject the Purchaser to any liability by reason of such transfers and assignments under the laws of the United States, any state, territory or possession thereof or the District of Columbia based, in whole or in part, directly or indirectly, on any theory of law, including, without limitation, any theory of successor or transferee liability;

(8) the Purchaser is designated as the presubscribed telecommunications carrier for all Customers of Sellers as of the Closing Date, and the Purchaser shall have all legal right to implement such designation immediately without Customer consent;

(9) any carrier currently providing network services to Sellers or any sales agent or distributor currently under contract to Sellers is prohibited from interfering with or impairing (i) the

transfer of Customers to Purchaser, (ii) Purchaser's continued service after Closing or (iii) the transfer of Customers to any underlying carrier designated by Purchaser.*

(10) the Bankruptcy Court retains jurisdiction to interpret and enforce the provisions of the Purchase Agreement, any related agreement to which one or more of the Debtors is party, and this Order, including, without limitation, jurisdiction to (a) protect the Purchaser against any claims or other liabilities related to the transactions contemplated by the Purchase Agreement or otherwise, in accordance with the provisions of the Purchase Agreement, (b) resolve any and all objections to, or disputes among the parties to the Purchase Agreement regarding, all issues or disputes with respect to claims for indemnification or otherwise payable under the Purchase Agreement, provided, however, that in the event the court abstains from exercising, or declines to exercise, jurisdiction with respect to any matter referred to in this Paragraph or is without jurisdiction, such abstention, refusal, or lack of jurisdiction shall have no effect upon and shall not control, prohibit, or limit the exercise of jurisdiction of any other court or arbitral body having competent jurisdiction with respect to any such matter;

(11) the transactions contemplated by the Purchase Agreement are undertaken by the Purchaser in good faith, as that term is used in Section 363(m) of the Bankruptcy Code, and the Purchaser is entitled to the rights and protection granted thereby;

(12) there exist exigent business reasons for the sale of the Assets to the Purchaser;

(13) the sale is in the best interests of the Debtors' estates, their creditors, and their Customers and is otherwise in the public interest;

(14) there has been such notice as is appropriate in the particular circumstances given to all entities required by law to receive notice of the sale and such opportunity for hearing as is appropriate in the particular circumstances;

(15) the Business and the Assets have been adequately marketed and will lose value absent a sale;

[illegible]

* provided the foregoing shall not ~~prohibit~~ preclude: AT&T and AT&T Wireless from legitimate competition for the business of these customers if their Contracts are not Assumed Contracts.

(16) all of the requirements of Sections 105 and 363 of the Bankruptcy Code for a sale free and clear of Interests have been met; and

(17) the Debtors' previous execution and delivery of the Purchase Agreement are hereby authorized, and the Debtors are authorized to consummate, pursuant to the terms of the Purchase Agreement, the sale of the Assets to Purchaser and related transactions (including, without limitation, the payment of amounts to cure defaults under the Assumed Contracts) and to negotiate, execute, and deliver such other and further documents as may be necessary or appropriate to implement and consummate the Purchase Agreement.

<u>Assumption and Assignment to Purchaser of Contracts</u>

(and AGT and AT&T Wireless as to them)

(18) Purchaser shall, on or before January 16, 1998, notify Debtors of those Contracts which Purchaser elects to have assumed by Debtors and assigned to Purchaser at the Closing (i.e., the Assumed Contracts);

(19) the assumption by Debtors and assignment to Purchaser of the Assumed Contracts is approved and shall become effective upon Closing;

(20) Sellers shall promptly after the Closing notify all other parties to each of the Contracts whether or not its Contract has been assumed by Debtors and assigned to Purchaser at the Closing;

(21) all defaults of Sellers under the Assumed Contracts arising or accruing prior to the Closing (without giving effect to any acceleration clauses or any default provisions in such contracts of a kind specified in Section 365(b)(2) of the Bankruptcy Code) shall be promptly cured by Sellers from that portion of the Purchase Price paid to Sellers at Closing, and Purchaser shall have no liability or obligation with respect to any default or obligation arising or accruing prior to the Closing;

(22) any actual pecuniary loss incurred by any party (other than the Debtors) to an Assumed Contract resulting from a default by Sellers prior to the Closing Date shall be promptly compensated by Sellers from that portion of the Purchase Price paid to Sellers at Closing, and

Purchaser shall have no liability or obligation with respect to any such loss arising or accruing prior to the Closing;

(23) the amounts to be paid to the parties to the Assumed Contracts by the Debtors shall be: (a) with respect to parties that filed written objections that have not been or are not hereafter resolved, the amount to be ordered by this Court; (b) with respect to parties that filed written objections that have been or are hereafter resolved, the amounts agreed to by the parties and set forth on the record of the Sale Hearing or in a subsequent writen agreement between the Debtors and the other party to the Assumed Contract; (c) with respect to parties that failed to file written objections, the amounts set forth in the Notice of Proposed Assumption of Leases and Executory Contracts in Connection With the (i) Proposed Sale of Substantially All Assets of Midcom Communications and Certain Subsidiaries, (ii) Assumption and Assignment of Certain Related Executory Contracts and Unexpired Leases, and (iii) Opportunity to Submit Competitive Bids.

(24) the Purchaser has provided adequate assurance of future performance of the Assumed Contracts within the meaning of Section 365(f)(2) of the Bankruptcy Code; and

(25) the Assumed Contracts shall remain in full force and effect for the benefit of the Purchaser, notwithstanding any provisions in such Assumed Contracts or in applicable law (including, without limitation, those described in Sections 365(b)(2) and (f) of the Bankruptcy Code) that prohibit, restrict, or limit in any way such assignment or transfer;

(26) the Debtors, the Purchaser and its affiliates, and each of their agents and assigns, are authorized to transfer the Debtors' customers' telecommunications services to Purchaser or its assigns without further or prior approval of any regulatory agency or other governmental body and without further order of this Court, and none of them shall have any liability for making such transfers or causing such transfers to be made; provided, however, that Purchaser shall give notice to such Customers, with their normal monthly billings, that their telecommunications services have been transferred to, and are being provided by, Purchaser or its assigns;

Miscellaneous

(27) payment of the Debtors' obligations under the Purchase Agreement, the Escrow Agreement, this Order and as set forth on the record of the Sale Hearing, including any purchase price adjustment and indemnification amounts are immediately payable if and when the obligations of the Debtors arise under the Purchase Agreement, related agreements, this Order, or as set forth on the record of the Sale Hearing and may be paid without further order of the Court;

(28) the Debtors and each other entity having duties or responsibilities under the Purchase Agreement, the related agreements, or this Order, and their respective directors, officers, general partners, agents, representatives, and attorneys, are authorized and empowered to carry out all of the provisions of the Purchase Agreement and other related agreements; to issue, execute, deliver, file, and record, as appropriate, such other and further documents as may be necessary evidencing and consummating the Purchase Agreement and other related agreements; and to take any and all actions contemplated by the Purchase Agreement, the related agreements, or this Order, and to issue, execute, deliver, file, and record, as appropriate, such other contracts, instruments, releases, indentures mortgages, deeds, bills of sale, assignments, leases, or other agreements or documents and to perform such other acts and execute and deliver such other documents, as are consistent with, and necessary or appropriate to implement, effectuate, and consummate, the Purchase Agreement, the related agreements, and this Order and the transactions contemplated thereby and hereby, all without further application to, or order of, the Court or further action by their respective directors, stockholders, or partners, and with like effect as if such actions had been taken by unanimous action of the respective directors, stockholders, and partners of such entities. All such additional agreements, documents, and instruments shall be deemed to be "related agreements" for purposes of this Order. The Secretary or any assistant Secretary of each of the Debtors shall be, and hereby is, authorized to certify or attest to any of the foregoing actions (but no such certifications or attestation shall be required to make any such action valid, binding, and enforceable). The

Debtors are further authorized and empowered to cause to be filed with the secretary of state of any state or other applicable officials of any applicable governmental units any and all certificates, agreements, or amendments necessary or appropriate to effectuate the transactions contemplated by the Purchase Agreement, the related agreements, and this Order, including amended and restated certificates or articles of incorporation and by-laws or certificates or articles of amendment, and all such other actions, filings, or recordings as may be required under appropriate provisions of the applicable laws of all applicable governmental units, or as any of the officers of the Debtors may determine are necessary or appropriate. The execution of any such document, or the taking of any such action shall be, and hereby is, deemed conclusive evidence of the authority of such entity to so act. Without limiting the generality of the foregoing, this Order shall constitute all approvals and consents, if any, required by the general corporation law of the state of incorporation of each of the entities and all other applicable business corporation, trust, and other laws of the applicable governmental units with respect to the implementation and consummation of the Purchase Agreement, the related agreements, and this Order and the transactions contemplated thereby and hereby;

(29) all entities in possession of some or all of the Assets are directed to surrender possession of the Assets to the Purchaser on the Closing Date or at such time thereafter as Purchaser may request;

(30) on the Closing Date, each of the Debtors' creditors is directed to execute such documents and take all other actions as may be necessary to release its liens on or claims against the Assets, if any, as such liens or claims may have been recorded or may otherwise exist;

(31) this Order is and shall be binding upon and govern the acts of all entities including without limitation, all filing agents, filing officers, title agents, title companies, recorders of mortgages, recorders of deeds, registrars of deeds, administrative agencies, governmental departments, secretaries of state, federal, state, and local officials, and all other Persons and entities who may

be required by operation of law, the duties of their office, or contract, to accept, file, register or otherwise record or release any documents or instruments, or who may be required to report or insure any title or state of title in or to any of the Assets;

(32) each and every federal, state, and local governmental agency or department is hereby directed to accept any and all documents and instruments necessary and appropriate to consummate the transactions contemplated by the Purchase Agreement, the related agreements and this Order;

(33) If any Person or entity that has filed financing statements or other documents or agreements evidencing liens on or interests in the Assets shall not have delivered to the Debtors prior to the closing, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, releases of all liens or other interests which the Person or entity has with respect to the Assets, the Debtors are hereby authorized and directed to execute and file such statements, instruments, releases and other documents on behalf of the person or entity with respect to the Assets immediately prior to the Closing;

(34) all Persons are enjoined from in any way pursuing the Purchaser or its affiliates to recover any claim which such Person has against the Debtors or the Assets, except with respect to (1) Assumed Liabilities and (2) any claim which is independently assertable against the Purchaser or its affiliates and does not arise directly or indirectly from their dealings with the Debtors or the assignments and transfers contemplated by this Order;

(35) the Purchase Agreement, the related agreements, and all other documents, agreements, and instruments necessary to effectuate and consummate the transactions contemplated by the Purchase Agreement and the Escrow Agreement, together with the terms and provisions of this Order, shall be binding upon and shall inure to the benefit of the Debtors, the Purchaser, and their respective successors and assigns, notwithstanding any subsequent appointment of a trustee for one or more of the Debtors, under any chapter of the Bankruptcy Code,

as to which trustee such documents, agreements, and instruments (and the terms and provisions thereof) otherwise shall be binding;

(36) the Purchase Agreement and any related agreement may be modified, amended, or supplemented by agreement of the Debtors and the Purchaser without further action of the Court, provided that any such modification, amendment, or supplement is not material and substantially conforms to and effectuates the Purchase Agreement;

(37) nothing in this Order shall constitute an assumption or rejection of any executory contract or unexpired lease except, upon the Closing, as specifically provided in this Order, the Purchase Agreement, and the desig[illegible]tion of Assumed Contracts. Debtors' ability to assume or reject any other executory contract or unexpired leases shall not be affected by this Order;

(38) Foothill shall not be obligated to provide financing to the Debtors in excess of $35 million prior to the Closing unless Purchaser provides written evidence satisfactory to Foothill of an agreement with Sprint contemplated by Section 8.3(i) of the Purchase Agreement;

(39) WinStar and the Purchaser shall provide to the Committee and Foothill, through their counsel, all notices they provide to the Debtors at the time such notices are given to Debtors; and Section 9.8(b) of the Purchase Agreement is amended to provide that a notice thereunder shall be given within 20 days after WinStar or the Purchaser learns that a claim has been made against it for which it may seek indemnification; and

(40) notwithstanding any of the terms or provisions of this Order, if the sum of (i) the Debtors' outstanding indebtedness to Foothill which will be due at the Closing, plus (ii) the aggregate amount that must be paid by the Debtors under the Purchase Agreement to cure the Assumed Contracts (which Purchaser shall designate by written notice to the Debtors, the Committee, and Foothill, such written notice to be received by such parties by no later than 10:00 a.m. on January 16, 1998) exceeds $48.5 million, then, at the Committee's option, the Court shall hold a hearing on

January 16, 1998, at 3:00 p.m., at which time the Committee may request that this Order be set aside and determined to be of no force or effect. If the Committee requests such a h[illegible]ing, none of the findings of fact, conclusions of law, or any other provision of this Order shall be of any force or effect at the hearing, and all parties shall bear the same evidentiary burdens that they would have borne in connection with the Sale Motion if this Order had not been entered by the Court.

WALTER SHAPERO

THE HONORABLE WALTER SHAPERO
UNITED STATES BANKRUPTCY JUDGE

Dated: January 7, 1998

A TRUE COPY
CLERK, U.S. BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
BY: [signature]
Deputy Clerk
DATE: JAN 07 1998

0154 1 62

State of South Dakota

OFFICE OF THE SECRETARY OF STATE

CERTIFICATE OF AUTHORITY

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of WINSTAR WIRELESS, INC. (DE) to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state under the name of WINSTAR WIRELESS, INC.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this March 24, 1998.

Joyce Hazeltine

JOYCE HAZELTINE
Secretary of State

Secretary of St. te

State Capitol, Ste 204
500 East Capitol Avenue
Pierre, South Dakota
57501-5070
TDD (605) 773-5010

JOYCE HAZELTINE
Secretary of State

TOM LECKEY
Deputy

FROM: Joyce Hazeltine, Secretary of State
Corporations

RE: FOREIGN CORPORATION

The application for certificate of authority has been received and filed on behalf of the name enclosed.

Enclosed is the Certificate attached to the duplicate application along with a receipt for the filing fee.

SDCL: 47-9-3 requires the filing of a corporate annual report with our office between the anniversary date of qualification and prior to the first day of the second month following. The report is due the year following qualification. An annual report form will be mailed to the corporate address listed in number five on the application for timely filing. Please contact our office if the corporate address changes or if the form is not received.

Thank you.

SECRETARY OF STATE
STATE CAPITOL
500 E. CAPITOL
PIERRE, S.D. 57501-5077
605-773-4845
FAX(605) 773-4550

FILE NO.__________
RECEIPT NO.__________

RECEIVED MAR 24 1998

RECEIVED MAR 23 1998 S.D. SEC. OF STATE

24th March 1998

APPLICATION FOR CERTIFICATE OF AUTHORITY

Pursuant to the provisions of SDCL 47-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

(1) The name of the corporation is WINSTAR WIRELESS, INC.
(Exact corporate name)

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is

(3) State where incorporated DELAWARE Federal Taxpayer ID# 13-3758659

(4) The date of its incorporation is 02/08/94 and the period of its duration, which may be perpetual, is PERPETUAL

(5) The address of its principal office in the state or country under the laws of which it is incorporated is

9 EAST LOOCKERMAN STREET DOVER DELAWARE Zip Code 19901

mailing address if different from above is: 230 PARK AVENUE 31st FLOOR

NEW YORK NY Zip Code 10169

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is 919 MAIN STREET RAPID CITY SD Zip 57701

and the name of its proposed registered agent in the State of South Dakota at that address is

HIQ CORPORATE SERVICES, INC.

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose)

TELECOMMUNICATIONS SERVICES

(8) The names and respective addresses of its directors and officers are:

Name	Officer Title	Street Address	City	State	Zip
SEE ATTACHED					

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
200	COMMON	N/A	NO PAR

SIF 3D48NF

(10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
90	COMMON	N/A	NO PAR

(11) The amount of its stated capital is $ 90.00

Shares issued times par value equals stated capital. In the case of no par value stock stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the secretary of state or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated MARCH 5 19 98

(Signature)

State of WASHINGTON

County of DISTRICT OF COLUMBIA

VP, Regulatory Affairs
(Title)

On this 5TH day of MARCH, 1998, before me SALIYE SALAH personally appeared ROBERT BERGER, known to me, or proved to me, to be the VICE PRESIDENT of the corporation that is described in and that executed the within instrument and acknowledged to me that such corporation executed same.

My Commission Expires: 4/30/2001

(Notary Public)

Notarial Seal

Saliye Salah
Notary Public District of Columbia
My Commission Expires 4/30/2001

* *

The Consent of Appointment below must be signed by the registered agent listed in number six.

CONSENT OF APPOINTMENT BY THE REGISTERED AGENT

I, HIQ CORPORATE SERVICES, INC. (name of registered agent), hereby give my consent to serve as the registered agent for WINSTAR WIRELESS, INC. (corporate name)

Date MARCH 19 19 98

Assistant
(signature of registered agent)

WINSTAR WIRELESS, INC.

List of Officers and Directors

Directors

Timothy R. Graham	**230 Park Avenue, 31st Floor** **New York NY 10169**
Steven G. Chrust	**230 Park Avenue, 31st Floor** **New York NY 10169**

Officers

William J. Rouhana, Jr.	**President** **230 Park Avenue, 31st Floor** **New York NY 10169**
Timothy R. Graham	**Vice President and Secretary** **230 Park Avenue, 31st Floor** **New York NY 10169**
Steven G. Chrust	**Vice President** **230 Park Avenue, 31st Floor** **New York NY 10169**
David Ackerman	**Vice President** **230 Park Avenue, 31st Floor** **New York NY 10169**
Leo I. George	**Vice President** **230 Park Avenue, 31st Floor** **New York NY 10169**
Robert G. Berger	**Vice President** **1146 19th Street, NW** **Suite 250** **Washington DC 20036**
Russell C. Merbeth	**Assistant Secretary** **1146 19th Street, NW** **Suite 250** **Washington DC 20036**
Joseph P. Dwyer	**Assistant Vice President** **230 Park Avenue, 31st Floor** **New York NY 10169**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ____________________ to ____________________

Commission File Number: 1-10726

WINSTAR COMMUNICATIONS, INC.
(Exact name of Registrant as specified in its charter)

Delaware	13-3585278
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

230 Park Ave., Suite 2700, New York, NY 10169
(Address of principal executive offices)

(212) 584-4000
(Registrant's telephone number)

____
(Former name, former address and former fiscal year end if changed since last report)

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _

State the number of shares outstanding of each of the issuer's classes of common stock, as of August 12, 1998: 39,606,665

FORM 10-Q

WINSTAR COMMUNICATIONS, INC.

TABLE OF CONTENTS

WinStar Communications, Inc.
Condensed Consolidated Balance Sheets
(In thousands)

		December 31, 1997		June 30, 1998 (unaudited)
ASSETS				
Current assets				
Cash and cash equivalents	$	402,359	$	574,883
Short term investments		16,903		128,084
Cash, cash equivalents and short term investments		419,262		702,967
Accounts receivable, net of allowance for doubtful accounts		30,328		67,600
Inventories		10,296		13,052
Prepaid expenses and other current assets		8,985		32,987
Net assets of discontinued operations		2,105		3,734
Total current assets		470,976		820,320
Property and equipment, net		284,835		380,149
Investment in equity securities		-		33,852
Licenses, net		174,783		239,300
Intangible assets, net		14,293		114,421
Deferred financing costs		27,483		39,163
Other assets		4,071		13,083
Total assets	$	976,401	$	1,640,288
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities				
Current portion of long-term debt	$	388	$	1,339
Accounts payable and accrued expenses		97,714		91,374
Current portion of capitalized lease obligations		6,846		14,142
Total current liabilities		104,948		106,855
Capitalized lease obligations, less current portion		21,823		39,264
Long-term debt, less current portion		768,469		1,270,726
Other liabilities		-		10,588
Deferred income taxes		24,000		21,500
Total liabilities		919,240		1,448,933
Series C exchangeable redeemable preferred stock		175,553		188,077
Series D senior cumulative convertible redeemable preferred stock		-		200,000
Stockholders' equity (deficit)				
Preferred stock		39		40
Common stock, par value $.01; authorized 200,000 shares, issued and outstanding 34,610 and 39,500, respectively		346		395
Additional paid-in-capital		255,741		383,105
Accumulated deficit		(374,518)		(553,775)
Accumulated other comprehensive loss		-		(26,487)
Total stockholders' deficit		(118,392)		(196,722)
Total liabilities, redeemable preferred stock and stockholders' deficit	$	976,401	$	1,640,288

See Notes to Condensed Consolidated Financial Statements

WinStar Communications, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	1997	1998	1997	1998
Operating revenues				
Telecommunications services				
CLEC	$ 4,009	$ 30,002	$ 5,988	$ 51,117
Other	3,869	14,740	8,753	29,112
Total telecommunications services	7,878	44,742	14,741	80,229
Information services	8,462	12,521	14,676	24,470
Total operating revenues	16,340	57,263	29,417	104,699
Operating expenses				
Cost of services and products	15,908	46,181	28,867	88,956
Selling, general and administrative expenses	39,228	59,693	68,781	113,304
Depreciation and amortization	4,896	16,895	8,397	28,294
Total operating expenses	60,032	122,769	106,045	230,554
Operating loss	(43,692)	(65,506)	(76,628)	(125,855)
Other (expense) income				
Interest expense	(20,194)	(40,500)	(30,992)	(69,156)
Interest income	5,090	10,308	7,325	15,236
Loss from continuing operations before income tax benefit	(58,796)	(95,698)	(100,295)	(179,775)
Income tax benefit	-	1,400	-	2,500
Loss from continuing operations	(58,796)	(94,298)	(100,295)	(177,275)
Loss from discontinued operations	-	-	(477)	(1,982)
Net loss	(58,796)	(94,298)	(100,772)	(179,257)
Preferred stock dividends	(2,346)	(11,287)	(2,346)	(19,485)
Net loss applicable to common stockholders	$ (61,142)	$ (105,585)	$ (103,118)	$ (198,742)
Basic and diluted income loss per share:				
From continuing operations	$ (1.85)	$ (2.77)	$ (3.13)	$ (5.32)
From discontinued operations	-	-	(0.01)	(0.05)
Net loss per share	$ (1.85)	$ (2.77)	$ (3.14)	$ (5.37)
Weighted average shares outstanding	32,987	38,081	32,789	37,000

See Notes to Condensed Consolidated Financial Statements

WINSTAR COMMUNICATIONS, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity (Deficit)
For the Six Months Ended June 30, 1998
(in thousands)
(unaudited)

	Preferred Stock A Shares	Preferred Stock A Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
Balances at December 31, 1997	3,910	$ 39	34,610	$ 346	$ 258,741	$ (374,518)	$ -	(118,392)
Issuances of common stock								
For stock option exercises and other			1,008	10	12,594			12,604
For acquisitions			2,360	24	78,710			78,734
For investment in equity securities			1,526	15	60,329			60,344
Dividends declared on Series A preferred stock					(2,955)			(2,955)
Dividends on Series C preferred stock					(12,524)			(12,524)
Dividends on Series D preferred stock					(4,008)			(4,008)
Issuances of Series A preferred stock as dividends in kind	118	1			2,954			2,955
Preferred stock issuance costs and other, net					(7,738)			(7,738)
Comprehensive loss								
Net loss						(179,257)		(179,257)
Unrealized loss on investments in marketable equity securities							(26,487)	(26,487)
								(205,744)
Balances at June 30, 1998	4,028	$ 40	39,500	$ 395	$ 383,106	$ (553,775)	$ (26,487)	$ (196,722)

See Notes to Condensed Consolidated Financial Statements

WinStar Communications, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	For the six months ended June 30, 1997	For the six months ended June 30, 1998
Cash flows from operating activities:		
Net loss	$ (100,770)	$ (179,257)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net loss from discontinued operations	477	1,982
Depreciation and amortization	9,280	30,264
Deferred income tax benefit	-	(2,500)
Provision for doubtful accounts	774	4,400
Non cash interest expense	22,475	50,902
(Increase) decrease in operating assets:		
Accounts receivable	(7,142)	(25,111)
Inventories	585	(2,758)
Prepaid expenses and other current assets	(6,859)	(2,950)
Other assets	(1,382)	(9,011)
Increase (decrease) in accounts payable and accrued expenses	15,789	(29,121)
Net cash used in discontinued operations	(1,947)	(3,811)
Net cash used in operating activities	(68,760)	(168,769)
Cash flows from investing activities:		
Decrease (increase) in short-term investments, net	(13,976)	(111,181)
Purchase of property and equipment, net	(63,354)	(119,569)
Acquisitions	(34,917)	(107,949)
Other, net	457	-
Net cash used in investing activities	(111,790)	(338,699)
Cash flows from financing activities:		
Proceeds from long-term debt, net	270,945	437,592
Net proceeds from redeemable preferred stock	-	193,145
Net proceeds from equity transactions	98,087	12,604
Proceeds from sale of minority equity interest	-	10,000
Proceeds from equipment lease financing	20,511	30,900
Payment of capital lease obligations	(1,903)	(3,362)
Other, net	(402)	(2,887)
Net cash provided by financing activities	387,238	677,992
Net increase in cash and cash equivalents	206,688	172,524
Cash and cash equivalents at beginning of period	95,490	402,359
Cash and cash equivalents at end of period	302,178	574,883
Short-term investments at end of period	40,973	128,084
Cash, cash equivalents and short-term investments at end of period	$ 343,151	$ 702,967

See Notes to Condensed Consolidated Financial Statements

WinStar Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Nature of Business

The Company provides facilities-based voice and broadband data telecommunications services to businesses and other customers in major metropolitan areas in the United States. By utilizing its Wireless Fiber℠ services and a switch-based infrastructure, the Company distinguishes itself as a facilities-based, value-added provider of high-capacity telecommunications services and an attractive alternative to established providers, such as the RBOCs. The Company also utilizes its Wireless Fiber services to provide other telecommunications offerings, including Internet, ATM and frame relay services. The Company creates and/or acquires rights to and distributes information and entertainment content as a complement to its telecommunications operations. The Company also operates a nonstrategic consumer products company, which is treated as a discontinued operation in this report.

To capitalize on opportunities in the telecommunications industry, the Company is pursuing a rapid expansion of its telecommunications services, which will require significant amounts of capital to finance capital expenditures and anticipated operating losses. The Company may elect to slow the speed or narrow the focus of this expansion in the event it is unable to raise sufficient amounts of capital on acceptable terms.

2. Basis of Presentation

The condensed consolidated financial statements presented herein include the accounts of WinStar Communications, Inc. and its subsidiaries (collectively, "WinStar" or the "Company"). All material inter-company transactions and accounts have been eliminated in consolidation. The accounts have been prepared by the Company without audit. The foregoing statements contain all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of the Company's management, necessary to present fairly the financial position of the Company as of June 30, 1998, the statements of operations for the three and six months ended June 30, 1997 and 1998, the statements of cash flows for the six months ended June 30, 1997 and 1998 and the statement of stockholders' equity for the six months ended June 30, 1998.

Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1997. The unaudited financial statements and related footnotes for the three and six month periods ended June 30, 1997 reflect certain reclassifications such that they conform to the current period presentation.

The results of operations for the three and six months ended June 30, 1998 are not necessarily indicative of the results of operations for the year ending December 31, 1998.

Wireless Fiber℠ is a service mark of WinStar Communications, Inc.

3. Dividends on Convertible Preferred Stock

Dividends on the 6% Series A Cumulative Convertible Preferred Stock ("Series A Preferred Stock") since its issuance have been paid "in-kind" in additional shares of the Series A Preferred Stock.

4. Basic and Diluted Loss Per Share

Basic and diluted loss per share have been calculated by dividing the net loss, after consideration of preferred stock accretion and dividends, by the weighted average number of shares of common stock outstanding during each period in accordance with Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"). Stock options and warrants have been excluded from the calculation of diluted loss per share as their effect would have been antidilutive. The adoption of SFAS No. 128 had no effect on earnings per share for the three and six months ended June 30, 1997.

5. Acquisition of MidCom Communications, Inc.

Effective January 21, 1998 (the "Closing Date"), pursuant to an agreement between the Company and MIDCOM Communications, Inc. and its subsidiaries (collectively, "MidCom"), the Company acquired substantially all of MidCom's assets and businesses for a purchase price of approximately $92.0 million in cash. The purchase price is subject to a downward adjustment under certain circumstances.

The Company has retained an independent third party to fully evaluate the assets and certain liabilities of MidCom, in order to complete the allocation of the purchase price of the acquisition. Further adjustments may arise as a result of the finalization of the ongoing evaluation. The results of this evaluation are expected to be recorded in the near term. The financial statements of MidCom have been consolidated into the Company's financial statements as of the date of acquisition.

MidCom was a provider of long distance voice and frame relay data telecommunications services primarily to small and medium-sized businesses, most of which are located in major metropolitan areas of California, Florida, Illinois, New York, Ohio and Washington.

The following pro forma results of operations (in thousands, except per share data) reflect the combined operations of the Company and MidCom as if the acquisition was consummated at the beginning of each period presented. The unaudited pro forma results of operations does not purport to represent the results of operations that would have actually resulted had the purchase occurred on the indicated dates, nor should it be taken as indicative of future results of operations.

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	1997	1998	1997	1998
Operating Revenues	$41,453	$57,263	$78,836	$108,471
Net Loss applicable to common stockholders	(83,557)	(105,585)	(145,698)	(199,144)
Basic and diluted loss per share	$ (2.53)	$ (2.77)	$ (4.44)	$ (5.38)

6. Issuance of Cumulative Convertible Preferred Stock

In March 1998, the Company sold 4,000,000 shares of Series D 7% senior cumulative convertible preferred stock ("Convertible Preferred Stock") in a private placement for aggregate gross proceeds of $200 million. The preferred stock earns a 7% cumulative annual dividend, payable quarterly (commencing on September 15, 1998) in (i) cash or, at the Company's election, (ii) through the issuance of a number of shares of the Company's common stock equal to the dividend amount divided by the discounted current market value of the common stock (as defined), at the Company's option. The Company is currently prohibited from paying such dividends in cash under the terms of its outstanding indentures.

The Convertible Preferred Stock is convertible at the option of the holder at any time after the issue date, into shares of the Company's common stock at a conversion price of $49.61 per share of common stock.

The Convertible Preferred Stock is redeemable at the option of the Company after March 20, 2001, in whole or in part, at defined redemption prices, payable in cash plus accumulated and unpaid dividends, if any. The terms of the Company's outstanding indentures currently prohibit any such redemption prior to the repayment of the debt issued under the indenture. The Convertible Preferred Stock is mandatorily redeemable on March 15, 2010 at a redemption price of $50, payable in cash, per share plus accrued and unpaid dividends.

The Convertible Preferred Stock, with respect to dividend rights and rights on liquidation, winding up and dissolution, ranks (i) senior to all classes of common stock and to the Series A Preferred Stock of the Company and (ii) on a parity with the Series C Preferred Stock of the Company.

The Company filed a shelf registration (which was declared effective in June 1998) with the Securities and Exchange Commission with respect to resales of the Convertible Preferred Stock and the common stock which may be issued on the conversion thereof or as dividends thereon.

7. March 1998 Notes

In March 1998, the Company issued $200 million principal amount of unsecured 10% senior subordinated notes due 2008 ("Cash Pay Notes") and $250 million principal amount of unsecured 11% senior subordinated deferred interest notes ("Deferred Interest Notes") due 2008 (collectively, "the Notes"). The Notes are unsecured, senior subordinated obligations of the Company and rank *pari passu* in right of payment with the Company's 14% Convertible Senior Subordinated Notes Due 2005 and the Company's 15% Senior Subordinated Deferred Interest Notes Due 2007 and are junior in right of payment to all existing and future senior indebtedness of the Company.

The Cash Pay Notes bear interest at a rate of 10% per annum, payable semiannually commencing September 15, 1998. The Deferred Interest Notes bear interest at the rate of 11% per annum. Until March 15, 2003, interest on the Deferred Interest Notes accrues and compounds semiannually, but will not be payable in cash.

The Notes mature on March 15, 2008 and are redeemable by the Company on and after March 15, 2003, at its option, at certain defined prices.

The Company has filed an Exchange Offer Registration Statement with the Securities and Exchange Commission ("SEC") which has been declared effective under the Securities Act. The Company has commenced an exchange offer for the Notes, pursuant to such registration statement.

8. Condensed Financial Information of WinStar Equipment Corp. and WinStar Equipment II Corp.

The Company's wholly-owned subsidiaries, WinStar Equipment Corp. and WinStar Equipment II Corp. ("WEC" and "WEC II", respectively), each of which is a special purpose corporation which was formed to facilitate the financing and purchase of telecommunications equipment and related property ("Designated Equipment"), received $200 million and $50 million in gross proceeds, respectively, from the issuance and sale of 12.5% Guaranteed Senior Secured Notes ("the WEC and WEC II Notes") in placements of debt in March and August of 1997, respectively. The proceeds of the WEC and WEC II Notes are to be used to purchase Designated Equipment and, if such equipment is not purchased within a specified period, WEC and WEC II must apply unused proceeds thereof to redeem the WEC and WEC II Notes, respectively. Both the interest and principal of the WEC and WEC II notes are guaranteed by the Company.

WEC and WEC II have no independent operations other than to purchase Designated Equipment and to lease this equipment to the Company and its other telecommunications affiliates. It is therefore unlikely, in the opinion of management, that WEC or WEC II will generate sufficient income, after the payment of interest on the WEC and WEC II Notes, to pay dividends or make other distributions to the Company.

Summary financial information of WEC and WEC II, which are included in the condensed consolidated financial statements of the Company, are as follows (in thousands):

Balance sheet information at June 30, 1998 is as follows:

	WEC	WEC II
Current assets	$ 87,732	$ 48,486
Long term assets	134,378	2,752
Current liabilities	(40,264)	(4,216)
Long term liabilities	(200,000)	(50,000)
Stockholders' deficit	$(18,154)	$ (2,978)

Statements of operations information for WEC for the three and six months ended June 30, 1998, the three months ended June 30, 1997 and the period from March 13, 1997 (inception) through June 30, 1997, and for WEC II for the three and six months ended June 30, 1998, are as follows (in thousands):

	WEC				WEC II	
	Three Months Ended June 30, 1997	Three Months ended June 30, 1998	Period from March 13, 1997 (Inception) to June 30, 1997	Six Months Ended June 30, 1998	Three Months Ended June 30, 1998	Six Months Ended June 30, 1998
Rental revenues from other WinStar subsidiaries	$ -	$ 502	$ -	$ 1,014	$ -	$ -
Interest income from other WinStar subsidiaries	-	828	-	1,692	$ -	$ -
Interest income - investments	2,595	906	2,986	2,448	879	1,525
Selling, general and administrative expenses	-	(597)	-	(1,639)	-	-
Interest expense	(5,617)	(5,751)	(6,450)	(11,496)	(1,563)	(3,125)
Net loss	$ (3,022)	$ (4,112)	$ (3,464)	$ (7,981)	$ (684)	$ (1,600)

Separate financial statements for WEC or WEC II are not presented because management of the Company has determined that such information would not provide any material information that is not already presented in the condensed consolidated financial statements of the Company.

9. Discontinued Operation - WinStar Global Products, Inc.

On May 13, 1997, a formal plan of disposal for the Company's consumer products subsidiary, WinStar Global Products, Inc., ("Global Products") was approved by the Board of Directors and it is anticipated that the disposal will be completed within the near term. The disposal of Global Products has been accounted for as a discontinued operation and, accordingly, is carried at its estimated net realizable value. During the six months ended June 30, 1998, the Company recorded a loss on discontinued operations of $1,982,000. The accompanying condensed consolidated balance sheets, and operating results of Global Products are segregated and reported as discontinued operations in the accompanying condensed consolidated balance sheets and statements of operations and cash flows.

Information relating to the discontinued operations of Global Products is as follows (in thousands of dollars):

	For the Three Months Ended June 30,		For the Six Months Ended June 30	
	1997	1998	1997	1998
Operating revenues	$ 2,583	$2,203	$ 6,275	$4,495
Cost of services and products	1,995	2,222	4,545	4,537
Selling, general & administrative expenses	1,282	1,029	2,548	2,073
Depreciation and amortization	58	66	116	124
Total operating expenses	3,335	3,317	7,209	6,734
Operating loss	(752)	(1,114)	(934)	(2,239)
Interest expense	(109)	(157)	(404)	(333)
Net loss	$ (861)	$(1,271)	$(1,338)	$(2,572)

Net assets of the discontinued operations of Global Products at December 31, 1997 and June 30, 1998 are composed of the following (in thousands of dollars):

	December 31, 1997	June 30, 1998
Assets:		
Accounts Receivable, net	$ 4,383	$ 790
Inventories	4,663	5,127
Other Assets	1,268	466
Total assets	10,314	6,383
Liabilities:		
Current Liabilities	3,570	4,041
Other Liabilities	9,951	4,554
Total liabilities	13,521	8,595
Net deficit	$ (3,207)	$(2,212)

10. Marketable Securities

On June 21, 1998, the Company purchased 12.9% of the outstanding common stock of Advanced Radio Telecom Corp. ("ART") and other equity securities from private investors. The Company issued one share of its common stock in exchange for every 2.2 shares of ART purchased. The conversion ratio results in a purchase price of $17.90 per ART share based on the Company's closing stock price on the date the transaction was closed. The Company issued approximately 1,525,000 restricted common shares in connection with the transaction and received approximately 3,314,000 common shares of ART and certain other unrelated assets. The marketable securities acquired are accounted for as "Available for Sale Securities" in accordance with Statement of Financial Accounting Standards No. 115. The Company has recorded an "other comprehensive loss" (representing unrealized losses on these securities) of $26,487,000 in the Statement of Shareholders' Equity.

11. New Accounting Pronouncements

The FASB released Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of An Enterprise and Related Information"("SFAS No.131"), requiring that all public businesses report financial and descriptive information about their reportable operating segments. The Company will implement SFAS No. 131 in its 1998 annual report on Form 10K, as required.

12. Subsequent Events

In July 1998, the Company agreed to purchase 850 MHz of bandwidth in New York City from CellularVision USA, Inc. for $32.5 million in cash. The bandwidth will be disaggregated from CellularVision's LMDS license for the New York area. This transaction is subject to FCC approval. The Company has also agreed to lend CellularVision an amount up to $5.5 million, the repayment of which may be offset against the purchase price. The acquired spectrum will not be used to support any of the ongoing services or operations of CellularVision.

In July 1998, the Company entered into a twenty five year lease agreement for dark fiber capacity in and between a number of major markets at an aggregate cost of approximately $40 million. To date, the Company has paid $6.5 million of this amount, with the balance to become payable as portions of the fiber network are fully constructed and become available to the Company, which is expected to occur over the next eighteen months.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Company Overview

The Company provides facilities-based voice and broadband data telecommunications services to businesses and other customers in major metropolitan areas in the United States. By utilizing its Wireless Fiber℠ services and a switch-based infrastructure, the Company distinguishes itself as a facilities-based, value-added provider of high-capacity telecommunications services and an attractive alternative to established providers, such as the RBOCs. The Company also utilizes its Wireless Fiber services to provide other telecommunications offerings, including Internet, ATM and frame relay services. The Company acquires rights to and distributes information services and entertainment content as a complement to its telecommunications operations. The Company also operates a nonstrategic consumer products company, which is treated as a discontinued operation in this report.

During the first quarter of 1998 the Company completed its acquisition of the assets of MidCom Communications, Inc., a national provider of long distance voice and frame relay data telecommunications services, primarily to small and medium-sized businesses nationally.

The Company also acquired GoodNet, a rapidly growing Tier I Internet and ATM backbone provider. Through its national ATM network, GoodNet provides Internet access and high capacity data services to high bandwidth users.

In connection with the Company's rollout of its local telecommunications services, the Company also provides business information services to its CLEC customers. These services are marketed directly to end users and through the Company's direct sales force.

Three Months Ended June 30, 1998 Compared to Three Months Ended June 30, 1997

Revenues of the Company's operating segments are as follows (in millions):

	Three Months Ended June 30, 1997	1998
Telecommunications Services:		
CLEC Services	$ 4,009	$30,002
Other Services	3,669	14,740
	7,678	44,742
Information Services	8,662	12,521
Total Revenues	$16,340	$57,263

Revenues increased by $40.9 million, or 250.4%, for the three months ended June 30, 1998, to $57.3 million, from $16.3 million for the three months ended June 30, 1997. This increase was principally attributable to the growth in the Company's telecommunications business, where the addition of new markets and new services led to 482.7% gain in revenues over the prior year.

Revenues from CLEC services increased by $26.0 million, or 648%, for the quarter ended June 30, 1998, to $30.0 million, from $4.0 million, for the quarter ended June 30, 1997. The growth was attributable to continued national sales and installation of local, long distance and internet services to small and medium size business customers, and the geographic expansion of sales and network operations, along with the rapidly expanding large account business unit. Total CLEC service revenues reached an annual run rate in excess of $130 million at the end of June, compared with $19 million a year ago.

Revenues from other telecommunications services, which consist of wholesale operations, residential long distance and MidCom long distance voice services (other than sales attributable to National Accounts), increased $11.1 million to $14.7 million in the quarter ended June 30, 1998, as compared to $3.7 million in the quarter ended June 30, 1997. The increase resulted primarily from revenues, attributable to former MidCom long distance operations which were acquired in January 1998. The Company expects a gradual attrition of this revenue over subsequent quarters.

Revenues from information services increased by $3.9 million, or 44.6%, for the three months ended June 30, 1998, to $12.5 million, from $8.7 million, for the three months ended June 30, 1997, due to generally higher demand and the marketing of new products targeted at the information requirements of small and medium-sized businesses.

Cost of services and products increased by $30.3 million, or 190.3%, for the three months ended June 30, 1998, to $46.2 million, from $15.9 million, for the three months ended June 30, 1997. As a percentage of revenues, cost of services and products in the quarter ended June 30, 1998 was 80.6%, compared with 97.4% in the quarter ended June 30, 1997, and 90.1% for the quarter ended March 31, 1998. This decrease in the cost of revenue percentage is the result of increased volumes and larger percentages of traffic being provisioned over the Company's network. The Company is continuing to add new markets and build its telecommunications network. The Company's gross profit margins will gradually improve as increased volumes and larger percentages of traffic are provisioned over its own network facilities. The rate of improvement, however, will be slower during periods when the Company expands into new markets, and will accelerate as these markets mature.

Selling, general and administrative expense increased by $20.5 million to $59.7 million for the three months ended June 30, 1998, from $39.2 million for the three months ended June 30, 1997. The Company continued to hire sales, marketing, network and related support personnel in connection with the expansion of its CLEC markets. The Company had approximately 750 employees at June 30, 1997 and approximately 2,300 at June 30, 1998. As a percentage of revenues, selling, general and administrative expenses declined from 240.1% for the quarter ended June 30, 1997 to 104.2% for the quarter ended June 30, 1998. With the rapid expansion of its markets from 1 in December 1996 to 26 at June 30, 1998, and to its plan of 30 at December 31, 1998, the Company expects its selling, general and administrative expenses to continue to grow in absolute dollars, but to be a steadily declining percentage of revenues.

