SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

REC'D TN
REGULATORY AUTH.

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OFFICE OF THE
EXECUTIVE SECRETARY

WASHINGTON OFFICE
3000 K STREET, NW, SUITE 300
WASHINGTON, DC 20007-5116
TELEPHONE (202) 424-7500
FACSIMILE (202) 424-7647

NEW YORK OFFICE
919 THIRD AVENUE
NEW YORK, NY 10022-9998
TELEPHONE (212) 758-9500
FACSIMILE (212) 758-9526

February 5, 1999

VIA OVERNIGHT MAIL

K. David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Re: Application of WinStar Wireless, Inc. and WinStar Wireless of Tennessee, Inc. for Authority to Merge and for Cancellation and Reissuance of License.
Docket No. 98-00727

Dear Mr. Waddell,

WinStar Wireless, Inc. ("WinStar"), by its undersigned attorneys, hereby notifies the Tennessee Regulatory Authority that on December 31, 1998, WinStar consummated the Reorganization of the WinStar companies as previously acknowledged by the Authority in the above-referenced docket. As a result, WinStar Wireless, Inc. has assumed the operations and certifications of WinStar Wireless of Tennessee, Inc.

WinStar will file under separate cover any tariffs or price lists necessary to reflect its adoption of the WinStar Wireless of Tennessee, Inc. tariff(s) as part of the Reorganization. It is WinStar's understanding that no further action is required to notify the Authority of the completion of the Reorganization. If you have any questions regarding this letter, or require any additional information, please do not hesitate to contact us.

Respectfully submitted,

Russell M. Blau
Edward S. Quill, Jr.

Counsel for WinStar Wireless, Inc.

cc: Richard Collier
Chris Klein
Edward Phillips
David Sapper

269171.1

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

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October 14, 1998

98-00727

VIA OVERNIGHT DELIVERY

DATE STAMP & RETURN

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: Application of WinStar Wireless, Inc. and WinStar Wireless of Tennessee, Inc. for Authority to Merge and for Cancellation and Reissuance of License.

Dear Mr. Waddell,

Enclosed for filing on behalf of WinStar Wireless, Inc. and WinStar Wireless of Tennessee, Inc. (collectively "the Parties"), are an original and thirteen (13) copies of the Parties' Application for Authority to Merge and for Consolidation and Reissuance of License.

Pursuant to the Commission's rules and informal discussions with the Commission's Staff, a check in the amount of $25.00 is enclosed to cover the required filing fee. Please date-stamp the enclosed extra copy of this filing and return it in the self-addressed, postage paid envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact us.

Respectfully submitted,

Russell M. Blau
Edward S. Quill, Jr.

Counsel for WinStar

Enclosures

cc: Robert G. Berger (WinStar)

255738.1

VOUCHER NO. 777-106460
CK 0101888 NO. 28103
AMT. REC. 25.00
DEPOSIT DATE 10/22/98

TENNESSEE REGULATORY AUTHORITY

460 James Robertson Parkway
Nashville, Tennessee 37243-0505

January 12, 1999

Edward S. Quill
Swidler & Berlin, Chartered
3000 K Street, NW
Suite 300
Washington D.C. 20007

Re: Application of WinStar Wireless, Inc. and WinStar Wireless of Tennessee, Inc. for Authority to Merge and for Cancellation and Reissuance of License

Docket No. 98-00727

Dear Mr. Quill:

This is in response to your letter dated December 3, 1998. The Authority Staff has reviewed the above-referenced Application, which seeks Authority approval of the proposed merger of WinStar Wireless of Tennessee, Inc. with and into WinStar Wireless, Inc. Because WinStar Wireless, Inc., nor any of its subsidiaries have certificates of authority in Tennessee, Authority approval of the merger is not required. Upon consummation of the proposed transaction, however, please make filings necessary to reflect the name change of "WinStar Wireless of Tennessee, Inc." to "WinStar Wireless, Inc."

Thank you for informing the Authority of this matter. Please address any other questions to David Sapper at (615) 741-2904 ext. 155.

