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**MEMORANDUM**

TO: Docket Control

2001 APR -5 A 10: 26

FROM: Deborah R. Scott  
Director  
Utilities Division

AZ CORP COMMISSION  
DOCUMENT CONTROL

DATE: March 30, 2001

RE: AMENDED STAFF REPORT FOR AMERICAN LONG LINES, INC. ("ALL"),  
TELIGENT, INC., ("TELIGENT") AND TELIGENT SERVICES, INC.'S  
("TSI") APPLICATION WITH THE ARIZONA CORPORATION  
COMMISSION ("COMMISSION") FOR APPROVAL TO TRANSFER 100  
PERCENT OF THE EQUITY OF ALL FROM ITS CURRENT  
SHAREHOLDERS TO TSI (DOCKET NOS. T-03336A-00-0521 AND T-  
03761A-00-0521)

Attached is the Amended Staff Report for American Long Lines, Inc. ("ALL"), Teligent, Inc., ("Teligent") and Teligent Services, Inc.'s ("TSI") application with the Arizona Corporation Commission ("Commission") for approval to transfer 100 percent of the equity of ALL from its current shareholders to TSI.

The purpose of the Amended Staff Report is to inform the Commission of a change in the financial health of one of the parties.

DRS:JMR:jbc

Originator: Joel M. Reiker

Arizona Corporation Commission  
**DOCKETED**

APR 0 5 2001

DOCKETED BY

AMENDED STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

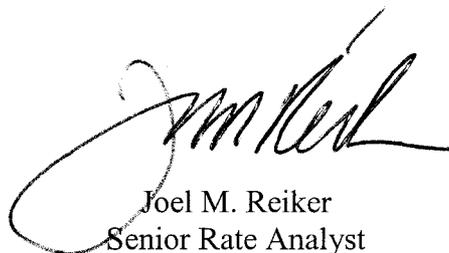
AMERICAN LONG LINES, INC.  
AND TELIGENT SERVICES, INC.  
DOCKET NOS. T-03336A-00-0521  
T-03761A-00-0521

APPLICATION  
FOR APPROVAL OF THE  
TRANSFER OF EQUITY

MARCH 2001

## STAFF ACKNOWLEDGMENT

The analysis contained in the amended Staff Report for American Long Lines, Inc., and Teligent Services Inc., Docket Nos. T-03336A-00-0521 and T-03761A-00-0521 was prepared by Joel M. Reiker.

A handwritten signature in black ink, appearing to read "Joel M. Reiker", is written in a cursive style. The signature is positioned above the printed name and title.

Joel M. Reiker  
Senior Rate Analyst

## Introduction and Background

On July 19, 2000, American Long Lines, Inc. ("ALL"), Teligent, Inc. ("Teligent") and Teligent Services, Inc. ("TSI") (collectively "Applicants") filed an application with the Arizona Corporation Commission ("Commission") for approval to transfer 100 percent of the equity of ALL from its current shareholders to TSI. Both TSI and ALL are Arizona Public Service Corporations.

On November 14, 2000, Commission Staff filed its Staff Report recommending approval of the transaction without a hearing.

On February 21, 2001, *TR Daily* reported that analysts expected several competitive local exchange carriers ("CLEC's") to file for bankruptcy this year, including Teligent.<sup>1</sup> Analysts cited the industry's increasing difficulty to raise capital as the cause.

On March 7, 2001, Commission Staff sent data requests to TSI regarding the analysts' projections and the proposed transaction. The Company responded by asserting that it still intends to complete the transaction.

The purpose of this Amended Staff Report is to inform the Commission of the changing circumstances.

## Discussion

According to its September 30, 2000, Form 10-Q filed with the United States Securities and Exchange Commission ("SEC"), Teligent experienced revenues of approximately \$97 million and a net loss of \$547 million for the nine months ended September 30. At that time, Teligent had negative equity of approximately \$693 million and \$172 million in cash, compared to negative equity of \$442 million and \$440 million in cash nine months earlier. According to Reuters, Teligent received \$250 million in December 2000, but reported that it had only about \$360 million in cash left at the end of the fourth quarter of 2000. An analyst with Frost Securities said "that amount would be enough only to operate for another four to six months."

ALL has provided audited financial statements indicating that it has been profitable since receiving a Certificate of Convenience and Necessity ("CC&N") to operate as a reseller of interexchange services in Arizona in 1998.<sup>2</sup> According to the Applicants, ALL does not market its services in Arizona. ALL's 18 Arizona customers are all branch offices of companies headquartered in other states.

TSI asserts that the proposed transaction is in the best interest of consumers because it allows ALL to further reduce its general and administrative overhead by consolidating those

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<sup>1</sup> "Wall St. Analysts Foresee More CLEC Bankruptcies, Capital Woes", *TR Daily*. February 21, 2001. Telecommunications Reports International, Inc.

<sup>2</sup> Decision No. 60673, dated February 9, 1998, granted ALL authority to provide competitive InterLATA and intraLATA resold telecommunications services.

functions with Teligent's larger organization. The Applicants have also stated that ALL does not rely on the financial resources of Teligent.

The acquisition of ALL will be financed with cash and stock. According to TSI, the cash portion has already been raised and is currently in escrow, and the Applicants are now ready to complete the transaction. Further, with the exception of Arizona, the transaction has been approved in the 15 other states where approval is required.

While it is true that the CLEC industry is experiencing losses and facing difficulty in the capital markets, many investors, as well as creditors, expect customer growth to eventually generate sufficient revenues to cover operating expenses.

Both ALL and TSI are currently operating in Arizona under CC&N's. ALL is a profitable corporation that will continue to provide service under its current name in accordance with its tariff on file with the Commission. In the event that ALL ceases operations in Arizona, its customers would continue to receive service from the underlying carrier and would be able to change providers with minimal inconvenience.

According to TSI's tariff on file with the Commission, Teligent may not collect from customers, or potential customers, any prepayments, advances, or deposits. In the future, should Teligent decide it wishes to collect from customers, or potential customers, any prepayments, advances, or deposits, then it shall do so in accordance with Commission rules. In Decision No. 61155, dated October 7, 1998,<sup>3</sup> the Commission ordered Teligent to establish an escrow account or post a performance bond equivalent to one year of prepayments, advances or deposits to be received from Arizona customers if it decides to charge customers such prepayments, advances, or deposits. Teligent has not established an escrow account or posted a performance bond because it has not taken prepayments, advances, or deposits from Arizona customers.

### **Conclusion and Recommendations**

Staff believes that although Teligent's current financial health may be declining, its purchase of the stock of ALL, which is profitable, should result in efficiencies for both companies.

Staff recommends approval without a hearing.

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<sup>3</sup> In Decision No. 61155, dated October 7, 1998 Teligent was granted a CC&N to provide facilities-based and resold local exchange and toll services throughout Arizona. The CC&N was later transferred to its subsidiary, TSI, in Decision No. 62233, dated January 12, 2000.