Depreciation and amortization expense increased by $12.0 million for the three months ended June 30, 1998, to $16.9 million, from $4.9 million for the three months ended June 30, 1997 principally resulting from the Company's acquisition and deployment of switches, radios and other equipment in connection with its telecommunications network buildout.

For the reasons noted above, the operating loss for the three months ended June 30, 1998, was $65.5 million, compared with an operating loss of $43.7 million for the three months ended June 30, 1997.

Interest expense increased by $20.3 million, or 100.6%, for the three months ended June 30, 1998, to $40.5 million, from $20.2 million for the three months ended June 30, 1997. This increase was principally attributable to the issuance of $150 million of debt in the third and fourth quarters of 1997 and another $450 million of debt in the first quarter of 1998. Of the $40.5 million of interest expense incurred for the quarter, $32.4 million is not payable in cash.

Interest income increased by $5.2 million, or 102.5%, for the three months ended June 30, 1998, to $10.3 million, from $5.1 million for the three months ended June 30, 1997. The increase resulted from the additional interest income earned on the proceeds from the Company's various stock and debt placements.

For the reasons noted above, the Company reported a loss from continuing operations of $94.3 million for the three months ended June 30, 1998, compared to a net loss from continuing operations of $58.8 million for the three months ended June 30, 1997.

Six Months Ended June 30, 1998 Compared to Six Months Ended June 30, 1997

Revenues of the Company's operating segments are as follows (in millions):

	Six Months Ended June 30, 1997	Six Months Ended June 30, 1998
Telecommunications Services:		
CLEC Services	$ 5,988	$51,117
Other Services	8,753	29,112
	14,741	80,229
Information Services	14,676	24,470
Total Revenues	$29,417	$104,699

Revenues increased by $75.3 million, or 255.9% for the six months ended June 30, 1998, to $104.7 million, from $29.4 million for the six months ended June 30, 1997. This increase was attributable to the growth in revenues generated by the Company's telecommunications operations.

Revenues from CLEC services increased by $45.1 million, or 752.0%, to $51.1 million for the six months ended June 30, 1998, from $6.0 million in the six months ended June 30, 1997. The CLEC business commenced operations in the second quarter of 1996. The Company has since been rapidly adding markets and installing voice and data lines for its business customers.

Revenues from other telecommunications services increased $20.4 million to $29.1 million for the six months ended June 30, 1998, as compared to $8.8 million in the six months ended June 30, 1997. The increase resulted primarily from sales, attributable to former MidCom long distance operations which were acquired in January 1998.

Revenues from information services increased by $9.8 million, or 66.7%, for the six months ended June 30, 1998, to $24.5 million, from $14.7 million for the six months ended June 30, 1997, due to a generally higher demand and the marketing of new products targeted at the information requirements of small and medium-sized business.

Cost of services and products increased by $60.1 million, or 208.2%, for the six months ended June 30, 1998, to $89.0 million, from $28.9 million for the six months ended June 30, 1997. As a percentage of revenues, cost of services and products for the six months ended June 30, 1998 was 85%, compared with 98.1% in the six months ended June 30, 1997. This decrease in the cost of revenue percentage is the result of increased volumes and larger percentages of traffic being provisioned on the Company's network.

Selling, general and administrative expense increased by $44.5 million to $113.3 million for the six months ended June 30, 1998, from $68.8 million for the six months ended June 30, 1997. The Company continued to hire sales, marketing, network and related support personnel in connection with the expansion of its CLEC markets. The Company had approximately 1,479 employees at December 31, 1997 and approximately 2,300 at June 30, 1998. As a percentage of revenues, selling, general and administrative expenses declined from 234% for the six months ended June 30, 1997 to 108.2% for the six months ended June 30, 1998. With the rapid expansion of its markets from 1 in December 1996 to 26 at June 30, 1998, and to its plan of 30 at December 31, 1998, the Company expects its selling, general and administrative expenses to continue to grow in absolute dollars, but to be a steadily declining percentage of revenues.

Depreciation and amortization expense increased by $19.9 million for the six months ended June 30, 1998, to $28.3 million, from $8.4 million for the six months ended June 30, 1997 principally resulting from the Company's acquisition and deployment of switches, radios and other equipment in connection with its telecommunications network buildout.

For the reasons noted above, the operating loss for the six months ended June 30, 1998, was $125.9 million, compared with an operating loss of $76.6 million for the six months ended June 30, 1997.

Interest expense increased by $38.2 million, or 123.1%, for the six months ended June 30, 1998, to $69.2 million, from $31.0 million for the six months ended June 30, 1997. This increase was principally attributable to the issuance of $450 million of debt in 1997 and another $450 million of debt in the first quarter of 1998. Of the $69.2 million of interest expense incurred for the six months ended June 30, 1998, $50.9 million is not payable in cash.

Interest income increased by $7.9 million, or 108.0%, for the six months ended June 30, 1998, to $15.2 million, from $7.3 million for the six months ended June 30, 1997. The increase resulted from the additional interest income earned on the proceeds from the Company's various stock and debt placements.

For the reasons noted above, the Company reported a loss from continuing operations of $177.3 million for the six months ended June 30, 1998, compared to a net loss from continuing operations of $100.3 million for the six months ended June 30, 1997.

Liquidity and Capital Resources

In March 1998, the Company sold 4,000,000 shares of its 7% Series D Senior Cumulative Convertible Preferred Stock pursuant to which the Company realized net proceeds of approximately $193.1 million.

Additionally, in March 1998, the Company sold an aggregate of $450 million principal amount of notes (the "1998 Debt Placements"), pursuant to which it realized net proceeds of approximately $436.7 million.

At June 30, 1998, the Company had approximately $703.0 million in cash, cash equivalents and short term investments, approximately $104.3 million of which may only be used to finance equipment purchases in connection with the Company's rollout of its telecommunications infrastructure.

The Company has incurred significant operating and net losses, due in large part to the development of its telecommunications services business, and anticipates that such losses will continue over the near term as the Company executes its growth strategy. A significant portion of the Company's increased capital requirements will result from the rollout of the Company's CLEC business. The Company is building a direct sales force, having opened sales offices currently serving the 26 major markets in which it offers CLEC services, and is in the process of expanding into other metropolitan areas. Additionally, the Company is in the process of ordering and installing switches and other network equipment to be placed in its key markets. Historically, the Company has funded its operating losses and capital expenditures through public and private offerings of debt and equity securities and from credit and lease facilities. Cash used to fund negative EBITDA during the three months ended June 30, 1998 was approximately $48.6 million, and purchases of property and equipment during the three months ended June 30, 1998 was approximately $90.0 million. At June 30, 1998, working capital was $713.5 million, including cash, cash equivalents and short-term investments of $703.0 million, as compared to working capital and cash, cash equivalents and short-term investments at December 31, 1997 of $366.0 million and $419.3 million, respectively.

Under its current plans to expand to 40 major metropolitan markets by the end of 1999, the Company plans to spend approximately $150.0 million during the remainder of 1998 and approximately $300.0 million in 1999 for capital equipment, which may require the Company to seek additional capital from financial institutions, equipment vendors or in the financial markets. The Company anticipates, based on current plans and assumptions relating to its operations, that its existing financial resources and additional equipment financing arrangements that the Company intends to seek, will be sufficient to fund the Company's operations and capital requirements for approximately 15 to 18 months. The Company believes that it will be able to obtain sufficient capital to execute its business plan. In the event that the Company's assumptions change or prove to be inaccurate, the Company consummates any acquisitions of significant businesses or assets (including spectrum licenses), the Company accelerates its plan and enters markets more rapidly, or the Company fails to secure additional equipment financing arrangements, the Company may be required to seek additional sources of capital sooner than currently anticipated.

In addition to binding commitments to purchase approximately $21.0 million of telecommunications equipment, the Company is committed to pay approximately $36.4 million in connection with the acquisition of additional spectrum licenses, all of which are subject to FCC approval, of which $32.5 million is payable in cash and as an offset against a $3.5 million loan made by the Company and the balance is payable in common stock or, at the Company's option, in cash.

The Company was the highest bidder on certain LMDS licenses in the LMDS auction and has committed to pay approximately $34.0 million in connection therewith (in addition to the Company's $8.0 million initial down payment in such auction).

The Company has entered into a twenty five year lease agreement for dark fiber capacity in and between a number of major markets at an aggregate cost of approximately $40 million. Amounts will become payable over the next eighteen months as portions of the fiber network are fully constructed and become available to the Company. To date the Company has paid $6.5 million of this amount.

Year 2000 Compliance

The Company is currently addressing the issue of whether or to what extent its systems will be vulnerable to potential errors and failures as a result of the "Year 2000" problem, which is the result of prior computer programs being written using two digits, rather than four digits, to define the applicable year. Any computer programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in major system failures or miscalculations.

Based on an initial review of its systems, the Company concluded that its significant computer programs and internal operations either will not be materially affected by the Year 2000 problem or will be properly modified or replaced prior to the end of 1999 at a cost which will not be material to the Company. However, in light of the Company's commitment to ensuring the integrity of its systems, including its telecommunications network, the Company is conducting a comprehensive review of its systems to ensure that all such systems are Year 2000 compliant. The Company continues to believe that its exposure to this issue, based on its internal systems, is somewhat limited by the fact that substantially all of its existing systems have been purchased or replaced since 1996 or currently remain under development.

The Company has an ongoing task force, comprised of representatives from each major area of the Company's operations as well as outside consulting firms as appropriate, to evaluate and remediate its Year 2000 problems. This process entails: conducting a comprehensive inventory of the Company's internal systems (including computer and electrical systems, equipment and the systems of companies acquired or to be acquired by the Company); assessing and prioritizing any required remediation, particularly with regard to "mission critical" systems; in the event any systems are found to be non-compliant, remediating any problems by repairing or, if appropriate, replacing the non-compliant systems; and testing all affected and remediated systems for full Year 2000 compliance. The Company is also in the process of developing contingency plans with regard to potential Year 2000 problems. Although the Company expects that it will have identified and remediated any Year 2000 problems prior to the end of 1999, if significant Year 2000 problems in the Company's systems are not uncovered or are not remediated in a timely manner, such problems could have adverse consequences for the Company's operations.

In addition to assessing its own systems, the Company is conducting an external review of its vendors and suppliers, including equipment and systems providers and other telecommunications service providers, to determine their vulnerability to this issue and any impact that may have on the Company. In particular, to the extent that other telecommunications carriers in the national and international telecommunications infrastructure, including carriers whose services are resold by the Company or to which the Company's network is interconnected directly or indirectly, are not Year 2000 compliant, it could create a problem for the Company. There can be no assurance that such resulting problems will not have a material adverse effect on the Company.

The Company has completed various acquisitions during recent periods and is in the process of integrating the systems of those companies into the Company. Those systems are included in the Company's Year 2000 review and remediation project. The Company expects to consummate additional acquisitions prior to the end of 1999. The extent of the Year 2000 problems associated with any such acquired companies and the cost and timing of remediation will be evaluated during and after completion of the acquisition process. No assurance can be given that the systems of any acquired company will be Year 2000 compliant when acquired or will be capable of timely remediation.

The Company does not anticipate that the cost of this project will be material; however, since the process by its nature is ongoing, the Company is unable to estimate the actual cost at this time. A cost estimate and budget is being prepared by the Company and is expected to be substantially completed by the end of the third quarter of this year.

Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of the Company. These forward-looking statements involve certain risks and uncertainties. The words "anticipate", "believe", "estimate", "expect", "plan", "intend" and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. No assurance can be given that any of such expectations will be realized. Factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, without limitation: (a) the Company's ability to service its debt or to obtain financing for the buildout of its telecommunications network; (b) the Company's ability to attract and retain a sufficient revenue-generating customer base; (c) competitive pressures in the telecommunications industry; and (d) general economic conditions.

PART II. OTHER INFORMATION

Item 2. Changes in Securities

Recent Sales of Unregistered Securities

The following table sets forth certain information with respect to the issuance by the Company of certain securities during the quarter ended June 30, 1998, without registration of such securities under the Securities Act:

Securities Sold (Date Sold)	Purchaser(s)	Consideration	Exemption Claimed	Terms of Conversion or Exercise	Use of Proceeds
476,718 shares of Common Stock (various dates from 4/1/98 - 6/30/98)	Various individuals and entities	Shares issued in connection with various acquisitions of 38 GHz licenses and related assets	4(2)	Not applicable	The Company did not receive cash proceeds for these shares
1,525,301 shares of Common Stock (6/21/98)	Landover Holding Corporation and James J. Pinto	Shares issued in connection with the purchase of shares of Advanced Radio Telecom Corp. and certain unrelated assets	4(2)	Not applicable	The Company did not receive cash proceeds for these shares

Item 4. Submission of Matters to a Vote of Security Holders

At its Annual Meeting of Stockholders (the "Meeting") held on June 10,1998, the Company submitted the following matters to a vote of its security holders, all of which mattes were approved:

1. Election of Class I Directors.

Name of Director	Votes For	Votes Withheld
Steven G. Chrust	30,163,553	2,715,497
James L Cash	30,139,793	2,739,257

The term of office of each of the following additional directors of the Company continued after the Meeting: William J. Rouhana, Jr., Nathan Kantor, Bert Wasserman, Steven B. Magyar and William J. vanden Heuvel.

2. Amendment of WinStar Communications, Inc. 1995 Performance Equity Plan increasing the number of shares available for issuance pursuant to grants made thereunder from 7,500,000 to 10,000,000.

Votes For	Votes Against	Abstentions
15,694,443	8,082,532	234,447

3. Approval of the WinStar Communications, Inc. Qualified Employee Stock Purchase Plan and Related Amendment to the Company's By-Laws.

Votes For	Votes Against	Abstentions
23,226,704	597,747	187,001

Item 5 - Other Information

Notes to Stockholders Regarding 1999 Annual Meeting of Stockholders:

Pursuant to Rule 14a-4 promulgated by the Securities and Exchange Commission, stockholders are advised that the Company's management shall be permitted to exercise discretionary voting authority under proxies its solicits and obtains from the Company's 1999 Annual Meeting of Stockholders with respect to any proposal presented by a stockholder at such meeting, without any discussion of the proposal in the Company's proxy statement for such meeting, unless the Company receives notice of such proposal at its principal office in New York, New York no later than March 24, 1999.

Item 6. Reports on Form 8-K

(1) Current report on Form 8-K filed June 25, 1998.

(2) Current report on Form 8-K filed July 23, 1998.

SIGNATURES

In accordance with requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WinStar Communications, Inc.
Registrant

By: /s/Charles T. Dickson
Charles T. Dickson
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Dated: August 14, 1998

By: /s/Josep P. Dwyer
Joseph P. Dwyer
Vice President, Finance
(Principal Accounting Officer)

Dated: August 14, 1998

FINANCIALS

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal year ended December 31, 1997

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10726

WINSTAR COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	13-3585278
(State of Incorporation)	(I.R.S. Employer Identification No.)

230 Park Avenue
New York, New York 10169
(212) 584-4000
(Address, including zip code, and telephone number, including area code, of registrant's executive offices)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock
Rights to Purchase Series B Preferred Stock

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Check if disclosure of delinquent filers in response to item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Issuer's revenues for its most recent fiscal year: $79,631,000

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days: As of March 27, 1998, the aggregate market value of such stock was approximately $1,599 million.

State the number of shares outstanding of each of the issuer's class of common equity, as of the latest practicable date: As of March 27, 1998, the number of shares of Common Stock outstanding was approximately 37,217,000.

Documents Incorporated by Reference:

The information required in Part III by Items 10, 11, 12 and 13 is incorporated by reference to the Registrant's proxy statement in connection with the annual meeting of stockholders scheduled to be held on June 10, 1998, which will be filed by the Registrant within 120 days after the close of its fiscal year.

Item 1. Business

General

WinStar Communications, Inc. ("WinStar" or the "Company") provides facilities-based voice and data telecommunications services to businesses and other customers in major metropolitan areas throughout the United States. WinStar holds licenses ("Wireless Licenses") which provide it with the largest amount of 38 GHz radio spectrum in the country, as well as other spectrum, covering more than 125 Metropolitan Statistical Areas ("MSAs") with a total population of approximately 185 million, including the 50 largest MSAs. The Company is building a unique nationwide network using its fiber-quality digital capacity in the 38 GHz spectrum and other portions of the radio spectrum ("Wireless Fiber℠") in order to provide its customers with a broad range of attractively priced services and an alternative to the incumbent local exchange carriers ("ILECs"), other competitive local exchange carriers ("CLECs") and the interexchange carriers ("IXCs"). WinStar believes that its ability to provide information content and services further differentiates it from competitors. The annual business telecommunications market in the United States is estimated at $110 billion, with local telephony and data services, WinStar's target segment, accounting for approximately $47 billion.

WinStar is rapidly building a modern telecommunications infrastructure. It currently provides telecommunications services on a switched basis in 21 major metropolitan markets, including Atlanta, Boston, Chicago, Dallas, Los Angeles, New York City, San Diego and Washington, D.C. WinStar expects to provide telecommunications services using its own switches in 30 major metropolitan markets by the end of 1998 and 40 major metropolitan markets by the end of 1999. WinStar's network buildout has been accelerated through several recent strategic acquisitions. In October 1997, the Company purchased from US ONE Communications Corp. ("US ONE") 12 Lucent 5ESS switches, seven of which are located in markets that WinStar had targeted but had not yet entered. In January 1998, WinStar purchased GoodNet, a Tier I Internet Service Provider ("ISP"), from Telesoft Corp. ("Telesoft"). GoodNet maintains a national Asynchronous Transfer Mode ("ATM") backbone, points of presence ("POPs") in 27 cities throughout the United States and more than 130 peering arrangements with other ISPs. Also in January 1998, as part of its acquisition of the assets of Midcom Communications, Inc. ("Midcom"), WinStar acquired PacNet, a data transmission services provider. PacNet maintains a network of frame relay data switches, POPs in 20 cities throughout the western United States and, through its membership in the Unispan consortium, interconnection and cooperative service arrangements with other frame relay providers with networks across the United States and internationally.

Network Strengths

WinStar believes that its Wireless Fiber and switch-based infrastructure provides it with significant competitive advantages, including:

Ability to Provide a Full Range of Voice and Data Telecommunications Services. The large amount of bandwidth afforded by the Wireless Licenses, together with WinStar's voice and data switching facilities, allow WinStar to offer customers a full range of voice and data telecommunications services, including (i) local dial tone, private branch exchange ("PBX") trunks, individual business lines, Centrex and long distance, (ii) data services, such as Internet access, Wide Area Network ("WAN") services utilizing frame relay, Internet Protocol ("IP") and ATM data transport, and private network services and (iii) facilities-based broadband local access and digital network services ("Carrier Services"). WinStar holds Wireless Licenses in each of the 50 largest MSAs. Including certain additional 38 GHz licenses which WinStar has agreed to acquire and the 28 GHz Local Multipoint Distribution Services licenses ("LMDS Licenses") for which the Company was the highest bidder in the FCC's recently concluded auction ("LMDS Auction"), the Wireless Licenses provide an average bandwidth capacity of more than 750 MHz in the top 30 U.S. markets and approximately 740 MHz in the 50 largest U.S. markets. Each 100 MHz Wireless Fiber channel can support transmission capacity of one DS-3 at 45 Mbps, which is over 750 times the rate of the fastest dial-up modem in general use (56 Kbps) and over 350 times the rate of the fastest integrated services digital network ("ISDN") line in general use (128 Kbps). It is anticipated that the Company's commercial deployment of multipoint facilities, planned to begin in late 1998, will allow a single 100 MHz Wireless Fiber channel to support one OC-3 equivalent of capacity at 155 Mbps. See "—Networks—Wireless Licenses."

Rapid and Cost-Effective Deployment of Infrastructure. Wireless Fiber services generally can be deployed considerably more rapidly than wireline services because of the construction time and permit procedures required for wireline buildout. Further, the equipment used for 38 GHz transmission (*e.g.*, antennae, transceivers and digital interface units) is small, unobtrusive and relatively inexpensive.

Ability to Penetrate Target Markets. In implementing its network plan, WinStar identifies strategically located sites to serve as hubs in each of its metropolitan areas. These hub sites are connected via Wireless Fiber links to customer buildings. Certain characteristics of the 38 GHz frequency, including the effective range of its radio signal and the small amount of dispersion (*i.e.*, scattering) of the radio beam as compared to the more dispersed radio beams produced at lower frequencies, allow for multiple hub sites using the same channel in a licensed area. Further, WinStar's ability to use multiple 38 GHz channels in its target markets provides it with advantages over other providers of fixed wireless telecommunications services that possess fewer channels in their respective portions of the radio spectrum. WinStar believes that its multiple channels, together with the deployment of multipoint technology and it's hub-based network architecture, will allow it to address the needs of a significant portion of the business customers in its target markets via its Wireless Fiber services.

Scalable Capital Expenditures. Because of WinStar's Wireless Fiber capacity and hub-based network architecture, a substantial portion of WinStar's planned capital expenditures is variable and more directly tied to demand. WinStar expects to be able to minimize non-revenue generating deployment of infrastructure because (i) it does not need to fully build out its network in a market before offering services in that market, (ii) bandwidth can be more easily allocated as demanded and (iii) the small size and relatively low cost of radio transceivers and other equipment allows for cost-efficient redeployment as customer demands change.

Deployment of Multipoint Technology. WinStar expects that its planned deployment of point-to-multipoint technology within its networks will allow it to further reduce per-building installation and equipment costs, better leverage existing and future investment in hub equipment, address a significantly greater number of buildings in each market and provide customers with variable amounts of bandwidth as their demands and needs change. The Company believes that it will be able to efficiently integrate point-to-multipoint technology into its point-to-point network infrastructure, thereby enabling the Company to create point-to-multipoint infrastructure in its markets rapidly and cost effectively.

Other Core Assets. WinStar has accumulated a group of core assets, in addition to those described above, which it believes are necessary for it to commercially deploy its telecommunications services. Among these assets are: (i) authorizations to operate as a CLEC in 30 states and the District of Columbia, (ii) agreements that allow the Company to interconnect its facilities with those of other carriers in 41 of the 50 most populated MSAs, (iii) roof rights to install its radios on more than 2,200 buildings and (iv) state-of-the-art information systems platforms to assure the accurate and flexible handling of the billing and customer satisfaction requirements of a diverse customer base purchasing a variety of telecommunications services. WinStar intends to acquire additional core assets as it further rolls out its services and expands its network coverage.

Business Strategy

The telecommunications industry is being reshaped by a number of factors, including the deregulation of local telecommunications markets, growing demand for high-speed, high-capacity digital telecommunications services and the rapid advances in wireless technologies that enable service providers to address this demand, as well as the increasing importance to customers of information services. WinStar believes it is well-positioned to compete successfully in this new telecommunications environment. Key elements of WinStar's strategy to continue its growth as a national provider of telecommunications services are to:

Continue to Expand Network Infrastructure. WinStar currently provides switch-based telecommunication services in 21 major metropolitan markets and expects to provide telecommunications services using its own switches in 30 major metropolitan markets by the end of 1998 and 4? major metropolitan markets by the end of 1999. WinStar is continuing to deploy network infrastructure on a city-by-city basis using its Wireless Fiber capabilities, its voice and data switches and, where appropriate, facilities leased from other carriers. The Company believes that a limited number of hub sites (generally less than 10) in each metropolitan area will allow it to address more than 70% of its targeted buildings and ultimately to carry the majority of its customers' traffic on its own network instead of the higher-cost facilities of other carriers. WinStar also intends over time to interconnect all of its local networks through intercity fiber optic facilities, creating a single network capable of providing facilities-based voice and data telecommunications services among the metropolitan areas in which the Company has local networks. By building and utilizing its own network, WinStar reduces its reliance on the facilities of other providers, such as the ILECs, enhances service to its customers and reduces its cost of providing services. Unlike most fiber-based CLECs, which typically use facilities leased from incumbent providers to carry the majority of their telecommunications traffic, WinStar anticipates enhancing its operating margins by routing a significant portion of its traffic over its own network as this network and WinStar's presence in its markets mature.

Exploit First-to-Market Advantage. WinStar seeks to exploit its "first-to-market" advantage as the leading provider of fixed wireless local switched and dedicated telecommunications services with an established operating infrastructure and broad geographic license coverage. WinStar believes that early entrance into its markets provides it with advantages over many potential competitors by allowing it to (i) expand its customer base prior to widespread competition from many other CLECs, (ii) develop a proven, reliable and low-cost network infrastructure using its own switching and transmission capabilities ahead of many other CLECs, (iii) develop and implement the advanced information, data and other systems necessary to integrate its fixed wireless infrastructure into the existing global telecommunications network, and (iv) acquire roof rights for antennae placement on a large number of buildings on favorable terms and in advance of other fixed wireless service providers.

Provide Integrated Voice and Data Telecommunications and Information Services. WinStar has found that customers typically prefer to purchase their voice and data telecommunications services as a single [illegible]. WinStar offers its customers a broad range of telecommunications services, including basic local dial tone and long distance and, with the acquisitions of GoodNet and [illegible], high-speed [illegible] and dedicated [illegible] Internet access services. WinStar [illegible] that the ability to [illegible] information, entertainment and other content and services with telecommunications services [illegible] an [illegible] factor in the business customer's decision to select or retain a telecommunications provider. [illegible] WinStar actively [illegible] opportunities to expand its information and content assets and services and to use them to enhance the marketability of its telecommunications services.

Focus on Business Customers. WinStar believes that a substantial opportunity exists to attract a significant base of business customers by rapidly penetrating local markets with high-bandwidth telecommunications services. Initially, WinStar targeted small and medium-sized business customers in buildings that have more than 100,000 square feet of commercial space and which, in many instances, are not served by fiber facilities provided by CLECs. The Company estimates that there are more than [illegible] buildings that meet the criteria of this initial target group. WinStar believes that the growth of its infrastructure and the planned deployment of point-to-multipoint technology will make it cost-effective for the Company to target smaller buildings as well, increasing the number of target buildings to more than 30,000. Furthermore, WinStar's introduction of its data communications services and the expansion of its sales and marketing capabilities now allow it to target larger business customers.

[illegible] Wireless "Fiber" to Other Carriers. WinStar [illegible] its Wireless Fiber Carrier Services to other telecommunications providers, including providers of personal communications, cellular and specialized mobile radio services ("CMRS"). WinStar also believes that its Carrier Services present an attractive, cost-effective method for telecommunications providers to add a high-capacity [illegible] to their own networks, especially as they seek to rapidly penetrate new markets opening as a result of the Telecommunications Act. WinStar's Carrier Services also can provide cost-efficient route diversity where network reliability concerns require multiple telecommunications paths.

Offer High Quality Networks and Superior Customer Service. WinStar believes that it offers cost and service quality advantages over ILECs and other CLECs as a result of its Wireless Fiber technology, integrated service offerings, customer support and network management and monitoring systems. WinStar consults with its customers to develop competitively priced telecommunications services that are tailored to meet their particular needs. WinStar's centrally-managed customer care and support operations are also designed to facilitate the processing of orders for changes and upgrades in services. WinStar believes that it provides greater attention and responsiveness to its customers than do the ILECs.

Capitalize on Management Team Experience. WinStar has assembled a management team and hired operating personnel experienced in all areas of telecommunications and information services, including more than 250 former officers and employees of MCI Communications ("MCI") and Sprint Corporation ("Sprint"), as well as numerous executives and other employees from RBOCs and other established telecommunications companies. WinStar continues to hire additional experienced telecommunications and information services personnel as appropriate.

Services

WinStar offers a full range of telecommunications services, including local telephony, long distance, high-speed switched data and dedicated services. Local telephony services offered by WinStar primarily use high-capacity digital switches to route voice transmission anywhere on the public switched telephone network. WinStar's data transmission services include Internet access and WAN services using frame relay, IP and ATM data transport protocols. Dedicated services offered by WinStar, which include private network services and Carrier Services, use high-capacity digital circuits to carry voice and data transmission in multiple configurations.

WinStar makes its services attractive to potential customers by (i) offering a broad range of telecommunications services that specifically address its target customers' needs, while providing levels of customer satisfaction that exceed those provided by larger competitors and (ii) exploiting the Company's Wireless Fiber service whenever feasible for cost-effective origination and termination of customer traffic, thereby allowing for attractive pricing of services.

Local and Long Distance Telephony Services

WinStar provides customers with local dial tone and connection to both regional and long distance calling. WinStar's services in these areas include the following:

Basic and Enhanced Voice Transmission Services. WinStar offers analog and digital voice-only telephone lines to customers. WinStar owns, manages and maintains its switches, while customizing network configurations and solutions to meet the individual needs of customers. WinStar offers its customers a wide range of other features such as call waiting, call forwarding, conference calling and voice mail, as well as operator and directory assistance services.

Centrex Services. Business customers can use WinStar as their primary Centrex provider, as a supplement to the LEC's Centrex service, or as an addition to customer-owned PBX.

PBX Services. WinStar's PBX services provide businesses with access to the local, regional and long distance telephone public networks. WinStar's PBX service allows customers to use either the Company's telephone numbers or their ILEC-assigned telephone numbers. Connection between the customer's PBX port and WinStar's network is made via Wireless Fiber link or digital facilities leased from the ILECs and other CLECs.

Integrated Long Distance Services. WinStar also offers long distance services to its business customers Currently, WinStar primarily resells long distance through agreements with MCI and Sprint, which provides the Company with access to these carriers' long distance networks at rates that are discounted, varying with monthly traffic generated by the Company.

Data Services

The proliferation of LANs, WANs, Internet services and video enhanced services is causing data flow to become an increasing portion of overall telecommunications traffic. The ability to quickly access and distribute such data and other information is critical to business, education and government entities. The Company believes that by utilizing its broadband local networks and national data transport backbone, it will be able to deliver broadband data services to businesses and other high-capacity users that are currently unable to receive such service offerings from their telecommunications providers. The acquisitions of the GoodNet and PacNet businesses and assets has enabled the Company to more rapidly deploy its network infrastructure, which is critical to the cost-effective provision of data services. To address the growing demand for high-speed, high-bandwidth data telecommunications, WinStar offers its customers a wide range of data telecommunications services including:

Dedicated and Dial-Up Internet Access. WinStar offers dedicated and dial-up Internet access services, as well as web hosting and co-location services. A majority of WinStar's ISP business is as a National Services Provider providing Internet access to other ISPs through WinStar's Internet backbone acquired with the GoodNet business. WinStar is one of the largest Internet backbone providers in the United States. In addition to other ISPs, WinStar's Internet customers include universities and colleges, large landlords, RBOCs, cable television operators and value-added resellers.

The Company also provides high-speed Internet access services and specialized software with educational content for schools and libraries in the New York City metropolitan area. The Company is currently working with the "Lattice" consortium in the District of Columbia to develop cost-effective, high-capacity Internet connectivity to schools and to nearby subsidized urban housing. WinStar's application suite provides educators with the tools to integrate the educational resources of the World Wide Web into school curricula, enabling them to create their own "electronic libraries," create forums for discussion and debate, and engage in collaborative projects with students and educators throughout the world. The Company intends to expand its reach to other markets by linking schools and libraries to the Internet through its Wireless Fiber services.

Data Transport Services. WinStar utilizes its ATM backbone to provide WAN data transport services which allow customers to interconnect LANs maintained at different sites at native speeds, thereby enabling the connection of workstations and personal computers on one or more LANs. WinStar's WAN services provide customers with transmission capacity for various protocol speeds. WinStar's native-speed WAN services avoid bottleneck problems that are frequently encountered with customary DS-1 connections by providing the customer with a circuit that matches the transmission speeds of its networks. The Company's ATM backbone network supports evolving high-speed applications, such as multimedia, desktop video conferencing and medical imaging. WinStar's WAN services are offered at a variety of capacities to allow customers to choose the level which meets their specific needs.

WinStar also offers frame relay services that provide customers with high-performance, cost-efficient global interconnection of multiple LANs. WinStar's frame relay services are high-speed packet switching systems that utilize transmission links only when required. Frame relay allows for the transportation of data much more rapidly than other packet switching protocols such as X.25. The Company is affiliated with Unispan, a consortium of frame relay providers that enables the frame relay traffic of such providers to be routed throughout the United States and internationally; and terminated in every local access transport area in the United States through interconnections with the RBOCs.

ISDN Services. WinStar provides customers with multiple voice and data communications services over a single telecommunications line. The Company's switches have been configured to permit the provision of ISDN services. ISDN lines allow customers to perform multiple functions such as simultaneous voice and computer links. High-speed ISDN applications include desk top videoconferencing, interconnection of LANs and Internet access.

Potential Interactive Video Applications. The inherent qualities of 38 GHz also offer substantial opportunities for broadband interactive video applications, such as video conferencing, appropriate for highly customized commercial and institutional demands. The narrow-beam characteristics of the 38 GHz band, allowing for frequency reuse within a small area, coupled with its broadband capacity and multichannel capabilities may offer a significant market opportunity in the future as the appropriate technologies emerge, although there can be no assurance of the consumer acceptance or commercial viability of such video services.

Dedicated Services

Private Network Services. WinStar markets its Wireless Fiber services to businesses, government agencies and institutions with multiple locations within the Company's licensed areas and which generate heavy telecommunications traffic between such locations. These entities can utilize Wireless Fiber services to establish their own independent telecommunications systems, creating a dedicated private network.

Wireless Fiber services present the Company's customers with: (i) a method for providing high bandwidth telecommunications connections between their buildings on a cost-effective basis; (ii) a viable alternative to the ILECs' networks which frequently use low-capacity copper wire for "last mile" delivery, generally allowing for faster, more reliable data transmissions; (iii) greater control over their local telecommunications traffic and costs; (iv) diverse routing and thus higher reliability against outage; and (v) greater security because of the private line nature of these connections. WinStar's private network services use high-capacity digital circuits to carry voice and data transmission from point-to-point in flexible configurations involving different standardized transmission speeds and circuit capacities, including:

- *DS-0.* A dedicated service that accommodates business communications with digital transmission through a voice-grade equivalent circuit with a capacity of up to 64 Kbps. This service offers a private line digital channel for connecting telephones, fax machines, personal computers and other telecommunications equipment. WinStar offers multiple DS-0 services in a variety of combinations and can also provide voice grade analog connections.

- *DS-1.* A high-speed digital channel that typically links customer locations to IXCs, ISPs or other customer locations and which can carry voice and data transmissions. DS-1 services accommodate digital data transmission capacity of up to 1.544 Mbps, the equivalent of 24 voice-grade (DS-O) circuits.

- *DS-3.* The Company currently offers dedicated service capacity equivalent to 28 DS-1 circuits or 672 voice-grade equivalent circuits. It is anticipated that this capacity will continue to expand over time with further developments in high frequency radio technology by manufacturers and the advent of point-to-multipoint service. This digital service can be used to link multiple sites and for data services applications.

Carrier Services. WinStar markets and provides wireless broadband, high-capacity local access and dedicated network services to other telecommunications providers. Using its Wireless Fiber capacity, WinStar offers numerous wireless telecommunications services to support a wide range of local access and dedicated service needs with a high degree of reliability, including:

- *Local By-Pass for Long Distance Carriers.* IXCs can utilize the Company's Wireless Fiber services to connect certain call termination or origination points in a particular licensed area to such carriers' POPs in the licensed area at more economical rates than those generally charged by ILECs and to connect two or more of their respective POPs in a single licensed area.

- *Wireless Complement to CAP and ILEC Networks.* Competitive access providers ("CAPs") typically compete with ILECs by utilizing their own fiber-optic cable rings and lease the other facilities necessary to complete their networks from the ILECs. Due to the large capital investment required to construct such networks, CAPs generally build their networks in limited, densely populated areas and offer services primarily to large customers such as long distance carriers, medium-sized and large businesses, government agencies and institutions. CAPs can utilize Wireless Fiber services to bypass facilities typically leased by them from the ILECs. CAPs can also utilize the Company's Wireless Fiber services to facilitate the buildout and enhance the reliability of their own local telecommunications networks and expand their marketing opportunities.

- *Backbone Interconnection and Redundancy for CMRS Providers.* Wireless Fiber services can be utilized by CMRS providers for interconnecting traffic (backbone network traffic) between and among cell sites, repeaters and the wired local network.

International Opportunities

WinStar has begun to develop its position in certain foreign markets where the Company believes it can leverage its expertise in the application of Wireless Fiber services. WinStar is seeking opportunities to provide telecommunications services in other countries similar to those it provides domestically. The Company may seek such opportunities directly or with other entities on a joint venture or similar basis.

Networks

General

WinStar uses advanced voice and data switches and hub-based fixed wireless network architecture to deliver reliable, high-speed digital transmission of voice and data telecommunications traffic. Customer buildings are interconnected to WinStar's hub sites using Wireless Fiber links and/or facilities leased from other carriers. Traffic between hub sites is carried using Wireless Fiber services or, as needed, on fiber-optic facilities leased from other carriers. WinStar installs customer-dedicated or shared equipment at a location near or in customer premises to terminate links. WinStar serves its customers from one or more hub sites strategically positioned throughout its networks. The hub site houses or is interconnected with the switches and other transmission equipment needed to connect customers with each other, the IXCs and other local exchange networks. Redundant electronics, with automatic switching to the backup equipment in the event of failure, protect against signal deterioration or outages.

WinStar's planned deployment of point-to-multipoint technology will allow transmissions between a single hub site antenna and multiple customer antennas, thereby allowing WinStar to share the same spectrum among its customers and reducing its capital expenditures. This deployment also will allow WinStar to allocate and share network capacity on an as-needed basis and supply customers with bandwidth-on-demand to address their changing requirements.

WinStar adds data services to its basic transmission platform by installing digital electronics at its switch sites and at customer locations and by accessing the Company's ATM and/or frame relay networks. WinStar's digital telephone switches are interconnected with multiple ILECs and long distance carrier switches to provide WinStar customers access to the entire local market as well as across the country and around the world. Similarly, WinStar provides ATM switches and LAN multiplexers at customer premises and in its switch sites to provide high speed LAN interconnection and native ATM services.

The Company's networks are monitored 24 hours a day, seven days a week through WinStar's state-of-the-art network operations center ("NOC") located in Tysons Corner, Virginia. The NOC provides the Company with points of contact for network monitoring, troubleshooting and dispatching repair personnel in each market. The NOC provides a wide range of network surveillance functions for each network, providing the Company with the ability to remotely receive data regarding the diagnostics, status and performance of such networks. Continuous monitoring of system components by the NOC focuses on proactively avoiding problems as well as reacting to known problems. The Company believes that it provides service reliability equal to or exceeding that provided by the ILECs and other CLECs. PacNet also maintains a separate network operations center in Seattle, Washington which allows the Company to monitor PacNet's frame relay data network.

Wireless Fiber Links

The Company uses its Wireless Fiber capacity as an integral component of its networks for the origination and termination of local voice and data traffic and the interconnection of hub and switching sites. Each Wireless Fiber link currently provides up to eight T-1s of capacity (equivalent to 192 voice lines) or one DS-3 of capacity (equivalent to 672 voice lines). The Company's planned deployment of point-to-multipoint facilities, which are proceeding on a test basis through mid-1998, will allow each of the Company's 100 MHz channels to support one OC-3 equivalent of capacity at 155 Mbps, and the Company believes that there will be additional increases in the capacity of Wireless Fiber services over time as the technology evolves, although no assurance can be given that this will be the case. The Wireless Fiber links meet or exceed general telephone industry standards, provide transmission quality equivalent to that produced by fiber optic-based facilities, and address the growing demand for high-speed, high-capacity, digital telecommunications services for voice, data and video applications, including traditional local access, Internet access and network interconnection services.

Each point-to-point Wireless Fiber path consists of transmission links, which are paired digital millimeter wave radio transceivers generally placed at a distance of less than three miles from one another within a direct, unobstructed line of sight. The transceivers are typically installed on rooftops or towers or in windows. Each point-to-multipoint path will consist of a radio transceiver and antenna system located at a hub site and a transceiver placed at a customer building in line-of-sight with the hub site. Subject to obtaining adequate line of sight, a single multipoint hub transceiver will typically be able to address in excess of 100 customer buildings.

Significant features of Wireless Fiber services include: (i) 38 GHz digital millimeter wave transmissions having narrow beam width, reducing the potential for channel interference and allowing dense deployment and channel re-use; (ii) 100 MHz bandwidth in each channel, allowing for high subdivision of voice and data traffic; (iii) a range of up to five miles between transmission links (although the Company generally maintains link distances of less than three miles or shorter distances in certain areas to meet its internally established performance standards); (iv) performance engineered to provide up to 99.999% reliability, as tested; (v) transmission accuracy engineered to provide bit error rates of 10-13 (unfaded); (vi) 24-hour network monitoring by the Company's NOC; and (vii) relatively low installed cost for each pair of transceivers comprising a transmission link, with even lower costs allowed through the deployment of point-to-multipoint radios.

In order to provide quality transmission, Wireless Fiber links require an unobstructed line of sight between the two transceivers comprising a link, with a maximum distance between any two corresponding transceivers of up to five miles, although in certain areas, weather conditions may necessitate shorter distances to maintain desired transmission quality. The Company typically limits its link distances to less than three miles. The areas in which such shorter distances are required are those where rainfall intensity and the size of the raindrops adversely impact transmission quality at longer distances. Other weather conditions, such as snow, electrical storms and high winds, have not, in the Company's experience, affected transmission quality or reliability. The cost of additional transceivers where required by weather, physical obstacles or distance may render the provision of Wireless Fiber services uneconomical in certain instances.

The use of wireless equipment may pose health risks to humans due to radio frequency ("RF") emissions from the radio/antenna unit. Any allegations of health risks, if proven, could result in liability on the part of the Company. If the Company were held liable in any product liability suit, such liability could have a material adverse effect on the financial condition and operations of the Company. The FCC recently adopted new guidelines and methods for evaluating the environmental effects of RF emissions from FCC-regulated transmitters, including wireless antennas. The updated guidelines and methods generally are more stringent than those previously in effect. The Company expects that the wireless equipment to be provided by its vendors will comply with applicable FCC guidelines.

Roof Rights

WinStar must obtain roof rights (or rights to access other locations such as towers where lines of sight are available (collectively, "Roof Rights") on each building where a transceiver will be placed. The Company's prequalification activities may include the payment of option fees for Roof Rights to the buildings that are being prequalified. In connection with the development of its Wireless Fiber capacity for both its Carrier Services and CLEC businesses, the Company has been following a plan pursuant to which it seeks to negotiate, prior to receipt of actual service orders, Roof Rights for the installation of Wireless Fiber links on buildings in the metropolitan areas covered by the Wireless Licenses, including hub site buildings which give direct lines of sight to a number of other buildings targeted by the Company and buildings that can provide interconnection access to IXCs' POPs, switch locations and local access nodes.

