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MEMORANDUM

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FROM: Deborah R. Scott
for Director
Utilities Division

2001 MAR 19 P 4: 19

AZ CORP COMMISSION
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DATE: March 19, 2001

RE: STAFF REPORT FOR WINSTAR WIRELESS, INC.'S APPLICATION FOR APPROVAL, *Nunc Pro Tunc*, OF INCURRING DEBT OBLIGATIONS (DOCKET NO. T-03670A-00-0446)

Attached is the Staff Report for the financing application of Winstar Wireless, Inc., for approval, *nunc pro tunc*, of incurring debt obligations. Staff recommends approval of the request without a hearing.

DRS:JMR:jbc

Originator: Joel M. Reiker

Arizona Corporation Commission
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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

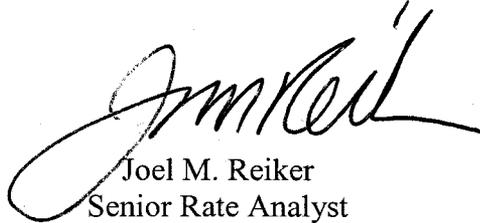
WINSTAR WIRELESS, INC.
DOCKET NO. T-03670A-00-0446

APPLICATION FOR APPROVAL, *Nunc Pro Tunc*, OF
INCURRING DEBT OBLIGATIONS

MARCH, 2001

STAFF ACKNOWLEDGMENT

The Staff Report for Winstar Wireless, Inc., Docket No. T-03670A-00-0446, was the responsibility of the Staff member listed below. Joel M. Reiker was responsible for the review and analysis of the Company's application for approval, *nunc pro tunc*, of incurring debt obligations.



Joel M. Reiker
Senior Rate Analyst

TABLE OF CONTENTS

| | <u>PAGE</u> |
|-------------------------------------|-------------|
| Introduction..... | 1 |
| Background..... | 1 |
| The Company's Request..... | 1 |
| Conclusion and Recommendation | 1 |

Introduction

On June 27, 2000, Winstar Wireless, Inc. ("Winstar" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting approval, *nunc pro tunc*, to participate in a pledge of its Arizona assets as part of financing arrangements involving its parent company, Winstar Communications, Inc. ("Winstar Communications"). On December 13, 2000, the Company filed an amendment to its application.

Background

Winstar currently holds Certificates of Convenience and Necessity ("CC&N") to provide local exchange services, intrastate and private line services throughout Arizona. Winstar is the direct subsidiary of WCI Capital Corporation, which is a subsidiary of Winstar Communications, a non-regulated, publicly traded holding company providing high-speed Internet and data, Web hosting and design, telecommunications, along with Web-based applications, and e-commerce. According to its September 30, 2000, Form 10-Q filed with the U.S. Securities and Exchange Commission, Winstar Communications held total assets of approximately \$4.5 billion. Revenues for the nine month period ending September 30th were approximately \$534 million, with a net loss of approximately \$642 million. As of March 12, 2001, Winstar Communications had a market capitalization of approximately \$614 million.

The Company's Request

On June 23, 2000, Winstar filed its application with the Commission seeking *nunc pro tunc* approval to pledge its Arizona assets as part of a credit facility of up to \$1.15 billion, which included a \$300 million revolving credit facility and two term loans aggregating \$850 million. On December 13, 2000, the Company updated its application, adding a third term loan to the existing credit facility in the amount of \$200 million, increasing the amount of the facility to \$1.35 billion. The agents for the issuances include The Bank of New York, Citicorp North America, Inc., CIBC World Markets Corp. and Credit Suisse First Boston. The proceeds will be used to repay Winstar Communications' loans outstanding under a previously existing facility with Lucent as well as general corporate purposes.

The Company has indicated that its Arizona assets to be pledged which are necessary in the performance of its duties as a public service corporation include a voice switch and radio communications equipment, and Internet and data networking equipment located in the Phoenix area. Winstar does not own backbone fiber facilities or other significant assets in Arizona. Further, Winstar's Arizona assets comprise less than 1.0 percent of its total assets and less than 2.0 percent of fixed assets.

Conclusion and Recommendation

Although the net losses experienced by Winstar Communications indicate financial distress, similar "start-up" telecommunications companies have also suffered losses in their initial years of operations. Large initial plant investments made prior to customers being

Winstar Wireless, Inc.

Docket No. T-03670A-00-0446

Page 2

acquired are generally the cause of those losses. Accordingly, investors, as well as creditors, expect customer growth to generate sufficient revenue to make timely debt payments. In the event the parent would default on its credit facilities and be forced into bankruptcy, Winstar's Arizona assets would likely be useful to other telecommunications companies.

Staff recommends approval, *nunc pro tunc*, of the Company's request to participate in a pledge of its Arizona assets as part of financing arrangements involving its parent company, pursuant to A.R.S. § 40-285.

Staff recommends approval without a hearing.