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MEMORANDUM

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AZ CORP COMMISSION
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TO: Docket Control

FROM: Steve Olea
Acting Director
Utilities Division

Barbara Wytaske for

DATE: August 3, 2001

RE: STAFF'S COMMENTS ON THE RECENT DEVELOPMENTS REGARDING THE FINANCIAL CONDITION OF TELIGENT, INC., AND THE APPLICATION OF AMERICAN LONG LINES, INC. ("ALL"), TELIGENT, INC., ("TELIGENT") AND TELIGENT SERVICES, INC.'S ("TSI") 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 are Staff's comments on the recent developments regarding the financial condition of Teligent and the application of ALL, Teligent, and TSI for approval to transfer 100 percent of the equity of ALL from its current shareholders to TSI.

Originator: Joel M. Reiker

Arizona Corporation Commission
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The purpose of these comments is to inform the Commission of recent developments regarding the financial health of Teligent.

On July 19, 2000, ALL, Teligent and 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, Utilities Division Staff ("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 ("CLECs") to file bankruptcy this year, including Telgient.[1] Analysts cited the industry's increasing difficulty to raise capital as the cause.

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

On May 21, 2001, Teligent filed for Chapter 11 bankruptcy protection, and was later delisted by the NASDAQ National Market.

On July 3, 2001, Staff sent additional data requests to Teligent regarding its Chapter 11 reorganization. In responding to data requests, the Applicants informed Staff that the proposed transaction had indeed already closed in spite of the fact that the Commission had not yet granted its approval.

According to the Applicants, counsel for Teligent and ALL originally advised the parties that only notification, not approval, was required in Arizona. Accordingly, the Applicants filed a letter of notification with the Commission on May 31, 2000. In response to the Applicants' letter of notification, the Commission's Legal Division informed the Applicants that Commission approval was indeed necessary. Although the Applicants were informed by the Legal Division that Commission approval was necessary, the ALL/Teligent merger agreement was not modified to reflect the change in Arizona's regulatory requirement from a "notification" state to an "approval" state. As a result, the transaction closed when the Applicants believed all necessary approvals had been granted.

In a letter to Staff dated July 20, 2001, the Applicants indicated that although the transaction closed prematurely, no changes have occurred to ALL since it became part of the Teligent family. According to the Applicants, ALL, as well as Teligent's other domestic subsidiaries are currently debtors-in-possession, and subject to the reorganization process being conducted under the supervision of the U. S. Bankruptcy

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[1] "Wall St. Analysts Foresee More CLEC Bankruptcies, Capital Woes", *TR Daily*. February 21, 2001. Telecommunications Reports International, Inc.

Court ("Court"). Because the reorganization is continuing and has yet to be approved by the Court, it is not known whether ALL and/or any of Teligent's other domestic subsidiaries will be sold.

Staff believes that although the financial health of Telgient has deteriorated in recent months, the Commission should approve the transaction for the following reasons:

1) The Commission's *nunc pro tunc* approval of the transaction may aid the Court in its reorganization of Teligent. Should the Court determine that ALL should be sold, it would likely be sold to a financially viable entity.

2) ALL does not market its services in the state of Arizona. ALL's Arizona customers are branch offices of business customers that have home offices in states where ALL does market its services.

3) Following the transaction, utility service continues to be provided by the same entity, and under the same management and CC&N.

4) The Applicants have asserted that ALL does not require any financial resources from Teligent and ALL's continued operations are not contingent upon Teligent's operations.

5) 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.

6) Chapter 11 bankruptcy protection provides a process for Teligent to reorganize its debt and capital structure and possibly emerge as a viable business, unlike a Chapter 7 filing which results in complete liquidation of the company's assets.

Staff recommends approval of the proposed transaction despite Teligent's Chapter 11 reorganization filing. ALL will continue to operate as a wholly owned subsidiary of TSI, providing the same service under its existing CC&N.

Staff recommends that the Commission approve the proposed transaction *nunc pro tunc*, without a hearing.