Sincerely,

K. David Waddell
Executive Secretary

c: Docket No. 98-00727
Richard Collier
Chris Klein
Edward Phillips
David Sapper

Telephone (615) 741-2904, Toll-Free 1-800-342-8359, Facsimile (615) 741-5015
www.state.tn.us/tra

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

REC'D TN
REGULATORY AUTH.

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OFFICE OF THE
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NEW YORK OFFICE
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NEW YORK, NY 10022-9998
TELEPHONE (212) 758-9500
FACSIMILE (212) 758-9526

December 3, 1998

VIA OVERNIGHT DELIVERY

K. David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Attention: Ed Phillips

Re: Application of WinStar Wireless, Inc. and WinStar Wireless of Tennessee, Inc. for Authority to Merge and for Cancellation and Reissuance of License.
Docket No. 98-00727

Dear Mr. Waddell,

On October 14, 1998, WinStar Wireless, Inc. and WinStar Wireless of Tennessee, Inc. (collectively "the Parties"), filed an application with the Authority seeking approval, to the extent required, of an internal *pro forma* reorganization of the WinStar companies ("Application"). As set forth at length in the Application, through the proposed reorganization, WinStar Wireless of Tennessee, Inc. will be merged with and into WinStar Wireless, Inc. As a result, following the reorganization WinStar Wireless, Inc. will become the WinStar entity authorized to provide service in Tennessee and will provide service identical to that currently provided by WinStar Wireless of Tennessee, Inc.

Pursuant to informal conversations between Staff and undersigned counsel, the Parties understand that the Authority has reviewed the Application and that the Authority has determined, due to the *pro forma* nature of the transaction, that no formal Authority approval is required to complete the proposed reorganization. In light of this conclusion, the Parties further understand that they may consummate the proposed reorganization at any time. In the event that the Parties' understanding of the Authority's position is incomplete, the Parties respectfully request that the Authority notify undersigned counsel as soon as possible. Upon completion of the reorganization, WinStar Wireless, Inc. will make tariff filings to the extent necessary to reflect the change in carrier name.

An original and thirteen (13) copies of this letter are included. Please date stamp and return the extra copy in the enclosed self addressed stamped envelope. Questions regarding this matter should be directed to the undersigned.

Respectfully submitted,

Edward S. Quill, Jr.

Counsel for Applicants

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SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

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October 14, 1998

98-00727

VIA OVERNIGHT DELIVERY

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: Application of WinStar Wireless, Inc. and WinStar Wireless of Tennessee, Inc. for Authority to Merge and for Cancellation and Reissuance of License.

Dear Mr. Waddell,

Enclosed for filing on behalf of WinStar Wireless, Inc. and WinStar Wireless of Tennessee, Inc. (collectively "the Parties"), are an original and thirteen (13) copies of the Parties' Application for Authority to Merge and for Consolidation and Reissuance of License.

Pursuant to the Commission's rules and informal discussions with the Commission's Staff, a check in the amount of $25.00 is enclosed to cover the required filing fee. Please date-stamp the enclosed extra copy of this filing and return it in the self-addressed, postage paid envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact us.

Respectfully submitted,

Russell M. Blau
Edward S. Quill, Jr.

Counsel for WinStar

Enclosures

cc: Robert G. Berger (WinStar)

255738.1

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

98-00727

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October 14, 1998

VIA OVERNIGHT DELIVERY

DATE STAMP & RETURN

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: Application of WinStar Wireless, Inc. and WinStar Wireless of Tennessee, Inc. for Authority to Merge and for Cancellation and Reissuance of License.

Dear Mr. Waddell,

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Pursuant to the Commission's rules and informal discussions with the Commission's Staff, a check in the amount of $25.00 is enclosed to cover the required filing fee. Please date-stamp the enclosed extra copy of this filing and return it in the self-addressed, postage paid envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact us.

Respectfully submitted,

Russell M. Blau
Edward S. Quill, Jr.