WinStar acquires Roof Rights on targeted buildings where direct selling efforts are also initiated. If customer traffic is generated prior to the installation of a transceiver on a building, the traffic is generally sent to the Company's switch via circuits leased from other carriers. Once a transceiver and antenna are installed, new traffic from the building is sent to a hub site via Wireless Fiber service and existing traffic being carried over leased circuits may be transitioned over time to Wireless Fiber service. This approach enables WinStar to deploy capital in a highly efficient manner and avoid the need to make front-end investments in transmission capacity for where no customer traffic has been generated. The Company currently has the necessary Roof Rights to install its Wireless Fiber transmission facilities on more than 2,200 buildings in its licensed areas.

In addition to obtaining Roof Rights, the Company must secure other building access rights, including access to conduits and wiring, from the owners of each building or other structures on which it proposes to install its equipment, and may require construction, zoning, franchises or other governmental permits. There can be no assurance that the Company will obtain sufficient Roof Rights and other building access, franchises or permits to successfully carry out its business objectives.

Wireless Licenses

The Wireless Licenses (including the LMDS Licenses for which the Company was the highest bidder in the LMDS Auction) provide in excess of 400 MHz of bandwidth in each of the following cities:

Metropolitan Area	MHz	Metropolitan Area	MHz
Atlanta	900	Minneapolis	600
Baltimore	600	Newark	600
Boston	500	New Orleans	1,350
Buffalo	800	New York	900
Chicago	700	Norfolk	1,350
Cincinnati	800	Oakland	1,650
Cleveland	500	Orlando	1,450
Dallas	800	Philadelphia	600
Denver	700	Phoenix	600
Detroit	500	Pittsburgh	600
Fort Worth	900	Saginaw	400
Ft. Lauderdale	1,000	St. Louis	900
Greensboro	1,350	Salt Lake City	1,250
Houston	900	San Diego	400
Indianapolis	500	San Francisco	1,650
Kansas City	600	San Jose	1,250
Las Vegas	500	San Juan	500
Long Island, New York	500	Seattle	800
Los Angeles	500	Spokane	900
Memphis	600	Tacoma	600
Miami	1,000	Tampa	1,000
Milwaukee	600	Trenton	600
		Washington, D.C.	500

The Company also holds licenses for a limited amount of spectrum in frequency bands other than 38 GHz, including 6 GHz, 10 GHz, 18 GHz and 23 GHz. The Company uses these licenses to support and enhance the coverage of its existing 38 GHz spectrum.

On February 10, 1998, the FCC granted the Company additional 38 GHz channels in Atlanta, Buffalo, Cincinnati, Dallas, Houston, Miami, New York, Seattle, St. Louis, Spokane and Tampa. On March 12, 1998, several parties filed petitions for reconsideration of these grants, other than the Seattle grant, with the FCC alleging, among other things, that these channels were granted in violation of the FCC's processing rules and the FCC's November 1997 Report and Order and Second Notice of Proposed Rulemaking (the "38 GHz Order"). WinStar intends to oppose these petitions.

WinStar participated in the FCC's recently concluded LMDS Auction. At the close of the LMDS Auction, WinStar was the highest bidder for A-block licenses in 9 markets and B-block licenses in 6 markets. Each LMDS License covers a defined Basic Trading Area (BTA), with the A-block licenses consisting of 1,150 MHz of spectrum and the B-block licenses consisting of 150 MHz of spectrum. WinStar made aggregate bids for such

15 licenses of approximately $57.8 million. However, WinStar has claimed a 25% bidding credit in the LMDS Auction, making its total commitment to purchase LMDS Licenses approximately $43.4 million. Prior to the auction, WinStar made a $13 million payment which will be offset against this amount. The balance of these payments is due to the FCC when the licenses are granted, which WinStar anticipates will take place in the second quarter of 1998, although such grants are currently subject to final FCC approval.

Advertising and Marketing of Telecommunications Services

The Company markets its telecommunications services on a city-by-city basis through combinations of direct sales, alternative sales channels, television, print and other media. For example, the Company has used its first series of television commercials and print advertising in introducing its telecommunications services and creating brand awareness in Boston, Chicago, Los Angeles, New York and Washington, D.C. This mass media advertising supports the Company's core marketing efforts, which are primarily focused on its 8,000 target buildings. The Company concentrates its marketing efforts on the telecommunications decision-makers in those buildings, which are viewed as "vertical villages" for the Company's sales force to penetrate. The Company also deploys a variety of building-based and other local marketing programs to reinforce its message in these buildings.

The Company is targeting business customers, especially those in buildings in which the Company's Wireless Fiber capacity can be utilized most effectively. In the future, with the deployment of point-to-multipoint service, the Company also intends to market services to residences in multiple-dwelling units, such as apartment buildings.

Consistent with its marketing strategy of emphasizing business customers, the Company has, among other things, introduced products and services readily marketable to business long distance customers, including prepaid phone card services and a broad array of toll-free services, including services which allow toll-free calls to be originated nationwide. The Company also offers business customers several flexible billing services.

The Company markets its Carrier Services: (i) by performing field demonstrations and testing of Wireless Fiber services; (ii) by providing potential customers with Wireless Fiber services at reduced rates, in order to educate such customers about the efficacy and reliability of such services; (iii) by appearing at trade shows and advertising in trade publications; (iv) through national sales agents and direct sales; and (v) directly to existing and potential customers of the Company's other telecommunications services.

Competition in the Telecommunications Industry

The local telecommunications market is intensely competitive and currently is dominated by the ILECs. The Company has been marketing local access and other Carrier Services since December 1994 and local exchange services as a CLEC since April 1996, and, accordingly, the Company has not obtained significant market share in any of the areas where it offers such services, nor does it expect to do so given the size of the local telecommunications services market, the intense competition and the diversity of customer requirements. In each area covered by the Wireless Licenses, the services offered by the Company compete with those offered by the ILECs which currently dominate the provision of local services in their markets. The ILECs have long-standing relationships with their customers, have the potential to subsidize competitive services with revenues from a variety of business services (to the extent lawful) and benefit from existing state and federal regulations that currently favor the ILECs over the Company in certain respects. While legislative and regulatory changes have provided increased business opportunities for competitive telecommunications providers such as the Company, these same decisions have given the ILECs increased flexibility in their pricing of services. This may allow the ILECs to offer special discounts to the Company's and other CLECs' customers and potential customers. Further, as competition increases in the local telecommunications market, the Company expects general pricing competition and pressures to increase significantly. As ILEC prices decrease, other telecommunications providers will be forced by market conditions to charge less for their services in order to compete.

In addition to competition from the ILECs, the Company also faces competition from a growing number of new market entrants, such as other CAPs and CLECs, competitors offering wireless telecommunications services, including leading telecommunications companies, such as AT&T Wireless, and other wireless entities that hold or have applied for 38 GHz licenses or which may acquire such licenses or other wireless licenses from others or the FCC. There is at least one other CLEC in each metropolitan area covered by the Company's Wireless Licenses, including, in many such areas, companies such as MCI, WorldCom, Teleport Communications ("Teleport") and Time Warner. Many of these entities (and the ILECs) already have existing infrastructure which allows them to provide local telecommunications services at potentially lower marginal costs than the Company currently can attain and which could allow them to exert significant pricing pressure in the markets where the Company provides, or seeks to provide, telecommunications services. In addition, many CAPs and CLECs have acquired or plan to acquire switches so that they can offer a broad range of local telecommunications services.

The Company currently also faces competition from other entities which offer, or are licensed to offer, 38 GHz services, such as AT&T (through its own licenses and its pending ownership of Teleport) and Advanced Radio Telecommunications, Inc. The Company also faces competition in certain aspects of its existing and proposed businesses from a number of competitors providing wireless services in other portions of the radio spectrum, such as CellularVision USA, a provider of wireless television services and wireless Internet access, which may in the future provide other local telecommunications services, and Teligent, Inc., a provider of wireless services utilizing spectrum in the 24 GHz band. In many instances, these service providers hold 38 GHz licenses or licenses for other frequencies (such as 2, 18, 24, 28, 31 and 47 GHz) in geographic areas which encompass or overlap the Company's market areas. Additionally, some of these entities may have greater spectrum resources or enjoy the substantial backing of, or include among their stockholders, major telecommunications entities. Due to the relative ease and speed of deployment of 38 GHz and some other wireless-based technologies, the Company could face significant price competition from these and other wireless-based service providers.

The FCC recently completed the LMDS Auction. The LMDS Licenses allow for the provision of high capacity, wide-area fixed wireless point-to-multipoint systems. The Company participated in the auction and had the highest bid for the A-Block (aggregate 1150 MHz of bandwidth) LMDS License for nine markets and the B-Block (aggregate 150 MHz of bandwidth) LMDS License for six markets, although there can be no assurance that the Company will receive such licenses until such time as the entire auction process and the bids made therein are reviewed and approved by the FCC. Numerous other entities participated in the auction and had highest bids for LMDS Licenses covering other major metropolitan areas, including entities that had the highest bid for a large number of metropolitan areas. It is likely that one or more of the participants in this auction, or subsequent purchasers of LMDS Licenses from such participants, will use this spectrum to provide telecommunications services in competition with the Company.

The FCC has adopted rules to auction geographical area-wide licenses for the operation of fixed wireless point-to-point and point-to-multipoint communications services in the 38 GHz band, although many 38 GHz licenses already have been issued nationwide. The FCC has indicated that the 38 GHz auction is expected to occur later in 1998. MMDS, also known as "wireless cable," also currently competes for metropolitan wireless broadband services. Although wireless cable licenses currently are used primarily for the distribution of video programming and have only a limited capability to provide two-way communications needed for wireless broadband telecommunications services, there can be no assurance that this will continue to be the case. The FCC has initiated a proceeding to determine whether to provide wireless cable operators with greater technical flexibility to offer two-way services. CMRS providers may also offer fixed services over their licensed frequencies. Finally, the FCC has allocated a number of spectrum blocks for use by wireless devices that do not require site or network licensing. A number of vendors have developed such devices that may provide competition to the Company, in particular for certain low data rate transmission services.

The Company also may face competition from cable companies, electric utilities, ILECs operating outside their current local service areas, long distance carriers and other entities in the provision of local telecommunications services. The great majority of these entities provide transmission services primarily over fiber-optic, copper-based and/or microwave networks, which, unlike the Company's Wireless Fiber services, enjoy proven market acceptance for the carriage of telecommunications traffic. Moreover, the consolidation of telecommunications companies and the formation of strategic alliances within the telecommunications industry, which are expected to accelerate, could give rise to significant new or stronger competitors to the Company. There can be no assurance that the Company will be able to compete effectively in its markets.

The Company's data services also face significant competition from other telecommunications providers, including the ILECs, IXCs and other major providers, and Internet service providers, dedicated network transmission service providers, and frame relay providers, as well as from cable television operators deploying cable modems, which provide high-speed data capability over installed coaxial cable television networks. Further, Internet access services based on existing technologies such as ISDN and, in the future, on such technologies as ADSL and HDSL, will likely provide additional sources of competition to the Company's data transmission services.

The long distance market has relatively insignificant barriers to entry, numerous entities competing for the same customers and a high (and increasing) average churn rate as customers frequently change long distance providers in response to the offering of lower rates or promotional incentives by competitors. The Company competes with major carriers such as AT&T, MCI, WorldCom, LCI and Sprint, as well as other national and regional long distance carriers and resellers, many of whom own substantially all of their own facilities and are able to provide services at costs lower than the Company's current costs since the Company generally leases its access facilities. The Company believes that the RBOCs also will become significant competitors in the long distance telecommunications industry for certain types of services once they are permitted to enter this market and that Internet service providers also will compete in this market.

The Company believes that the principal competitive factors affecting its market share are pricing, customer service, reliability, accurate billing, clear pricing policies and variety of services. The ability of the Company to compete effectively will depend upon its ability to continue to provide a broad range of telecommunications services and to maintain high-quality, market-driven services at prices generally perceived to be equal to or below those charged by its competitors. To maintain its competitive posture, the Company believes that it must be in a position to reduce its prices in order to meet reductions in rates, if any, by others. Any such reductions could adversely affect the Company. In addition, ILECs have been obtaining additional pricing flexibility. This may enable ILECs to grant volume discounts to larger long distance companies, as well as to individual customers, which also would put the Company's long distance business at a disadvantage in competing with larger providers.

Government Regulation of Telecommunications Operations

The Company's telecommunications services and those of its competitors are subject to regulation by various authorities, including federal, state and local governments. The nature and extent of such regulations effect the scope of the Company's services, their profitability and the degree to which other entities can successfully offer services in competition with the Company. Generally, the FCC exercises jurisdiction over all telecommunications service providers to the extent such services involve the provision of jurisdictionally interstate or international telecommunications, including the resale of long distance services, the provision of local access services necessary to connect callers to long distance carriers providing interstate services, and the use of electromagnetic spectrum (*i.e.*, wireless services). The Company's Wireless Licenses were granted by the FCC and many of the Company's services are subject to the FCC's continuing oversight and jurisdiction. With the passage of the Telecommunications Act, the FCC's jurisdiction has been extended to include certain interconnection and related issues that traditionally have been considered subject primarily to state regulation (*e.g.*, number portability). The Company has sought and obtained numerous licenses and authorizations from the FCC and is in the process of obtaining additional FCC licenses and authorizations.

The allocation of jurisdiction between federal and state regulators over dedicated circuits that carry both interstate and intrastate traffic (including private line and special access services) poses certain jurisdictional issues. Although the FCC does not generally rule on the jurisdictional nature of a carrier's traffic, under current FCC practice, non-switched telecommunications services are considered jurisdictionally interstate (subject to FCC jurisdiction) unless more than 90% of the traffic is intrastate in nature. Currently, the Company's dedicated service offerings are primarily jurisdictionally interstate in nature. The Company believes that these services include virtually all service between a long distance carrier's POP and another POP of that long distance carrier or another long distance carrier, and between an end user and a long distance carrier's POP.

The Company currently is not subject to price-cap or rate-of-return regulation and it may install and operate non-radio facilities for the transmission of interstate (but not international) communications without prior FCC authorization.

The Company has filed tariffs with the FCC as required with respect to its provision of interstate service. In October 1996, the FCC ruled that non-dominant inter-exchange carriers such as the Company may no longer file tariffs with the FCC and existing tariffs were required to be withdrawn by September 22, 1997. This requirement has been stayed by court order. The Company, through state-specific subsidiaries, has received certification or other appropriate regulatory authority to provide intrastate non-switched service in 31 states and the District of Columbia and has applied for authority in a number of additional states. In addition, the Company recently consummated the Midcom Asset Acquisition. Midcom is a provider of interstate and intrastate long distance services and data transport services. The former customers of Midcom acquired by the Company are currently being provided service by the Company pursuant to the order of the bankruptcy court approving the Midcom Asset Acquisition. The Company has filed for and is in the process of obtaining regulatory approvals from appropriate state regulatory agencies.

.Some of the Company's services are classified as intrastate and therefore currently are subject to extensive state regulation. The nature of such regulation varies from state to state, but in some states it may be more extensive than the regulations imposed by the FCC. In all states where the Company is offering jurisdictionally intrastate Carrier Services or CLEC services, the Company (through its state-specific operating subsidiaries) is certified or otherwise operating with appropriate state authorization. The Company provides intrastate long distance service pursuant to certification, registration or (where appropriate) on a deregulated basis in more than 40 states. The Company expects that as its business and product lines expand and as more pro-competitive regulation of the local telecommunications industry is implemented, it will offer additional intrastate services. The Company is seeking to expand the scope of its intrastate services in various jurisdictions, a process which depends upon regulatory action and, in some cases, legislative action in the individual states. Interstate and intrastate regulatory requirements are changing rapidly and will continue to change. The inability to obtain state approvals to expand the Company's services, or the modification of existing state approvals to offer services, could have a material adverse effect on the Company.

Although the Company believes that it is in substantial compliance with all material laws, rules and regulations governing its operations and has obtained, or is in the process of obtaining, all licenses and approvals necessary and appropriate to conduct its operations, changes in existing laws and regulations, including those relating to the provision of wireless local telecommunications services via 38 GHz and/or the future granting of 38 GHz licenses, or any failure or significant delay in obtaining necessary regulatory approvals, could have a material adverse effect on the Company. On December 15, 1995, the FCC announced the issuance of a Notice of Proposed Rulemaking ("NPRM"), pursuant to which it proposed to amend its current rules relating to 38 GHz and ordered that those applications that were subject to mutual exclusivity with other applicants or that were placed on public notice by the FCC after September 13, 1995 would be held in abeyance and not processed by the FCC pending the outcome of the proceeding initiated by the NPRM.

In January 1997, the FCC released a Memorandum and Order ("MO") addressing some application processing matters raised by the NPRM. In the MO, the FCC decided to process certain amendments filed between November 13, 1995 and December 15, 1995. Other amendments filed on or after November 13, 1995 remain subject to the freeze. Applications that were amended to resolve mutual exclusivity by December 15, 1995 would be processed, provided they had completed their 60 day public notice period as of November 13, 1995. Amendments to reduce existing license areas or delete frequency blocks on licenses would be permitted.

In November 1997, the FCC issued the 38 GHz Order in the proceeding which addressed service rules and a procedure for assigning unlicensed 38 GHz spectrum. The FCC adopted many of the major positions advocated by WinStar in the NPRM, including: (i) flexible use of licenses, including multi-point and mobile operations (subject to the development of inter-licensee and inter-services standards); (ii) no quantitative restrictions on the accumulation of 38 GHz spectrum; (iii) rejection of commercial satellite industry positions that 38.5 to 40.0 GHz should be solely designated for satellite operation and that 38 GHz service rules should be delayed; (iv) rejection of equipment efficiencies standards; (v) permit licensees to utilize their licenses as the market dictates and engage in geographic partitioning and spectrum disaggregation under certain circumstances; (vi) limited buildout requirements based on substantial service; (vii) process pending nonconforming applications; (viii) institute border interference standards; (ix) permit use of spectrum for both common carrier and private carriage operations; and (x) auction of unlicensed areas of the 38 GHz band.

In the 38 GHz Order, a substantial service buildout requirement was adopted which generally requires the licensee to establish, during the license renewal procedure, that the license is being utilized in the public interest. The earliest license expirations for the Company occur on February 1, 2001. Licensees are granted an expectation of renewal, but such an expectation is not guaranteed. The FCC did not mandate specific buildout criteria, but did offer an example of "substantial service" for a typical point-to-point licensee of four wireless transmission links per million population within a service area.

The FCC is currently processing all pending eligible license applications. Those with defects or which are encumbered by mutually exclusive competing applications will be dismissed. The FCC decided to dismiss all unripe applications (*e.g.*, those applications which did not stay on Public Notice for 60 days prior to the November 13, 1995 application freeze) and all pending mutually exclusive applications. Pending petitions at the FCC seeking to protect these dismissed applications have yet to be addressed. The clear channel portions of pending multichannel applications will be processed. Mutually exclusive channels from those multichannel applications will be dismissed.

Currently unlicensed channels will be auctioned on a Rand McNally BTA (Basic Trading Area) basis. The auction will cover 493 BTA areas. In BTAs where an incumbent's rectangular service area license exists, the auction will only be for the portion of the BTA which is not covered by an incumbent license. The exact timing of the 38 GHz auction was not specified, but the FCC has announced that it is seeking to conduct the auctions in the third quarter of 1998. In the R&O the Commission identified two future rule makings. The first will address inter- and intraservice interference standards which could have a substantial impact on the Company's services by limiting the amount of power transmitters may use or by imposing other technical constraints on the Company's systems. The second will determine the reserve price and minimum opening bid criteria for the 38 GHz auction. Because the Company has traditionally received its 38 GHz licenses without the payment of auction-based fees, the second rulemaking and the use of competitive bidding generally to license spectrum in the 38 GHz band could impact the price and availability of additional 38 GHz licenses to expand or further develop the Company's services. The Commission did not state when either of these rule makings would occur, but the latter must be concluded before the auction takes place.

The rules set forth in the 38 GHz Order are scheduled to become effective on April 7, 1998. Petitions for reconsideration have been filed with the FCC which challenge a number of the findings set forth in the 38 GHz Order. Appeals may be filed until April 7, 1998. The changes adopted by the 38 GHz Order are expected to be the subject of numerous comments by members of the telecommunications industry, the satellite industry, various government agencies and others. Consequently, there can be no assurance that the 38 GHz Order will result in the retention of rules consistent with the rules initially proposed in the NPRM, or that any rules will be adopted. Until administrative and judicial remedies are exhausted, the actual effect of the new rules adopted in the 38 GHz Order remain uncertain. On March 9, 1998, several parties filed the Petitions alleging, among other things, that the FCC's February 10, 1998 grants to WinStar of additional channels in 11 markets were in violation of the FCC's processing rules. Such Petitions were made available to the public on March 10, 1998. At least one of these parties stated its intent to file a separate pleading on this issue. There can be no assurance that the Petitions will not result in such additional channel grants to WinStar being rescinded.

The Telecommunications Act gives local government the authority to regulate certain aspects of the telecommunications infrastructure. Such aspects include franchises, laying of cable and management of certain rights of way and may also include the siting of certain radio facilities, such as antenna and antenna towers which, under the Telecommunications Act, must be administered in a non-discriminatory manner. The type and timing of local approvals, as well as the specific equipment or facilities requiring approval, and the applicable fees, if any, varies among the local governments. The scope of local authority under the Telecommunications Act has been the subject of a number of disputes between telecommunications carriers and local authorities and the Company anticipates that administrative proceedings and litigation relating to such disputes are likely to continue. The FCC has recently preempted, and thereby prevented enforcement of, certain state and local regulations that had the effect of inhibiting local competition. Further, certain jurisdictions including, but not limited to, the city of Dallas, have sought to impose a franchise fee requirement on carriers, including microwave carriers, that do not own or maintain facilities in the public rights-of-way, and in some cases also have attempted to predicate each carrier's right to connect to the 9-1-1 PSAP (public service administration point) on the carrier's first obtaining a franchise. Any inability or unwillingness by the FCC and/or courts of competent jurisdiction to preempt, stay, and/or enjoin such additional state and local regulations in a timely fashion could have a material adverse impact on the Company.

In July 1996, the FCC mandated that the responsibility for administering and assigning local telephone numbers be transferred from Bellcore to a neutral entity. In August 1996, the FCC adopted regulations that address certain of these issues, but left others for decision by the states and the neutral number plan administrator.

In August 1997, the FCC designated Lockheed Martin as the neutral numbering plan administrator and the process of transferring numbering administration to this entity officially was completed in January 1998. The new FCC regulations (a) require states, in creating new area codes, to impose the same dialing procedures on ILECs for all local numbers (including both previously issued and new numbers) as on new entrants (such as the Company); and (b) prohibit ILECs from charging "code opening" fees to competitors (such as the Company) unless they charge the same fee to all carriers including themselves. In addition, each carrier is required to contribute to the cost of numbering administration through a formula based on net telecommunications revenues. In the July 1996, the FCC permitted both residential and business customers to retain their telephone numbers when switching from one local service provider to another (known as "number portability"). Interim number portability, using remote call forwarding and other processes, was to be implemented immediately. "Permanent" number portability, using a centralized data base solution, initially was to commence as of October 1, 1997. In particular, RBOCs initially were required to commence implementing permanent number portability in the 100 largest markets by October 1, 1997 and to complete such implementation by December 31, 1998. The October 1 date, however, was thereafter extended to March 1998 at the request of the industry. In smaller markets, RBOCs must implement number portability within six months of a request therefore commencing December 31, 1998. Other ILECs were required to implement number portability by October 31, 1997 in those of the largest 100 markets where the feature is required by another ILEC. Non-RBOC ILECs are not required to implement number portability in any additional markets until December 31, 1998, and then only in markets where the feature is required by another ILEC. Lockheed Martin and a second vendor initially were selected as administrators for such permanent number portability implementation in assigned regions of the country. Subsequently, the second vendor was unable to meet requisite implementation deadlines and its regions (*i.e.*, West, Pacific, and Southeast, corresponding principally to those incumbent regions served by US West, Pacific Bell, and BellSouth, respectively) are in the process of being assumed by Lockheed Martin. In response, the FCC has issued an order allowing affected ILECs to request a waiver from the original implementation schedule, and several such waivers have now been filed.

The competitive environment in which the Company operates changed significantly with the passage of the Telecommunications Act. The Telecommunications Act is intended to remove the formal barriers between the long distance and local telecommunications services markets, allowing service providers from each market (as well as providers of cable television and other services) to compete in all communications markets. Section 271 of the Telecommunications Act establishes procedures to permit RBOCs that meet certain statutory requirements, including a 14-point competitive checklist designed to open the local telecommunications market to competition, to compete in the provision of long distance services ("InterLATA Services") across local access transport areas ("LATAs"). Additionally, the FCC must promulgate new regulations over the next several years to address mandates contained in the Telecommunications Act, which may change the regulatory environment significantly. The Telecommunications Act generally requires ILECs to provide competitors with interconnection and nondiscriminatory access to the ILEC network on more favorable terms than have been available in the past. However, such interconnection and the terms thereof are subject to negotiations with each ILEC, which may involve considerable delays and may not necessarily be obtained on terms and conditions that are acceptable to the Company. However, such interconnection and the terms thereof are subject to negotiations with each ILEC, which may involve considerable delays, and may not necessarily be obtained on terms and conditions that are acceptable to the Company. In such instances, although the Company may petition the proper regulatory agency to arbitrate disputed issues, there can be no assurance that the Company will be able to obtain acceptable interconnection agreements.

As required by the Telecommunications Act, the FCC, in August 1996, adopted new rules implementing the interconnection and resale provisions of the Telecommunications Act (the "Interconnection Order"). These rules constitute a pro-competitive, deregulatory national policy framework designed to remove or minimize the regulatory, economic and operational impediments to full competition for local services, including switched local exchange service. Although setting minimum uniform national rules, the Interconnection Order also relied heavily on states to apply these rules and to exercise their own discretion in implementing a pro-competitive regime in their local telephone markets. Among other things, the Interconnection Order: established rules requiring incumbent ILECs to interconnect with new entrants such as the Company at specified network points; required incumbent ILECs to provide carriers nondiscriminatory access to network elements on an unbundled basis at rates that are just, reasonable and nondiscriminatory; established rules requiring incumbent ILECs to allow interconnection via physical and virtual co-location; required the states to set prices for interconnection, unbundled elements, and termination of local calls that are nondiscriminatory and cost-based; required incumbent ILECs to offer for resale any telecommunications service that the carrier provides at retail to end users at prices to be established by the states but which generally are at retail prices minus reasonably avoided costs; and required ILECs and utilities to provide new entrants with nondiscriminatory access to poles, ducts, conduit and rights-of-way owned or controlled by ILECs or utilities. Exemptions to some of these rules are available to ILECs which qualify as rural ILECs under the Telecommunications Act. The Interconnection Order also required that ILECs provide new entrants with nondiscriminatory access to directory assistance services, directory listings, telephone numbers, and operator services; and ILECs comply with certain network disclosure rules designed to ensure the interoperability of multiple local switched networks. There can be no prediction as to the manner in which the Interconnection Order will be implemented or enforced or as to what effect such implementation or enforcement will have on competition within the telecommunications industry generally or on the competitive position of the Company specifically. In July 1997, the United States Court of Appeals for the Eighth Circuit invalidated certain provisions of the Interconnection Order, including those provisions in which the FCC asserted jurisdiction over the pricing of interconnection elements and the "pick-and-choose" provisions for carriers to adopt select provisions of other carriers interconnection agreements. As has been the case since the Interconnection Order was stayed by the Court of Appeals in October 1996, many states continue to set the prices for interconnection, resale and unbundled network elements in a similar manner to that proposed by the FCC in the Interconnection Order. In August and October 1997, the Eighth Circuit issued additional decisions invalidating portions of the FCC's interconnection orders, including those pertaining to dialing parity requirements and bundling of network elements. The FCC has appealed the Eighth Circuit's rulings to the United States Supreme Court, which has agreed to hear such appeal in the Fall of 1998.

On January 22, 1998, the Eighth Circuit ruled that the FCC cannot apply its local competition pricing rules in reviewing applications of the RBOCs for authorization under Section 271 to provide InterLATA Services in one of their in-region states. If upheld, this decision could make it somewhat easier for the RBOCs to enter the market for in-region long distance services. Although the Company believes that the final outcome of the Eighth Circuit cases, including any further proceedings or a Supreme Court appeal, will not materially adversely affect its operations, there can be no assurance of this.

On December 31, 1997, a United States District Court judge in Texas held unconstitutional certain sections of the Telecommunications Act, including Section 271. The District Court has granted the request of the FCC and certain IXCs for a stay, and the Company expects that the FCC and certain IXCs will file appeals of the decision with the United States Court of Appeals for the Fifth Circuit. Although there can be no assurance as to the outcome of this litigation, the Company believes that significant parts of the District Court decision may be reversed or vacated on appeal. If Section 271 is struck down, RBOC entry into the in-region inter-LATA market would likely be expedited. No RBOC has yet received in-region inter-LATA authority.

Pursuant to the Telecommunications Act, the FCC recently issued orders reforming ILEC access charge mechanisms and establishing new support mechanisms for the provision of universal service. Under the access reform orders, the FCC took steps to make the rate structure in interstate access more efficient and to move access charges (*i.e.*, the transmission of long distance calls from the caller's location to the long distance provider's POP, and from the terminating POP to the recipient of the call) closer to the actual cost of providing such services. As a result, incumbent ILECs that are subject to price cap regulation (*e.g.*, the RBOCs, GTE and Sprint) are required under the order to reduce the interstate rates they charge IXCs for switched local access. For CAPs, such as the Company's Carrier Services operations, which provide local access at rates that are discounted from the rates charged by the incumbent ILECs, access charge reform may have both positive and negative effects (*e.g.*, CAPs might be forced to reduce the rates they charge long distance providers, resulting in lower gross margins (which, in the case of the Company currently are negative); but the more rational cost structure may give CAPs additional opportunities to provide access services to small and mid-sized interexchange carriers). In addition, under the FCC's universal service order, all interstate telecommunications service providers are required to pay for universal service support based on percentages of their end-user revenues to be established quarterly by the FCC. If the Company's operating subsidiaries provide subsidized services, they are eligible to receive universal service support provided they meet certain statutory requirements. The FCC's access charge and universal service orders have been appealed.

The Company is unable to predict what effect the Telecommunications Act (including any changes thereto, interpretations thereof and orders issued thereunder) will have on the telecommunications industry in general and on the Company in particular. No assurance can be given that any regulation will broaden the opportunities available to the Company or will not have a material adverse effect on the Company and its operations. Further, there can be no assurance that the Company will be able to comply with additional applicable laws, regulations and licensing requirements or have sufficient resources to take advantage of the opportunities which may arise from this dynamic regulatory environment.

Pursuant to an international agreement to which the United States is a signatory, the 38.6 to 40.0 GHz band is allocated on a co-primary basis to the Fixed Satellite Services ("FSS") and the 39.5 to 40.5 GHz band is allocated on a co-primary basis to the Mobile Satellite Services. The FCC has not proposed rules to implement the agreement provisions, although comments and a petition for rulemaking have been filed with the FCC by Motorola requesting that such rules be considered and, in particular, that power flux density limits be adopted. In response, on May 21, 1996, the FCC placed on public notice for comment the petition to allocate the 37.5 to 38.6 GHz bands to the FSS and to establish Technical Rules for the 37.5 to 38.6 GHz band. In addition, Motorola requested the FCC to adopt the power flux density limitations of the ITU Radio Regulations for the 37.5 to 40.5 GHz band in order to allow FSS systems and terrestrial microwave operators to co-exist on a co-primary basis. In September 1996, Motorola filed an application at the FCC to offer fixed satellite services using a portion of the radio spectrum that includes the 38.6-40.0 GHz band where the Company holds its Wireless Licenses. On July 14, 1997, Hughes Communications, Inc. filed an application at the FCC to offer fixed satellite services using a portion of the radio spectrum that includes 39.5 to 40.0 GHz. On July 22, 1997, the FCC issued a Public Notice inviting new applicants to construct, launch and operate U.S. licensed space stations to provide satellite services in the 40 GHz band. In response, a number of additional companies have filed applications with the FCC seeking to utilize some or all of the 38 GHz band on a shared basis with terrestrial users including TRW, Inc., Lockheed Martin Corporation, GE American Communications and PanAmSat Corporation. If the FCC were to allow transmissions from space to earth as proposed by such applicants, such transmissions could possibly adversely affect the Company's existing or future operations by creating interference or causing the FCC to institute power and other limitations upon the Company's transmissions. If adopted as proposed, a number of these applications would likely require changes in the FCC's rules, although it would likely be a number of years before such satellite systems could be launched. The extent of the adverse impact upon the Company's operations if such applications were to be granted in their current form is unknown, but there can be no assurance that the Company's operations would not be adversely affected. Although the majority of these applications have not yet been placed on public notice for comment and no final order has been issued in connection with these applications, the FCC issued an NPRM in a band plan proceeding proposing that the 38.6 to 40.0 GHz band be designated for fixed terrestrial wireless services. In the 38 GHz Order, the FCC declined to change this service designation. However, this designation could change in the future.

As described in the 38 GHz Order, the FCC's policy is to align the expiration dates of all outstanding 38 GHz licenses such that they mature concurrently on February 1, 2001 and, upon expiration, to renew all such licenses for ten years if the FCC's "substantial service" buildout requirements are met at renewal. While the Company believes that all of its Wireless Licenses will be renewed based upon FCC custom and practice establishing a presumption in favor of licensees that have complied with their regulatory obligations during the initial license period, there can be no assurance that any Wireless License will be renewed upon expiration of its initial term. The failure of the Company to meet the buildout requirement and obtain a renewal of its Wireless Licenses would have a material adverse effect on the Company.

State regulatory commissions retain nonexclusive jurisdiction over the provision of telecommunications services to the extent such services involve the provision of jurisdictionally intrastate telecommunications. The Company has authorizations to provide services from numerous states and may need to seek additional state authorizations in the future. Municipalities also may regulate limited aspects of the Company's business by, for example, imposing zoning requirements, permit or right-of-way procedures, and certain taxes or franchise fees.

Under the Telecommunications Act, the FCC may, if it finds that the public interest will be served, deny or revoke a common carrier radio license if more than 25% of the capital stock of the entity that directly or indirectly controls the applicant or licensee is owned of record or voted by non-U.S. citizens, foreign governments or their representatives, or non-U.S. corporations. The Telecommunications Act also prohibits a licensee from holding a common carrier radio license if more than 20% of the capital stock of the licensee is owned of record or voted by non-U.S. citizens, foreign governments or their representatives, or non-U.S. corporations. As a result of U.S. commitments to the World Trade Organization ("WTO") Basic Telecommunications Agreement, the FCC adopted, on November 25, 1997, a Report and Order and Order on Reconsideration in which the FCC adopted a liberalized entry policy for carriers from WTO member countries to access the U.S. telecommunications market. The FCC extended this new policy to foreign ownership of common carrier radio licenses, and adopted a rebuttable presumption that greater than 25% ownership by an entity from a WTO member country of a corporation indirectly or directly controlling a common carrier radio licensee is in the public interest. The 20% capital stock restriction on direct investment by all non-US entities in common carrier radio licensees remains in effect. With respect to investors from non-WTO member countries, the FCC will continue to apply an "effective competitive opportunities" test in the exercise of its statutory discretion to permit foreign ownership of more than 25% of a corporation controlling a common carrier radio licensee. In applying the "effective competitive opportunities" test, the FCC generally will consider the ability of U.S. telecommunications carriers to provide services in the home market of the non-WTO Member country at issue. The new policies and rules in the Report and Order and Order on Reconsideration took effect on February 9, 1998.

Additionally, providers of telecommunication services are coming under intensified regulatory scrutiny for marketing activities by them or their agents that result in alleged unauthorized switching of customers from one service provider to another. The FCC and a number of state authorities are seeking to introduce more stringent regulations or take other actions to curtail the intentional or erroneous switching of customers, which could include, among other things, the imposition of fines, penalties and possible operating restrictions on entities which engage or have engaged in unauthorized switching activities. In addition, pursuant to the Telecommunications Act, the FCC has proposed regulations imposing procedures for verifying the switching of customers and additional remedies on behalf of carriers for unauthorized switching of their customers. The effect, if any, of the adoption of any such proposed regulations or other actions on the telecommunications industry and the manner of doing business therein, cannot be anticipated. Other statutes and regulations which are or may become applicable to the Company as it expands could require the Company to alter methods of operations, at costs which could be substantial, or otherwise limit the types of services offered by the Company. See "—Legal Proceedings."

The Communications Decency Act (the "Decency Act"), which was passed as part of the Telecommunications Act, imposed criminal penalties on anyone who distributes obscene, lascivious or indecent communications on the Internet. As enacted, the Decency Act imposed fines on any entity that: (i) by means of a telecommunications device, knowingly sends indecent or obscene material to a minor; (ii) by means of an interactive computer service, sends or displays indecent material to a minor; or (iii) permits any telecommunications facility under such entity's control to be used for the foregoing purposes. That provision, as applied to indecent material, was declared unconstitutional in June 1997 by the United States Supreme Court. While the Clinton Administration has announced that it will not seek passage of similar legislation to replace this provision, action by Congress in this area remains possible. Prior to the enactment of the Decency Act, a federal district court held than an ISP could be found liable for defamation on the grounds that it exercised active editorial control over postings to its service. The Decency Act contains a provision which, one court has held, shields ISPs from such liability for material posted to the Internet by their subscribers or other third parties.

New Media Business

WinStar believes that the ability to package information, entertainment and other content and services with telecommunications services will become an increasingly important factor in the business customer's decision to select or retain a telecommunications provider. The Company actively seeks opportunities to acquire the rights or means to market and distribute information and entertainment content and services both in traditional markets (such as television, video, cable and radio) and through new media channels such as Internet sales and services. The Company believes that such content services will enhance the marketability of the Company's telecommunications services.

The Company's media and information services and entertainment content operations are conducted through its wholly-owned subsidiary, WinStar New Media Company, Inc. ("WinStar New Media"), and WinStar New Media's subsidiaries, and are organized into three operating units: WinStar for Business; WinStar TV and Video; and WinStar Networks.

WinStar for Business™ provides business information to businesses through WinStar Telebase Inc. ("WinStar Telebase"), an on-line business information service. WinStar Telebase designs, manages and markets on-line information services culled from more than 1,000 databases and leading electronic information services, including Dialogue, Dun & Bradstreet and TRW. WinStar Telebase's services provide "pay-as-you go" access to business, research and specialized information both directly and indirectly through more than 25 private label distributors such as CompuServe (now owned by AOL), Prodigy and AOL. These services allow users to search over 1,000 on-line resources, including specialized and technical publications, news and financial sources in order to access a variety of material such as credit, medical, patent and trademark information. WinStar Telebase recently launched the WinStar Business Info Center℠, a private-label on demand business information service customized for WinStar's customers and being offered through WinStar's telecommunications sales force.

WinStar TV and Video produces and distributes non-fiction and entertainment programming. Historical documentaries produced by WinStar New Media include *The Great Ships* and *Gunfighters of the Old West*, for exhibition on the cable television outlets The History Channel and The Learning Channel, respectively. This unit also distributes television and film products to broadcast, satellite and cable channels on a worldwide basis, drawing from a library of approximately 1,500 hours of documentary, light entertainment and special interest titles. The unit's U.S. video division focuses on the distribution of classic foreign and art films under its Fox/Lorber label, such as *Umbrellas of Cherbourg* and Z, and releases special interest video titles under its WinStar Home Entertainment label, such as *Leslie Nielsen's Stupid Little Golf Video*. In addition, WinStar Broadcasting Corp., a wholly-owned subsidiary of WinStar New Media, has broadcast license applications pending with the FCC in a number of television markets.

WinStar Networks owns and operates SportsFan Radio ("SportsFan"), which provides live sports talk and information to approximately 350 radio stations across the United States, up to 24 hours a day, seven days a week, featuring on-air personalities such as John Madden, James Brown, Pat O'Brien and Keith Olbermann. SportsFan also has a developing on-line presence on the World Wide Web and AOL (AOL Keyword: SportsFan). In addition, WinStar Networks sells both advertising time for third-party syndicated radio program suppliers and advertising for content-driven interactive media sites.

The industry in which the Company's new media operation competes consists of a very large number of entities producing, owning or controlling news, sports, entertainment, business and educational and informational content and services, including telecommunications companies, television broadcast companies, sports franchises, film and television studios, record companies, newspaper and magazine publishing companies, universities and on-line computer services and networks. Competition is intense for timely and highly marketable or usable information and entertainment content. Almost all of the entities with which the Company's new media operation competes have significantly greater presence in the various media markets and greater resources than the Company, including existing content libraries, financial resources, personnel and existing distribution channels. There can be no assurance that the Company will be able to successfully compete in the emerging new media industry.

Other Business

The Company has historically generated a significant portion of its revenues from the resale of long distance services to residential customers. As part of its CLEC service offerings, the Company is focusing on the sale of long distance services to businesses and is not currently marketing such services to residential customers on an active basis. In connection with the Midcom Asset Acquisition, the Company also acquired a cellular services reseller which provides services in the northwest United States and a minority interest in a provider of telecommunication services in the Russian Far East.

Prior to the Company's entry into the telecommunications industry, it marketed and distributed consumer products, including personal care and bath and beauty products, through Global Products, a nonstrategic subsidiary. That subsidiary continues to sell such products, primarily to large retailers, mass merchandisers, discount stores, department stores, national and regional drug store chains and other regional retail chains. The Company expects to divest itself of this subsidiary during the next 12 months, and the operations of Global Products are reflected in the Company's financial statements as discontinued operations.

Employees

As of March 20, 1998, the Company had approximately 2,100 employees. The Company is not a party to any collective bargaining agreements and has never experienced a strike or work stoppage. The Company considers its relations with its employees to be satisfactory.

Item 2. Properties

The Company's corporate headquarters are located at 230 Park Avenue, New York, New York 10169. These headquarters are situated in approximately 18,000 square feet of space which are leased by the Company. The Company has leases for additional office space of approximately 6,000 square feet and 11,500 square feet, each at 230 Park Avenue. Each of the above-described leases expires in November 2006. The Company maintains leases on other properties used in the operations of its subsidiaries, including leases for its CLEC operations facilities in Tysons Corner and Vienna, Virginia. The Company believes that its insurance coverage on its properties is adequate and that the Company, and each of its subsidiaries, as the case may be, is in compliance with the related leases.

Item 3. Legal Proceedings

WinStar Gateway Network, Inc., the Company's residential long distance subsidiary ("WinStar Gateway") occasionally receives inquiries from state authorities and the FCC with respect to consumer complaints concerning the provision of telecommunications services, including allegations of unauthorized switching of long distance carriers and misleading marketing. The Company believes such inquiries are common in the long distance industry and addresses such inquiries in the ordinary course of business. In December 1996, the FCC and WinStar Gateway entered into a consent decree which terminated an inquiry by the FCC into any alleged violations of unauthorized carrier conversions through the use of contest programs by some of WinStar Gateway's agents. The FCC cited WinStar Gateway's efforts in identifying the problems caused by these agents and its proactive response in implementing remedial actions on its own as significant factors leading to the consent decree in lieu of initiating a formal investigation. The Company entered into assurances of voluntary compliance with the attorneys general of a number of states and has also initiated negotiations with other state authorities to resolve any claims by such authorities arising from the contest programs. The Company does not believe that resolution of these issues will have a material adverse effect on the Company, its financial condition or its results of operations.

In June 1996 the Company, as plaintiff, commenced an action for declaratory judgment against Nelson Thibodeaux, a former officer of WinStar Gateway, in the Federal District Court for the Southern District of New York, seeking a declaration that the Company has no obligation to Mr. Thibodeaux under stock option agreements granted to him during his employment with WinStar Gateway. This action was commenced in response to claims made by Mr. Thibodeaux that he is entitled to a significant number of additional options (or the cash value thereof) pursuant to the antidilution provisions of such agreements. The Company strongly believes that no events have taken place which would have triggered such antidilution provisions. Additionally, the Company seeks monetary damages arising from an alleged breach by Mr. Thibodeaux of the non-competition and related provisions contained in his employment agreement with the Company. Mr. Thibodeaux has answered the Company's complaint, denying all of the Company's assertions and asserting counterclaims seeking damages against the Company, Mr. Rouhana and Fredric E. von Stange, who is a former director and Chief Financial Officer of the Company, all of whom deny any liability to Mr. Thibodeaux. The Company intends to diligently proceed with this action which is currently in the discovery phase.

In January 1998, a stockholder suit, purported to be a class action, was commenced against the Company, its directors (and certain former directors) and one non-director officer in the Delaware Chancery Court seeking, among other things, to invalidate certain portions of the Company's Stockholder Rights Plan, adopted in July 1997 (the "Rights Plan"), and to recover unspecified damages and attorneys' fees. The complaint alleges that certain provisions of the Rights Plan, particularly the so-called "Continuing Directors" provision, are not permitted under the Delaware General Corporate Law and the Company's Certificate of Incorporation. The Company believes that these allegations are without merit and that the Rights Plan was properly adopted and is valid in its entirety. The Company is reviewing its available alternatives with regard to responding to this action.

Item 4. Submission of Matters to a Vote of Securityholders

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholders Matters

The Company's Common Stock has been quoted on the Nasdaq National Market since June 1994 under the symbol "WCII."

The following table sets forth, for the fiscal periods indicated, the high and low last sale prices of the Common Stock as reported on the Nasdaq National Market. The quotes represent "inter-dealer" prices without adjustment or mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

Period Ending	High	Low
March 31, 1996	$18¾	$13⅜
June 30, 1996	32¼	16
September 30, 1996	29	15⅜
December 31, 1996	23⅞	16⅛
March 31, 1997	20¾	11⅞
June 30, 1997	14⅜	10⅝
September 30, 1997	19⁵⁄₁₆	14⅜
December 31, 1997	29¾	21¼
January 1, 1998 through March 27, 1998	46⅞	24⅜

The last sale price of the Common Stock on March 27, 1998 was $44.75 per share. As of that date the Company had approximately 37,217,000 shares of Common Stock outstanding held by more than 1,000 beneficial holders.

The following securities were issued by the Company in unregistered transactions in the fourth quarter of 1997:

Securities Sold (Date Sold)	Purchasers	Consideration	Exemption Claimed	Terms of Conversion or Exercise	Use of Proceeds
175,000 shares of Series C Preferred Stock	Certain institutions	$175 million, less certain discounts and expenses	Rule 144(A)	Not applicable.	The proceeds of this issuance were/will be used for the MIDCOM Acquisition, Growth of the Company's business and working capital.
251,547 shares of Common Stock (Various dates from 10/1/97-12/31/97)	Various individuals and entities	Shares issued as consideration in various acquisitions	4 (2)	Not applicable.	The Company did not receive cash proceeds for these shares.

Item 6. Selected Financial Data

The financial data presented below has been derived from the Company's audited Consolidated Financial Statements. The data has been presented to reflect the operations of WinStar Global Products, Inc. ("Global Products"), the Company's merchandising subsidiary, as a discontinued operation.

	Year Ended February 28, 1994	Year Ended February 28, 1995	Ten Months Ended December 31, 1995	Year Ended December 31, 1996	Year Ended December 31, 1997
	(Dollars in thousands, except per share data)				
Statement of Operations Data:					
Net sales:					
Telecommunications	$ 8,505	$ 14,909	$ 13,137	$ 33,969	$ 38,277
Information services	—	473	2,648	14,650	41,354
Other	1,278	—	—	—	—
Total net sales	9,783	15,382	15,785	48,619	79,631
Operating income (loss):					
Telecommunications	(660)	(4,984)	(7,288)	(43,698)	(153,139)
Information services	—	(157)	217	(1,409)	(4,092)
Other	(272)	—	—	—	—
General corporate	(1,342)	(944)	(3,861)	(11,373)	(30,815)
Total operating loss	(2,274)	(6,085)	(10,932)	(56,480)	(188,046)
Interest expense	(724)	(375)	(7,186)	(36,748)	(77,257)
Interest income	109	343	2,890	10,515	17,577
Other (expenses) income, net (a)	(5,316)	(1,109)	(866)	—	4,719
Loss from continuing operations	(8,205)	(7,226)	(16,094)	(82,713)	(243,007)
(Loss) income from discontinued operations	10	(4)	237	(1,010)	(6,477)
Net loss	(8,195)	(7,230)	(15,857)	(83,723)	(249,484)
Preferred stock dividends	—	—	—	—	(5,879)
Net loss applicable to common stock	$(8,195)	$ (7,230)	$(15,857)	$(83,723)	$(255,363)
Basic and diluted loss per share:					
Loss per common share from continuing operations	$ (1.06)	$ (0.42)	$ (0.71)	$ (2.96)	$ (7.49)
(Loss) income per common share from discontinued operations	—	—	0.01	(0.04)	(0.19)
Net loss per common share outstanding	$ (1.06)	$ (0.42)	$ (0.70)	$ (3.00)	$ (7.68)
Weighted average common shares outstanding	7,719	17,122	22,770	27,911	33,249

	February 28, 1994	February 28, 1995	December 31, 1995	December 31, 1996	December 31, 1997
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 646	$ 2,895	$ 211,602	$ 122,487	$ 419,262
Property and equipment, net	$ 951	$ 2,190	$ 15,063	$ 65,572	$ 284,835
Total assets	$ 12,713	$ 25,338	$ 278,226	$ 278,789	$ 976,401
Current portion of long-term debt and capital lease obligations	$ 1,790	$ 285	$ 5,275	$ 23,011	$ 7,234
Long-term debt and capital lease obligations, less current portion	$ 3,084	$ 2,389	$ 240,428	$ 276,007	$ 790,292
Exchangeable Redeemable Preferred Stock	$ —	$ —	$ —	$ —	$ 175,553
Common and preferred stock and additional paid-in capital(b)	$ 22,665	$ 43,518	$ 104,823	$ 75,726	$ 256,126
Stockholders' equity (deficit)	$ 3,547	$ 17,206	$ 21,752	$ (49,671)	$(118,392)

(Footnotes on next page)

(Footnotes from previous page)

(a) For the year ended February 28, 1994, principally represents non-cash expense of $5.3 million, consisting of the difference between the exercise prices of certain options granted in connection with the Company's initial public offering in April 1991 and the market value of the underlying shares of Common Stock on the date such options became exercisable. The year ended December 31, 1997 includes a deferred income tax benefit of $2.5 million.

(b) The Company did not declare or pay any dividends on its Common Stock during the periods covered hereby.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Company Overview

The Company operates the following lines of business: (i) CLEC Services, including local and long distance voice and data telecommunications services to business customers, (ii) Carrier Services, including wireless broadband local access and dedicated network services to other telecommunications providers, and (iii) Information Services, including the provision of information products and services to the Company's telecommunications customers as well as the creation and distribution of information and entertainment products and services through a variety of traditional and new media outlets such as radio, television and the Internet. Residential Long Distance includes the resale of long distance services to residential customers. As part of its CLEC service offerings, however, the Company is focusing on the sale of long distance services to businesses and no longer markets Residential Long Distance services.

Revenues

Revenues generated by the Company's telecommunications businesses represent an increasing percentage of the Company's consolidated revenues as the Company expands its full range of voice and data telecommunications services into new markets. Factors driving the mix of revenues are as follows:

CLEC Services

Revenues from local and long distance products are driven primarily by the number of customer lines installed and in service. Customers generally are billed a flat monthly fee and/or a per-minute usage charge. Data services revenues generally are billed as a flat monthly charge for capacity ordered. Revenue growth depends upon the addition of new customers in existing markets, the sale of bundled services such as long distance, the expansion of markets served by the Company, and the introduction of new services, such as broadband data transmission and video conferencing services. Revenues from CLEC Services were approximately $10.2 million in the quarter ended December 31, 1997, versus $6.5 million in the quarter ended September 30, 1997, $4.0 million in the quarter ended June 30, 1997 and $2.0 million in the quarter ended March 31, 1997. The Company expects its CLEC Services revenues, including voice and data telecommunications services, to continue to increase as it expands its network and network utilization increases.

Carrier Services

Carrier Services revenues are driven primarily by the number and capacity (*i.e.*, T-1s or DS-3s) of Wireless Fiber links in service and sold to the Company's wholesale customers. The Company currently is focusing its wholesale selling activities on a select number of large carriers.

Residential Long Distance

The Company markets its long distance services as a part of its integrated telecommunications offerings, focusing on sales to business customers. As a result, the Company has allowed revenues from its Residential Long Distance service to decline through attrition as it focuses on its core business market and it expects this decline to continue.

Information Services

Information Services revenues are generated principally by: (i) sales of content and related services to traditional customers, such as cable networks and radio stations; (ii) sales to new media distribution channels, such as on-line services; (iii) advertising sales; and (iv) the bundling of content with the Company's telecommunications services. Revenues also are driven by the amount and quality of the Company's available program rights during each quarter and some seasonality of sales, which affect quarter-to-quarter comparability. The Company expects Information Services revenues to increase as the Company expands its information service offerings and increases cross-sales of such services to CLEC customers.

Costs

Factors relating to costs are as follows:

CLEC Services

Costs associated with the Company's CLEC business include significant up-front capital expenditures for development of the infrastructure required to provide facilities-based local exchange and data services, including expenditures relating to purchases and installation of switching equipment, radios, customer premise equipment and related site acquisition and installation costs. In addition, the Company is incurring start-up costs related to its CLEC business that will not be capitalized, including some costs of engineering, sales office and service personnel, marketing, administrative and other personnel, certain of whom will be needed in advance of related revenues. As the Company commences operations in a city, its cost of revenue percentage is greater as fixed costs are spread over less traffic. Margins on CLEC Services revenues are improved as traffic increases, and the fixed network costs are spread over a larger traffic base. Although the Company strives to carry all of its traffic over its own facilities, the Company will continue to carry certain amounts of its traffic over leased or resold facilities at lower margins. The resale of CLEC Services typically will result in lower operating margins than the provision of services over the Company's own facilities.

Carrier Services

The Company's Carrier Services business utilizes the same fixed wireless network which the Company is building for its CLEC Services business. Accordingly, as network utilization increases, the related cost of Carrier Services as a percentage of revenue decreases.

Residential Long Distance

Costs associated with the Company's residential long distance business include expenses related to minutes purchased from major carriers for resale, and accordingly fluctuate with revenue. Typically, reductions of such costs are achieved through negotiated volume rebates and competitive contract pricing.

Information Services

The Company's Information Services businesses have production, distribution and administrative costs. Film production costs include those related to producing original products and licensing third-party products and are capitalized as incurred and are expensed as productions are completed and distributed. Overhead costs in the production division are also capitalized and allocated to films in progress, and are subsequently expensed as such films are completed and distributed. Other media production costs are expensed as incurred. The distribution and advertising divisions incur royalty costs payable to third-party producers and selling costs, both of which vary directly with sales of acquired product, as well as administrative costs and personnel-related costs, which are primarily fixed in nature and which are expensed as incurred.

Results of Operations

Revenues of the Company's operating business lines are as follows (in millions):

	Ten Months Ended December 31,(a)		Year Ended December 31,		
	1994	1995	1995	1996	1997
Telecommunications Services:					
CLEC Services	$ —	$ —	$ —	$ 0.5	$ 22.7
Carrier Services	—	0.1	0.1	3.9	7.1
Residential Long Distance	13.4	13.0	14.5	29.5	8.5
	13.4	13.1	14.6	33.9	38.3
Information Services	0.2	2.6	2.9	14.6	41.3
Total Revenues from Continuing Operations	$ 13.6	$ 15.7	$ 17.5	$ 48.6	$ 79.6

(a) The Company changed its fiscal year to December 31 from February 28 effective January 1, 1996.

The following discussion of results of operations does not include the results of operations of Global Products, which has been reclassified as a discontinued operation.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

Revenues from continuing operations increased by $31.0 million, or 64%, for the year ended December 31, 1997, to $79.6 million, from $48.6 million for the year ended December 31, 1996. This increase was attributable to increased revenues generated by the Company's CLEC, carrier services and information services businesses, partially offset by a decrease in residential long distance revenues.

Revenues from CLEC services, which include all commercial end user customer telecommunication revenues, were $22.7 million in the year ended December 31, 1997, and were minimal in the year ended December 31, 1996, as the CLEC business commenced operations in the second quarter of 1996. As of December 31, 1997, the CLEC business had installed 82,000 lines, up from 51,000 lines at September 30, 1997 and 4,400 at December 31, 1996. The annualized revenues from December 1997 for the CLEC business were approximately $46.2 million.

Revenues from carrier services increased $3.2 million to $7.1 million in the year ended December 31, 1997, as compared to $3.9 million in the year ended December 31, 1996. This increase resulted from the growing number of billed circuits, along with installation revenue and equipment sales related to contract services provided.

WinStar's residential long distance revenues decreased $21.0 million to $8.5 million in the year ended December 31, 1997, compared to $29.5 million in the year ended December 31, 1996. Such a decrease was expected and was the result of WinStar's focus on its core business of selling communications services to business customers and to other carriers.

Revenues from information services increased by $26.7 million, or 182%, in the year ended December 31, 1997, to $41.3 million, from $14.7 million in the year ended December 31, 1996, due to continued internal growth and acquisitions, including the Teligent online business service acquired earlier in 1997.

Cost of services and products increased by $42.8 million, or 112%, for the year ended December 31, 1997, to $81.0 million, from $38.2 million for the year ended December 31, 1996. As a percentage of sales, cost of services and products in the year ended December 31, 1997 was 102% compared with 79% in the year ended December 31, 1996, as a result of increasing network costs from the continued expansion of the Company's local telecommunications business.

Selling, general and administrative expense increased by $94.6 million to $157.0 million for the year ended December 31, 1997, from $62.4 million for the year ended December 31, 1996. The Company continued to hire sales, marketing and related support personnel in connection with the accelerated rollout of its CLEC operations, which had only 500 employees at December 31, 1996 and approximately 1,200 employees at December 31, 1997. In addition, the Company increased spending on related advertising and marketing of its CLEC services.

Depreciation and amortization expense increased by $25.2 million for the year ended December 31, 1997, to $29.7 million, from $4.5 million for the year ended December 31, 1996. This growth in expense resulted principally from the Company's acquisition and deployment of switches, radios and other equipment in connection with its telecommunications network buildout.

For the reasons noted above, the operating loss for the year ended December 31, 1997 was $188.0 million, compared with an operating loss of $56.5 million for the year ended December 31, 1996.

Interest expense increased by $40.5 million, or 110%, for the year ended December 31, 1997, to $77.3 million, from $36.7 million for the year ended December 31, 1996. The increase was principally attributable to the Company's issuance of debt in 1997. Of the $77.3 million interest expense for the year, $53.5 million is not payable in cash until after 1999.

Interest income increased by $7.1 million, or 67%, for the year ended December 31, 1997, to $17.6 million, from $10.5 million for year ended December 31, 1996. The increase resulted from the additional interest income earned on the proceeds from the Company's issuance of debt and equity securities in 1997.

In 1997, the Company recognized dividends of $5.9 million on its placement of Series A and Series C Preferred Stock, which were paid in kind.

For the reasons noted above, the Company reported a net loss applicable to Common Stock of $255.4 million for the year ended December 31, 1997, compared to a net loss of $83.7 million for the year ended December 31, 1996.

Year Ended December 31, 1996 Compared to Year Ended December 31, 1995

Revenues from continuing operations increased by $31.1 million, or 178%, for the year ended December 31, 1996, to $48.6 million, from $17.5 million from the year ended December 31, 1995. This increase was primarily attributable to increased revenues generated by the Company's telecommunications and information services segments.

The Company's telecommunications services revenues increased by $19.3 million, or 132%, for the year ended December 31, 1996, to $33.9 million, from $14.6 million for the year ended December 31, 1995, principally resulting from an increase in revenues from residential long distance telephone services. Revenues from the information and entertainment services segment increased by $11.8 million, or 407%, for the year ended December 31, 1996, to $14.7 million, from $2.9 million for the year ended December 31, 1995, due to continued growth of this segment internally and through acquisitions. The revenue increase in 1996 was generated primarily from increased production and distribution of entertainment content, including documentaries, foreign films and multimedia sports programming.

Cost of services and products increased by $23.6 million, or 161%, for the year ended December 31, 1996, to $38.2 million, from $14.6 million for the year ended December 31, 1995. As a percentage of sales, cost of services and products in 1996 was 78%, compared with 83% in 1995, due in part to increased start-up costs for facilities in connection with the rollout of the Company's telecommunications network.

Selling, general and administrative expense increased by $47.6 million to $62.4 million for the year ended December 31, 1996, or 128% of revenues, from $14.8 million, or 85% of revenues, for the year ended December 31, 1995. Selling, general and administrative expense increased predominantly in the telecommunications segment as the Company continued to hire sales, marketing and related support personnel in connection with the accelerated rollout of its CLEC operations, and increased spending on related advertising and marketing of services in new and existing cities where the Company offered its services.

Depreciation and amortization expense increased by $3.5 million, or approximately 350%, for the year ended December 31, 1996, to $4.5 million, from $1.0 million for the year ended December 31, 1995, principally resulting from the Company's acquisition of switches, radios and other telecommunications equipment.

For the reasons noted above, the operating loss for the year ended December 31, 1996, was $56.5 million, compared to an operating loss of $12.9 million for the year ended December 31, 1995.

Interest expense increased by $29.5 million, or approximately 410%, for the year ended December 31, 1996, to $36.7 million, from $7.2 million for the year ended December 31, 1995. The increase was primarily attributable to $33.5 million in interest accrued on the 1995 Notes issued in the 1995 Debt Placement, which is not payable in cash until after 1999.

Interest income increased by $7.6 million, or approximately 262%, for the year ended December 31, 1996, to $10.5 million, from $2.9 million for the year ended December 31, 1995. The increase is attributable to short-term investment earnings on the proceeds of the 1995 Debt Placement.

For the reasons noted above, the Company reported a net loss of $83.7 million for the year ended December 31, 1996, compared to a net loss of $18.2 million for the year ended December 31, 1995.

Ten Months Ended December 31, 1995 Compared to the Ten Months Ended December 31, 1994

Revenues from continuing operations for the ten months ended December 31, 1995 increased by $2.2 million, or 16%, to $15.8 million, from $13.6 million in the comparable period of the prior year. This increase was attributable to increased revenues in the Company's information services line of business. During the ten months ended December 31, 1995, the Carrier Services business had only nominal revenues. The information services line of business, which reported nominal revenues in the prior year, had revenues of approximately $2.6 million for the ten months ended December 31, 1995, related primarily to the completion of certain documentary television products.

Cost of services and products for the ten months ended December 31, 1995 increased by $2.7 million, to $12.1 million, from $9.4 million for the ten months ended December 31, 1994. The increase was principally attributable to the growth in the Company's information services line of business, along with initial expenses incurred in connection with the Company's telecommunications network.

Selling, general and administrative expenses increased by $5.7 million to $13.6 million, or 86% of revenues, for the ten months ended December 31, 1995, from $7.9 million, or 58% of revenues, in the comparable period of the prior year. Factors contributing to the increase were: the acquisition of Avant-Garde Telecommunications, Inc. ("Avant-Garde," the original holder of many of the Wireless Licenses) and the consolidation of that entity's results of operations into the Company's financial statements from July 17, 1995 onward; the hiring of additional personnel; and the expansion of the Company's infrastructure to manage future growth in its telecommunications business.

For the reasons noted above, the operating loss for the ten months ended December 31, 1995, was $10.9 million, compared to an operating loss of $3.9 million in the comparable period of the prior year.

Interest expense increased by $6.9 million to $7.2 million for the ten months ended December 31, 1995, from $0.3 million for the ten months ended December 31, 1994, reflecting principally the non-cash accretion of interest on certain indebtedness issued in the 1995 Debt Placement.

Interest income for the ten months ended December 31, 1995 increased by $2.6 million, to $2.9 million, compared with $0.3 million for the same period during the prior year. The increase was attributable to earnings on the 1995 Debt Placement, which raised net proceeds of $214.5 million.

For the reasons noted above, the Company reported a net loss of $15.9 million for the ten months ended December 31, 1995, compared to a net loss of $4.6 million in the comparable period of the prior year.

Liquidity and Capital Resources

In February 1997, the Company and a subsidiary sold 4,000,000 shares of its 6% Series A Cumulative Convertible Preferred Stock and warrants to purchase 1,600,000 shares of Common Stock in a private placement, pursuant to which they realized aggregate net proceeds of approximately $96.0 million.

In March 1997, the Company sold $100.0 million principal amount of 14½% Senior Deferred Interest Notes Due 2005 and a subsidiary, WinStar Equipment Corp. ("WEC") sold $200.0 million principal amount of 12½% Guaranteed Senior Secured Notes Due 2004 ("WEC Notes") in a private placement, pursuant to which they realized net proceeds of approximately $290.5 million. In August 1997, another subsidiary, WinStar Equipment II Corp. ("WEC II") sold $50.0 million principal amount of 12½% Guaranteed Senior Secured Notes Due 2004 ("WEC II Notes," and, together with the WEC Notes, the "Equipment Notes") in a private placement, generating net proceeds of approximately $48.5 million. In October 1997, the Company sold $100.0 million principal amount of 15% Senior Subordinated Deferred Interest Notes Due 2007 in a private placement, realizing net proceeds of approximately $94.0 million. Under the terms of the Equipment Notes, the principal amount thereof must be utilized by March 18, 1999 and August 8, 1999, respectively, to purchase designated equipment or for the redemption of the Equipment Notes. See Note 21 of the Consolidated Financial Statements included elsewhere in this Report for a description of the operations of WEC and WEC II.

In December 1997, the Company and one of its subsidiaries sold 175,000 shares of the Company's 14¼% Senior Cumulative Exchangeable Preferred Stock Due 2007, pursuant to which they realized net proceeds of approximately $168.0 million.

At December 31, 1997, the Company had approximately $419.3 million in cash, cash equivalents and short-term investments, of which approximately $183.0 million is to be used to finance equipment purchases and related costs in connection with the Company's rollout of its telecommunications infrastructure in accordance with the terms of the Equipment Notes and $92.0 million was used in January 1998 for the purchase of assets of Midcom.

In March 1998, (i) the Company and a subsidiary consummated a private placement of $200.0 million of the Company's 7% Senior Cumulative Convertible Series D Preferred Stock, (ii) the Company consummated private placements of $200.0 million of its 10% Senior Subordinated Notes Due 2008 (the "Cash Pay Notes") and $250.0 million of its 11% Senior Subordinated Deferred Interest Notes Due 2008, and (iii) a subsidiary of the Company consummated a sale leaseback of certain telecommunications switches acquired by the Company from US One in October 1997, which is expected to generate net proceeds of approximately $42.0 million.

The Company has incurred significant operating and net losses, due in large part to the development of its telecommunications services business, and anticipates that such losses will continue over the near term as the Company executes its growth strategy. A significant portion of the Company's capital requirements will result from the rollout of the Company's CLEC business. The Company is building a direct sales force, having opened sales offices serving each of the markets in which it offers CLEC services, and is in the process of expanding into other metropolitan areas. Additionally, the Company is in the process of ordering and installing switching and other network equipment to be placed in its key markets. Historically, the Company has funded its operating losses and capital expenditures through public and private offerings of debt and equity securities and from credit and lease facilities. Cash used to fund negative EBITDA during the year ended December 31, 1997 was approximately $158.0 million, and purchases of property and equipment during the year ended December 31, 1997 was approximately $222.3 million. At December 31, 1997, the Company's working capital totaled $366.0 million and its cash, cash equivalents and short-term investments were $419.3 million, as compared to working capital of $108.7 million and cash, cash equivalents and short-term investments of $122.5 million at December 31, 1996.

Other than the Equipment Notes and the Cash-Pay Notes and certain capitalized lease obligations, each of which requires periodic cash interest or equivalent payments, the Company's principal indebtedness does not require the Company to pay cash interest until 2001.

The Company has the ability to moderate its capital spending and EBITDA losses by varying the number of markets in which it builds network and offers service. In the event that the Company slows the speed or narrows the focus of its business plan, the Company will reduce its capital requirements and EBITDA losses. Under its current plans to expand to 40 major metropolitan markets on a switched basis by the end of 1999, the Company plans to spend approximately $300.0 million in each of 1998 and 1999 for capital equipment, which may require the Company to seek additional capital from financial institutions, equipment vendors or in the financial markets. The Company anticipates, based on current plans and assumptions relating to its operations, that existing financial resources, together with additional equipment and accounts receivable financing arrangements that the Company intends to seek, will be sufficient to fund the Company's operations and capital requirements for approximately 18 to 30 months from the date of this Report. The Company believes that it will be able to obtain sufficient capital to execute its business plan. In the event that the Company's assumptions change or prove to be inaccurate, the Company consummates any acquisitions of significant businesses or assets (including spectrum licenses other than those being acquired by the Company in the recently completed auction of LMDS Licenses, by auction or otherwise), the Company accelerates its plan and enters markets more rapidly, or the Company fails to secure additional equipment financing arrangements, the Company may be required to seek additional sources of capital sooner than currently anticipated.

In addition to binding commitments to purchase $31.0 million of telecommunications capital equipment, the Company had commitments to pay approximately $55.0 million in Common Stock, or at the Company's election, cash, in connection with the acquisition of additional spectrum licenses, of which shares having a value of approximately $28.5 million were issued in March 1998. Additionally, the Company was the highest bidder on certain LMDS Licenses in the LMDS Auction and has committed to pay approximately $30.0 million in connection therewith (in addition to the Company's $13.0 million initial downpayment in such auction).

Year 2000 Compliance

The Company has completed a review of its computer systems and operations to determine the extent to which its systems will be vulnerable to potential errors and failures as a result of the "Year 2000" problem. The Year 2000 problem is the result of prior computer programs being written using two digits, rather than four digits, to define the applicable year. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in major system failure of miscalculations.

The Company has concluded that its significant computer programs and operations will not be affected by the Year 2000 problem and that the programs that will be affected can and will be properly modified or replaced by the end of 1999 at a cost which will not be significant to the Company.

However, to the extent that other telecommunications carriers in the national telecommunications infrastructure, including carriers whose services are resold by the Company or to which the Company's network is interconnected directly or indirectly, are not Year 2000 compliant, there can be no assurance that such resulting problems will not have a material adverse effect on the Company.

Effect of Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130), governing the reporting and display of comprehensive income and its components, and Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" (SFAS No. 131), requiring that all public businesses report financial and descriptive information about their reportable operating segments. The Company will implement SFAS 130 and SFAS 131 as required in 1998. The impact of adopting SFAS No. 130 is not expected to be material to the consolidated financial statements or notes to consolidated financial statements. Management is currently evaluating the effect of SFAS No. 131 on consolidated financial statement disclosures.

Forward-Looking Statements

This Report contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of the Company. These forward-looking statements involve certain risks and uncertainties. Such forward-looking statements are contained in the sections "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business-Business Strategy," among others. In addition, in those and other portions of this Report, the words "anticipate," "believe," "estimate," "expect," "plan," "intend" and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. No assurance can be given that any of such expectations will be realized. Factors that may cause actual results to differ materially from those contemplated by such forwardlooking statements include, without limitation: (a) the Company's ability to service its debt or to obtain financing for the buildout of its telecommunications network; (b) the Company's ability to attract and retain a sufficient revenue-generating customer base; (c) competitive pressures in the telecommunications industry; and (d) general economic conditions.

Item 8. Financial Statements and Supplementary Data

The financial statements required by Item 8 are included in this Report beginning on Page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

The information required by Items 10, 11, 12 and 13 of Form 10-K is incorporated herein by reference to the Company's Proxy Statement for the Annual Meeting of Stockholders anticipated to be held on June 10, 1998.

ITEM 14. Exhibits, List and Reports

(a) Exhibits

Exhibit Number	Description
3.1	— Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit to the Company's Registration Statement on Form S-18 (No. 33-37024))
3.2	— Amendment to Restated Certificate of Incorporation of the Company effecting name change from "Robern Apparel, Inc." to "Robern Industries, Inc." (Incorporated by reference to Exhibit 3.1(b) to the Company's Registration Statement on Form S-4 (No. 33-52716))
3.3	— Second Amendment to Restated Certificate of Incorporation of the Company effecting name change from "Robern Industries, Inc." to "WinStar Communications, Inc." (Incorporated by reference to Exhibit 3.1(b) to the Company's Registration Statement on Form S-1 (No. 33-43915))
3.4	— Certificate of Designations, Preferences and Rights of Series A Preferred Stock (Incorporated by reference to Exhibit 3.7 to the Company's Current Report on Form 8-K filed February 14, 1997)
3.5	— Certificate of Designations, Preferences and Rights of Series B Preferred Stock (Incorporated by reference to Exhibit 4 to the Company's Current Report on Form 8-K filed July 2, 1997)
3.6	— Certificate of Designations, Preferences and Rights of Series C Preferred Stock (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed December 24, 1997)
3.7	— Certificate of Designations, Preferences and Rights of Series D Preferred Stock (Incorporated by reference to Exhibit 2 to the Company's Current Report on Form 8-K filed March 30, 1998)
3.8	— By-Laws of the Company (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-18 (No. 33-37024))
10.1	— 1992 Performance Equity Plan (Incorporated by reference to Exhibit 10.53 to the Company's Registration Statement on Form S-18 (No. 33-37024))
10.2	— 1995 Performance Equity Plan (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 (No. 333-31057))
10.3	— Employment Agreement between the Company and William J. Rouhana, Jr. (filed herewith)
23.1	— Consent of Grant Thornton LLP to Incorporate Financial Statements included in this Report on Form 10-K into the Company's Registration Statements on Forms S-3, Form S-4 and Forms S-8 (filed herewith).

(b) — Reports on Form 8-K

(1) Current Report on Form 8-K filed October 29, 1997;

(2) Current Report on Form 8-K filed October 31, 1997; and

(3) Current Report on Form 8-K filed December 24, 1997.

Copies of the exhibits listed above will be made available by the Company to any stockholder upon written request of the stockholder addressed to WinStar Communications, Inc., 230 Park Avenue, Suite 2700, New York, New York 10169, Attention: Investor Relations. Any stockholder requesting a copy of any such exhibit will be charged a copying fee of $.25 per page.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 30th day of March, 1998.

WINSTAR COMMUNICATIONS, INC.

By: /s/ WILLIAM J. ROUHANA, JR.

William J. Rouhana, Jr.
Chairman of the Board and
Chief Executive Officer

In accordance with Section 13 or 15(d) of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ WILLIAM J. ROUHANA, JR. William J. Rouhana, Jr.	Chairman of the Board of Directors, Chief Executive Officer and Director	March 30, 1998
/s/ STEVEN G. CHRUST Steven G. Chrust	Vice Chairman and Director	March 30, 1998
/s/ NATHAN KANTOR Nathan Kantor	President, Chief Operating Officer and Director	March 30, 1998
/s/ STEVEN B. MAGYAR Steven B. Magyar	Director	March 30, 1998
/s/ WILLIAM J. VANDEN HEUVEL William J. vanden Heuvel	Director	March 30, 1998
/s/ BERT WASSERMAN Bert Wasserman	Director	March 30, 1998
/s/ JAMES I. CASH James I. Cash	Director	March 30, 1998
/s/ CHARLES T. DICKSON Charles T. Dickson	Executive Vice President and Chief Financial Officer (principal financial officer)	March 30, 1998
/s/ JOSEPH P. DWYER Joseph P. Dwyer	Vice President-Finance (principal accounting officer)	March 30, 1998

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
WinStar Communications, Inc.

We have audited the accompanying consolidated balance sheets of WinStar Communications, Inc. and Subsidiaries as of December 31, 1996 and 1997, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the ten months ended December 31, 1995 and the years ended December 31, 1996 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of WinStar Communications, Inc. and Subsidiaries as of December 31, 1996 and 1997 and the consolidated results of their operations and their consolidated cash flows for the ten months ended December 31, 1995 and the years ended December 31, 1996 and 1997, in conformity with generally accepted accounting principles.

GRANT THORNTON LLP

New York, New York
February 12, 1998

WINSTAR COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31, 1996	December 31, 1997
ASSETS		
Current assets		
Cash and cash equivalents	$ 95,490	$ 402,359
Short term investments	26,997	16,903
Cash, cash equivalents and short term investments	122,487	419,262
Investments in equity securities	688	—
Accounts receivable, net of allowance for doubtful accounts of $852 and $3,819, respectively	13,150	30,328
Inventories	5,009	10,296
Prepaid expenses and other current assets	15,969	8,985
Net assets of discontinued operations	3,814	2,105
Total current assets	161,117	470,976
Property and equipment, net	62,572	284,835
Licenses, net	27,434	174,763
Intangible assets, net	12,955	14,293
Deferred financing costs, net	10,535	27,463
Other assets	4,176	4,071
Total assets	$ 278,789	$ 976,401
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Current portion of long-term debt	$ 19,901	$ 386
Accounts payable and accrued expenses	29,442	97,714
Current portion of capitalized lease obligations	3,110	6,848
Total current liabilities	52,453	104,948
Capitalized lease obligations, less current portion	10,846	21,823
Long-term debt, less current portion	265,161	768,469
Deferred income taxes	—	24,000
Total liabilities	328,460	919,240
Series C exchangeable redeemable preferred stock, liquidation preference of $175,000 plus accumulated dividends	—	175,553
Commitments and contingencies		
Stockholders' equity (deficit)		
Series A preferred stock issued and outstanding 3,910 shares at December 31, 1997	—	39
Common stock, par value $.01; authorized 200,000 shares, issued and outstanding 28,989 and 34,610, respectively	290	346
Additional paid-in-capital	75,436	255,741
Accumulated deficit	(125,034)	(374,518)
	(49,308)	(118,392)
Unrealized loss on investments	(363)	—
Total stockholders' deficit	(49,671)	(118,392)
Total liabilities, exchangeable redeemable preferred stock and stockholders' deficit	$ 278,789	$ 976,401

See Notes to Consolidated Financial Statements

WINSTAR COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	For the Ten Months Ended December 31, 1995	For the Year Ended December 31, 1996	1997
Operating revenues			
Telecommunications services — commercial	$ 130	$ 4,487	$ 29,796
Telecommunications services — residential	13,007	29,482	8,481
Information services	2,648	14,650	41,354
Total operating revenues	15,785	48,619	79,631
Operating expenses			
Cost of services and products	12,073	38,233	81,017
Selling, general and administrative expenses	13,617	62,365	156,959
Depreciation and amortization	1,027	4,501	29,701
Total operating expenses	26,717	105,099	267,677
Operating loss	(10,932)	(56,480)	(188,046)
Other (expense) income			
Interest expense	(7,186)	(36,748)	(77,257)
Interest income	2,890	10,515	17,577
Other (expense) income	(866)	—	2,219
Loss from continuing operations before income tax benefit	(16,094)	(82,713)	(245,507)
Income tax benefit	—	—	2,500
Loss from continuing operations	(16,094)	(82,713)	(243,007)
Income (loss) from discontinued operations	237	(1,010)	(6,477)
Net loss	(15,857)	(83,723)	(249,484)
Preferred stock dividends	—	—	(5,879)
Net loss applicable to common stockholders	$(15,857)	$(83,723)	$(255,363)
Basic and diluted income (loss) per share:			
From continuing operations	$ (0.71)	$ (2.96)	$ (7.49)
From discontinued operations	0.01	(0.04)	(0.19)
Net loss per share	$ (0.70)	$ (3.00)	$ (7.68)
Weighted average shares outstanding	22,770	27,911	33,249

See Notes to Consolidated Financial Statements

WINSTAR COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

For the Ten Months Ended December 31, 1995
(In thousands)

	Preferred Stock B		Preferred Stock E		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock: Common Stock		Treasury Stock: Preferred Stock B		Deferred Compensation	Unrealized Loss on Investments	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount	Shares	Amount			
Balances at February 28, 1995	0.73	$ 733	—	$ —	20,147	$201	$ 42,583	$(25,238)	—	$ —	—	$ —	$ —	$ —	$ 18,279
Issuances of common stock					4,447	45	10,639								10,684
Issuance of preferred stock			932	6,000			(360)								5,640
Conversions of preferred stock	(0.15)	(147)	(932)	(6,000)	684	7	6,140								—
Warrants and common stock equivalents issued in connection with long-term debt and lease financing							981								981
Conversion of long-term debt					539	5	3,410								3,415
Preferred stock dividends	0.11	103						(216)							(113)
Issuance of restricted stock					150	2	1,236						(1,238)		—
Amortization of deferred compensation													138		138
WinStar Private Exchange transaction					3,741	37	39,641		(2,507)	(36,348)	(0.69)	(3,330)			—
Unrealized loss on investments in marketable equity securities														(982)	(982)
Other, net							(433)								(433)
Net loss								(15,857)							(15,857)
Balances at December 31, 1995	0.69	$ 689	—	$ —	29,708	$297	$103,837	$(41,311)	(2,507)	$(36,348)	(0.69)	$(3,330)	$(1,100)	$(982)	$ 21,752

See Notes to Consolidated Financial Statements

WINSTAR COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

For the Year Ended December 31, 1996
(In thousands)

	Preferred Stock B		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock				Deferred Compensation	Unrealized Gain/(Loss) on Investments	Total Stockholders' Equity (Deficit)
							Common Stock		Preferred Stock B				
	Shares	Amount	Shares	Amount			Shares	Amount	Shares	Amount			
Balances at December 31, 1995	0.69	$ 689	29,708	$297	$103,837	$ (41,311)	(2,507)	$(36,348)	(0.69)	$(3,330)	$(1,100)	$(982)	$ 21,752
Issuances of common stock			1,343	14	9,619								9,633
Acquisition of treasury shares							(150)	(3,056)					(3,056)
Retirement of treasury shares	(0.69)	(689)	(2,657)	(27)	(42,018)		2,657	39,404	0.69	3,330			—
Amortization of deferred compensation											1,100		1,100
Conversion of long-term debt			555	6	3,878								3,884
Fair value of stock options granted to nonemployees and other, net					120								120
Unrealized gain on investments in marketable equity securities												619	619
Net loss						(83,723)							(83,723)
Balances at December 31, 1996	—	$ —	28,989	$290	$ 75,436	$(125,034)	—	$ —	—	$ —	$ —	$(363)	$(49,671)

See Notes to Consolidated Financial Statements

WINSTAR COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

For the Year Ended December 31, 1997

(In thousands)

	Preferred Stock A		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Unrealized Gain/ (Loss) on Investments	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances at December 31, 1996	—	$—	28,989	$290	$ 75,436	$(125,034)	$(363)	$ (49,671)
Issuances of common stock ...	—	—	1,218	12	8,769	—	—	8,781
Issuances of common stock for acquisitions................	—	—	3,984	40	83,311	—	—	83,351
Issuance of preferred stock Series A	4,000	40	—	—	95,960	—	—	96,000
Dividends declared on Series A preferred stock............	—	—	—	—	(5,326)	—	—	(5,326)
Issuances of Series A preferred stock as dividends in kind	213	2	—	—	5,324	—	—	5,326
Dividends on Series C preferred stock	—	—	—	—	(553)	—	—	(553)
Conversion of Series A preferred stock to common stock......................	(303)	(3)	420	4	(1)	—	—	—
Series C preferred stock issuance costs a l other, net ..	—	—	—	—	(7,179)	—	—	(7,179)
Unrealized gain on investments in marketable equity securities ..	—	—	—	—	—	—	363	363
Net loss	—	—	—	—	—	(249,484)	—	(249,484)
Balances at December 31, 1997	3,910	$39	34,610	$346	$255,741	$(374,518)	$ —	$(118,392)

See Notes to Consolidated Financial Statements

[illegible] COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Ten Month Period Ended December 31, 1995	For the Year Ended December 31, 1996	1997
Cash flows from operating activities:			
Net loss	$(15,857)	$([illegible]3,723)	$(249,484)
Adjustments to reconcile net loss to net cash used in operating activities:			
Net (income) loss from discontinued operations	(237)	1,010	6,477
Depreciation and amortization	1,117	5,977	32,360
Deferred income tax benefit	—	—	(2,500)
Provision for doubtful accounts	85[illegible]	1,582	5,674
Equity in unconsolidated results of AGT	866	—	—
Non cash interest expense	6,151	35,848	83,906
Decrease (increase) in operating assets:			
Accounts receivable	(4,216)	(3,838)	(24,826)
Inventories	(991)	(1,897)	(9,217)
Prepaid expenses and other current assets	(2,342)	(13,948)	510
Other assets	(869)	(1,348)	(878)
Increase in accounts payable and accrued expenses	4,911	9,795	50,306
Net assets provided by (used in) discontinued operations	90	(1,881)	(4,559)
Other, net	179	180	—
Net cash used in operating activities	(10,339)	(52,751)	(141,131)
Cash flows from investing activities:			
Investments in and advances to AGT	(3,704)	—	—
Decrease (increase) in short-term investments, net	(73,594)	46,597	10,094
Decrease (increase) in other investments, net	(7,497)	6,447	—
Purchase of property and equipment, net	(8,138)	(47,842)	(213,356)
Acquisitions of licenses and other	—	(2,121)	(40,190)
Other, net	(499)	(1,619)	2,494
Net cash (used in) provided by investing activities	(95,432)	1,462	(240,958)
Cash flows from financing activities:			
Proceeds from (repayments) of long-term debt, net	224,200	(2,778)	410,585
Net proceeds from redeemable preferred stock	—	—	168,138
Net proceeds from equity transactions	11,259	6,295	104,781
Proceeds from equipment lease financing	6,998	8,345	9,912
Payment of capital lease obligations	(676)	(2,080)	(4,141)
Other, net	(898)	(1,010)	(317)
Net cash provided by financing activities	240,883	8,772	688,958
Net increase (decrease) in cash and cash equivalents	135,112	(42,517)	306,869
Cash and cash equivalents at beginning of period	2,895	138,007	95,490
Cash and cash equivalents at end of period	138,007	95,490	402,359
Short-term investments at end of period	73,595	26,997	16,903
Cash, cash equivalents and short-term investments at end of period	$211,602	$122,487	$419,262

See Notes to Consolidated Financial Statements

WINSTAR COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of WinStar Communications, Inc. and its subsidiaries (collectively, "WinStar" or the "Company"). All material intercompany transactions and accounts have been eliminated in consolidation.