Counsel for WinStar

Enclosures

cc: Robert G. Berger (WinStar)

255738.1

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP
WASHINGTON, DC 20007

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SWIDLER BERLIN SHEREFF FRIEDMAN, LLP
3000 K STREET, N.W., SUITE 300
WASHINGTON, DC 20007

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GENERAL ACCOUNT
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Before the
STATE OF TENNESSEE
REGULATORY AUTHORITY

Application of	)	
	)	
WINSTAR WIRELESS, INC.,	)	
and	)	**Docket No.** 98 00727
WINSTAR WIRELESS of TENNESSEE, INC.	)	
	)	
For Authority to Merge and for Cancellation	)	
and Reissuance of License	)	

APPLICATION

WinStar Wireless, Inc. ("WWI") and WinStar Wireless of Tennessee, Inc. ("WW of Tennessee") (collectively the "Applicants"), by their undersigned attorneys and pursuant to the statutes, rules and regulations of the Tennessee Regulatory Authority ("TRA"), respectfully request authority to merge WW of Tennessee with and into WWI and to assign WW of Tennessee's Certificate of Public Convenience and Necessity to WWI.[1/] As part of this *pro forma* corporate reorganization, WW of Tennessee, along with certain other affiliated WinStar Wireless subsidiaries operating in other states will be merged with and into WWI (the "Reorganization"). As a result of the Reorganization, WW of Tennessee will cease to exist and WWI will assume WW of Tennessee's certification and operations. As described below, the Reorganization will not change the ultimate ownership or control of WW of Tennessee's certificate or operations.

[1/] If the TRA determines that it is not appropriate to transfer WWI of Tennessee's Certificate of Public Convenience and Necessity toWWI, the Applicants respectfully request that the TRA grant a new Certificates of Public Convenience and Necessity to WWI authorizing it to provide the full range of services that WW of Tennessee currently is authorized to provide and thereafter cancel WW of Tennessee's Certificates of Public Convenience and Necessity.

In support of their Application, the Applicants provide the following information:

I. THE APPLICANTS

WinStar Communications, Inc. is a publicly held Delaware corporation that is headquartered at 230 Park Avenue, Suite 2700, New York, New York, 10169. WinStar Communications is the ultimate corporate parent of the WinStar family of companies. WinStar Communication's operating subsidiaries (collectively, "WinStar"), including WW of Tennessee, operate as facilities-based and resale providers of private line and switched local and interexchange services throughout the United States. WinStar's customers are predominantly small and medium-sized businesses.[2/] WinStar's facilities-based networks principally employ a hub and spoke design, with end users connected to hub sites via fixed point-to-point line of sight microwave connections primarily in the 38.6-40.0 GHz band.

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.[3/] Thus, the WinStar family of companies has

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[2/] As a line of sight technology with fiber equipment capabilities, WinStar's operations are – from the end user's perspective – no different from wireline, fiber-based CLECs. WinStar is not a cellular or mobile carrier.

[3/] 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 42 states, including Tennessee,[4] and the District of Columbia.

Information concerning the legal, technical, managerial and financial qualifications of WinStar was submitted with the various application(s) filed with the TRA with respect to its subsidiary currently operating in Tennessee, and is, therefore, already a matter of record with the TRA. WinStar respectfully requests that the TRA take official notice of this information and incorporate it by reference herein. For the TRA's convenience updated financial information for WinStar is attached hereto as Attachment A.

II. <u>DESIGNATED CONTACTS</u>

The designated contacts for purposes of this Application are:

Russell M. Blau
Edward S. Quill, Jr.
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N. W., Suite 300
Washington, DC 20007
Phone: (202) 945-6997
Fax: (202) 424-7645

Copies of all correspondence, notices, inquiries and orders should be sent to:

Robert G. Berger
Russell C. Merbeth
WinStar Communications, Inc.
1146 19th Street, N.W.
Suite 250
Washington, DC 20036

---

[4] *See* Docket No. 95-03232 (Dec. 22, 1995).