Nature of Business

The Company provides facilities-based voice and data telecommunications services to businesses and other customers in major metropolitan areas throughout the United States. WinStar's licenses provide the Company with the largest amount of 38 GHz radio spectrum in the country, which allows the Company to create a nationwide network on a cost effective basis using its fiber-quality digital capacity in the 38 GHz band to provide its customers with a broad range of attractively priced services and an alternative to the incumbent local exchange carriers, other competitive local exchange carriers and the interexchange carriers. Additionally, the Company produces, aggregates and distributes information and entertainment content, some of which is distributed as part of its telecommunications service offerings to different services in the market place, as well as through traditional and new media outlets, including television, video, cable, radio and the Internet. The Company's telecommunications services are subject to varying degrees of federal, state and local regulation.

To capitalize on opportunities in the telecommunications industry, the Company is pursuing a rapid expansion of its telecommunications services, which will require significant amounts of capital to finance capital expenditures and anticipated operating losses. The Company may elect to slow the speed or narrow the focus of this expansion in the event it is unable to raise sufficient amounts of capital on acceptable terms.

Fiscal Year

The Company changed its fiscal year end from February 28 to December 31, effective January 1, 1996. Accordingly, these financial statements present the ten-month transition period ended December 31, 1995, and the years ended December 31, 1996 and 1997.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist of money market fund investments, short-term certificates of deposit, and commercial paper. Exclusive of cash in banks, cash equivalents at December 31, 1996 and 1997 were $84.5 million and $395.3 million, respectively, which approximate fair value.

Short-term Investments

Short-term investments are widely diversified and principally consist of certificates of deposit and money market deposits, U.S. government or government agency securities, commercial paper rated "A-1/P-1" or higher, and municipal securities rated "A" or higher with an original maturity of greater than three months and less than six months. Short-term investments are considered held-to-maturity and are stated at amortized cost which approximates fair value. As of December 31, 1996 and 1997, cash, cash equivalents and short-term investments totaled $122.5 million and $419.3 million, respectively.

Inventories

Inventories are composed of film inventories that include direct and indirect production costs, which are amortized to expense in the proportion that revenue recognized during the year for each film bears to the estimated total revenue to be received from all sources under the individual film forecast method. Management's estimate of forecasted revenues exceeds the unamortized costs on an individual program basis. Such forecasted revenue is subject to revision in future periods if warranted by changing market conditions.

Note 1—Summary of Significant Accounting Policies—(Continued)

Property and Equipment

Property and equipment is stated at cost. Depreciation and amortization are generally computed using the straight-line method over the estimated useful lives of the related assets.

The Company constructs certain of its own network systems and related facilities. Certain internal costs directly related to the construction of such facilities, including interest and salaries of certain employees, are capitalized. Such costs amounted to approximately $4.1 million for the year ended December 31, 1997, and were insignificant in prior years.

Costs incurred to develop software for internal use are capitalized as incurred. Such costs amounted to $452,000, and $7,091,000 for the years ended December 31, 1996 and 1997, respectively, and were insignificant in prior years.

The Company follows the policy of capitalizing interest expense as a component of the cost of its telecommunications equipment constructed for its own use.

Licenses and Intangible Assets

Licenses and intangible assets are being amortized by the straight-line method over their estimated useful lives.

Goodwill represents the excess of cost over the fair value of assets acquired. The Company's policy is to measure goodwill impairment by considering a number of factors as of each balance sheet date including (i) current operating results of the applicable business, (ii) projected future operating results of the applicable business, (iii) the occurrence of any significant regulatory changes which may have an impact on the continuity of the business, and (iv) any other material factors that affect the continuity of the applicable business. The amortization period for goodwill is determined on a case-by-case basis for each acquisition from which goodwill arises based on a review of the nature of the business acquired as well as the factors cited above (see Note 6).

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). Pursuant to SFAS 109, deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities, loss carryforwards and tax credit carryforwards for which income tax benefits are expected to be realized in future years. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that all, or some portion, of such deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Revenue Recognition

In the telecommunications segment, revenues are recorded upon placing of calls or rendering of other related services. In the information services segment, revenues from film productions are recognized when a program is accepted by the licensee and is available for broadcast. Revenues from the licensing of film productions are recognized when the license period begins and the film is available for broadcast. Revenues from advertising sales are recognized when the related advertising is broadcast.

Basic and Diluted Loss Per Share

Basic and diluted loss per share is calculated by dividing the net loss, after consideration of preferred stock accretion and dividends, by the weighted average number of shares of common stock outstanding during each period. The adoption of Statement of Financial Accounting Standard No. 128, "Earnings Per Share" had no material impact on the presentation of loss per share for the periods presented. Stock options and warrants have

Note 1—Summary of Significant Accounting Policies—(Continued)

been excluded from the calculation of diluted loss per share as their effect would have been antidilutive. (See Notes 13 and 14.)

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of trade receivables. Concentration of credit risk with respect to these receivables is generally diversified due to the large number of entities comprising the Company's customer base and their dispersion across geographic areas. The Company routinely addresses the financial strength of its customers and, as a consequence, believes that its receivable credit risk exposure is limited. The Company's short term investments and cash equivalents are potentially subject to concentration of credit risk, but such risk is limited due to such amounts being invested in investment grade securities.

Use of Estimates in Preparing Financial Statements

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Note 2—Acquisitions

Acquisitions of Businesses

Milliwave Limited Partnership

On January 2, 1997, a subsidiary of the Company merged with the corporate shareholders of Milliwave Limited Partnership ("Milliwave"), a large holder of 38 GHz licenses in the United States, covering 160 million people in more than 80 major markets. The merger consideration paid by the Company to the shareholders of the corporate partners of Milliwave was $116.0 million ($40.7 million in cash and 3.6 million shares of the Company's common stock, which had an aggregate market value of $75 million). The merger was treated as a "purchase" for accounting purposes with the purchase price principally allocated to licenses. In addition, approximately $26.5 million of deferred tax liabilities were recorded in connection with the acquisition, with a corresponding allocation to licenses, which will be amortized on a straight-line basis over 40 years. Milliwave had minimal operations prior to its merger into the Company. The accounts of Milliwave have been consolidated into the Company's financial statements as of the date of acquisition.

Unaudited pro forma results of operations (in thousands, except per share data), which reflect the combined operations of the Company and Milliwave as if the merger occurred as of January 1, 1996, are as follows:

	For the Year Ended December 31, 1996
Operating Revenues	$ 47,131
Net Loss	$ (91,898)
Net Loss Per Share	$ (2.92)

Note 2—Acquisitions—(Continued)

Local Area Telecommunications, Inc.

In October 1996, a subsidiary of the Company acquired certain assets of Local Area Telecommunications, Inc. ("Locate"), comprising its business as a competitive access provider of local digital microwave distribution services and facilities to large corporations and to interexchange and other common carriers. The assets acquired included multiple 38 GHz licenses in the New York metropolitan area. The purchase price for such assets was $17.5 million, which was paid in the form of promissory notes, which were paid in 1997 (see Note 7). The acquisition has been accounted for as a "purchase" for accounting purposes, with the majority of the purchase price allocated to licenses, which will be amortized on a straight-line basis over 40 years. The accounts of Locate have been consolidated into the Company's financial statements as of the date of the acquisition.

Avant-Garde Telecommunications, Inc.

Avant-Garde Telecommunications, Inc. ("Avant-Garde" or "AGT") was a privately held company which held 38 GHz radio licenses granted by the FCC in September 1993. Through July 17, 1995, the Company owned 49% of Avant-Garde, which it acquired for $4.9 million, and accounted for its investment in Avant-Garde under the equity method. For the period from March 1, 1995 to July 17, 1995, Avant-Garde had net losses of $1.8 million. On July 17, 1995, pursuant to the terms of a merger agreement, the Company exchanged 1,275,000 restricted shares of its common stock valued at $5.1 million for the 51% of Avant-Garde that it did not already own. The acquisition of Avant-Garde has been treated as a "purchase" for accounting purposes, with $12.6 million allocated to the licenses acquired, which are being amortized on a straight-line basis over 40 years. The accounts of Avant-Garde have been consolidated into the Company's financial statements as of the date of the acquisition.

Other Acquisitions of Businesses

During 1997, the Company acquired certain other telecommunications and information services companies which were not material.

Unaudited results of operations for acquisitions consummated through December 31, 1997 other than Milliwave have not been included because they are not material to the consolidated statement of operations of the Company.

During 1996, a subsidiary of the Company acquired 100% ownership or a controlling interest in a number of companies engaged in the production and distribution of entertainment content. These acquisitions were treated as "purchases" for accounting purposes. The aggregate consideration for the acquisitions was approximately $6.4 million, consisting of $4.1 million in cash, $800,000 in notes payable and 100,609 shares of the Company's common stock or share equivalents, valued at $1.5 million. The accounts of the acquired companies have been consolidated with the Company's financial statements as of the date of acquisitions.

Acquisition of Assets

In October 1997, a subsidiary of the Company purchased certain telecommunication assets from US ONE Communications Corp., US ONE Communications Services, Corp. and US ONE Communications of New York, Inc. (collectively, the "Sellers") which were entities in bankruptcy under chapter 11 of the United States Bankruptcy code. The aggregate purchase price was approximately $81.3 million, of which approximately $61.3 million was paid in cash at the closing and $20.0 million is payable by WinStar in cash and/or shares of the common stock of WinStar, at WinStar's discretion, on the effective date of the Sellers confirmed plan of reorganization. Included in fixed assets are certain equipment which the Company plans to sell within the near term.

Note 2—Acquisitions—(Continued)

Acquisition of Additional Licenses

During 1997, the Company executed agreements to acquire additional 38 GHz licenses, subject to FCC approval. The total purchase price for the licenses will be $55.0 million, payable in shares of common stock of the Company or in certain instances, at the Company's election, cash, which will be payable at the time of closing. During 1997, licenses acquired amounted to $10.4 million of which $7.5 million was paid in common stock at the closing. The remaining license acquisitions are expected to close within the next 12 months.

In connection with the acquisition of additional licenses, the Company entered into service agreements whereby the Company supplied and installed telecommunications equipment and provided related consulting services. Total revenues recorded under such agreements were $4.2 million in 1997.

Acquisitions Subsequent to December 31, 1997

GoodNet

On January 12, 1998, pursuant to an agreement between the Company and Telesoft Corp., the Company acquired Telesoft's Internet services subsidiary, ("GoodNet"), for a purchase price of approximately $22.0 million, consisting of $3.5 million cash and 732,784 shares of common stock of the Company valued at $18.5 million. GoodNet is a national provider of Internet services, offering high-capacity data communication services.

Midcom Communications, Inc.

Effective January 21, 1998 (the "Closing Date"), pursuant to an agreement between the Company and MIDCOM Communications Inc. and its subsidiaries (collectively, "Midcom"), the Company acquired substantially all of Midcom's assets and businesses for a purchase price of approximately $92.0 million in cash. On December 23, 1997, $9.2 million of the purchase price was placed in escrow. On the Closing Date, $48.5 million of the purchase price was paid in cash to Midcom and its designees and $10.8 million of the purchase price was placed in escrow along with the initial deposit of $9.2 million to secure Midcom's obligations to indemnify the Company in certain circumstances. In addition, $23.5 million of the purchase price was placed in escrow on the Closing Date to secure Midcom's obligation to refund a portion of the purchase price in the event of a post-closing adjustment of the purchase price under the purchase agreement. Midcom is an entity in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code.

Midcom is a provider of long distance voice and data telecommunications services primarily to small and medium-sized businesses, most of which are located in major metropolitan areas of California, Florida, Illinois, New York, Ohio and Washington.

Note 3—Investments in Marketable Equity Securities

The Company treats its investments in marketable securities as available for sale securities. As such, they are carried at market value, with the difference between the historical cost (which is determined on a FIFO basis) and the market value reflected in unrealized gains or losses on marketable equity securities, a component of stockholders' equity. During the year ended December 31, 1996, proceeds of $6,400,000 were realized on the sale of marketable securities, which were sold at carrying value. During the year ended December 31, 1997, all such investments were sold, generating proceeds of approximately $1,024,000 and a loss of approximately $27,000, which was recognized in operations. At December 31, 1996 and 1997, unrealized losses of $363,000 and $0 were carried in stockholders' equity.

Note 4—Inventories

Inventory is comprised of film inventories of $5,009,000 and $10,296,000 at December 31, 1996 and 1997, respectively.

Note 5—Property and Equipment

Property and equipment consist of the following:

	December 31, 1996	December 31, 1997	Estimated Useful Life
	(In thousands)		
Telecommunications equipment and software	$58,788	$293,728	[illegible] to 10 years
Furniture, fixtures and other	3,354	12,504	[illegible] to 5 years
Leasehold improvements	4,845	23,162	Lesser of life of the lease or life of the asset
	66,987	329,394	
Less accumulated depreciation and amortization	(4,415)	(44,559)	
	$62,572	$284,835	

Note 6—Intangible Assets

Intangible assets consist of the following:

	December 31, 1996	December 31, 1997	Estimated Useful Life
	(In thousands)		
Goodwill	$13,726	$ 17,865	5 to 20 years
Covenants not to compete and other	37	26	5 to 10 years
	13,763	17,891	
Less accumulated amortization	(808)	(3,598)	
	$12,955	$ 14,293	

Licenses, which are subject to renewal through February 2001, are amortized over a 40-year period, in accordance with industry practice. As of December 31, 1996 and 1997, the value of licenses was $27.4 million and $174.8 million, net of accumulated amortization of $820,000 and $4.9 million, respectively.

Note 7—Long-Term Debt

Long-term debt consists of the following:

	December 31, 1996	December 31, 1997
	(In thousands)	
12½% Guaranteed Senior Secured Notes Due 2004, WBC	$ —	$200,000
12½% Guaranteed Senior Secured Notes Due 2004, WBC II	—	50,000
14% Senior Discount Notes Due 2005	176,328	201,843
14½% Senior Deferred Interest Notes Due 2005	—	111,691
15% Senior Subordinated Deferred Interest Notes Due 2007	—	103,542
14% Convertible Senior Subordinated Discount Notes Due 2005	88,164	100,922
Other Notes Payable	20,570	857
Total	285,062	768,855
Less Current Portion	19,901	386
Total Long Term Debt	$265,161	$768,469

Note 7—Long-Term Debt—(Continued)

1995 Debt Placement

In October 1995, the Company completed a $225.0 million private placement of debt securities with institutional investors (the "1995 Debt Placement"). The transaction was structured as a units offering with two components, $150.0 million of Senior Discount Notes Due 2005 (the "Senior Discount Notes"), and $75 million of Convertible Senior Subordinated Discount Notes Due 2005 (the "1995 Convertible Notes"), convertible at $20.625 (subject to adjustment), a 10% premium over the closing price on October 18, 1995, the day of pricing. Both securities accrue interest at 14% per annum, with no interest payable during the first five years, and principal payable only at maturity in October 2005. Commencing April, 2001, both securities require the payment of interest only, in cash, until maturity. In addition, the 1995 Convertible Notes, including accretion thereon, will be automatically converted during the initial five-year period if the market price of the Company's common stock exceeds certain levels for thirty consecutive trading days, ranging from $37.50 per share in the first year to $44.00 per share in the fifth year.

In accordance with the terms of the 1995 Debt Placement, the Company consummated an exchange offer in 1996 with respect to the Senior Discount Notes, whereby these notes were exchanged for new notes which were identical in every respect to the original Senior Discount Notes except that the new notes were registered under the Securities Act of 1933.

1997 Debt Placements

In March 1997, the Company and WinStar Equipment Corp. ("WEC") issued an aggregate of $300.0 million of notes in the March 1997 Debt Placement, consisting of (i) $100.0 million of the 1997 Senior Deferred Interest Notes Due 2005 (the "1997 Senior Notes"), ranking pari passu with the 1995 Senior Discount Notes, and (ii) $200.0 million of 1997 Guaranteed Senior Secured Notes Due 2004 (the "WEC Notes"). The Company also obtained a $150.0 million facility ("Facility") from affiliates of certain of the initial purchasers of the Notes. In August 1997, WinStar Equipment II Corp. ("WEC II") issued, pursuant to the Facility, $50.0 million of 1997 Guaranteed Senior Secured Notes Due 2004 (the "WEC II Notes") and in October 1997, the Company utilized the remaining $100.0 million available under the Facility, issuing an aggregate of $100.0 million principal amount of 1997 Senior Subordinated Deferred Interest Notes Due 2007 (the "October 1997 Notes").

The obligations of WEC and WEC II under the WEC Notes and the WEC II Notes are unconditionally guaranteed by the Company and are secured by a security interest in the equipment and other property purchased by WEC and WEC II, as the case may be, with the proceeds thereof.

The WEC Notes bear interest at a rate of 12½% per annum, payable on March 15 and September 15, commencing September 15, 1997. The WEC Notes will mature on March 15, 2004 and are redeemable on or after March 15, 2002, at the option of the Company, in whole or in part, at certain specified prices. Additionally, in the event that by March 18, 1999, the Company has not applied the $200.0 million of proceeds from the sale of the WEC Notes to fund the acquisition costs of Designated Equipment (as defined), the Company is required to redeem the WEC Notes in an aggregate principal amount equal to such shortfall at a redemption price of 112.5% of such principal amount, plus accrued interest, if any, to the date of redemption.

The WEC II Notes bear interest at a rate of 12½% per annum, payable on March 15 and September 15, commencing September 15, 1997. The WEC II Notes mature on March 15, 2004 and are redeemable on or after March 15, 2002, at the option of the Company, in whole or in part, at certain specified prices. Additionally, in the event that by August 8, 1999, the Company has not applied the $50.0 million of proceeds from the sale of the WEC Notes to fund the acquisition costs of Designated Equipment, the Company is required to redeem the WEC II Notes in an aggregate principal amount equal to such shortfall at a redemption price of 112.5% of such principal amount, plus accrued interest, if any, to the date of redemption.

Note 7—Long-Term Debt—(Continued)

The 1997 Senior Notes are unsecured, senior indebtedness of the Company, rank pari passu in right of payment with all existing and future senior indebtedness of the Company, and are senior in right of payment to all existing and future subordinated indebtedness of the Company. The 1997 Senior Notes bear interest at a rate of 14½%. Until October 15, 2000, interest on the 1997 Senior Notes will accrue and compound semiannually, but will not be payable in cash. Interest on the Accumulated Amount (as defined in the 1997 Senior Notes Indenture) of the 1997 Senior Notes as of October 15, 2000 will be payable semiannually in cash on April 15 and October 15 of each year commencing April 15, 2001. The 1997 Senior Notes mature on October 15, 2005 and are redeemable on or after October 15, 2000, at the option of the Company, in whole or in part, at certain specified prices.

The October 1997 Notes are unsecured, senior subordinated obligations of the Company, rank pari passu in right of payment with the 1995 Convertible Notes and are junior in right of payment to all existing future senior indebtedness of the Company. The October 1997 Notes bear interest at a rate of 15% per annum, and are payable on March 1 and September 1, commencing September 1, 2002. Until March 1, 2002, interest on the Notes will accrue and be compounded semiannually on each Semi Annual Interest Accrual Date (as defined in the Indenture relating to the October 1997 Notes), but will not be payable in cash. Interest on the Accumulated Amount (as defined in the Indenture relating to the October 1997 Notes) of the Notes as of March 1, 2002 will be payable semiannually commencing September 1, 2002. The Notes will mature on March 1, 2007 and are redeemable on or after March 1, 2002, at the option of the Company, in whole or in part, at certain specified prices.

The terms of the Indentures relating to the 1995 and 1997 Debt Placements and the Certificates of Designation relating to certain of the Company's Preferred Stock agreements (see Notes 12 and 13) contain covenants placing certain restrictions on the ability of the Company to pay dividends or make other restricted payments, incur additional indebtedness, issue guarantees, sell assets, or enter into certain other specified transactions.

Other

On October 8, 1996, in connection with the purchase of Locate (see Note 2), the Company issued two promissory notes in the aggregate principal amount of $17.5 million (the "Locate Notes") bearing interest at an annual rate of 8%. Interest on the Locate Notes was payable on a quarterly basis. The Notes were due on the earlier of April 8, 1997, or the day after the date on which the shares into which the Notes may be converted have been registered pursuant to an effective registration statement. During 1997, the Locate Notes including accrued interest were paid in full. At December 31, 1996, the aggregate amount of the Locate Notes, including accrued interest thereon, was $17.8 million.

In May 1995, a subsidiary of the Company issued $7.5 million of five year collateralized convertible notes bearing interest at a rate of 7%, payable semiannually, with all principal due and payable on May 24, 2000. On December 28, 1995, the note holders converted $3.75 million of the convertible notes and accrued interest thereon into 539,255 shares of common stock of the Company, and on November 24, 1996, converted the remaining outstanding notes of $3.75 million principal amount plus accrued interest thereon into 554,880 shares of common stock of the Company.

Note 7—Long-Term Debt—(Continued)

Maturities of long-term debt at December 31, 1997, are as follows:

	(In thousands)
1998	$ 386
1999	277
2000	194
2001	—
2002	—
Thereafter	767,998
	$768,855

Note 8—Fair Value of Financial Instruments

The fair value of the Company's financial instruments classified as current assets or liabilities, including cash and cash equivalents, short-term investments, accounts and notes receivable, and accounts payable and accrued expenses approximate carrying value, principally because of the short maturity of these items. Marketable equity securities are stated at quoted market value.

The carrying amounts of the long-term debt payable to financial institutions issued pursuant to two of the Company's subsidiaries' asset-based lending agreements approximate fair value because the interest rates on these agreements change with market interest rates.

The fair values of capitalized lease obligations approximate carrying value based on their effective interest rates compared to current market rates.

Estimated fair values of the Company's Long Term Notes Payable, Convertible Notes Payable, and Exchangeable Redeemable Preferred Stock which were calculated based upon quoted market prices, are as follows:

	December 31, 1996		December 31, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
14% Senior Discount Notes Due 2005	$176,328	$179,455	$201,843	$233,144
14% Convertible Senior Subordinated Discount Notes Due 2005	$ 88,164	$ 94,141	$100,922	$216,228
14½% Senior Deferred Interest Notes Due 2005	—	—	$111,691	$132,000
15% Senior Subordinated Deferred Interest Notes Due 2007	—	—	$103,542	$122,500
12½% Guaranteed Senior Secured Notes Due 2004, WBC	—	—	$200,000	$224,500
12½% Guaranteed Senior Secured Notes Due 2004, WBC II	—	—	$ 50,000	$ 55,750
14¼% Series C Senior Cumulative Exchangeable Redeemable Preferred Stock	—	—	$175,553	$177,675

Note 9—Capital Lease Obligations

The Company leases telecommunications and other equipment through various equipment lease financing facilities. Such leases have been accounted for as capital leases.

Note 9—Capital Lease Obligations—(Continued)

Future minimum lease payments on these capital leases are as follows:

Year Ending December 31	(In thousands)
1998	$ 9,941
1999	9,758
2000	8,321
2001	5,313
2002	1,834
Thereafter	194
Total payments	35,361
Less amount representing interest	(6,690)
Present value of minimum lease payments	$28,671

The carrying value of assets under capital leases was $15.9 million and $28.0 million at December 31, 1996 and 1997 respectively, and is included in property and equipment. Amortization of these assets is included in depreciation expense.

Note 10—Commitments and Contingencies

a. Operating Leases

The Company's offices, manufacturing and warehousing facilities, along with various equipment and roof access rights, are leased under operating leases expiring in 1998 through 2012. Certain leases contain escalation clauses based upon increases in the consumer price index.

Future minimum lease payments on noncancellable operating leases are as follows:

Year Ending December 31	(In thousands)
1998	$ 13,800
1999	13,600
2000	13,200
2001	12,800
2002	12,400
Thereafter	80,500
	$146,300

Rent expense for the ten month period ended December 31, 1995 and the years ended December 31, 1996 and 1997 were $1.0 million, $4.4 million and $11.6 million, respectively.

b. Employment Contracts

Amounts due under employment contracts are as follows:

Year Ending December 31	(In thousands)
1998	$2,485
1999	1,728
2000	479
	$4,692

Note 10—Commitments and Contingencies—(Continued)

c. Litigation

The Company's residential long distance subsidiary, WinStar Gateway Network, Inc., occasionally receives inquiries from state authorities arising with respect to consumer complaints concerning the provision of telecommunications services, including allegations of unauthorized switching of long distance carriers and misleading marketing. The Company believes such inquiries are common in the long distance industry and addresses such inquiries in the ordinary course of business. In December 1996, the Federal Communications Commission ("FCC") and WinStar Gateway Network, Inc. ("WGN") entered into a consent decree which terminated an inquiry by the FCC into any alleged violations of unauthorized carrier conversions through the use of contest programs by certain of WGN's agents. The FCC cited WGN's efforts in identifying the problems caused by these agents and its proactive response in implementing self-directed remedial actions on its own as significant factors leading to the consent decree in lieu of initiating a formal investigation. The Company entered into assurances of voluntary compliance with the attorneys general of a number of states and has also initiated negotiations with other state authorities to resolve any claims by such authorities arising from the contest programs. The Company does not believe that the resolution of these issues will have a material adverse effect on the Company, its financial condition, or its results of operations.

In June 1996, the Company commenced an action for declaratory judgment against a former officer of WGN, who had notified the Company of his belief that he was entitled to the issuance of certain shares of common stock of the Company (or payment of the cash value thereof) under the terms of stock options granted to him during his employment with WGN. He has based his beliefs on standard antidilution language contained in his stock option agreement. Such language was designed and intended to adjust the number of shares purchasable thereunder in the event of a merger, capital restructuring or other similar event of the Company. As WinStar Communications, Inc. has never been subject to a merger or capital restructuring, the former officer was immediately notified of the Company's belief that his claim was without merit in law or fact. To expedite resolution of these issues, the Company currently is seeking declaratory judgment that it has no obligation to the former officer.

In January 1998, a stockholder suit, purported to be a class action, was commenced against the Company, its directors (and certain former directors) and one non-director officer in the Delaware Chancery Court seeking among other things, to invalidate certain portions of the Company's Stockholder Rights Plan, adopted in July 1997 (the "Rights Plan") (see Note 12), and to recover unspecified damages and attorneys' fees. The complaint alleges that certain provisions of the Rights Plan, particularly the so-called "Continuing Directors" provision, are not permitted under the Delaware General Corporation Law and the Company's Certificate of Incorporation. The Company believes strongly that these allegations are without merit and that the Rights Plan was properly adopted and is valid in its entirety. The Company is reviewing its available alternatives with regard to responding to this action.

The Company is also involved in miscellaneous claims, inquiries and litigation arising in the ordinary course of business. The Company believes that these matters, taken individually or in the aggregate, would not have a material adverse impact on the Company's financial position or results of operations.

d. Other

In connection with the purchase of telecommunications equipment including switches and radios, the Company enters into agreements with the suppliers of such equipment. As of December 31, 1997, the Company's noncancellable purchase commitments under these agreements were approximately $31 million. In addition, the Company has guaranteed $3.0 million of debt of Global Products.

Note 11—Income Taxes

SFAS No. 109 requires the use of the liability method in accounting for income taxes. Temporary differences and carryforwards that give rise to deferred tax assets and liabilities are as follows:

	December 31, 1996	December 31, 1997
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforward	$ 48,218	$ 134,550
Deferred interest expense	10,417	21,636
Allowance for doubtful accounts	433	1,140
Deferred compensation	—	748
Other	961	2,291
Gross deferred tax assets	60,029	160,365
Valuation allowance	(58,586)	(119,874)
Deferred tax asset net of allowance	1,443	40,491
Deferred tax liabilities:		
Depreciation	(1,354)	(5,998)
Amortization	(89)	(58,493)
Gross deferred tax liabilities	(1,443)	(64,491)
Net deferred tax asset (liability)	$ —	$ (24,000)

The federal net operating loss carryforward at December 31, 1997 is approximately $345.0 million. If not utilized, the net operating loss carryforward will expire in various amounts through the year 2012.

Some of these losses are subject to utilization limitation under Section 382 of the Internal Revenue Code. However, the Company believes that substantially all of such losses will be available to offset future income.

SFAS No. 109 requires a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets may not be realized. The valuation allowances at December 31, 1996 and December 31, 1997, primarily pertain to uncertainties with respect to future utilization of net operating loss carryforwards.

On January 2, 1997, a net deferred tax liability of $26.5 million was recorded in connection with the acquisition of Milliwave (see Note 2). This deferred tax liability resulted from the temporary difference between the book and tax basis of the acquired licenses, and related to the scheduled reversal of the temporary differences through amortization in years 2018 through 2036 that could not be offset by deferred tax assets existing at January 2, 1997, the date of the Milliwave acquisition.

During 1997, the Company recognized a deferred income tax benefit of $2.5 million relating to the Company's net loss carryforwards. The Company recognizes income tax benefits to the extent of future reversals of existing temporary differences.

Note 12—Stockholders' Equity

Common Stock

The authorized common stock of WinStar was increased during 1997 from 75.0 million shares to 200.0 million shares, $.01 par value. The holders of common stock of WinStar are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Although the Company has no present intention of paying any cash dividends (and is currently restricted from doing so under its indentures), holders of the common stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. In the event of a liquidation or dissolution of WinStar, holders of the common stock are entitled to share ratably in all assets remaining after payment of all liabilities and the liquidation

Note 12—Stockholders' Equity—(Continued)

preferences of preferred shares. Holders of common stock have no preemptive rights and have no rights to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

The authorized capital stock of the Company includes 15 million shares of "Blank Check" preferred stock, which may be issued from time to time in one or more series upon authorization by the Company's Board of Directors. The Board of Directors, without further approval of the stockholders, is authorized to fix the rights and terms, conversion rights, voting rights, redemption rights and terms, liquidation preferences and any other rights, preferences, privileges and restrictions applicable to each series of preferred stock.

Series A

On February 11, 1997, the Company sold 4.0 million shares of 6% Series A cumulative convertible preferred stock, par value $0.01, and 1.6 million warrants to purchase common stock of the Company, par value $0.01, for gross proceeds of $100.0 million. The preferred stock earns a 6% annual dividend, payable quarterly in kind, and matures on February 11, 2002.

Two million shares of preferred stock became convertible beginning on August 11, 1997, and certain of these shares were converted at prices ranging from $16.75 per share to $18.86 per share, while the remainder became convertible on February 11, 1998. All remaining outstanding shares are convertible at $25 per share. On February 11, 2002, any preferred stock still outstanding will be automatically converted into shares of the Company's common stock, unless the Company elects to pay, in lieu of conversion, the equivalent value in cash.

The warrants are exercisable at $25 per share, and expire on February 11, 2002. The Company has the right to call the warrants after February 11, 2000, if the Company's common stock price has exceeded $40 on each of the previous twenty trading days.

Rights to Purchase Series B Preferred Stock

Under a Rights Agreement dated as of July 2, 1997, between the Company and Continental Stock Transfer & Trust Company, as Rights Agent, which was adopted by the Board of Directors of the Company on July 2, 1997, holders of Common Stock of the Company received, as a dividend, preferred stock purchase rights (the "Rights") at the rate of one Right for each share of Common Stock held as of the close of business on July 14, 1997. One Right will also attach to each share of Common Stock issued thereafter. Currently the Rights are not separate from the Common Stock and are not exercisable, and the Rights will only separate from the Common Stock and become exercisable if a person or group acquires 10% or more of the Company's outstanding Common Stock (an "Acquiring Person") or launches a tender or exchange offer that would result in ownership of 10% or more the Company's outstanding common Stock. Each Right that is not owned by an Acquiring Person entitles the holder of the right to buy one one-thousandth of one share (a "Unit") of Series B Preferred Stock which will be issued by the Company. If any person becomes an Acquiring Person, or if an Acquiring Person engages in certain transactions involving conflicts of interest or in a business combination in which the Company's Common Stock remains outstanding, then the Rights Plan provides that each Right, other than any Right held by the Acquiring Person, entitles the holder to purchase, for $70, Units with a market value of $140. However, if the Company is involved in a business combination in which the Company itself is not the survivor, or if the Company sells 50% or more of its assets or earning power to another person, then the Rights Plan provides that each Right entitled the holder to purchase, for $70, shares of the common stock of the Acquiring Person's ultimate parent having a market value of $140.

At any time until ten days following the date on which a person acquires 10% or more of the Company's Common Stock the Company may redeem all (but not less than all) of the Rights for $0.0001 per Right. The Rights expire in ten years. The Series B Preferred Stock will be junior, with respect to dividends and liquidation

Note 12—Stockholders' Equity—(Continued)

rights, to any other series of preferred stock of the Company. the Series B Preferred Stock has dividend and liquidation preferences over the Common Stock of the Company.

Series E Preferred Stock

In April 1995, the Company completed a private placement of 932,040 shares of Series E Convertible Preferred Stock ("Preferred Stock E") at a price of $6.4375 per share, for gross proceeds of $6 million. Preferred Stock E holders were entitled to dividends at the rate of 9% per annum, payable quarterly beginning on June 30, 1995. During the ten month period ended December 31, 1995, the entire 932,040 shares of Preferred Stock E were converted into 634,228 shares of common stock.

Note 13—Redeemable Series C Preferred Stock

On December 22, 1997, the Company issued 175,000 shares of Series C Senior Cumulative Exchangeable Preferred Stock Due 2007 ("Series C Exchangeable Preferred Stock"), for gross proceeds of $175.0 million. The Company agreed to exchange the preferred stock for new preferred stock identical in every respect except that it would be registered under the Securities Act of 1933. During February 1998, the new preferred stock was registered.

Each share of Series C Exchangeable Preferred Stock has a liquidation preference of $1,000 ("Liquidation Preference"). Dividends on the Series C Exchangeable Preferred Stock accrue from December 22, 1997 at the rate per share of 14¼% of the Accumulated Amount (as defined) per annum, compounded semiannually on each June 15 and December 15, but will not be payable in cash, except as set forth in the next sentence. Commencing on the first June 15 or December 15 (each a "Dividend Payment Date") which is at least six months after the later of December 15, 2002, and the Specified Debt Satisfaction Date (as defined) (the "Cash Payment Date"), dividends on the Series C Exchangeable Preferred Stock will be payable in cash at a rate per annum equal to 14¼% of the Accumulated Amount as of the Dividend Payment Date preceding such date. In the event that the Specified Debt Satisfaction Date shall not have occurred before December 15, 2002, the rate otherwise applicable to the Series C Exchangeable Preferred Stock shall be increased by 150 basis points from December 15, 2002, until the Dividend Payment Date falling on or after the Specified Debt Satisfaction Date. As of December 31, 1997 dividends totaling approximately $553,000 have been accrued.

The Series C Exchangeable Preferred Stock is not redeemable prior to December 15, 2002. On or after December 15, 2002, the Series C Exchangeable Preferred Stock is redeemable at the option of the Company, in whole or in part, at specified redemption prices plus accumulated and unpaid dividends, if any, to the date of redemption. The Company is required to redeem the Series C Exchangeable Preferred Stock at the Liquidation Preference thereof, plus accumulated and unpaid dividends, if any, on December 15, 2007, out of any funds legally available therefor.

The Series C Exchangeable Preferred Stock ranks (i) senior to all existing and future Junior Stock (as defined) including the Series A Preferred Stock; (ii) on a Parity basis with all existing and future Parity Stock; and (iii) junior to all Senior Stock (as defined). In addition the Series C Exchangeable Preferred Stock is junior in right of payment to all indebtedness of the Company and its subsidiaries.

On any scheduled Dividend Payment Date following the Specified Debt Satisfaction Date, the Company may, at its option, exchange all but not less than all of the share of Series C Exchangeable Preferred Stock then outstanding for 14¼% Senior Subordinated Deferred Interest Notes Due 2007 ("Exchange Debentures") in an aggregate Accumulated Amount equal to the aggregate Accumulated Amount of the shares of Series C Exchangeable Preferred Stock outstanding at the time of such exchange, plus accumulated and unpaid dividends to the date of exchange. The issuance of the Exchange Debentures upon such exchange will be registered under the Securities Act pursuant to a Registration Statement. Until the Cash Payment Date, interest on the outstanding Exchange Debentures if any, will accrue at a rate of 14¼% of the Accumulated Amount per annum and will be compounded semiannually on each June 15 and December 15 (each an "Interest Payment Date") but will not be

Note 13—Redeemable Series C Preferred Stock—(Continued)

payable in cash except as set forth in the next sentence. Commencing on the first Interest Payment Date following the later of the Exchange Date (as defined) or the Cash Payment Date, interest will be payable in cash at a rate per annum equal to 14¼% of the Accumulated Amount as of the Exchange Date. The Exchange Debentures, if issued, will be unsecured, senior subordinated obligations of the Company, subordinated in right of payment to all Senior Indebtedness (as defined) of the Company and to all indebtedness and other liabilities (including trade payables) of the Company's subsidiaries, and will rank *pari passu* with the Company's existing 1997 Senior Subordinated Notes and the Company's Convertible Notes.

Note 14—Stock Options and Stock Purchase Warrants

The Company has three stock option plans, the 1990 Plan, the 1992 Performance Equity Plan ("1992 Plan"), and the 1995 Performance Equity Plan ("1995 Plan"). The 1990 Plan is a non-qualified common stock incentive plan, as amended, pursuant to which options to purchase an aggregate of 150,000 shares of common stock may be granted to key employees of the Company as selected by the Board of Directors. The exercise price for shares covered by options granted pursuant to this plan will not be less than the fair market value of the shares on the date of the grant. The 1992 Plan authorizes the granting of awards up to 1.5 million shares of common stock to the Company's key employees, officers, directors and consultants. Awards consist of stock options (both non-qualified options and options intended to qualify as "incentive" stock options under the Internal Revenue Code), restricted stock awards, deferred stock awards, stock appreciation rights and other stock-based awards. The plan provides for automatic issuance of 10,000 stock options annually to each director on January 13, at the fair market value at that date, subject to availability. The 1995 Plan authorizes the granting of awards of up to 7.5 million shares of the Company's common stock to the Company's key employees, officers, directors and consultants. The 1995 Plan is similar to the 1992 Plan, except that the 1995 Plan does not provide for annual automatic annual director grants. The Company has also granted options to certain individuals outside the three plans. The options are exercisable over a period ranging from immediately to five years, depending on option terms.

The following table summarizes option activity for the ten months ended December 31, 1995 and the years ended December 31, 1996 and 1997:

	Number of Options (in thousands)	Weighted Average Exercise Price
Balance, February 28, 1995	6,149	$ 3.85
Granted	3,896	$ 9.13
Exercised	(2,092)	$ 2.35
Canceled	(708)	$ 3.21
Balance, December 31, 1995	7,245	$ 6.90
Granted	4,057	$18.55
Exercised	(921)	$ 6.00
Canceled	(669)	$12.72
Balance, December 31, 1996	9,712	$11.43
Granted	3,905	$15.62
Exercised	(1,214)	$ 7.14
Canceled	(752)	$16.18
Balance, December 31, 1997	11,651	$13.27

As of December 31, 1997, options outstanding for 5.2 million shares were exercisable at prices ranging from $1.50 to $31.13, and the weighted remaining contractual life was 4.9 years.

Note 14—Stock Options and Stock Purchase Warrants—(Continued)

The following table summarizes option data as of December 31, 1997:

Range of Exercise Prices	Number Outstanding as of 12/31/97 (in thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable as of 12/31/97 (in thousands)	Weighted Average Exercise Price
$ 1.50–$ 7.00	2,541	2.83	$ 4.75	2,[illegible]90	$ 4.72
$ 7.31–$12.00	2,759	5.46	$ 9.88	[illegible]50	$ 8.14
$12.13–$16.81	2,481	5.21	$15.15	[illegible]21	$15.02
$16.88–$20.38	2,571	5.95	$18.33	663	$18.40
$20.38–$31.13	1,299	5.17	$23.55	384	$22.24
$ 1.50–$31.13	11,651	4.91	$13.27	5,288	$ 9.81

Compensation cost charged to operations, which the Company records for options granted to non-employees, was $0, $150,000 and $0 in the ten months ended December 31, 1995 and the years ended December 31, 1996 and 1997, respectively.

The Company measures compensation in accordance with the provisions of APB Opinion No. 25 in accounting for its stock compensation plans. Accordingly, no compensation cost has been recorded for options granted to employees or directors in the ten months ended December 31, 1995 or the years ended December 31, 1996 or 1997. The fair value of each option granted has been estimated on the grant date using the Black-Scholes Option Valuation Model. The following assumptions were made in estimating fair value:

	1995	1996	1997
Dividend Yield	0%	0%	0%
Risk-Free Interest Rate	6.0%	6.0%	6.0%
Expected Life after Vesting Period			
Directors and Officers	2.0 Years	2.0 Years	2.0 Years
Others	0.5 Years	0.5 Years	0.5 Years
Expected Volatility	66.88%	66.88%	66.88%

Had compensation cost been determined under FASB Statement No. 123, net loss and loss per share would have been increased as follows:

	Ten Months Ended December 31, 1995	Year Ended December 31, 1996	Year Ended December 31, 1997
		(in thousands)	
Net Loss Applicable to Common Stockholders:			
As reported	$(15,857)	$(83,723)	$(255,363)
Pro forma for FASB No. 123	$(21,795)	$(98,765)	$(272,497)
Loss Per Share—Basic and Diluted:			
As reported	$ (0.70)	$ (3.00)	$ (7.68)
Pro forma for FASB No. 123	$ (0.96)	$ (3.54)	$ (8.20)

The weighted average fair value of options granted during the years ended December 31, 1996 and 1997 was $18.78 and $15.63 per share, respectively.

During the initial phase-in period of FASB Statement No. 123, such compensation expense may not be representative of the future effects of applying this statement.