III. DESCRIPTION OF THE TRANSACTION

WW of Tennessee presently is a wholly-owned subsidiary of WinStar Wireless Fiber Corporation ("WW Fiber"). WW Fiber is a non-regulated entity that operates as a holding company and is a first-tier wholly-owned subsidiary of WinStar Communications, Inc. ("WCI"), the ultimate parent company of the WinStar subsidiaries. WinStar Wireless, Inc. ("WWI"), like WW Fiber, also is a first-tier wholly-owned subsidiary of WCI.

As part of the Reorganization, WW of Tennessee and certain other second-tier WinStar Wireless operating subsidiaries will be merged into WWI. As a result, WW of Tennessee and the other affiliated sister companies will cease to exist as corporate entities and WWI will hold the certificates previously held by the respective WinStar Wireless companies. For the TRA's convenience, pre- and post-reorganization charts depicting the proposed Reorganization are appended hereto as Attachment B.

The proposed Reorganization is strictly *pro forma* and will not adversely affect the provision of telecommunication services in Tennessee. All of WW of Tennessee's customers will be served by the same team of qualified consumer representatives and will be provided service pursuant to contracts and tariffs that offer all of the services offered by WW of Tennessee, at the same rates, terms and conditions as are currently available. WWI will file a revised tariff to reflect the reorganization that will incorporate identical services, rates, terms and conditions. There will be no change in the ultimate ownership or control of WWI or in the management or day-to-day operations in Tennessee. WWI will be led by the same team of experienced telecommunications personnel that led WW of Tennessee. Thus, service will continue to be provided using the same network, billing systems and customer service operations as are used by WW of Tennessee.

To the extent required, the Applicants respectfully request that the TRA authorize the merger of WW of Tennessee with and into WWI and to assign WW of Tennessee's Certificate of Public Convenience and Necessity to WWI.

IV. PUBLIC INTEREST STATEMENT

For internal corporate reasons, WinStar has determined that the operational efficiency of the Company will be improved and streamlined by the proposed Reorganization. The Reorganization will enable the Company to reduce its administrative and operating expenses and realize operational and management efficiencies and other corporate benefits. These efficiencies will enable the Company to more effectively compete in the telecommunications market to the ultimate benefit of consumers in Tennessee. The Reorganization will be made in a seamless fashion that will not adversely affect the provision of telecommunications services in Tennessee, but will, in fact, increase the financial strength of the entity which is providing service in Tennessee. The Reorganization is simply a paper transaction that will be transparent to consumers and will not in any way inconvenience or cause harm to WW of Tennessee's customers.

WHEREFORE, the Applicants respectfully request that the TRA approve this Application for the merger of WW of Tennessee into WWI and the transfer of WW of Tennessee's certificate to WWI, and grant any other authority that the TRA may deem necessary with respect to this request.

Respectfully submitted,

By: ______________________

Russell M. Blau
Edward S. Quill, Jr.
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, DC 20007-5116
Phone: (202) 945-6997
Fax: (202) 424-7645

Robert G. Berger, Esq.
Russell C. Merbeth, Esq.
WinStar
1146 19th Street, N.W.
Suite 250
Washington, D.C. 20036
Phone: (202) 530-7655
Fax: (202) 530-0977

Dated: October 14, 1998

247308.1

ATTACHMENTS

Attachment A	Financial Information
Attachment B	Proposed Reorganization Charts
Verification	

ATTACHMENT A

Financial Information

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 40 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 package. 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 PacNet, high-speed switched and dedicated data and Internet access services. 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. Accordingly, WinStar actively seeks 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 most instances, are not served by fiber facilities provided by CLECs. The Company estimates that there are more than 8,000 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 allows it to target larger business customers.

Market Wireless Fiber to Other Carriers. WinStar offers its broadband 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, economical method for telecommunications providers to add a high-capacity extensions 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.