Note 14—Stock Options and Stock Purchase Warrants—(Continued)

Warrants to purchase the Company's common stock were issued as follows (warrants in thousands):

	10 Months Ended December 31, 1995		Year Ended December 31, 1996		Year Ended December 31, 1997	
	Warrants	Price/Share	Warrants	Price/Share	Warrants	Price/Share
Beginning Balance	—	—	400	$ 12.00–$13.00	400	$ 12.00–$13.00
Warrants Issued	400	$ 12.00–$13.00	—	—	1,600	$ 25.00
Warrants Exercised.....	—	—	—	—	—	—
Warrants Expired	—	—	—	—	—	—
Ending Balance	400	$ 12.00–$13.00	400	$ 12.00–$13.00	2,000	$ 12.00–$25.00

Note 15—Related Party Transactions

Services Agreements

In connection with the Company's merger with Milliwave, the Company entered into a Services Agreement with Milliwave in June 1996. Under the Services Agreement, a subsidiary of the Company installed radio links and managed Milliwave's communications network. Total fees under the Services Agreement and equipment sales paid by Milliwave to the Company were $1.5 million through December 31, 1996.

In connection with the Company' purchase of certain assets of Locate, the Company entered into a Services Agreement with Locate in April 1996. Under the Agreement, the Company provided consulting services to Locate regarding the operation of Locate's business. During the year ended December 31, 1996, Locate paid the Company approximately $352,000 under the Services Agreement.

Private Exchange Transaction

On November 29, 1995, the Company acquired, in exchange for the issuance of 3,741,224 shares of its common stock ("Private Exchange"), substantially all of the assets of WinStar Companies, whose assets consisted of (i) all the outstanding capital stock of WinStar Services and WinStar Venture, two wholly owned subsidiaries of WinStar Companies, and (ii) 389,580 shares of the Company's common stock owned by WinStar Companies. The sole assets of WinStar Services and WinStar Venture were 2,117,183 shares of the Company's common stock and other securities of the Company that were exercisable or convertible into 1,429,633 shares of the Company's common stock. Accordingly, the Company issued 3,741,224 shares of the Company's common stock and, in exchange, acquired 3,936,396 shares of common stock and common stock equivalents. All of the Company's common stock and certain of the common stock equivalents received in the Private Exchange were included in Treasury Stock at December 31, 1995 and were retired in 1996. WinStar Companies, WinStar Services and WinStar Venture had no liabilities at the time of the closing of the Private Exchange other than a liability previously assumed by the Company or liabilities for which the Company is being indemnified. No claims for any liabilities have been received by the Company.

The new shares of the Company's common stock issued in the Private Exchange represented that number of shares which had an aggregate market value based upon the average of the closing sale price of the Company's common stock on the 30 trading days preceding November 15, 1995, the date as of which the exchange agreement regarding the above-described transaction was executed, equal to the market value of the Company's common stock (i) transferred by WinStar Companies to the Company, (ii) owned by WinStar Services and WinStar Venture and (iii) underlying certain other securities of the Company owned by WinStar Services and WinStar Venture which were convertible into or exercisable for shares of the Company's common stock, less the aggregate exercise price of such latter securities.

Note 15—Related Party Transactions—(Continued)

The stockholders of WinStar Companies included several of the Company's current executive officers one of-whom is also a director. Simultaneously with the Private Exchange, WinStar Companies was dissolved and the new shares issued in the Private Exchange were issued directly to the stockholders of WinStar Companies in proportion to their equity ownership of WinStar Companies.

The Private Exchange was considered and approved by a special committee of independent and disinterested directors of the Company and an opinion from an independent investment banking firm that the Private Exchange was fair to the Company and its stockholders was obtained in connection with the Private Exchange.

Agreement with ITC Group, Inc.

In May 1994, the Company, WinStar Wireless, Inc. ("WWI") and ITC Group, Inc. ("ITC"), a telecommunications consulting firm, entered into a two-year agreement pursuant to which ITC advised the Company on the operations of its telecommunications business. ITC, together with the management and employees of WWI, developed and implemented a two-year operating plan for the Company's wireless telecommunications business. Pursuant to the terms of the consulting agreement, ITC made its consultants available to the Company and its subsidiaries. The Company paid ITC an annual base consulting fee of $700,000 for the services of a core management team, as well as supplemental fees at agreed upon rates for additional consulting services rendered by ITC as necessary from time to time. Under the terms of the agreement, ITC provided up to 12 consultants at any given time. From March 1995 through September 1995, ITC was paid $1 million in fees and expenses in connection with the consulting agreement, and the Company granted options to purchase an aggregate of 500,000 shares of its common stock for $4.41 per share to certain consultants of ITC.

Effective September 5, 1995, ITC's President became President and Chief Operating Officer of the Company and certain core management personnel previously provided by ITC also became employees. Concurrently, ITC ceased providing services to the Company under the consulting agreement, and the Company's obligation to pay any future compensation to ITC under such agreement was terminated.

Note 16—Supplemental Cash Flow Information

Cash paid for interest during the ten months ended December 31, 1995, and the years ended December 31, 1996 and 1997 was $1.3 million, $2.1 million and $26.0 million, respectively. During the years ended December 31, 1996 and 1997, the Company capitalized $300,000 and $4.2 million of interest incurred in connection with the buildout of its telecommunications network respectively. No interest was capitalized in the ten months ended December 31, 1995.

During the ten months ended December 31, 1995, the Company completed the following material noncash transactions: (i) the conversion of $3.75 million of convertible notes plus accrued interest thereon; (ii) the conversion of all shares of Preferred Stock Series E; (iii) the acquisition of approximately $7.5 million in property and equipment through various capitalized leases; (iv) the Private Exchange transaction (see Note 14); (v) the settlement of the Company's placement expenses from the gross proceeds of the Debt Placement; and (vi) the acquisition of Avant-Garde.

During the year ended December 31, 1996, the Company completed the following material noncash transactions: (i) the conversion of $3.75 million of convertible notes plus accrued interest; (ii) the acquisition of $8.6 million in property and equipment through various capitalized leases; (iii) the issuance of 100,605 shares and share equivalents, with a value of $1.5 million, and $800,000 in notes payable in connection with certain acquisitions (see Note 2); (iv) the issuance of $17.5 million in notes payable for the acquisition of Locate; and (v) the acceptance of 150,000 shares of the Company's common stock for payment of stock options exercised. Depreciation and amortization includes amortization of deferred compensation.

During the year ended December 31, 1997, the Company completed the following material noncash transactions: (i) dividends-in-kind on the Series A Preferred Stock for the aggregate amount of $5.3 million; (ii) the acquisition of $8.9 million in property and equipment through various capitalized leases; (iii) the issuance

Note 16—Supplemental Cash Flow Information—(Continued)

of 337,648 shares of common stock with a value of $7.5 million in connection with the acquisition of licenses; (iv) The issuance of 3,594,620 shares of Common Stock with a value of approximately $75 million in connection with the acquisition of Milliwave Limited Partnership.

Note 17—Advertising Costs

Advertising costs are charged to operations when the advertising first takes place. Advertising expense for the ten months ended December 31, 1995, and the years ended December 31, 1996 and 1997 was approximately $300,000, $4.3 million and $11.0 million, respectively.

Note 18—Business Segments

The Company's continuing business segments are telecommunications and information services. The following table is a summary of the ten months ended December 31, 1995 and the years ended December 31, 1996 and 1997:

	Telecommunications	Information Services	Total Continuing Business Segments	General Corporate	Consolidated Continuing Operations	Discontinued Operations—Merchandising
			(In thousands)			
For the ten months ended December 31, 1995						
Net sales	$ 13,137	$ 2,648	$ 15,785	$ —	$ 15,785	
Operating income (loss)	$ (7,288)	$ 217	$ (7,071)	$ (3,861)	$ (10,932)	$ 237
EBITDA	$ (6,358)	$ 241	$ (6,117)	$ (3,758)	$ (9,875)	
Depreciation and amortization	$ 930	$ 24	$ 954	$ 104	$ 1,058	
Capital expenditures	$ 7,458	$ 14	$ 7,472	$ 651	$ 8,123	
Identifiable assets at December 31, 1995	$ 36,998	$20,195	$ 57,193	$217,711	$ 274,904	$ 3,321
For the year ended December 31, 1996						
Net sales	$ 33,969	$14,650	$ 48,619	$ —	$ 48,619	
Operating loss	$ (43,698)	$(1,409)	$ (45,107)	$(11,373)	$ (56,480)	$(1,010)
EBITDA	$ (39,206)	$ (890)	$ (40,096)	$ (9,796)	$ (49,892)	
Depreciation and amortization	$ 3,831	$ 469	$ 4,300	$ 202	$ 4,502	
Capital expenditures	$ 46,632	$ 701	$ 47,333	$ 509	$ 47,842	
Identifiable assets at December 31, 1996	$ 101,380	$30,133	$ 131,513	$143,462	$ 274,975	$ 3,814
For the year ended December 31, 1997						
Net sales	$ 38,277	$41,354	$ 79,631	—	$ 79,631	
Operating loss	$(153,139)	$(4,092)	$(157,231)	$(30,815)	$(188,046)	$(6,477)
EBITDA	$(128,637)	$(2,786)	$(131,423)	$(26,922)	$(158,345)	
Depreciation and amortization	$ 24,502	$ 1,306	$ 25,808	$ 3,893	$ 29,701	
Capital expenditures	$ 219,979	$ 612	$ 220,591	$ 1,709	$ 222,300	
Identifiable assets at December 31, 1997	$ 399,111	$30,376	$ 429,487	$544,809	$ 974,296	$ 2,105

EBITDA represents operating income (loss) plus interest, taxes, depreciation and amortization.

Note 19—Quarterly Results of Operations (Unaudited)

The unaudited quarterly financial data for 1996 and 1997 for the Company is as follows:

	Quarter Ended 1996 (Unaudited)			
	March 31	June 30	September 30	December 31
	(In thousands)			
Operating revenues				
Telecommunications services	$ 10,217	$ 10,356	$ 7,384	$ 6,012
Information services	771	2,652	4,056	7,171
Total operating revenues	10,988	13,008	11,440	13,183
Operating expenses				
Cost of services and products	6,678	9,175	9,230	13,130
Selling, general and administrative expenses	8,845	14,401	15,816	23,303
Depreciation and amortization	492	679	1,158	2,172
Total operating expenses	16,015	24,255	26,244	38,605
Operating loss	(5,027)	(11,247)	(14,784)	(25,422)
Other (expense) income				
Interest expense	(8,643)	(9,007)	(9,045)	(10,053)
Interest income	3,108	2,664	2,570	2,173
Loss from continuing operations	(10,562)	(17,590)	(21,259)	(33,302)
Discontinued operations	(137)	(526)	47	(394)
Net loss	$ (10,699)	$ (18,116)	$ (21,212)	$ (33,696)
Basic and diluted net income (loss) per share:				
From continuing operations	$ (0.39)	$ (0.63)	$ (0.76)	$ (1.17)
From discontinued operations	(0.00)	(0.02)	0.01	(0.01)
Net loss per share	$ (0.39)	$ (0.65)	$ (0.75)	$ (1.18)

Note 19—Quarterly Results of Operations (Unaudited)—(Continued)

	Quarter Ended 1996 (Unaudited)			
	March 31	June 30	September 30	December 31
	(In thousands)			
Operating revenues				
Telecommunications services	$ 7,763	$ 7,678	$ 9,169	$ 14,367
Information services	6,014	8,662	11,017	15,661
Total operating revenues	13,077	16,340	20,186	30,028
Operating expenses				
Cost of services and products	12,959	15,908	19,621	32,529
Selling, general and administrative expenses	29,553	39,228	41,135	47,043
Depreciation and amortization	3,501	4,896	7,077	14,227
Total operating expenses	46,013	60,032	67,833	93,799
Operating loss	(32,936)	(43,692)	(47,647)	(63,771)
Other (expense) income				
Interest (expense)	(10,798)	(20,194)	(22,082)	(24,183)
Interest income	2,235	5,090	3,727	6,525
Other income	—	—	2,219	—
Loss from continuing operations before income tax benefit	(41,499)	(58,796)	(63,783)	(81,429)
Income tax benefit	—	—	—	2,500
Loss from continuing operations	(41,499)	(58,796)	(63,783)	(78,929)
Loss from discontinued operations	(477)	—	(1,500)	(4,500)
Net loss	$ (41,976)	$ (58,796)	$ (65,283)	(83,429)
Basic and diluted net loss per share				
From continuing operations	$ (1.27)	$ (1.85)	$ (1.97)	$ (2.37)
From discontinued operations	(0.02)	—	(0.04)	(0.13)
Net loss per share	$ (1.29)	$ (1.85)	$ (2.01)	$ (2.50)

The financial data presented above reflects certain reclassifications from the amounts presented in the Company's filings on form 10-Q for the periods ending March 31, June 30 and September 30, 1996. The reclassifications principally relate to the breakout of revenues by operating segment and the reclassification of certain telecommunication network costs from the selling, general and administrative caption to the cost of services and products caption.

Note 20—Discontinued Operation—WinStar Global Products, Inc.

On May 13, 1997, a formal plan of disposal for the Company's consumer products subsidiary, Global Products, was approved by the Board of Directors, and it is anticipated that the disposal will be completed within the next 12 months. The disposal of Global Products has been accounted for as a discontinued operation and, accordingly, its net assets have been segregated from continuing operations in the accompanying consolidated balance sheets and its operating results are segregated and reported as discontinued operations in the accompanying consolidated statements of operations and cash flows.

Note 20—Discontinued Operation—WinStar Global Products, Inc.—(Continued)

Information relating to the discontinued operations of Global Products is as follows (in thousands of dollars):

	For the Ten Months Ended December 31, 1995	For the Year Ended December 31, 1996	For the Year Ended December 31, 1997
Operating revenues	$13,986	$19,[illegible]9	$ 15,665
Cost of services and products	8,833	13,903	17,534
Selling, general & administrative	4,289	5,323	8,393
Depreciation and amortization	183	245	464
Total operating expenses	$13,305	$19,471	$ 26,391
Operating income (loss)	681	(42)	(10,726)
Interest expense, net	(444)	(968)	(854)
Net income (loss)	$ 237	$(1,010)	$(11,580)

	December 31, 1996	December 31, 1997
Assets:		
Accounts receivable, net	$ 4,499	$ 4,383
Inventories	8,606	4,663
Other assets	2,143	1,268
Total Assets	15,248	10,314
Liabilities:		
Current liabilities	3,102	3,570
Other liabilities	8,332	9,951
Total liabilities	11,434	13,521
Net assets (deficit)	$ 3,814	$ (3,207)

During the year ended December 31, 1997, the Company reduced the carrying amount of its investment to $2,105,000 and recorded a loss on discontinued operations of $6,477,000.

Note 21—Condensed Financial Information of WinStar Equipment Corp. and WinStar Equipment II Corp.

The Company's wholly-owned subsidiaries, WEC and WEC II, each of which is a special purpose corporation which was formed to facilitate the financing and purchase of telecommunications equipment and related property ("Designated Equipment"), received $200.0 million and $50.0 million in gross proceeds, respectively, from the issuance and sale of 12.5% Guaranteed Senior Secured Notes in placements of debt in March and August of 1997, respectively (see Note 7). The use of the proceeds of the Guaranteed Senior Secured Notes are to be used to purchase designated equipment and, if such equipment is not purchased within a specified period, WEC and WEC II must apply unused proceeds thereof to redeem the WEC and WEC II Notes, respectively. Both the interest and principal of the WEC Notes are guaranteed by the Company.

WEC and WEC II have no independent operations other than to purchase designated equipment to lease same to the Company's other telecommunications subsidiaries. Given this operating environment, it is unlikely, in the opinion of management, that WEC or WEC II will generate sufficient income, after the payment of interest on the WEC and WEC II Notes, to pay dividends or make other distributions to the Company.

Summary financial information of WEC and WEC II, which are included in the consolidated financial statements of the Company, are as follows (in thousands):

Note 21— Condensed Financial Information of WinStar Equipment Corp. and WinStar Equipment II Corp.—(Continued)

Balance sheet information at December 31, 1997:

	WEC	WEC II
Current assets	$ 144,004	$ 48,394
Long-term assets	71,424	2,660
Current liabilities	(25,601)	(2,432)
Long-term liabilities	(200,000)	(50,000)
Stockholders' deficit	$ (10,173)	$ (1,378)

Statements of operations information for WEC for the period from its inception through December 31, 1997, and for WEC II for the period from its inception through December 31, 1997, are as follows (in thousands):

	WEC Period from March 13, 1997 (Inception) to December 31, 1997	WEC II Period from August 6, 1997 (Inception) to December 31, 1997
Rental revenues from other WinStar subsidiaries	$ 854	$ —
Interest income from other WinStar subsidiaries	1,207	—
Interest income—investments	7,765	1,105
Selling, general and administrative expenses	(1,470)	—
Interest expense	(18,529)	(2,483)
Net loss	$(10,173)	$(1,378)

Separate financial statements concerning WEC or WEC II are not presented because management of the Company has determined that such information would not provide any material information that is not already presented in the condensed consolidated financial statements of the Company.

Note 22—Employee Benefit Programs

The Company has a defined contribution 401K Plan for substantially all full time employees. The Company makes a 25% matching contribution up to 6% of participant's compensation, subject to certain limitations. The Company contribution vests over a five year period. Company contributions to date have not been significant.

Note 23—New Accounting Pronouncements

The Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130), governing the reporting and display of comprehensive income and its components, and Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" (SFAS No. 131), requiring that all public businesses report financial and descriptive information about their reportable operating segments. The Company will implement SFAS 130 and SFAS 131 as required in 1998. The impact of adopting SFAS No. 130 is not expected to be material to the consolidated financial statements or notes to consolidated financial statements. Management is currently evaluating the effect of SFAS No. 131 on consolidated financial statement disclosures.

Note 24—Subsequent Event (unaudited)

In March 1998 the company issued an aggregate of $650.0 million of notes and preferred stock consisting of $200.0 million of 10% Senior subordinated Notes Due 2008, $250.0 million of 11% Senior Subordinated Deferred Interest Notes Due 2008 and $200.0 million of Series D 7% Senior Cumulative Convertible Preferred Stock Due 2010.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SCHEDULE

Board of Directors
WinStar Communications, Inc.

In connection with our audit of the consolidated financial statements of WinStar Communications, Inc. and Subsidiaries referred to in our report dated February 12, 1998, which is included in this Annual Report on Form 10-K, we have also audited Schedule II for the ten months ended December 31, 1995 and the years ended December 31, 1996 and 1997.

In our opinion, this schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information required to be set forth therein.

GRANT THORNTON LLP

New York, New York
February 12, 1998

WINSTAR COMMUNICATIONS, INC. AND SUBSIDIARIES

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Reserves deducted from assets to which they apply:				
Year ended December 31, 1997				
Allowance for doubtful accounts(a)	$851,512	$5,674,018	$2,706,274(b)	$3,819,256
Year ended December 31, 1996				
Allowance for doubtful accounts(a)	$684,355	$1,818,521	$1,651,364(b)	$ 851,512
Ten months ended December 31, 1995				
Allowance for doubtful accounts(a)	$740,688	$ 852,425	$ 908,758(b)	$ 684,355

(a) Deducted from accounts receivable

(b) Uncollectible accounts receivable charged against allowance

FIRST UNION NATIONAL BANK
WASHINGTON, DC

05354

KELLEY DRYE & WARREN LLP
1200 19TH STREET, N.W.
WASHINGTON, DC [illegible]

15-122/540
[illegible]

March 25, 1999

PAY TO THE ORDER OF [illegible] South Dakota Utilities Commission $ 250.00

[illegible] and fifty ---------------------------------00/100--------------------------------- DOLLARS

[illegible].002 Filing fee

Florence K. Lambert

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May 6, 1999

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SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

BY FEDERAL EXPRESS

Mr. William Bullard Jr.
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501-5070

**Re: Transfer of Assets and Operating Authority of MIDCOM Communications to WinStar Wireless, Inc.
Docket No. TC99-001**

Dear Mr. Bullard:

This responds to Staff's questions submitted by letter dated March 31, 1999 regarding the above-referenced application.

1. A copy of the latest annual report of WinStar Communications, Inc., the parent company of Applicant WinStar Wireless, Inc. ("WinStar"), is appended hereto as Attachment 1. WinStar does not issue a separate annual report.

2. WinStar will pay the South Dakota Gross Receipts Tax for 1998.

3. The MIDCOM tariff provisions sections 2.3.1 and 2.3.4, which attempt to limit the liability of the company, have been deleted.

4. Section 2.3.7 of the MIDCOM tariff has been revised to change "60 days" to "180 days."

5. The MIDCOM tariff has been revised to reflect that WinStar is now the service provider, and addresses and relevant telephone numbers have been changed accordingly.

Enclosed herewith please find 10 copies of the revised MIDCOM tariff, and 2 copies of this response. Enclosed please also find a duplicate of this filing and a self-addressed, postage-prepaid envelope. Kindly date-stamp the duplicate upon receipt and return it in the envelope provided.

Please do not hesitate to contact me if you have any questions regarding this filing, or require any additional information.

Very truly yours,

Rebekah J. Kinnett

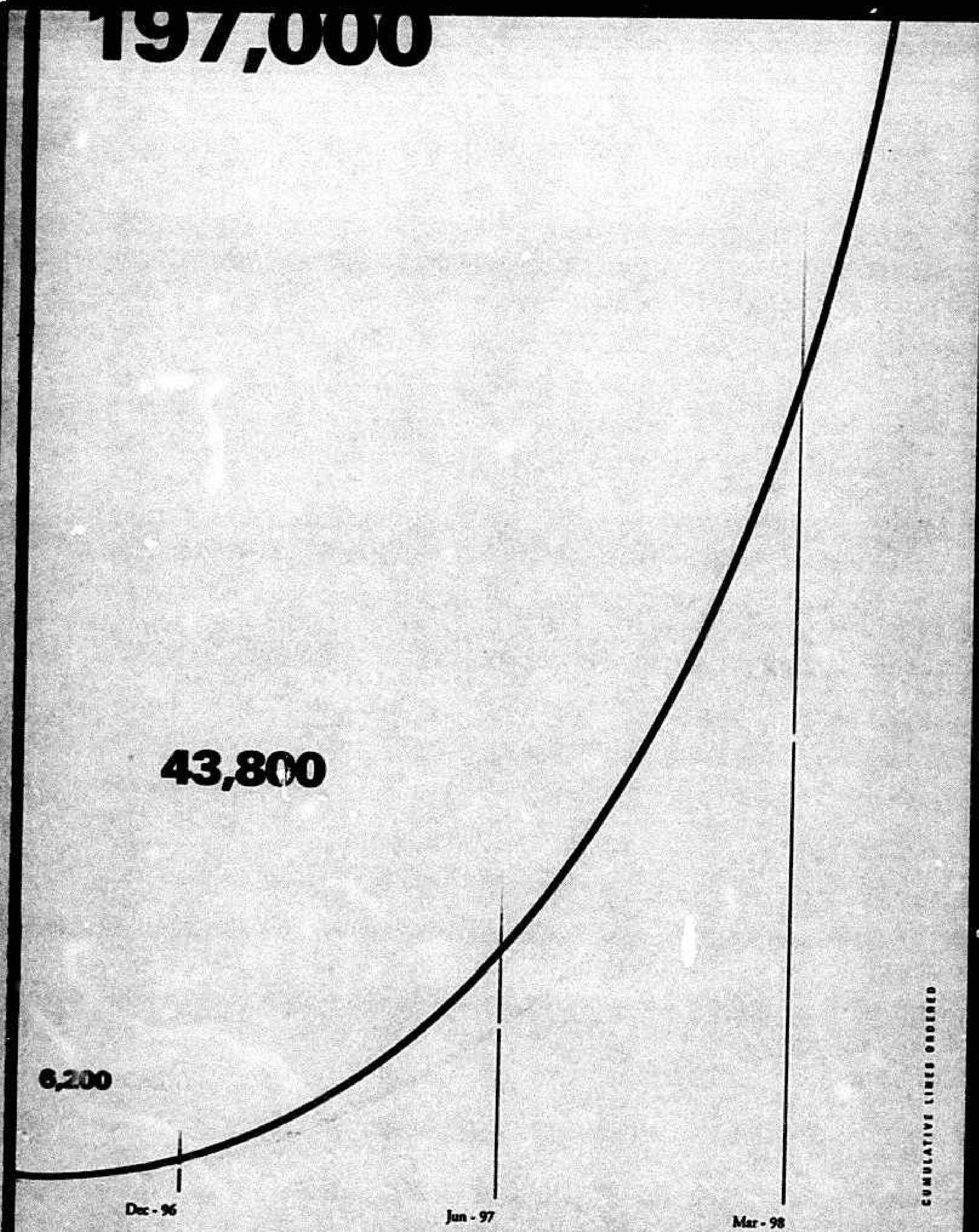
Enclosures

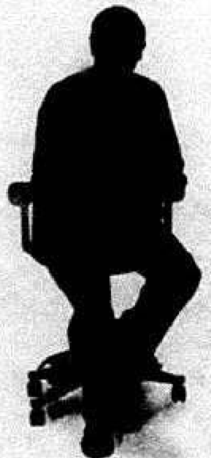
cc: Harlan Best (by FedEx)

Attachment 1

Hello, You've Reached The Future

WinStar® 1997 Annual Report


197,000
43,800
6,200
Dec - 96
Jun - 97
Mar - 98
CUMULATIVE LINES ORDERED



WILLIAM J. ROUHANA, JR.

n 1997, we got our first view of just how vast the demand for broadband telecommunications capacity is in the U.S., and how uniquely positioned WinStar is to meet this demand and translate it into a meaningful business opportunity.

Our accomplishments over the past year extended to every corner of the company. They highlighted the superiority of our Wireless Fiber™ solution for extending fiber networks, and they propelled us to a position where we are ready to grow our business significantly. By year end, we had gained the critical mass of people, systems, network and marketing firepower necessary to establish a large and successful phone company. The investment community began to take active note of the progress we made, and WinStar's share price has

"Our employees are totally committed to WinStar's mission: bringing people into the information age through high-quality wireless broadband services, and helping our customers use our network to productively share information with each other."

more than tripled since I last wrote to you. Although we were pleased by this turn of events, we believe WinStar's current stock price has only begun to reflect the true value of our company.

A Strong Emphasis on Rapid & Robust Growth

The major expansion of WinStar's network over the past year shows our strong emphasis on rapid growth. Today, WinStar is offering services in 21 major metropolitan markets, in contrast to one at the close of 1996. By the end of 1998, we expect to provide switched services in 30 cities, 12 months ahead of our original schedule.

Our network is not only larger than it was a year ago, it's far more robust, providing for the high-speed transport of broadband data and voice traffic. In January 1998, we acquired GoodNet, a Tier I Internet service provider with a national backbone and points-of-presence in 27 cities across the country. We are incorporating its network of ATM data switches into our national local network. We also acquired the PacNet data network the same month, adding 17 frame relay switches plus a direct connection to the Unispan consortium which routes frame relay traffic throughout the U.S. and internationally. Now WinStar can provide customers with a choice of Internet, ATM and frame relay modes of data transmission, in addition to a full complement of local and long distance voice services.

WinStar's network will further evolve in 1998, as we take steps to aggregate voice and data traffic onto a leased long distance fiber backbone that will interconnect *all* our switches. We should realize substantial economies and efficiencies from this integration.

Using a Successful & Superior Networking Model

We believe that our fixed wireless broadband solution for networking customer buildings is clearly superior to the approach used by companies that rely on fiber-based connections. There are several key reasons for this: our lower deployment costs, our ability to reach thousands of buildings that fiber cannot serve economically, and the high percentage of customer traffic we'll be able to carry on our own network. We estimate that, over time, at least two thirds of our lines will be on our own network, and therefore unaffected by provisioning systems and cost issues impacting lines leased from the incumbent local exchange carrier. These on-net lines will give us excellent profitability and greater control over the type and quality of service we provide to customers.

Our recent experience in our first market, New York City, demonstrates that our model works, and works exceptionally well. We began by reselling long distance services while we were building our switch, establishing hub sites and obtaining roof rights. We then gradually moved an increasing percentage of our lines onto our network as it was built. By year-end 1997, 13 months after we launched our service, more than 50% of our New York lines were on our own network; and an even greater percentage of lines were installed on our Lucent 5ESS switch. We expect this experience to be repeated in each of our cities as WinStar extends its network to a total of 40 markets by the end of 1999.

Extending Our Service Capabilities to the 50 Largest U.S. Markets

The value of our radio spectrum holdings, which represent WinStar's core asset, was substantially enhanced in 1997 and early 1998. This came about through the addition of new spectrum licenses, and favorable rulings from the FCC on how we can use our spectrum. In the fall of 1997, the FCC set out new rules permitting 38 GHz licensees to hold up to the full 1,400 MHz of spectrum available in a gi[illegible]n market, while also allowing utilization of that spectrum for a wide range of fixed or mobile communications services.

As a result of license acquisitions, grants, and our participation in the LMDS auction, WinStar's potential service area has been extended to include all 50 of the largest U.S. markets. Our bandwidth holdings in those key markets now average approximately 740 MHz. WinStar's coverage area encompasses ***more than 200 million people*** and over one billion channel pops (covered population times the number of 100 MHz equivalent channels).

Setting a New Standard with a Point-to-Multipoint System

The competitive value and utility of our spectrum holdings will be further enhanced beginning in the latter part of 1998, when we expect to start deploying our point-to-multipoint wireless network on a commercial basis. This is a major development for the company and an entirely new paradigm for our industry.

Point-to-multipoint systems will enable us to install radios with 155 Mbps data rates and higher on a customer building for a capital cost of as little as $4,000 per incremental building as our rollout reaches national scale in 1999. This data rate is triple the speed of current point-to-point radios which have capital costs of about $20,000 per building. Our point-to-multipoint technology has many other important benefits, including an ATM over-the-air interface to carry voice, video and data traffic over a single network, and the ability to provide bandwidth on demand to our customers.

Our successful advanced testing of the technology reenforces our belief that we can deliver a rich blend of essential services, ranging from voice and data communications, LAN-LAN interconnections and MPEG-2 video, to high-speed Internet access and distance learning. This will be the ***Information Superhighway*** in operation.

Building Toward a Much Bigger Future

The national deployment of services, systems, switches, and people on the large scale and accelerated schedule we are pursuing is expensive. However, the infrastructure we are putting in place today will support the needs of the far larger company we expect to become over the next several years. We have met with great success in raising the capital to build our network. Between January 1997 and April 1998 alone we secured more than $1.4 billion in debt and equity financing. The receptivity to our securities offerings is a solid vote of confidence in our business plans and investment decisions.

During 1997, we also saw significant growth in WinStar's New Media business which develops information content targeted to the business, educational and consumer markets. Their services help drive usage of the bandwidth we provide our customers and differentiate us from other telecommunications companies. They also strengthen the loyalty of our customers by helping them become more productive through our broadband connectivity and improved access to interactive services. This is how we enable the true convergence of broadband connectivity, computer technology and content.

In 1997, we also added significant depth and breadth to our already strong managment team. This led, among other things, to the formation of a stand-alone broadband services unit to spearhead the development of our data business, and to the creation of a new division concentrating on the acquisition of building access rights. In a related vein, the deployment of a new sales force to call on large businesses expanded our focus to a previously unaddressed market segment.

These initiatives gave us three major sources of telecommunications revenues: voice services for small and medium-sized businesses, voice services for large businesses, and broadband data services. WinStar's now broadened universe of potential customers is quickening the pace of our orders and installations.

Addressing Our Business Priorities for 1998

For 1998, our priorities focus on executing our plan to deploy WinStar's network and systems to 30 cities. The valuable lessons we learned in 1997 are being applied in 1998. We expect to increase efficiency as we add sales volume to our growing infrastructure. We will also continue to analyze potential acquisitions that can lead to greater utilization of our network or enhance our service offerings. At the same time, we remain extremely focused on the goal of gradually reducing EBITDA losses from the inflection point we reached in the fourth quarter of 1997.

During 1998, we also expect to begin leveraging our expertise in creating fixed wireless communications networks in markets *outside* the U.S. The demand for bandwidth is a global phenomenon, and our approach to meeting it is not limited to national boundaries. Over the near term, we will likely seek spectrum rights in Canada, Europe and other regions. We could be in a position to launch some operational networks in 1999.

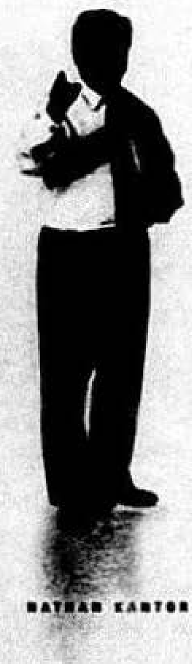
Our employees are totally committed to WinStar's mission: bringing people into the information age through high-quality wireless broadband services, and helping our customers use our network to productively share information with each other. Of the more than 180 million local loop connections that make up the U.S. telecommunications network, only a fraction have been upgraded to broadband status. This means we have an amazingly large business opportunity.

I look forward to keeping you updated on how WinStar is taking advantage of this great opportunity, and transforming it into value for our shareholders, customers, employees and community. In the meantime, I would like to thank all of you, and particularly our employees, for your tremendous enthusiasm and support, and for sharing WinStar's vision of the future, a future we are beginning to turn into a reality.

WILLIAM J. ROUHANA, JR.
CHAIRMAN & CHIEF EXECUTIVE OFFICER

April 24, 1998

Report on Operations



NATHAN KANTOR

WinStar's telecommunications network has grown substantially since the installation of our first local network switch only 17 months ago. Looking toward the end of this year, we plan to have 23 Lucent 5ESS switches installed, and an additional 29 ATM switches and 17 frame relay switches in service. This extensive switching capability should increase again in 1999.

We're Fielding a Direct Sales Force of Trained Professionals

To generate traffic for WinStar's expanding network, we've built a professional field sales force to call directly on potential business customers. More than 800 WinStar sales and service representatives have been trained to assist customers with total solutions to their telecommunications needs, including data specialists and salespeople concentrating solely on large businesses.

The rewards of this investment have come in the form of continually rising flows of line orders and installations. Cumulative line orders reached 118,000 at the end of 1997, an encouraging conclusion for a 12-month period that started with only about 6,000 ordered lines. We achieved further gains in the first quarter of 1998, when cumulative orders rose to nearly 200,000. Our base of installed lines expanded over thirty-fold, from 4,400 at the beginning of 1997, to 82,000 as of December 31, to 145,000 at the end of the first quarter of 1998. The cumulative orders and installations reported for March 1998 included some 24,500 lines acquired with our new broadband data businesses. However, WinStar's ongoing rate of installation already exceeds 40,000 lines per quarter. The number of quarterly installations should continue to rise as our services come on stream in additional major cities.

We're Gaining Momentum with Hub Sites, Access Rights & Interconnect Agreements

Creating hub sites, to collect traffic from customer buildings and route it to our switches, is essential to the successful buildout of our network. From no completed hubs at the beginning of 1997, within 15 months we had over 50 in service. Meeting our target for 1998 will bring the total to more than 100.

Wireless connectivity to our hubs hinges on our success in obtaining building access rights to install a small antenna and radio atop customer buildings. This makes access rights a second critical factor in deploying our wireless network nationwide. Accordingly, we're giving this effort a significant amount of focused attention. During 1997, the number of building access rights held by WinStar climbed to 2,100, versus 800 in 1996. We are finding that building owners increasingly recognize the value of having broadband telecommunications services available to tenants within their buildings. In 1998, we're broadening our rights acquisition program to include negotiations with REITs and other property owners and managers who control large numbers of commercial office buildings. By year-end, we expect to have gained access to a total of 4,000 locations.

Clearly, WinStar's network cannot be of true value without connecting it to the national telecommunications system. Doing so requires us to negotiate individual agreements with the Regional Bell Operating Companies (RBOCs) and other established local and long distance carriers. It's well worth noting that WinStar has made interconnect agreements that today cover 44 of the top 50 U.S. markets. Additionally, the company has peering arrangements with more than 130 U.S. and foreign Internet service providers.

CLEC authorizations represent a fourth crucial building block for a national telecommunications provider like WinStar, and our progress here has been very satisfactory. We currently have authorizations applying to 48 of the largest markets in the country. That's up considerably from 30 markets at the end of 1996.

We're Investing Heavily in Customers and the Future

The fact is, WinStar's combination of innovative service offerings, value-based pricing and passion for customer satisfaction is being met with great enthusiasm in the marketplace. We have quickly built a solid base of more than 7,000 customers. Our rate of customer acquisition remains on a strong upswing, and our services are being enhanced by the most advanced operational and business support systems in the industry. This is a critical area for the company, and we continue to make substantial investments in order entry, order provisioning, billing and network management systems. We have also designed new network elements to support the deployment of WinStar's point-to-multipoint technology, commencing later this year. It is equally gratifying to report that WinStar's wireless network achieved a 99.999% ("five-nines") level of availability in 1997. This accomplishment proved that our unique approach to providing broadband connectivity is of the utmost quality and reliability.

WinStar's success is being further supported by an aggressive marketing program which incorporates media advertising and a wide range of special activities conducted inside our target buildings. Our marketing themes differentiate WinStar from other service providers and encourage heightened expectations among our potential customers. Once they experience WinStar's services, we work with our customers to handle an increasing amount of their communications requirements, and integrate WinStar into their business. This approach has been highly effective.

We're looking ahead and working toward even greater achievements in 1998. We're supremely confident about the unique and talented group of employees we have at WinStar, and the bright new people we are attracting, who are delivering on our promise: "See things from a phone company you've never seen before."

NATHAN KANTOR
PRESIDENT & CHIEF OPERATING OFFICER

April 24, 1998

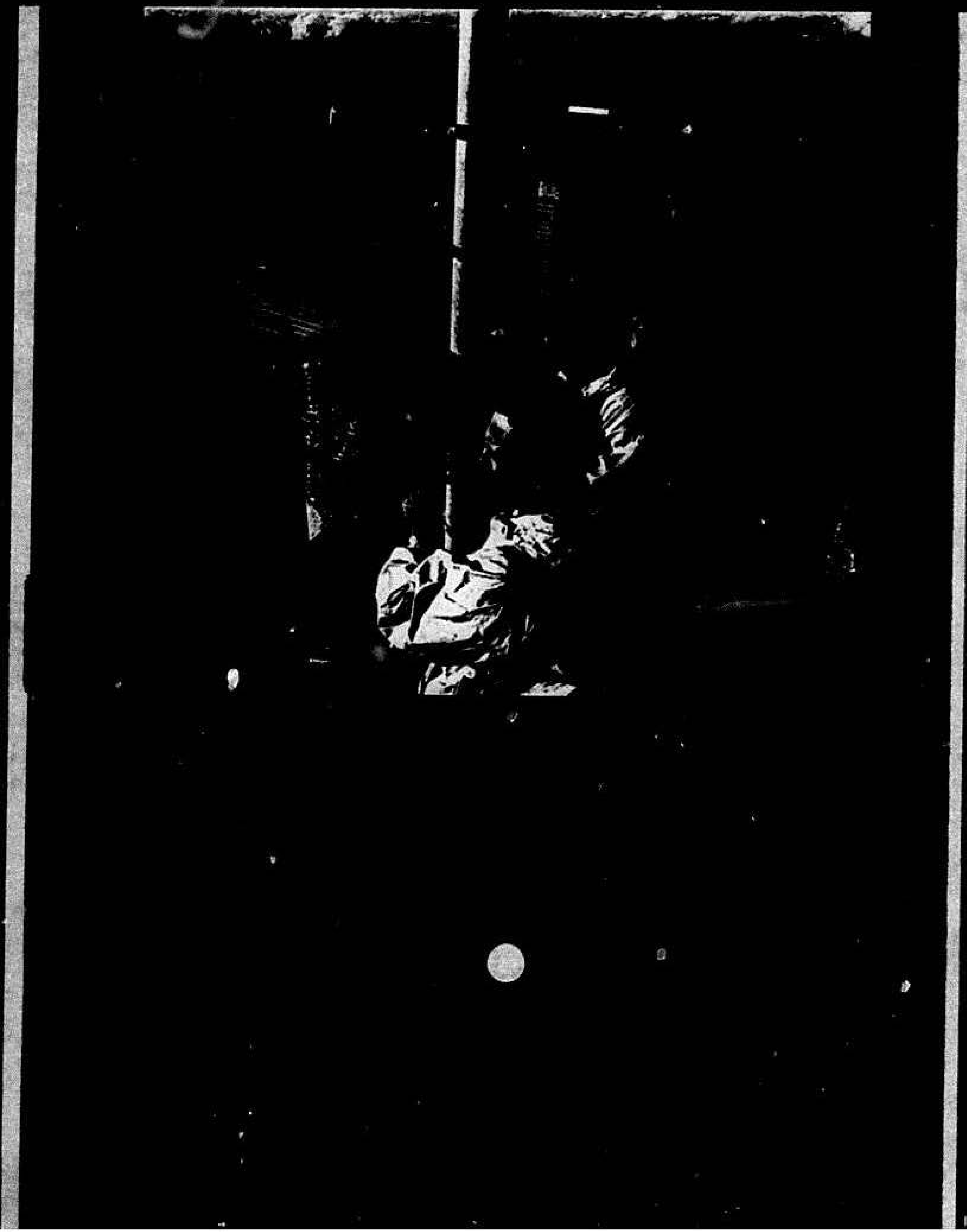
With the deployment of our re[illegible]lutionary point-to-multipoint (PMP) technology, there are hundreds of thousands of buildings we can reach and connect with high-speed telecommunications services. We're going to bring the people in those buildings all the features and benefits of today's and tomorrow's Information Superhighway.

This rich, new and extremely robust networking approach significantly expands our ability to service many more customers, and dramatically lowers the cost of reaching them. It also creates a totally new paradigm for broadband local networks: marking the first time that voice, data and video capabilities have been integrated into one network.

Point-to-Multipoint is a *line-of-sight* technology. It begins at our hub sites, where we have a u[illegible]verse of buildings in our sight, a universe that includes customers located in buildings as small as 20,000 square feet. It's an affordable and relatively easy-to-install alternative to the higher cost, old wireline technology systems offered by the country's entrenched monopoly carriers. When the buildout of the company's hubs is complete in our 50 major target markets, we'll be able to see fr[illegible] our hub sites and reach close to 75% of all commercial office buildings in these cities.

Lacking broadband connectivity, these buildings can be classified as "access disadvantaged." As such, they're perfect candidates to benefit from our PMP "on ramp," which will be able to connect them - with bandwidth-on-demand - to the nation's telecommunications infrastructure, and to the current and future Information Superhighway.

Fixed wireless broadband communications is not cellular service. It's a high capacity communications channel that matches the performance and quality of fiber-based networks and systems. Connections are made through the air by way of antennae on building roofs. Service is delivered faster and less expensively than by fiber, and isn't vulnerable to construction-related outages involving cut cables. With point-to-multipoint technology, WinStar doesn't have to build specific pipes to each building, or try to fill them. Our virtual "pipe" can get bigger or smaller as demand increases or lessens; the cost to our customer is based on actual bandwidth use, not on capacity that is unused. These significant cost advantages, coupled with our strong service edge, make a compelling argument for customers to switch to WinStar from other local exchange carriers.



[illegible]

Education in America is undergoing a transformation, aimed at improving children's learning and giving them the skills they need to succeed in tomorrow's world. This transformation represents an evolution from "products of the muscle" to "products of the mind." In the future, the ability to access information, and use the tools of technology to analyze and creatively solve problems, will be the defining factor in determining who succeeds. WinStar is an active part of this big and important picture, guiding schools through the sea of new technology.

The Seven "C's" of Education and the Internet

WinStar has a strong and socially responsible vision for America's schools, intended to build the foundation of a nationwide community of lifelong learners. It begins with *connectivity*: getting schools connected to the Internet. Here, our Wireless Fiber service is an ideal technology, providing high-speed connectivity at a fraction of the price of conventional alternatives. *Content*: once connected, content is the critical issue. Our *NewsNow* program enables children to publish their content on the Web. *Context*: Our *LivingPage* enables schools to create their own electronic library, and students' electronic bibliographies for Web-based research. *Collaboration*: the true power of the Web is connecting minds to other minds. Programs like our *WebBoard*, *MindsEye Monster Exchange* and *The Journey* are bringing thousands of children from hundreds of schools around the world into collaboration. *Creativity*: essential to creating value. We're building a suite of creative problem-solving tools, and working with top experts in the field to develop an Internet curriculum. *Commerce*: children must learn the fundamentals of electronic commerce. We'll be introducing tools and programs to give them great hands-on experience. *Community*: we're dedicated to improving communities through the creative use of telecommunications. In the nation's capital, we took the lead in forming a broad business and community coalition involving D.C. public schools, the D.C. public library and various foundations and groups, with the goal of making a significant difference, and closing the "digital divide" for inner city families. Vice President Al Gore hailed it as a model for the nation.

Everyone focuses on the content, yet that's only 10% of the equation. 90% is the process of collaboration. It's not about connecting children with other computers and Web pages, it's about connecting their minds with other minds. This is the true power of the Internet.

Creating a Model for America's Communities

We're about to link an inner city housing project in Washington, D.C. with neighborhood elementary, middle and high schools, and a local senior citizens home. The Internet environment we're creating is extending the schools into the home, and opening the door to rich, cross-generational communication between seniors and children. WinStar is today's new phone company not only in terms of its technology, but also in terms of our passionate sense of social responsibility to the country's schools and communities.

(In thousands, except per share data)

	FOR THE TEN MONTHS ENDED DECEMBER 31,	FOR THE YEAR ENDED DECEMBER 31,	
	1995	1996	1997
Operating revenues			
Telecommunications services — commercial	$ 130	$ 4,487	$ 29,796
Telecommunications services — residential	13,007	29,482	8,481
Information services	2,648	14,650	41,354
[redacted]			
Operating expenses			
Cost of services and products	12,073	38,233	81,017
Selling, general and administrative expenses	13,617	62,365	156,959
Depreciation and amortization	1,027	4,501	29,701
[redacted]			
Operating loss	(10,932)	(56,480)	(188,046)
Other (expense) income			
Interest expense	(7,186)	(36,748)	(77,257)
Interest income	2,890	10,515	17,577
Other (expense) income	(866)	-	2,219
Loss from continuing operations before income tax benefit	(16,094)	(82,713)	(245,507)
Income tax benefit	-	-	2,500
Loss from continuing operations	(16,094)	(82,713)	(243,007)
Income (loss) from discontinued operations	237	(1,010)	(6,477)
Net loss	(15,857)	(83,723)	(249,484)
Preferred stock dividends	-	-	(5,879)
[redacted]			
Basic and diluted income (loss) per share:			
From continuing operations	$ (0.71)	$ (2.96)	$ (7.49)
From discontinued operations	0.01	(0.04)	(0.19)
[redacted]			

(Please refer to the company's Form 10-K for complete financial information)

(In thousands)

	DECEMBER 31, 1998	DECEMBER 31, 1997
ASSETS		
Current assets		
Cash and cash equivalents	$ 95,490	$ 402,359
Short term investments	26,997	16,903
Cash, cash equivalents and short term investments	122,487	419,262
Investments in equity securities	688	—
Accounts receivable, net of allowance for doubtful accounts of $852 and $3,819, respectively	13,150	30,328
Inventories	5,009	10,296
Prepaid expenses and other current assets	15,969	8,985
Net assets of discontinued operations	3,814	2,105
Total current assets	161,117	470,976
Property and equipment, net	62,572	284,835
Licenses, net	27,434	174,763
Intangible assets, net	12,955	14,293
Deferred financing costs, net	10,535	27,463
Other assets	4,176	4,071
[redacted]		
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Current portion of long-term debt	$ 19,901	$ 386
Accounts payable and accrued expenses	29,442	97,714
Current portion of capitalized lease obligations	3,110	6,848
Total current liabilities	52,453	104,948
Capitalized lease obligations, less current portion	10,846	21,823
Long-term debt, less current portion	265,161	768,469
Deferred income taxes	—	24,000
[redacted]		
Series C exchangeable redeemable preferred stock, liquidation preference of $175,000 plus accumulated dividends	—	175,553
Commitments and contingencies		
Stockholders' equity (deficit)		
Series A preferred stock issued and outstanding 3,910 shares at December 31, 1997	—	39
Common stock, par value $.01; authorized 200,000 shares, issued and outstanding 28,989 and 34,610, respectively	290	346
Additional paid-in-capital	75,436	255,741
Accumulated deficit	(125,034)	(374,518)
	(49,308)	(118,392)
Unrealized loss on investments	(363)	—
[redacted]		

(Please refer to the company's Form 10-K for complete financial information)

(In thousands)

	FOR THE TEN MONTHS ENDED DECEMBER 31,	FOR THE YEAR ENDED DECEMBER 31,	
	1995	1996	1997
Cash flows from operating activities:			
Net loss	$ (15,857)	$ (83,723)	$ (249,484)
Adjustments to reconcile net loss to net cash used in operating activities:			
Net (income) loss from discontinued operations	(237)	1,010	6,477
Depreciation and amortization	1,117	5,977	32,360
Deferred income tax benefit	—	—	(2,500)
Provision for doubtful accounts	855	1,562	5,674
Equity in unconsolidated results of AGT	866	—	—
Non cash interest expense	6,151	35,040	53,506
Decrease (increase) in operating assets:			
Accounts receivable	(4,216)	(3,838)	(24,025)
Inventories	(991)	(1,897)	(9,217)
Prepaid expenses and other current assets	(2,342)	(13,442)	510
Other assets	(865)	(1,940)	(178)
Increase in accounts payable and accrued expenses	4,911	9,795	50,306
Net assets provided by (used in) discontinued operations	90	(1,481)	(4,559)
Other, net	179	186	—
[redacted]			
Cash flows from investing activities:			
Investment in and advances to AGT	(5,704)	—	—
Decrease (increase) in short-term investments, net	(73,594)	46,597	10,094
Decrease (increase) in other investments, net	(7,497)	6,447	—
Purchase of property and equipment, net	(8,138)	(47,842)	(213,356)
Acquisition of licenses and other	—	(2,121)	(40,190)
Other, net	(499)	(1,619)	2,494
[redacted]			
Cash flows from financing activities:			
Proceeds from (repayments) of long-term debt, net	224,200	(2,778)	410,585
Net proceeds from redeemable preferred stock	—	—	168,138
Net proceeds from equity transactions	11,259	6,295	104,781
Proceeds from equipment lease financing	6,998	8,345	9,912
Payment of capital lease obligations	(676)	(2,080)	(4,141)
Other, net	(898)	(1,010)	(317)
[redacted]			
Net increase (decrease) in cash and cash equivalents	135,112	(42,517)	306,869
Cash and cash equivalents at beginning of period	2,895	138,007	95,490
Cash and cash equivalents at end of period	138,007	95,490	402,359
Short-term investments at end of period	73,595	26,997	16,903
[redacted]			

(Please refer to the company's Form 10-K for complete financial information)

WINSTAR®

WinStar Communications, Inc.
230 Park Avenue, Suite 2700
New York, NY 10169
Tel: 212.584.4000
Fax: 212.867.1565

RECEIVED
MAY 07 1999
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

WINSTAR WIRELESS, INC.

TITLE SHEET

SOUTH DAKOTA TELECOMMUNICATIONS TARIFF

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of interLATA and intraLATA telecommunications services provided by WinStar Wireless, Inc., with principal offices at 230 Park Avenue, 31st Floor, New York, NY 10169. This tariff applies to services furnished within the State of South Dakota. This tariff is on file with the South Dakota Public Utilities Commission, and copies may be inspected, during normal business hours, at 1146 19th St., N.W., Suite 250, Washington, DC 20036.

By: Robert G. Berger
Vice President, Legal and Regulatory
WinStar Wireless, Inc.
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CHECK SHEET

Pages 1 through 87 of this tariff are effective as of the date shown at the bottom of the respective page(s). Original and revised sheets as named below comprise all changes from the original tariff.

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TABLE OF CONTENTS

By: Robert G. Berger
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CONCURRING, CONNECTING OR OTHER PARTICIPATING CARRIERS

None

SYMBOLS

The following are the only symbols used for the purposes indicated below:

D - Delete Or Discontinue

I - Change Resulting In An Increase To A Customer's Bill

M - Moved From Another Tariff Location

N - New

R - Change Resulting In A Reduction To A Customer's Bill

T - Change In Text Or Regulation But No Change In Rate Or Charge

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TARIFF FORMAT

A. Page Numbering - Page numbers appear in the upper right corner of the page. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between pages already in effect, a decimal is added. For example, a new page added between pages 14 and 15 would be 14.1.

B. Page Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current page version on file with the South Dakota PUC. For example, the 4th revised Page 14 cancels the 3rd revised Page 14. Because of various suspension periods, deferrals, etc. the South Dakota PUC follows in their tariff approval process, the most current sheet number on file with the Commission is not always the tariff page in effect. Consult the Check Sheet currently in effect.

C. Paragraph Numbering Sequence - There are four levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.
2.1
2.1.1
2.1.1(A)
2.1.1 (A)(i)

D. Check Sheets - When a tariff filing is made with the South Dakota PUC, an updated check sheet accompanies the tariff filing. The check sheet lists the pages contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision.

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SECTION 1- TECHNICAL TERMS AND ABBREVIATIONS

Access Line: a transmission line from either the LEC's or the Carrier's Point-of-Presence (POP) to customer's premises used to process voice and limited speed data calls.

Company: WinStar Wireless, Inc.

Customer: The person, firm, corporation or other entity that orders services and is responsible for payment of charges due and compliance with the Company's Tariff regulations.

DA: DA stands for Directory Assistance.

Dedicated Access: If a Customer's location has a direct path to the network of the underlying carrier, it is considered dedicated access. Dedicated access may be obtained from AT&T, the LEC or private carriers. When dedicated access is required to access the Company's services, the Customer is responsible for obtaining access.

DNS: DNS stands for Distributor Network Services.

InterLATA Call: any call that originates and terminates in different LATAs.

IntraLATA Call: Any call that originates and terminates within the same LATA.

LATA: Local Access Transport Area is a geographic boundary, within which the LEC provides communications services. Multiple LECs may provide services within the same LATA.

Local Exchange Carrier (LEC): is the serving telephone company providing local services to subscribers. This company also provides some of the following services: LATA wide long distance, voice and data private lines and custom calling services.

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SECTION 1- TECHNICAL TERMS AND ABBREVIATIONS (cont'd)

NPA: literally stands for Numbering Plan Area but is more commonly referred to as an area code.

NPA Centroid: is the center of the area code and is sometimes used to calculate mileage for inbound 800 calls where the NPA-NXX of the originating caller is not available.

NXX: is the first three digits of the Customer's telephone number. N is a number between 2 and 9. X is a number between 0 and 9.

Point-of-Presence (POP): is the central office of the underlying carrier where the LEC hands off the traffic of the Company's Customers or where the T-1 digital facility interconnects with the underlying carrier.

PUC: Public Utilities Commission

Rate Center: is a group of central offices determined by NPA centroid or NPA-NXX.

SDN: SDN stands for Software Defined Network.

Switched Access: If the Customer's location has a transmission line that is switched through the LEC to reach the network of the underlying carrier's POP, the access is switched.

T-1 Digital Service: a digital link between two points. This link typically transmits at speeds of 1.544 megabits per second. In most cases this service allows twenty-four dedicated access lines between any two points. T-1 Service may be provided by the LEC, or other carriers.

SECTION 2 - RULES AND REGULATIONS

2.0 Application of Tariff

The Company's services are furnished for communications originating and terminating at points within the state of South Dakota under terms of this Tariff.

This Tariff governs the provision of intrastate interLATA and i traLATA switched message telephone services and directory assistance service within the State of South Dakota by resale of the services of facilities-based carriers. The Company's services are provided on a monthly basis, and are available twenty-four hours per day, seven days per week.

2.1 Undertaking of the Company

The Company's services are furnished for communications originating and terminating at points within the State of South Dakota under terms of this Tariff.

This Tariff governs the provision of switched message telephone services and directory assistance service within the State of South Dakota by resale of the services of facilities-based carriers. The Company's services are provided on a monthly basis, and are available twenty-four hours per day, seven days per week.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.2 Limitations

2.2.1 Service is offered subject to the availability of facilities and the provisions of this Tariff.

2.2.2 The Company reserves the right to discontinue furnishing service, or limit the use of service without liability when necessitated by conditions beyond its control, or when the Customer is using service in violation of the law or the provisions of this Tariff.

2.2.3 Prior written permission from the Company is required before any assignment or transfer of service. All regulations and conditions contained in this Tariff shall apply to all such permitted assignees or transferees, as well as all conditions for service.

By: Robert G. Berger
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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.2 Limitations (continued)

2.2.4 Company reserves the right to refuse service to Customers without incurring liability:

(A) For non-payment of any sum owing to the Company;

(B) For insufficient or fraudulent billing information, invalid or unauthorized telephone numbers, or pre-arranged account code numbers;

(C) For any violation by a Customer related to the request for such service of either the provisions of this Tariff or any laws, rules, regulations, or policies;

(D) By reason of any order or decision of a court or other governmental authority which prohibits the Company from furnishing such service;

(E) If the Company deems such refusal necessary to protect itself or third parties against fraud or to otherwise protect its personnel, agents, or services.

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.3 Liabilities of the Company

2.3.1 The liabilities of the Company for damages arising out of mistakes, omissions, interruptions, delays, or errors occurring in the course of furnishing service hereunder and not caused by the negligence or intentional acts of the Customer shall in no event exceed an amount equivalent to the initial period charge to the Customer according to this Tariff for the call during which such mistake, omission, interruption, delay, error, or defect in transmission occurs, except in cases of willful misconduct by the Company.

2.3.2 The Company shall be indemnified and held harmless by the Customer against:

(A) Claims for libel, slander, infringement of patent or copyright, or unauthorized use of any trademark, trade name or service mark arising out of the material, data, information, or other content transmitted by the Company; violation of any other literary, intellectual, artistic, dramatic, or musical right; violations of the right to privacy; or any other rights whatsoever relating to or arising from message content or the transmission thereof.

(B) All other claims arising out of any act or omission of the Customer in connection with any service provided by the Company.

2.3.3 The Company is not liable for any act or omission of any other companies furnishing a portion of the service.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.3 Liabilities of The Company (continued)

2.3.4 No agents or employees of connecting, concurring or other participating carriers or companies shall be deemed to be agents or employees of the Company without written authorization.

2.3.5 The Company is not liable for any failure of performance hereunder due to causes beyond its control, including, but not limited to, unavoidable interruption in the working of transmission facilities; acts of God; storms, fire, flood, or other catastrophes; any law, order, regulation, direction, action or request of the United States Government, or any other governmental entity having jurisdiction over the Company or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of such governmental entity, or of any civil or military authority; national emergencies, insurrections, riots, rebellions, wars, strikes, lockouts, work stoppages, or other labor difficulties; or, notwithstanding anything in this Tariff to the contrary, the unlawful acts of individuals, including acts of the Company's agents and employees if committed beyond the scope of their employment.

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.3 Liabilities of the Company (continued)

2.3.6 The Company shall not be liable for damages or statutory penalties or be obligated to make any adjustment, refund or cancellation of charges unless the Customer has notified the Company of any dispute concerning charges, or the basis of any claim for damages, within one hundred eighty (180) calendar days after an invoice is rendered or a debit is effected by the Company for the call giving rise to such dispute or claim. Any such notice must set forth sufficient facts to provide the Company with a reasonable basis upon which to evaluate the Customer's claim or demand. The Company's toll free number to reach Customer Service is (888) 961-8800. In the event that the Customer is not satisfied with the Company's resolution of any dispute, the Customer may make application to the South Dakota Public Utilities Commission for review and disposition of the matter. The Commission's address and telephone numbers are as follows:

South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070
605-773-3201 or 1-800-332-1782

2.4 Use of Service

The Customer may not use any of the services furnished by the Company under this Tariff for any unlawful purpose.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.5 Interruption of Service

Credit allowances for the interruption of service are subject to the general liability provisions set forth in Paragraph 2.3.1 preceding. It shall be the obligation of the Customer to notify the Company immediately of any interruption in service for which a credit allowance is desired. Before giving such notice, the Customer shall ascertain that the trouble is not being caused by any action or omission by the Customer within his control, or is not in wiring or equipment, if any, furnished by the Customer.

2.6 Restoration of Service

The use and restoration of service in emergencies shall be in accordance with the priority system specified in Part 64, Subpart D of the Rules and Regulations of the Federal Communications Commission.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.7 Obtaining Service

2.7.1 Application for Service

Service is offered subject to the availability of facilities and the provisions of this Tariff. To obtain service, the Company requires the Customer to complete a Sales Agreement form. The Customer must also establish credit.

2.7.2 Establishment of Credit

To establish credit, the payment history with the previous carrier is determined by reviewing their phone bills. If the applicant for service has no telephone credit history, the Company will, with the consent of the applicant, determine the credit standing of the applicant based on information about the applicant's natural gas or electric utility bill payment history.

2.7.3 Types of Credit Explained

(A) Satisfactory Credit

Satisfactory Credit shall be defined for the purpose of these rules as no disconnection for nonpayment in the most recent year of service and less than three disconnection notices in the most recent year of service. No deposit will be required by the Company should an applicant for service or existing subscriber exhibit satisfactory credit as herein defined.

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.7 Obtaining Service (continued)

2.7.3 Types of Credit Explained (continued)

(B) Unsatisfactory Credit

Unsatisfactory Credit shall be defined as one or more disconnections in the most recent year of service or three or more disconnection notices in the most recent year of service.

2.7.4 Deposits

(A) General

Any applicant whose credit has not otherwise been duly established as provided in Section 2.7.2 hereof may be required to make a deposit to be held as a guarantee of payment of charges. In addition, an existing Customer may be required to make a deposit or to increase a deposit presently held in the event that the conditions of service or basis on which credit was originally established have materially changed.

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SECTION 2- RULES AND REGULATIONS (cont'd)

2.7 Obtaining Service (continued)

2.7.3 Deposits (continued)

(B) Amount of Deposit

The amount of any deposit shall not exceed the estimated charges for two months' service or, in the case of seasonal service, one-half of the estimated charge for the season involved. The estimate shall be based on past telephone bill information and computed by multiplying the average monthly bill over the past 12 months times two, if the last 12 months' bills are available.

(C) Installments

If the applicant is unable to pay the full amount of the deposit, the Company will accept payment of the deposit in reasonable installments not to exceed three (3) months.

SECTION 2 – RULES AND REGULATIONS (cont'd)

2.7 Obtaining Servi.e (continued)

2.7.3 Deposits (continued)

(D) Return of Deposit

A deposit will be returned:

- When an application for service has been canceled prior to the establishment of service The deposit will be applied to any charges applicable in accordance the Tarriff and the excess portion of the deposit will be returned.

- At the end of one year of satisfactory credit history. When the subscriber has paid bills for service for 12 consecutive months without having service disconnected for nonpayment and without receiving three or more disconnection notices, the Company will promptly and automatically refund the deposit plus accrued interest to the Customer in the form of cash or credit to the subscriber's bill. The subscriber will choose the form of the refund.

- Upon discontinuance of service. After disconnection of service and receipt of the final payment, the telephone utility shall promptly and automatically refund the subscriber's deposit plus accrued interest, or the balance, if any, in excess of the unpaid bills for service furnished by the Company.

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SECTION 2 – RULES AND REGULATIONS (cont'd)

2.7 Obtaining Service (continued)

2.7.3 Deposits (continued)

(E) Interest on Deposits

The Company will pay 7% interest on deposits. Any change in the rate set by this rule shall affect only those deposits accepted after the change. Interest shall accrue from the day of the acceptance of the deposit and will be available upon demand of the subscriber. The Company will not pay interest on a deposit for the 90-day period following disconnection of service, if during such period the utility has made a reasonable effort to refund the deposit. Thereafter, an unclaimed deposit plus accrued interest will be credited to an appropriate account.

(F) Escrow of Deposit

The Customer's deposit will be held in escrow in a federally insured financial institution.

(G) Deposit Receipt

Upon receiving a deposit, the Company will furnish the applicant with a receipt of deposit.

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SECTION 2 – RULES AND REGULATIONS (cont'd)

2.7 Obtaining Service (continued)

2.7.3 Deposits (continued)

(H) Record of Deposit

The Company will keep a record of the deposit until the deposit is refunded. The record will show: (1) the name and current billing address of each depositor; (2) the amount and date of the deposit; and (3) each transaction concerning the deposit. The Company will provide each depositor with such information upon termination of the depositor's service.

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.8 Rendering and Payment of Bills

The Customer is ultimately responsible for payment of all charges for service provided by the Company.

2.8.1 Billing Period

The billing period is one calendar month. Long distance charges are billed in arrears.

2.8.2 Rendering Bills

Bills will be rendered on a monthly basis. Bills are sent via U.S. mail to the billing address listed on the Sales Agreement form unless the Customer has changed the information originally provided.

2.8.3 Payment of Bills

Payment is due within twenty-one (21) days following monthly invoice. Payments are sent to a designated receiver as indicated on the invoice or to WinStar Wireless, Inc., 1146 19th St., N.W., Suite 250, Washington, DC 20036.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.8 Rendering and Payment of Bills (continued)

2.8.4 Billing Disputes

Billing disputes should be addressed in writing to WinStar Wireless, Inc., 1146 19th St., N.W., Suite 250, Washington, DC 20036. Billing disputes may also be referred via telephone to (888) 961-8800. Service Representatives are available to assist with billing inquiries 24 hours a day, seven days a week.

In the event that the Customer is not satisfied with the Company's resolution of a billing dispute, the Customer may make application to the South Dakota Public Utilities Commission. The Commission may be contacted at State Capitol, Pierre, SD 57501-5070 or via telephone at (605) 773-3201 or (800) 332-1782.

2.8.5 Late Charge

If a Customer's bill is not paid by the due date, the Company imposes a late charge of 1.5% per monthly billing on the delinquent amount.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.9 Customer Service

Customer Service may be contacted in writing at WinStar Wireless, Inc., 1146 19th St., N.W., Suite 250, Washington, DC 20036. To reach Customer Service via telephone, Customers call (888) 961-8800. Service representatives are available to assist with service complaints 24 hours a day, seven days a week.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.10 Cancellations

Customers may cancel service only by giving a written notice to WinStar Wireless, Inc. Upon receipt of the written notice, the Company places an order with the underlying carrier to cancel the Customer's service. The Customer's service is canceled when the carrier moves the Customer to another carrier or another reseller of the existing carrier, or when the Company receives notice from the underlying carrier that the Customer's service has been canceled.

2.11 Termination of Service

2.11.1 Non-Payment

If payment is not received within thirty (30) days from the billing date, a written reminder is sent to Customer. If payment is not received within forty five (45) days from the billing date, a termination notice is sent to the Customer. Service is disconnected five (5) days later if payment is not received.

2.11.2 Notice of Service Termination

A Termination Notice will be sent to the Customer five (5) days prior to service termination.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.12 Installation and Connection Charges

The Company does not assess charges for installations and connection of intrastate long distance services.

2.13 Taxes

All state and local taxes are listed as separate line items are not included in the quoted rates.

2.14 Transfer or Assignment

The Company's intrastate services may not be transferred or assigned to a new Customer unless the new Customer's credit is approved. Paragraph 2.2.4 covers additional conditions under which the Company reserves the right to refuse service to Customers.

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.15 Timing of Calls

Chargeable time is determined by the duration of the call. Calls are timed and measured by the underlying carrier, whose services are resold by the Company in accordance with its own Tariff.

2.15.1 *Infinity®, InfinityDirect®, Infinity® 800, InfinityDirect® 800, Optimus™, Optimus™Direct, Optimus™ 800, Optimus™Direct 800, Optimus™Card, Infinity®Q, Infinity®Q Direct, Infinity®Q 800, Infinity®Q Direct 800,* and *Infinity®Q Card*

Chargeable time begins when connection is established between the calling station and the called station.

Chargeable time ends when the calling station "hangs up". If the called station "hangs up" but the calling station does not, chargeable time ends when the connection is released by the automatic timing equipment.

When the Company's services are directly connected to a Customer-provided communications system at the Customer's premises, chargeable time begins when a call terminates in, or passes through, the first Customer equipment on that Customer provided communications system.

2.15.2 *InfinityPlus®, InfinityDirect®Plus, Infinity®Card Plus, InfinityPlus® 800, and Infinitydirect Plus® 800*

Usage begins when the called party picks up the receiver and the local telephone company sends a signal to the switch which utilizes hardware answer supervision or software tone detection. A call is terminated when the calling party hangs up.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.15 Timing of Calls

2.15.3 *Genesis®, Genesis®Direct, Genesis® 800, Genesis®Direct 800,* and *Genesis® Travel Card*

If the Customer subscribes to Genesis®, Genesis®Direct, *Genesis® 800, Genesis®Direct 800*, or *Genesis® Travel Card* calls are timed by the Underlying Carrier. A call is initiated when the called party answers and is terminated when the called party or calling party hangs up, whichever occurs first. The Underlying Carrier will determine that a call has been initiated upon answer supervision. Answer supervision is accomplished either by receiving a confirmation signal from equipment at the called end or, in the absence of such a signal, by audio detection when a ring or busy signal is not being received. In such cases, billing begins only after a minimum of 60 seconds has elapsed, when it is reasonable to assume the frequency monitoring device is deemed to have erred. The Company will provide an appropriate credit to a Customer billed for a call of short duration when the Customer billed for a call of short duration identified that the call was not complete.

2.15.4 Operator Toll Assistance

(A) On station-to-station calls chargeable time begins when connection is established between the calling station and the called station, Miscellaneous Common Carrier, mobile radio system, or PBX system.

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.15 Timing of Calls (continued)

2.15.4 Operator Toll Assistance (continued)

(B) On person-to-person calls, chargeable time begins when connection is established between the calling person and the particular person or station specified or an agreed alternate.

(C) Chargeable times ends when the calling station hangs up thereby releasing the network connection. If the called station hangs up but the calling station does not, chargeable time ends when the network connection is released either by the automatic timing equipment in the telecommunications network or by the operator of the underlying carrier.

2.16 Minimum Call Completion Rate

A Customer can expect a call completion rate (number of calls completed/number of calls attempted) of not less than 90% during peak use periods.

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.17 Rate Period

Different rates may be applicable to a call at a different time of the day and on certain days of the week as specified in the appropriate rate schedule for that call.

2.17.1 ***InfinitDirect®, Infinity®Direct 800, Infinity®Card Plus, Optimus™Direct, Optimus™Direct 800,*** **and Operator Toll Assistance.**

The rate period shown below apply. All times shown are local time at the calling station.

	Times Applicable		
Rate Period	From	To But Not Including	Days Applicable
Day	8:00 AM	5:00 PM	Mon - Fri
Evening	5:00 PM	11:00 PM	Sun - Fri
Night	11:00 PM	8:00 AM	All days
	8:00 AM	11:00 PM	Saturday
	8:00 AM	5:00 PM	Sunday

2.17.2 All Other Services

Time-of-day and day-of-week are not rate elements. Rates for these services are the same for all hours, all days.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.17 Rate Period

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.18 Mileage Measurements

2.18.1 General

Each rate center or POP has a unique set of assigned vertical and horizontal (V&H) coordinates which are used by the underlying carrier for calculating mileage. Calculation of mileage is in accordance with the V&H coordinate system.

2.18.2 Operator Toll Assistance

Rates for service between points are based on airline mileage between rate centers of the calling and called stations.

2.18.3 Mileage Sensitive Services

The distance is measured using the V&H coordinates associated with either the rate centers of the originating and terminating stations or the V&H coordinates associated with the originating and terminating POP of the underlying carrier. The type of access determines which V&R coordinates are used.

If a call is originated or terminated via switched access, the distance is measured using the V&H coordinates associated with the rate centers of the originating or terminating station. If the call is originated or terminated via dedicated access, the distance is measured using the V&R coordinates associated with the originating or terminating POP of the underlying carrier.

The rate for a call between access lines associated with stations that use the same central office is the rate for zero miles.

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SECTION 2 – RULES AND REGULATIONS (cont'd)

2.19 Determination of Airline Mileage

Calculation of distance is in accordance with the V&H coordinate system. The airline mileage between rate centers is determined by applying the formula below to the vertical and horizontal (V&H) coordinates associated with the rate centers involved. The Company uses the rate centers and associated vertical and horizontal coordinates that are produced by Bell Communications Research in its NPA-NXX V & H Coordinates Tape and in NECA Tariff No. 4.

FORMULA: $$\sqrt{\frac{(V1-V2)^2 + (H1-H2)^2}{10}}$$

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.19 Determination of Airline Mileage (continued)

EXAMPLE: Distance between Rapid City and Sioux Falls

	V	H	
Rapid City	6,518	5,903	
Sioux Falls	6,279	4,900	
Difference	239	1,003	
Square and add:	57,121	+ 1,006,009	= 1,063,130

Divide by 10 and round: $\frac{1{,}063{,}130}{10} = 106{,}313$

Take square root and round: $\sqrt{106{,}313} = 326.056$

327 miles

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SECTION 2 – RULES AND REGULATIONS (cont'd)

2.20 Holiday Rates

Holiday rates do not apply.

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.21 Initial and Additional Period

The rate is based on an initial period plus any additional period.

2.21.1 Operator Toll Assistance, and ***Infinity® Card Plus***

The initial period is one (1) minute or fraction thereof. The additional period, if any, is one (1) minute or fraction thereof.

2.21.2 ***Genesis®, Infinity®Q, InfinityDirect®, InfinityDirect®Plus, Genesis®Direct, Optimus™Direct, Infinity®Q Direct, Genesis® 800, Genesis®Direct 800,*** and ***Genesis® Travel Card***

The initial period is the first 18 seconds or fraction thereof. The additional period, if any, is each 1/10 of a minute (six second increments) or fraction thereof.

2.21.3 All Other Services

The initial period is thirty (30) seconds or fraction thereof. The additional period, if any, is six (6) seconds or fraction thereof.

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.22 Application of Charges

Usage charges apply to all completed calls. The usage charges for each completed call during a billing month will be computed. If the charge includes a fraction of a cent greater than $.005, the fraction is rounded up to the next whole cent. If the charge includes a fraction of a cent less than $.005, the fraction is rounded down to the next whole cent.

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SECTION 2 - RULES AND REGULATIONS (cont'd)

2.23 Determining Rate In Effect

2.23.1 General

For outbound services, the time-of-day at the central office or POP associated with the calling station determines the rate in effect. For inbound services, the time-of-day at the central office or POP associated with the called station determines the rate in effect. Time-of-day is a rate element for ***Infinity®Direct***, ***Infinity®Direct 800***, ***Infinity®Card Plus***, ***Optimus™ Direct***, ***Optimus™ Direct 800***, and ***Operator Toll Assistance***.

2.23.2 Switched Access

When a unit of time is split between two rate periods, each rate period applies to the portion of the call that occurred during that rate period.

2.23.3 Dedicated Accers

When a unit of time is split between two rate periods, the rate is based on the rate period in which it began.

2.23.4 Operator Toll Assistance and ***Infinity®Card Plus***

The time at the beginning of each minute of connection determines the applicable rate period. When a message spans more than one rate period, total charges for the minutes in each rate period are calculated and the results for each rate period are totaled to obtain the total message charge.

2.23.5 All Other Service

Time-of-day is not a rate element for all other services.

SECTION 3 – DESCRIPTION OF SERVICES

3.1 Service Offerings

3.1.1 Outbound Services

Outbound Services permit a Customer to establish a communications path between two stations by using a uniform dialing plan. Customers are connected by access lines to designated central offices.

(A) Outbound Switched Services

Infinity®, *InfinityPlus®*, *Genesis®*, *Optimus™*, and *Infinity®Q* are switched access outbound long distance services available to business customers located in an equal access area. The intrastate services are only available to Customers that subscribe to the Company's respective interstate service.

(B) Outbound Dedicated Services

InfinityDirect®, *InfinityDirect®Plus*, *Genesis®Direct*, *Optimus™Direct*, and *Infinity®Q Direct* are outbound long distance services for Customers with T1.5 access to the underlying carrier's POP. The services are available only to business customers. The intrastate services are only available to Customers that subscribe to the Company's respective interstate service.

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SECTION 3 – DESCRIPTION OF SERVICES (cont'd)

3.1 Service Offerings (continued)

3.1.2 Inbound Service

Inbound Services permit inward 800 number calling from stations located in the State of South Dakota.

(A) Inbound Switched Services

Infinity® 800, InfinityPlus® 800, Genesis® 800, Optimus™ 800, and ***Infinity®Q 800*** are inbound toll services which permit calls to be completed to the Customer's location without charge to the calling party. Access to the Service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location. Calls are originated from any point in the state on any type of access and are terminated via switched access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

For ***Infinity®800, Optimus™800,*** and ***Infinity®Q 800,*** the service is provided on a Customer's existing local exchange telephone number. A separate 800 telephone number will be associated with each local exchange telephone number.

Service is available to business Customers in an equal access area. The intrastate service is only available to Customers that subscribe to the Company's respective Interstate Service.

SECTION 3 – DESCRIPTION OF SERVICES (cont'd)

3.1 Service Offerings (continued)

3.1.2 Inbound Service (continued)

(B) Inbound Dedicated Services

InfinityDirect® 800, InfinityDirect Plus® 800, Genesis®Direct 800, Optimus™Direct 800, and Infinity®Q Direct 800 are inbound toll services which permit calls to be completed to the Customer's location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location.

Calls are originated from any point in the state on any type of access and are terminated via T 1.5 access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

The intrastate service is only available to Customers that subscribe to the Company's respective Interstate Service.

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SECTION 3 – DESCRIPTION OF SERVICES (cont'd)

3.1 Service Offerings (continued)

3.1.3 Operator Toll Assistance

(A) Description of Service

Operator Toll Assistance is a variety of telephone services which require the assistance of a long distance operator. Examples include person-to-person and collect calls. Calls are routed to the operator of the underlying carrier by dialing 0+ or 00-. A 0+ call is one in which the Customer dials 0+ the called number to complete the call. A 00- call is one in which the operator dials the called number to complete the call for the customer.

There are two classes of service. They include station-to-station and person-to-person. Calls may be billed sent-paid, collect, or billed to a third number.

(B) Availability

Operator Toll Assistance is available exclusively to subscribers, as described in Section 4.5 of this tariff.

(C) Billing

There are two methods of provisioning and billing Operator Toll Assistance. Under the first method, Operator Toll Assistance calls are provided and branded by the underlying carrier, but are billed by the Company. Alternatively, the underlying carrier provides the service, brands the call, and direct bills Operator Services calls under their name.

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SECTION 3 – DESCRIPTION OF SERVICES (cont'd)

3.1 Service Offerings (continued)

3.1.4 Directory Assistance

(A) Description of Service

Intrastate Directory Assistance involves the supplying of assistance in determining or attempting to determine the telephone number of a party.

(B) Availability

Directory Assistance Service is exclusively available to the Company's subscribers, and is only available to a Customer that has access to the directory assistance bureau of the underlying carrier.

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SECTION 3 – DESCRIPTION OF SERVICES (cont'd)

3.1 Service Offerings (continued)

3.1.5 Calling Card Services

Calling Card service enables the caller to bill a call to the primary service location when the caller is away from their established primary service location. Customers access the network by dialing the universal access number plus the called telephone number and the card code.

3.1.6 *Infinity®Connect* Teleconferencing

Infinity®Connect Teleconferencing service enables multiple parties to be simultaneously connected to each other by conference call. Subscribers must schedule a *Infinity®Connect* Teleconferencing service call with an *Infinity®Connect* reservation operator, prior to utilizing the service. *Infinity®Connect* Teleconferencing service is available only to subscribers of the Company's interstate service.

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SECTION 3 – DESCRIPTION OF SERVICES (cont'd)

3.2 Services Resold

The following table provides a cross reference of the Company's service with the service name of the underlying carrier.

	AT&T	Sprint	WilTel
Infinity®	DNS and SDN		
InfinityPlus®		Dial 1 WATS	
Genesis®			Contract
Optimus™	DNS and SDN		
Infinity®Q	DNS and SDN		
InfinityDirect®	SDN "B"		
InfinityDirect® Plus		Ultra WATS	
Genesis®Direct			Contract
Optimus™Direct	SDN "B"		
Infinity®Q Direct	SDN "B"		

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SECTION 3 – DESCRIPTION OF SERVICES (cont'd)

3.2 Services Resold (continued)

	AT&T	Sprint	WilTel
Infinity® 800	800 Readyline		
InfinityPlus® 800		FONLINE 800	
Genesis® 800			Contract
Optimus™ 800	800 Readyline		
Infinity®Q 800	800 Readyline		
InfinityDirect® 800	Megacom 800		
InfinityDirect Plus® 800		Ultra 800	
Genesis®Direct 800			Contract
Optimus™Direct 800	Megacom 800		
Infinity®Q Direct 800	Megacom 800		

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SECTION 3 – DESCRIPTION OF SERVICES (cont'd)

3.2 Services Resold (continued)

	AT&T	Sprint	WilTel	Other
Operator Toll Assistance (determined by underlying carrier)	Operator Services	Operator Services	Operator Services	
Directory Assistance (determined by underlying carrier)	Custom Network Services DA	DA	DA	
Infinity®Card Plus		FONCARD		
Optimus®Card	SDN/Schedule "A"/NRA Express			
Infinity®Q Card	SDN/Schedule "A"/NRA Express			
Genesis® Travel Card				West Coast Contract
Infinity®Connect				Conference Plus Contract

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SECTION 4 – RATES

4.1 Outbound Switched Services

4.1.1 *Infinity®*

(A) Description of Service

Infinity® is a switched access outbound long distance service.

(B) Availability of Service

Infinity® is available to business customers located in an equal access area. The intrastate service is only available to Customers that subscribe to the Company's interstate service.

(C) Rates

Rate Mileage	Initial 30 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	$.1000 I	$.0200

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SECTION 4 – RATES (cont'd)

4.1 Outbound Switched Services (continued)

4.1.2 *InfinityPlus®*

(A) Description of Service

InfinityPlus® is a switched access outbound long distance service.

(B) Availability of Service

InfinityPlus® is available to business customers in an equal access area. The intrastate service is only available to Customers that subscribe to the Company's interstate service.

(C) Rates

Rate Mileage	Initial 30 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	$.0995 I	$.0199

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SECTION 4 – RATES (cont'd)

4.1 Outbound Switched Services (continued)

4.1.3 ***Genesis®***

(A) Description of Service

Genesis® is a switched access outbound long distance service.

(B) Availability of Service

Genesis® is available to business customers in an equal access area. The intrastate service is only available to Customers that subscribe to the Company's interstate service.

(C) Rates

Rate Mileage	Initial 18 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	$.0450	$.0150 I

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SECTION 4 – RATES (cont'd)

4.1 Outbound Switched Services (continued)

4.1.4 ***Optimus™***

(A) Description of Service

Optimus™ is a switched access outbound long distance service.

(B) Availability of Service

Optimus™ is available to business customers in an equal access area. The intrastate service is only available to Customers that subscribe to the Company's interstate service.

(C) Rates

Rate Mileage	Initial 30 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	$.1000	$.0200

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SECTION 4 – RATES (cont'd)

4.1 Outbound Switched Services (continued)

4.1.5 *Infinity®Q*

(A) Description of Service

Infinity®Q is a switched access outbound long distance service.

(B) Availability of Service

Infinity®Q is available to business customers in an equal access area. The intrastate service is only available to Customers that subscribe to the Company's interstate service.

(C) Rates

Rate Mileage	Initial 18 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	$.0600	$.0200

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SECTION 4 – RATES (cont'd)

4.2 Outbound Switched Services

4.2.1 *InfinityDirect®*

(A) Description of Service

InfinityDirect® is an outbound long distance servi e for Customers with T1.5 access to the underlying carrier's POP.

(B) Availability of Service

InfinityDirect® is available only to business customers. The intrastate service is only available to Customers that subscribe to the Company's interstate service.

(C) Rates

Rate Mileage	Initial 18 Seconds or Fraction			Each Additional 6 Seconds or Fraction		
	Day	Evening	Night	Day	Evening	Night
0-292	$.0442 I	$.0332 I	$.0332 I	$.0147 I	$.0111 I	$.0111 I
293-430	$.0442 I	$.0332 I	$.0332 I	$.0147 I	$.0111 I	$.0111 I
Over 430	$.0442 R	$.0332 R	$.0332 R	$.0147 R	$.0111 R	$.0111 R

SECTION 4 – RATES (cont'd)

4.2 Outbound Switched Services (continued)

4.2.2 ***InfinityDirect®Plus***

(A) Description of Service

InfinityDirect®Plus is an outbound long distance service for Customers with T1.5 access to the underlying carrier's POP.

(B) Availability of Service

InfinityDirect®Plus is available to business customers. The intrastate service is only available to Customers that subscribe to the Company's interstate service.

(C) Rates

Rate Mileage	Initial 18 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	$.0417	$.0139

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SECTION 4 – RATES (cont'd)

4.2 Outbound Switched Services (continued)

4.2.3 *Genesis®Direct*

(A) Description of Service

Genesis®Direct is an outbound long distance service for Customers with T1.5 access to the underlying carrier's POP.

(B) Availability of Service

Genesis®Direct is available to business customers. The intrastate service is only available to Customers that subscribe to the Company's interstate service.

(C) Rates

Rate Mileage	Initial 18 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	$.0417	$.0139

SECTION 4 – RATES (cont'd)

4.2 Outbound Switched Services (continued)

4.2.4 ***Optimus™ Direct***

(A) Description of Service

Optimus™ Direct is an outbound long distance service for Customers with T1.5 access to the underlying carrier's POP.

(B) Availability of Service

Optimus™ Direct is available to business customers. The intrastate service is only available to Customers that subscribe to the Company's interstate service.

(C) Rates

Rate Mileage	Initial 18 Seconds or Fraction			Each Additional 6 Seconds or Fraction		
	Day	Evening	Night	Day	Evening	Night
All	$.0442	$.0332	$.0332	$.0147	$.0111	$.0111

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SECTION 4 – RATES (cont'd)

4.2 Outbound Dedicated Services (continued)

4.2.5 *Infinity®Q Direct*

(A) Description of Service

Infinity®Q Direct is an outbound long distance service for Customers with T1.5 access to the underlying carrier's POP.

(B) Availability of Service

Infinity®Q Direct is available to business customers. The intrastate service is only available to Customers that subscribe to the Company's interstate service.

(C) Rates

Rate Mileage	Initial 18 Seconds or Fraction			Each Additional 6 Seconds or Fraction		
	Day	Evening	Night	Day	Evening	Night
All	$.0442	$.0332	$.0332	$.0147	$.0111	$.0111

SECTION 4 – RATES (cont'd)

4.3 Inbound Switched Services

4.3.1 ***Infinity® 800***

(A) Description of Service

Infinity® 800 is an inbound toll service which permits calls to be completed to the Custom's location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location. The service is provided on a Customer's existing local exchange telephone number. A separate 800 telephone number will be associated with each local exchange telephone number.

Calls are originated from any point in the state on any type of access and are terminated via switched access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

(B) Availability of Service

The service is available to business Customers in an equal access area. The intrastate service is only available to Customers that subscribe to the Company's Interstate ***Infinity® 800*** Service.

(C) Rates

Rate Mileage	Initial 30 Seconds or Fraction			Each Additional 6 Seconds or Fraction		
	Day	Evening	Night	Day	Evening	Night
All	$.1095 I	$.1045 I	$.1045 I	$.0219 I	$.0209 I	$.0209 I

SECTION 4 – RATES (cont'd)

4.3 Inbound Switched Services (continued)

4.3.2 ***InfinityPlus® 800***

(A) Description of Service

InfinityPlus® 800 is an inbound toll service whic permits calls to be completed to the Customer's location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location.

Calls are originated from any point in the state on any type of access and are terminated via switched access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

(B) Availability of Service

The service is available to business Customers in an equal access area. The intrastate service is only available to Customers that subscribe to the Company's Interstate ***InfinityPlus® 800*** Service.

(C) Rates

Rate Mileage	Initial 30 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	$.0995 I	$.0199

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SECTION 4 – RATES (cont'd)

4.3 Inbound Switched Services (continued)

4.3.3 *Genesis® 800*

(A) Description of Service

Genesis® 800 is an inbound toll service which permits calls to be completed to the Customer's location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location.

Calls are originated from any point in the state on any type of access and are terminated via switched access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

(B) Availability of Service

The service is available to business Customers in an equal access area. The intrastate service is only available to Customers that subscribe to the Company's Interstate *Genesis® 800* Service.

(C) Rates

Rate Mileage	Initial 18 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	\$.0450	\$.0150

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SECTION 4 – RATES (cont'd)

4.3 Inbound Switched Services (continued)

4.3.4 *Optimus™ 800*

(A) Description of Service

Optimus™ 800 is an inbound toll service which permits calls to be completed to the Customer's location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location.

Calls are originated from any point in the state on any type of access and are terminated via switched access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

(B) Availability of Service

The service is available to business Customers in an equal access area. The intrastate service is only available to Customers that subscribe to the Company's Interstate *Optimus™ 800* Service.

(C) Rates

Rate Mileage	Initial 30 Seconds or Fraction			Each Additional 6 Seconds or Fraction		
	Day	Evening	Night	Day	Evening	Night
All	$.1095	$.1045	$.1045	$.0219	$.0209	$.0209

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SECTION 4 – RATES (cont'd)

4.3 Inbound Switched Services (continued)

4.3.5 *Infinity®Q 800*

(A) Description of Service

Infinity®Q 800 is an inbound toll service which permits calls to be completed to the Customer's location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location,

Calls are originated from any point in the state on any type of access and are terminated via switched access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

(B) Availability of Service

The service is available to business Customers in an equal access area. The intrastate service is only available to Customers that subscribe to the Company's Interstate ***Infinity®Q 800*** Service.

(C) Rates

Rate Mileage	Initial 30 Seconds or Fraction			Each Additional 6 Seconds or Fraction		
	Day	Evening	Night	Day	Evening	Night
All	$.1095	$.1045	$.1045	$.0219	$.0209	$.0209

SECTION 4 – RATES (cont'd)

4.4 Inbound Dedicated Services

4.4.1 *InfinityDirect® 800*

(A) Description of Service

InfinityDirect® 800 is an inbound toll service which permits calls to be completed to the Customer's location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location.

Calls are originated from any point in the state on any type of access and are terminated via T1.5 access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

(B) Availability of Service

The intrastate service is only available to Customers that subscribe to the Company's Interstate ***InfinityDirect® 800*** Service.

(C) Rates

Rate Mileage	Initial 30 Seconds or Fraction			Each Additional 6 Seconds or Fraction		
	Day	Evening	Night	Day	Evening	Night
All	$.0725 I	$.0620 I	$.0620 I	$.0145 I	$.0124 I	$.0124 I

SECTION 4 – RATES (cont'd)

4.4 Inbound Dedicated Services (continued)

4.4.2 ***InfinityDirect Plus® 800***

(A) Description of Service

InfinityDirect Plus® 800 is an inbound toll service which permits calls to be completed to the Customer's location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location.

Calls are originated from any point in the state on any type of access and are terminated via T 1.5 access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

(B) Availability of Service

The intrastate service is only available to Customers that subscribe to the Company's Interstate ***InfinityDirect Plus® 800*** Service.

(C) Rates

Rate Mileage	Initial 30 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	$.0825 I	$.0165 I

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SECTION 4 – RATES (cont'd)

4.4 Inbound Dedicated Services (continued)

4.4.3 *Genesis®Direct 800*

(A) Description of Service

Genesis®Direct 800 is an inbound toll service which permits calls to be completed to the Customer's location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location.

Calls are originated from any point in the state on any type of access and are terminated via T1.5 access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

(B) Availability of Service

The intrastate service is only available to Customers that subscribe to the Company's Interstate ***Genesis®Direct 800*** Service.

(C) Rates

Rate Mileage	Initial 18 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	\$.0417	\$.0139

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SECTION 4 – RATES (cont'd)

4.4 Inbound Dedicated Services (continued)

4.4.4 *Optimus™ Direct 800*

(A) Description of Service

Optimus™ Direct 800 is an inbound toll service which permits calls to be completed to the Customer's location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location.

Calls are originated from any point in the state on any type of access and are terminated via T1.5 access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

(B) Availability of Service

The intrastate service is only available to Customers that subscribe to the Company's Interstate *Optimus™ Direct 800* Service.

(C) Rates

Rate Mileage	Initial 30 Seconds or Fraction			Each Additional 6 Seconds or Fraction		
	Day	Evening	Night	Day	Evening	Night
All	$.0725	$.0620	$.0620	$.0145	$.0124	$.0124

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SECTION 4 – RATES (cont'd)

4.4 Inbound Dedicated Services (continued)

4.4.5 ***Infinity®Q Direct 800***

(A) Description of Service

Infinity®Q Direct 800 is an inbound toll service which permits calls to be completed to the Customer's location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number (800) NXX-XXXX which terminates at the subscriber's location.

Calls are originated from any point in the state on any type of access and are terminated via T1.5 access lines between the subscriber's premises and the underlying carrier's POP in the terminating city.

(B) Availability of Service

The intrastate service is only available to Customers that subscribe to the Company's Interstate ***Infinity®Q Direct 800*** Service.

(C) Rates

Rate Mileage	Initial 30 Seconds or Fraction			Each Additional 6 Seconds or Fraction		
	Day	Evening	Night	Day	Evening	Night
All	$.0725	$.0620	$.0620	$.0145	$.0124	$.0124

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SECTION 4 – RATES (cont'd)

4.5 Operator Services

4.5.1 Operator Toll Assistance

(A) Rate Elements

Operator Toll Assistance is billed on a per minute basis plus a surcharge. Per minute charges are based on the distance and duration of the call, the rate period (Day, Evening, or Night/Weekend) when the call is placed, and the underlying carrier for the Customer's service. Operator Toll Assistance is accessed when a Customer or end-user dials 00- or 0+ the called number.

(B) Availability

Operator Toll Assistance is exclusively available to Subscribers and is only available to Customers utilizing Switched Access outbound service. Customers subscribing to Dedicated Access services must program their PBX to route the 00 and 0+ calls over their Switched Access lines to reach the Operator of the Underlying Carrier.

SECTION 4 – RATES (cont'd)

4.5 Operator Services (continued)

4.5.2 Operator Toll Assistance For Subscribers to ***Infinity®, InfinityDirect®, Optimus™, Optimus™Direct, Infinity®Q,*** and ***Infinity®Q Direct***

(A) Base Rate Schedule (Per Minute)

Rate Mileage	Day		Evening		Night/Weekend	
	Initial Period	Add'l Period	Initial Period	Add'l Period	Initial Period	Add'l Period
0-10	$.2100	$.1500	$.1575	$.1125	$.1260	$.0900
11-16	$.2600	$.1600	$.1950	$.1200	$.1560	$.0960
17-22	$.3000	$.1800	$.2250	$.1350	$.1800	$.1080
23-30	$.3400	$.2100	$.2550	$.1575	$.2040	$.1260
31-40	$.3600	$.2400	$.2700	$.1800	$.2160	$.1440
41-55	$.3900	$.2500	$.2925	$.1875	$.2340	$.1500
56-85	$.4000	$.2600	$.3000	$.1950	$.2400	$.1560
86-124	$.4100	$.2700	$.3075	$.2025	$.2460	$.1620
125-244	$.4300	$.2900	$.3225	$.2175	$.2580	$.1740
245 +	$.4400	$.3000	$.3300	$.2250	$.2640	$.1800

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SECTION 4 – RATES (cont'd)

4.5 Operator Services (continued)

4.5.2 Operator Toll Assistance for Subscribers to *Infinity®*, *InfinityDirect®*, *Optimus*™, *Optimus*™*Direct*, *Infinity®Q*, and *Infinity®Q Direct* (continued)

(B) Surcharges for 0+ Calls

The surcharge for a station-to-station (paid, collect, or third party billing) call is $1.94.

The surcharge for a person-to-person (paid, collect, or third party billing) call is $4.50.

(C) Surcharge For 00- Call

In addition to the surcharge in 4.5.2(B) above, a surcharge of $1.00 applies to each 00- call.

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SECTION 4 – RATES (cont'd)

4.5 Operator Services (continued)

4.5.3 Operator Toll Assistance for Subscribers to *InfinityPlus®*, and *InfinityDirect®Plus*

(A) Base Rate Schedule (Per Minute)

Rate Mileage	Day		Evening		Night/Weekend	
	Initial Period	Add'l Period	Initial Period	Add'l Period	Initial Period	Add'l Period
0-10	$.3000	$.1800	$.2400	$.1440	$.1800	$.1080
11-16	$.3800	$.2000	$.3040	$.1600	$.2280	$.1200
17-22	$.3900	$.2200	$.3120	$.1760	$.2340	$.1320
23-30	$.4300	$.2400	$.3440	$.1920	$.2580	$.1440
31-40	$.4500	$.2600	$.3600	$.2080	$.2700	$.1560
41-55	$.4800	$.2900	$.3840	$.2320	$.2880	$.1740
56-85	$.5100	$.3200	$.4080	$.2560	$.3060	$.1920
86-124	$.5300	$.3400	$.4240	$.2720	$.3180	$.2040
125-244	$.5400	$.3600	$.4320	$.2880	$.3240	$.2160
245 +	$.5500	$.3800	$.4400	$.3040	$.3300	$.2280

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SECTION 4 – RATES (cont'd)

4.5 Operator Services (continued)

4.5.3 Operator Toll Assistance for Subscribers to ***InfinityPlus®*** and ***InfinityDirect®Plus*** (continued)

(B) Surcharges for 0+ Calls

The surcharge for a station-to-station paid or collect call is $2.05. The surcharge for a station-to-station third party billing call is $2.11.

The surcharge for a person-to-person (paid, collect, or third party billing) call is $4.50.

(C) Surcharge For 00- Call

In addition to the surcharge in 4.5.3(B) above, a surcharge of $1.00 applies I to each 00- call.

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SECTION 4 – RATES (cont'd)

4.5 Operato. Services (continued)

4.5.4 Operator Toll Assistance for Subscribers to *Genesis®*, and *Genesis®Direct*

(A) Base Rate Schedule (Per Minute)

Rate Mileage	Day		Evening		Night/Weekend	
	Initial Period	Add'l Period	Initial Period	Add'l Period	Initial Period	Add'l Period
0-10	$.3000	$.1800	$.2400	$.1440	$.1800	$.1080
11-16	$.3800	$.2000	$.3040	$.1600	$.2280	$.1200
17-22	$.3900	$.2200	$.3120	$.1760	$.2340	$.1320
23-30	$.4300	$.2400	$.3440	$.1920	$.2580	$.1440
31-40	$.4500	$.2600	$.3600	$.2080	$.2700	$.1560
41-55	$.4800	$.2900	$.3840	$.2320	$.2880	$.1740
56-85	$.5100	$.3200	$.4080	$.2560	$.3060	$.1920
86-124	$.5300	$.3400	$.4240	$.2720	$.3180	$.2040
125-244	$.5400	$.3600	$.4320	$.2880	$.3240	$.2160
245 +	$.5500	$.3800	$.4400	$.3040	$.3300	$.2280

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SECTION 4 – RATES (cont'd)

4.5 Operator Services (continued)

4.5.4 Operator Toll Assistance for Subscribers to *Genesis®*, and *Genesis®Direct* (continued)

(B) Surcharges for 0+ Calls

The surcharge for a station-to-station (paid, collect, or third party billing) call is $1.75.

The surcharge for a person-to-person (paid, collect, or third party billing) call is $3.50.

(C) Surcharge For 00- Call

In addition to the surcharge in 4.5.4(B) above, a surcharge of $.75 applies to each 00- call.

(D) Other Charges

A handling fee applies to each busy line verification. The handling fee is $1.90. In addition to the above handling fee, a handling fee applies to each busy line interruption. The handling fee is $.90.

SECTION 4 - RATES (cont'd)

4.5 Operator Services (continued)

4.5.5 Directory Assistance

(A) Application of Charges

(i) The Directory Assistance charge applies to all calls made using the services of the Underlying Carrier.

(ii) The Directory Assistance charge applies whether or not the directory assistance bureau furnished the requested telephone number(s) (e.g., where the requested telephone number is unlisted, non-published or no record can be found).

(B) Rates for Directory Assistance Service

(i) *Infinity®, Infinty Direct®, Optimus™, Optimus™Direct, Infinity®Q, and Infinity®Q Direct*

The rate per call is $.75.

(ii) *InfinityPlus® and InfinityDirectPlus*

The rate per call is $.60.

(iii) *Genesis®* and *Genesis®Direct*

The rate per call is $.60.

SECTION 4 - RATES (cont'd)

4.6 CallingCard Services

4.6.1 ***Infinity®Card Plus***

(A) Description of Service

Infinity®Card Plus service is a stand along service and is available to Customers for Customer use when away from their established primary service location. Customers access the network by dialing the Universal "800" number plus the called telephone number and the ***Infinity®Card Plus*** code. The card enables the caller to bill the call to the primary service location.

(B) Availability of Service

Intrastate ***Infinity®Card*** is available to Customers that subscribe to the interstate service.

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SECTION 4 - RATES (cont'd)

4.6 Calling Card Services (continued)

4.6.1 *Infinity®Card Plus* (continued)

(C) Rates

There are two rate elements. They include a usage charge and a surcharge. The surcharge is $1.05 per message The usage rates are:

Rate Mileage	Day		Evening		Night/Weekend	
	Initial Period	Add'l Period	Initial Period	Add'l Period	Initial Period	Add'l Period
0-10	$.3000	$.1800	$.2400	$.1440	$.1800	$.1080
11-16	$.3800	$.2000	$.3040	$.1600	$.2280	$.1200
17-22	$.3900	$.2200	$.3120	$.1760	$.2340	$.1320
23-30	$.4300	$.2400	$.3440	$.1920	$.2580	$.1440
31-40	$.4500	$.2600	$.3600	$.2080	$.2700	$.1560
41-55	$.4800	$.2900	$.3840	$.2320	$.2880	$1740
56-85	$.5100	$.3200	$.3200	$.2560	$.3060	$.1920
86-124	$.5300	$.3400	$.3400	$.2720	$.3180	$.2040
125-244	$.5400	$.3600	$.3600	$.4320	$.3240	$2160
245+	$.5500	$.3800	$.3800	$.4400	$.3300	$.2280

SECTION 4 - RATES (cont'd)

4.6 Calling Card Services (continued)

4.6.1 ***Infinity®Card Plus*** (continued)

(D) Surcharges for Operator Assisted Calls

When ***Infinity®Card Plus*** customers call Operator services using ***Infinity®Card Plus*** they are connected with the Operator Services of the Underlying Carrier. The surcharge in Section 4.6.1(C) above is replaced with the applicable surcharge of the Underlying Carrier for Operator Services.

Surcharges for Operator Services are:

Directory Assistance	$0.60
Operator-Assisted Paid & Collect	$2.05
Operator-Assisted Third Party Billed	$2.11
Operator-Dialed ***Infinity®Card Plus***	$2.05
Person-to-Person	$4.50
Operator-Dialed Surcharge	$1.00 (Additional)

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SECTION 4 - RATES (cont'd)

4.6 Calling Card Services (continued)

4.6.2 *Optimus™Card*

(A) Description of Service

Optimus™Card service is a stand along service and is available to Customers for Customer use when away from their established primary service location. Customers access the network by dialing the Universal access number plus the called telephone number and the *Optimus™Card* code. The card enables the caller to bill the call to the primary service location.

(B) Availability of Service

Intrastate *Optimus™Card* is available to Customers that subscribe to the interstate service.

(C) Rates

There are two rate elements. They include a usage charge and a surcharge. The surcharge is $.80 per message. Usage Charges are:

Rate Mileage	Initial 30 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	$.2000	$.2000

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SECTION 4 - RATES (cont'd)

4.6 CallingCard Services (continued)

4.6.3 *Infinity®Q Card*

(A) Description of Service

Infinity®Q Card service is a stand along service and is available to Customers for Customer use when away from their established primary service location. Customers access the network by dialing the Universal access number plus the called telephone number and the ***Infinity®Q Card*** code. The card enables the caller to bill the call to the primary service location.

(B) Availability of Service

Intrastate ***Infinity®Q Card*** is available to Customers that subscribe to the interstate service.

(C) Rates

There are two rate elements. They include a usage charge and a surcharge. The surcharge is $.80 per message. Usage Charges are:

Rate Mileage	Initial 30 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	$.2000	$.2000

By: Robert G. Berger
Vice President, Legal and Regulatory
WinStar Wireless, Inc.
1146 19th St., N.W., Suite 250
Washington, DC 20036.

SECTION 4 - RATES (cont'd)

4.6 Calling Card Services (continued)

4.6.4 ***Genesis® Travel Card***

(A) Description of Service

Genesis® Travel Card service is a stand along service and is available to Customers for Customer use when away from their established primary service location. Customers access the network by dialing the Universal access number plus the called telephone number and the ***Genesis® Travel Card*** code. The card enables the caller to bill the call to the primary service location. The card is limited to calls within the continental 48 states.

(B) Availability of Service

Intrastate ***Genesis® Travel Card*** is available to Customers that subscribe to the interstate service.

(C) Rates

(i) Schedule A

Rate Mileage	Initial 18 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	\$.0900	\$.0300

SECTION 4 - RATES (cont'd)

4.6 CallingCard Services (continued)

4.6.4 *Genesis® Travel Card*

(C) Rates (continued)

(ii) Schedule B (Term Plan)

Rate Mileage	Initial 18 Seconds or Fraction	Each Additional 6 Seconds or Fraction
All	\$.0750	\$.0250

By: Robert G. Berger
Vice President, Legal and Regulatory
WinStar Wireless, Inc.
1146 19th St., N.W., Suite 250
Washington, DC 20036.

SECTION 4 - RATES (cont'd)

4.7 *Infinity®Connect* Teleconferencing Services

4.7.1 Description of Service

Infinity®Connect Teleconferencing service enables multiple parties to be simultaneously connected to each other by conference call. Subscribers must schedule *Infinity®Connect* Teleconferencing service calls with an *Infinity®Connect* reservation operator, prior to utilizing the service. Reservations may be made Monday through Friday between 8 a.m. and 9 p.m. Eastern Time.

The following information will be requested from subscribers when scheduling an *Infinity®Connect* call:

- Account Number (can be established by subscriber at any time)
- Starting time and anticipated call length
- Number of participants or names and numbers of participants if parties are to be contacted by the conference center
- Type of call: fully automated, toll free access and participant contact

A reservation confirmation is sent to subscribers via facsimile.

Schedule A and Schedule B offer different features.

4.7.2 Availability of Service

Infinity®Connect Teleconferencing is available to subscribers of the Company's interstate service.

By: Robert G. Berger
Vice President, Legal and Regulatory
WinStar Wireless, Inc.
1146 19th St., N.W., Suite 250
Washington, DC 20036.

SECTION 4 - RATES (cont'd)

4.7 *Infinity®Connect* Teleconferencing Services (continued)

4.7.3 Rates

(A) Schedule A

SERVICE	RATE PER MINUTE PER LOCATION	SET-UP CHARGE PER LOCATION
Fully Automated	$0.16	$0.00
Fully Automated, Toll Free Access	$0.26	$0.00
Dial-In	$0.24	$0.00
Dial-In, w/ Dedicated Operator	$0.34	$0.00
Dial-In 800	$0.40	$0.00
Dial-In 800 w/ Dedicated Operator	$0.50	$0.00
Dial-Out*	$0.42	$2.50
Dial-Out w/ Dedicated Operator*	$0.52	$2.50

- Conference Center Participant Notification is optionally available for additional $4.50 Per Location charge.

By: Robert G. Berger
Vice President, Legal and Regulatory
WinStar Wireless, Inc.
1146 19th St., N.W., Suite 250
Washington, DC 20036.

SECTION 4 - RATES (cont'd)

4.7 ***Infinity®Connect*** **Teleconferencing Services (continued)**

4.7.3 Rates (continued)

(B) Schedule B (International)

SERVICE	RATE PER MINUTE PER LOCATION	SURCHARGE PER LOCATION
International Dial-Out*	Int'l Rates	$5.00

- Conference Center Participant Notification is optionally available for additional $7.00 Per Location charge

By: Robert G. Berger
Vice President, Legal and Regulatory
WinStar Wireless, Inc.
1146 19th St., N.W., Suite 250
Washington, DC 20036.

TC99-001

MAY 11 1999 10:19 FR TO 5-0682130003-160 P.01/04

KELLEY DRYE

FACSIMILE TRANSMISSION

TO	Camron Hoseck
FIRM	South Dakota Public Utilities Commission
CITY	Pierre, SD
FAX	(605) 773-3809
PHONE	(605) 773-3201
NO. OF PAGES	4 (including this page)
DATE	May 11, 1999

KELLEY DRYE & [illegible] LLP
[illegible]
[illegible]
WASHINGTON, D.C. [illegible]
[illegible]
FAX [illegible]

MESSAGE

Attached as you requested please find revised tariff pages 14-16 for WinStar Wireless, Inc. (TC 99-001). Former section 2.3.1 now has been deleted. Please call if you have any additional questions.

FROM	Rebekah J. Kinnett
PHONE	(202) 955-9776
E-MAIL	rkinnett@kelleydrye.com
CLIENT NO.	068123-0003

NEW YORK
LOS ANGELES
WASHINGTON, DC
CHICAGO
STAMFORD, CT
PARSIPPANY, NJ

HONG KONG
BRUSSELS

AFFILIATE OFFICES
BANGKOK
JAKARTA
MANILA
MUMBAI
TOKYO

IF PROBLEMS OCCUR DURING TRANSMISSION PLEASE CALL (202) [illegible].

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.3 Liabilities of the Company

2.3.1 The Company shall be indemnified and held harmless by the Customer against:

(A) Claims for libel, slander, infringement of patent or copyright, or unauthorized use of any trademark, trade name or service mark arising out of the material, data, information, or other content transmitted by the Company; violation of any other literary, intellectual, artistic, dramatic, or musical right; violations of the right to privacy; or any other rights whatsoever relating to or arising from message content or the transmission thereof.

(B) All other claims arising out of any act or omission of the Customer in connection with any service provided by the Company.

2.3.2 The Company is not liable for any act or omission of any other companies furnishing a portion of the service.

By: Robert G. Berger
Vice President, Legal and Regulatory
WinStar Wireless, Inc.
1146 19th St., N.W., Suite 250
Washington, DC 20036.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.3 Liabilities of The Company (continued)

2.3.3 No agents or employees of connecting, concurring or other participating carriers or companies shall be deemed to be agents or employees of the Company without written authorization.

2.3.4 The Company is not liable for any failure of performance hereunder due to causes beyond its control, including, but not limited to, unavoidable interruption in the working of transmission facilities; acts of God; storms, fire, flood, or other catastrophes; any law, order, regulation, direction, action or request of the United States Government, or any other governmental entity having jurisdiction over the Company or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of such governmental entity, or of any civil or military authority; national emergencies, insurrections, riots, rebellions, wars, strikes, lockouts, work stoppages, or other labor difficulties; or, notwithstanding anything in this Tariff to the contrary, the unlawful acts of individuals, including acts of the Company's agents and employees if committed beyond the scope of their employment.

By: Robert G. Berger
Vice President, Legal and Regulatory
WinStar Wireless, Inc.
1146 19th St., N.W., Suite 250
Washington, DC 20036.

SECTION 2 - RULES AND REGULATIONS (cont'd)

2.3 Liabilities of the Company (continued)

2.3.5 The Company shall not be liable for damages or statutory penalties or be obligated to make any adjustment, refund or cancellation of charges unless the Customer has notified the Company of any dispute concerning charges, or the basis of any claim for damages, within one hundred eighty (180) calendar days after an invoice is rendered or a debit is effected by the Company for the call giving rise to such dispute or claim. Any such notice must set forth sufficient facts to provide the Company with a reasonable basis upon which to evaluate the Customer's claim or demand. The Company's toll free number to reach Customer Service is (888) 961-8800. In the event that the Customer is not satisfied with the Company's resolution of any dispute, the Customer may make application to the South Dakota Public Utilities Commission for review and disposition of the matter. The Commission's address and telephone numbers are as follows:

South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070
605-773-3201 or 1-800-332-1782

2.4 Use of Service

The Customer may not use any of the services furnished by the Company under this Tariff for any unlawful purpose.

By: Robert G. Berger
Vice President, Legal and Regulatory
WinStar Wireless, Inc.
1146 19th St., N.W., Suite 250
Washington, DC 20036

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION FOR TRANSFER OF CERTIFICATE OF AUTHORITY FROM MIDCOM COMMUNICATIONS, INC. TO WINSTAR WIRELESS, INC.	)))))	**ORDER GRANTING TRANSFER OF CERTIFICATE OF AUTHORITY** **TC99-001**

On December 31, 1998, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:04.01 and 20:10:24:04.02, received an application for the transfer of a certificate of authority from MIDCOM Communications, Inc.(MIDCOM), to WinStar Wireless, Inc.(WinStar).

MIDCOM filed for voluntary Chapter 11 bankruptcy and as a result of those proceedings, the assets of MIDCOM used in the conduct of its business were transferred to WinStar's wholly owned subsidiary, WinStar MIDCOM Acquisition Corp. Simultaneously, MIDCOM's physical assets were transferred to WinStar Wireless (WinStar). MIDCOM's customers will be served by WinStar.

On January 7, 1999, the Commission electronically transmitted notice of the filing and the intervention deadline of January 22, 1999, to interested individuals and entities. No petitions to intervene or comments were filed and at its May 12, 1999, meeting, the Commission considered WinStar's request for transfer of a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to WinStar furnishing the Commission with a surety bond.

The Commission finds that it has jurisdiction over this matter pursuant to Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:04.01 and 20:10:24:04.02. The Commission finds that WinStar has met the legal requirements established for the granting of a certificate of authority. WinStar has, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. The Commission approves WinStar's application for a certificate of authority, subject to WinStar furnishing the Commission with a $25,000 surety bond. As the Commission's final decision in this matter, it is therefore

ORDERED, that WinStar's application for transfer of a certificate of authority from MIDCOM is hereby granted, subject to WinStar furnishing the Commission with a $25,000 surety bond. It is

FURTHER ORDERED, that WinStar shall file informational copies of tariff changes with the Commission as the changes occur.

Dated at Pierre, South Dakota, this 18th day of May, 1999.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 5/18/99

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg

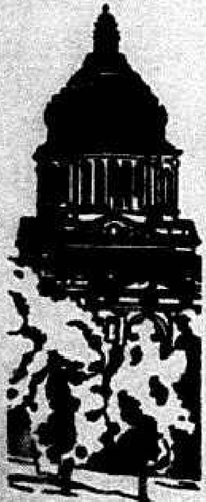
JAMES A. BURG, Chairman

Pam Nelson

PAM NELSON, Commissioner

Laska Schoenfelder

LASKA SCHOENFELDER, Commissioner



South Dakota
Public Utilities Commission

State Capitol Building, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070

Capitol Office
Telephone (605)773-3201
FAX (605)773-3809

Transportation/
Warehouse Division
Telephone (605)773-5280
FAX (605)773-3225

Consumer Hotline
1-800-332-1782

TTY Through
Relay South Dakota
1-800-877-1113

Internet Website
www.puc.state.sd.us/puc/

May 18, 1999

Mr. Robert G. Berger
Vice President
Legal and Regulatory
WinStar Wireless, Inc.
1146 19th Street N.W., Suite 250
Washington, D.C. 20036

Re: WinStar Wireless, Inc.
Docket No. TC99-001

Dear Mr. Berger:

Enclosed you will find a copy of the Order Granting Certificate of Authority with reference to WinStar Wireless, Inc. As soon as we receive your surety bond, we will send you your Certificate of Authority.

Very truly yours,

Camron Hoseck
Staff Attorney

CH:dk

cc: Ms. Rebekah J. Kinnett
Enc.

KELLEY DRYE & WARREN LLP
A LIMITED LIABILITY PARTNERSHIP INCLUDING PROFESSIONAL ASSOCIATIONS
1200 19TH STREET, N.W.
SUITE 500
WASHINGTON, D.C. 20036
(202) [illegible]

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

BRUSSELS, BELGIUM
HONG KONG

AFFILIATE OFFICES
BANGKOK, THAILAND
JAKARTA, INDONESIA
MANILA, THE PHILIPPINES
MUMBAI, INDIA
TOKYO, JAPAN

FACSIMILE
(202) [illegible]

DIRECT LINE (202) [illegible]
E-MAIL: [illegible]@kelleydrye.com

DUPLICATE

May 27, 1999

RECEIVED
MAY 28 1999
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

BY FEDERAL EXPRESS

Mr. Harlan Best
Utility Analyst
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501-5070

**Re: Transfer of Assets and Operating Authority of MIDCOM Communications to WinStar Wireless, Inc.
Docket No. TC99-001**

Dear Mr. Best:

As we discussed, enclosed in connection with the above-referenced proceeding please find a bond for the sum of $25,000 in the name of WinStar Wireless, Inc. I have also enclosed a copy of this filing and a self-addressed, postage-prepaid envelope. Kindly have the duplicate date-stamped and returned to me in the envelope provided.

Please do not hesitate to contact me with any questions.

Original Bond is in Delaine's bottom desk drawer.

Very truly yours,

Rebekah J. Kinnett

Rebekah J. Kinnett

Enclosures

DC01/KINNR/82534.1

Bond No. 400KA8321

LICENSE OR PERMIT BOND

KNOW ALL MEN BY THESE PRESENT:

That we, WINSTAR WIRELESS, INC, as Principal, and ST. PAUL FIRE AND MARINE INSURANCE COMPANY, a corporation organized under the laws of the State of MN with its principal office in the City of St. Paul as Surety, are held and firmly bound unto PUBLIC UTILITIES * as Obligee, in the full penal sum of Twenty Five Thousand and 00/100 Dollars ($[illegible]), lawful money of the United States, for the payment of which, well and truly to be made, we bind ourselves, our heirs, executors, administrator, successors and assigns, jointly and severally, firmly by these presents.

WHEREAS, the above bounded Principal has obtained or is about to obtain from the said Obligee a license or permit for [illegible] and the term of said license or permit is as indicated opposite the space checked below:

___ Beginning the_____ day of ________ 19___, and

ending the ______ day of ________ 19___.

X Continuous, beginning the 13th day of May 1999.

WHEREAS, the Principal is required by law to file with PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA AND CONSUMERS OF THE STATE OF SOUTH DAKOTA a bond for the above indicated term and conditioned as hereinafter set forth.

NOW, THEREFORE, THE CONDITION OF THIS OBLIGATION IS SUCH, That if the above bounded Principal as such licensee or permitee shall indemnify said Obligee against all loss, costs, expenses of damage to it caused by said Principal's non-compliance with or breach of any laws, statues, ordinances, rules or regulations pertaining to such license or permit issued to the Principal, which said breach or non-compliance shall occur during the term of this bond, then this obligation shall be void, otherwise to remain in full force and effect.

PROVIDED, that if this bond is for a fixed term, it may be continued by Certificate executed by the Surety hereon; and

PROVIDED FURTHER, that regardless of the number of years this shall continue or be continued in force and of the number of premiums that shall be payable of paid the Surety shall not be liable hereunder for a larger amount, in the aggregate, than the amount of this bond, and

PROVIDED FURTHER, that if the Surety shall so elect, this bond may be cancelled by the Surety as to subsequent liability by giving thirty (30) days notice in writing to said Obligee.

Signed, sealed and dated this 13th day of May 1999.

WINSTAR WIRELESS, INC

By: [signature] (SEAL)

COUNTERSIGNED:

By: [signature]

ST. PAUL FIRE AND MARINE INSURANCE COMPANY

By: [signature] (SEAL)
Robert McDonough, Attorney-in-Fact

*COMMISSION OF THE STATE OF SOUTH DAKOTA AND CONSUMERS OF THE STATE OF SOUTH DAKOTA

[illegible]
[illegible]

The St Paul Surety

ST. PAUL FIRE AND MARINE INSURANCE COMPANY
385 Washington Street, St. Paul, Minnesota 55102

CERTIFICATE OF AUTHORITY NO. 2113015

POWER OF ATTORNEY NO. F-15121

For verification of the authenticity of this Power of Attorney, you may telephone toll free 1-800-421-3880 and ask for the Power of Attorney Clerk. Please refer to the Power of Attorney No. and the named individual(s).

GENERAL POWER OF ATTORNEY - CERTIFIED COPY
(Original on File at Home Office of Company. See Certification.)

KNOW ALL MEN BY THESE PRESENTS: That St. Paul Fire and Marine Insurance Company, a corporation organized and existing under the laws of the State of Minnesota, having its principal office in the City of St. Paul, Minnesota, does hereby constitute and appoint:

Vivian Carti, Betty Calderon, Glenn Pelletiere, Barbara Guzzardo, Debra A. Deming, Robert McDonough, Marisol Plaza, Jean Allen, Caroline Scotto, Frank J. Niestadt, individually, New York, New York

its true and lawful attorney(s)-in-fact to execute, seal and deliver for and on its behalf as surety, any and all bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof, which are or may be allowed, required or permitted by law, statute, rule, regulation, contract or otherwise,

NOT TO EXCEED IN PENALTY THE SUM OF FIFTY MILLION DOLLARS($50,000,000)EACH

and the execution of all such instrument(s) in pursuance of these presents, shall be as binding upon said St. Paul Fire and Marine Insurance Company, as fully and amply, to all intents and purposes, as if the same had been duly executed and acknowledged by its regularly elected officers at its principal office.

This Power of Attorney is executed, and may be certified to and may be revoked, pursuant to and by authority of Article V,-Section 6(C), of the By-Laws adopted by the Shareholders of ST. PAUL FIRE AND MARINE INSURANCE COMPANY at a meeting called and held on the 28th day of April, 1978, of which the following is a true transcript of said Section 6 (C):

"The President or any Vice President, Assistant Vice President, Secretary or Service Center General Manager shall have power and authority

(1) To appoint Attorneys-in-fact, and to authorize them to execute on behalf of the Company, and attach the Seal of the Company thereto, bonds and undertakings, recognizances, contracts of indemnity and other writings obligatory in the nature thereof, and
(2) To appoint special Attorneys-in-fact, who are hereby authorized to certify to copies of any power-of-attorney issued in pursuance of this section and/or any of the By-Laws of the Company, and
(3) To remove, at any time, any such Attorney-in-fact or Special Attorney-in-fact and revoke the authority given him."

Further, this Power of Attorney is signed and sealed by facsimile pursuant to resolution of the Board of Directors of said Company adopted at a meeting duly called and held on the 5th day of May, 1959, of which the following is a true excerpt:

"Now therefore the signatures of such officers and the seal of the Company may be affixed to any such power of attorney or any certificate relating thereto by facsimile, and any such power of attorney or certificate bearing such facsimile signatures or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by facsimile signatures and facsimile seal shall be valid and binding upon the Company in the future with respect to any bond or undertaking to which it is attached."

IN TESTIMONY WHEREOF, St. Paul Fire and Marine Insurance Company has caused this instrument to be signed and its corporate seal to be affixed by its authorized officer, this 2nd day of September, A.D. 1998.

ST. PAUL FIRE AND MARINE INSURANCE COMPANY

ST. PAUL FIRE & MARINE INSURANCE CO.

STATE OF MARYLAND } ss.
City of Baltimore

Michael B Keegan

MICHAEL B. KEEGAN, Vice President

On this 2nd day of September, A.D. 1998, before me came the individual who executed the preceding instrument, to me personally known, and, being by me duly sworn, said that he/she is the therein described and authorized officer of St. Paul Fire and Marine Insurance Company; that the seal affixed to said instrument is the Corporate Seal of said Company; that the said Corporate Seal and his/her signature were duly affixed by order of the Board of Directors of said Company.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my Official Seal, at the City of Baltimore, Maryland, the day and year first above written.

REBECCA EASLEY-ONOKALA NOTARY PUBLIC BALTIMORE CITY MD

Rebecca Easley-Onokala

REBECCA EASLEY-ONOKALA, Notary Public
My Commission Expires July 13, 2002

CERTIFICATION
I, the undersigned officer of St. Paul Fire and Marine Insurance Company, do hereby certify that I have compared the foregoing copy of the Power of Attorney and affidavit, and the copy of the Section of the By-Laws of said Company as set forth in said Power of Attorney, with the ORIGINALS ON FILE IN THE HOME OFFICE OF SAID COMPANY, and that the same are correct transcripts thereof, and of the whole of the said originals, and that the said Power of Attorney has not been revoked and is now in full force and effect.

IN TESTIMONY WHEREOF, I have hereunto set my hand this

13TH day of MAY, 19 99

Michael R. McKibben

MICHAEL R. MCKIBBEN, Assistant Secretary

Only a certified copy of Power of Attorney bearing the Certificate of Authority No. printed in red on the upper right corner is binding. Photocopies, carbon copies or other reproductions of this document are invalid and not binding upon the Company.

ANY INSTRUMENT ISSUED IN EXCESS OF THE PENALTY AMOUNT STATED ABOVE IS TOTALLY VOID AND WITHOUT ANY VALIDITY.

Financial Statement - December 31, 1997

St. Paul Fire and Marine Insurance Company

Assets		Liabilities, Surplus & Other Funds	
Bonds	$ 8,770,995,599	Losses	$ 6,906,414,402
Stocks	2,646,643,661	Reins. Payable on Paid Losses	20,562,976
Mortgage Loans	18,000,000	Loss Adjustment Expense	1,469,758,287
Real Estate	561,987,400	Contingent Commissions	42,923,795
Cash on Hand/Deposit	14,327,084	Other Expenses	160,489,607
Short Term Investments	406,136,134	Taxes, Licenses and Fees	33,515,237
Other Invested Assets	413,806,227	Federal & Foreign Income Taxes	238,645,244
Agents' Balances	1,018,942,138	Unearned Premiums	1,723,919,543
Funds held dep. with Reins Co.	17,611,790	Dividends Unpaid - Policyholders	40,300,427
Reinsurance Recoverable	52,749,536	Fund Held - Reins. Treaties	16,528,245
EDP Equipment	37,977,867	Funds Withheld	117,926,964
Accrued Interest & Dividends	160,335,808	Reins, Unauth. Cos. Loss Funds Held	86,246,146
Due From Affiliates	12,042,900	Excess of Stat. Reserves	4,757,509
Equity/Deposits/Pools & Assns.	40,485,814	Adjustment for Foreign Exchange	76,888,296
Receivable for Securities	10,000,557	Drafts Outstanding	80,300,423
Other Assets	51,644,973	Payable for Securities	32,608,271
		Other Liabilities	456,267,123
		Special Reserve-Guaranty Fund	1,000,000
		TOTAL LIABILITIES	$ 11,509,052,495
		Guaranty Surplus Fund	$ 1,000,000
		Capital Paid Up	20,000,000
		Surplus	2,703,744,251
		Surplus as Regards Policyholders	2,724,744,251
TOTAL ASSETS	$ 14,233,796,747	TOTAL LIABILITIES & SURPLUS	$ 14,233,796,747

Securities carried at $394,443,867 in the foregoing statement, are deposited as required by law.

STATE OF MINNESOTA)
) SS
COUNTY OF RAMSEY)

John Treacy, Financial Reporting Officer of the St. Paul Fire and Marine Insurance Company, being duly sworn, deposes and says that he is the above described officer of said company; that said company is a corporation duly organized, existing and engaging in business as a surety company under and by virtue of the laws of the State of Minnesota, and has duly complied with all requirements of the laws of said state applicable to said company and is duly qualified to act as surety under such laws; that the above is a true statement of the assets and liabilities of said company of the 31st day of December, 1997.

Subscribed and sworn to before me this 2nd day of March, 1998

John Treacy, Financial Reporting Officer

M M DUBOIS
NOTARY PUBLIC - MINNESOTA

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted May 12, 1999
Docket No. TC99-001

This is to certify that

WINSTAR WIRELESS, INC.

is authorized to provide telecommunications services in South Dakota.

This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 21st day of June, 1999.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

James A. Burg

JAMES A. BURG, Chairman

Pam Nelson

PAM NELSON, Commissioner

Laska Schoenfelder

LASKA SCHOENFELDER, Commissioner