Item 1. Business—(Continued)

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-O.* 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
Atlanta	900
Baltimore	600
Boston	500
Buffalo	800
Chicago	700
Cincinnati	800
Cleveland	500
Dallas	800
Denver	700
Detroit	500
Fort Worth	900
Ft. Lauderdale	1,000
Greensboro	1,350
Houston	900
Indianapolis	500
Kansas City	600
Las Vegas	500
Long Island, New York	500
Los Angeles	500
Memphis	600
Miami	1,000
Milwaukee	600
Minneapolis	600
Newark	600
New Orleans	1,350
New York	900
Norfolk	1,350
Oakland	1,650
Orlando	1,450
Philadelphia	600
Phoenix	600
Pittsburgh	600
Saginaw	400
St. Louis	900
Salt Lake City	1,250
San Diego	400
San Francisco	1,650
San Jose	1,250
San Juan	500
Seattle	800
Spokane	900
Tacoma	600
Tampa	1,000
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. tn 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 auctioning 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 39.5 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 unencumbered 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 effected. 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	\$18½	\$13⅜
June 30, 1996	32¼	16
September 30, 1996	29	15¾
December 31, 1996	23⅞	16½
March 31, 1997	20¼	11⅝
June 30, 1997	14⅝	10⅛
September 30, 1997	19³⁄₁₆	14¼
December 31, 1997	29¼	21¼
January 1, 1998 through March 27, 1998	46⅜	24⅝

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,		Ten Months Ended December 31,	Year Ended December 31,	
	1994	1995	1995	1996	1997
Statement of Operations Data:	(Dollars in thousands, except per share 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,		December 31,		
	1994	1995	1995	1996	1997
Balance Sheet Data:			(In thousands)		
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 Telebase 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 or 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. l(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. l(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	For the Year Ended December 31, 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				Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock				Deferred Compensation	Unrealized Loss on Investments	Total Stockholders' Equity
	B		E						Common Stock		Preferred Stock B				
	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: Common Stock		Treasury Stock: Preferred Stock B		Deferred Compensation	Unrealized Gain/(Loss) on Investments	Total Stockholders Equity (Deficit)
	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			1,383	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 and 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

WINSTAR 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)	$(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)	(24,026)
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	—
Net cash used in operating activities	(10,339)	(52,751)	(141,131)
Cash flows from investing activities:			
Investments 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)
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

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 100,605 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 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 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	5 to 10 years
Furniture, fixtures and other	3,354	12,504	4 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, WEC	$ —	$200,000
12½% Guaranteed Senior Secured Notes Due 2004, WEC 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)

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, WEC	—	—	$200,000	$224,500
12½% Guaranteed Senior Secured Notes Due 2004, WEC II	—	—	$ 50,000	$ 55,750
14½% 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 exerciseable 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 as 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 is 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 each 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	2,490	$ 4.72
$ 7.31–$12.00	2,759	5.46	$ 9.88	950	$ 8.14
$12.13–$16.81	2,481	5.21	$15.15	721	$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	5,208	$ 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 $500,000, $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 Operation—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	9,250	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	$19,429	$ 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 8, 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

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        COMPANY DATA:
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                CENTRAL INDEX KEY:                      0000868797
                STANDARD INDUSTRIAL CLASSIFICATION:     TELEPHONE COMMUNICATIONS (NO RADIO TELEPHONE) [4813]
                IRS NUMBER:                             133585278
                STATE OF INCORPORATION:                 DE
                FISCAL YEAR END:                        1231

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                CITY:                   NEW YORK
                STATE:                  NY
                ZIP:                    10169
                BUSINESS PHONE:         2125844000

        FORMER COMPANY:
                FORMER CONFORMED NAME:  ROBERN INDUSTRIES INC
                DATE OF NAME CHANGE:    19930328

        FORMER COMPANY:
                FORMER CONFORMED NAME:  ROBERN APPAREL INC
                DATE OF NAME CHANGE:    19600201
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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 March 31, 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 small business issuer 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 May 14, 1998: 37,279,490

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FORM 10-Q

WINSTAR COMMUNICATIONS, INC.

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

<TABLE>
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<S>	December 31, 1997 <C>	March 31, 1998 (unaudited) <C>
ASSETS		
Current assets		
Cash and cash equivalents	$ 402,359	$ 825,466
Short term investments	16,903	27,899
Cash, cash equivalents and short term investments	419,262	853,365
Accounts receivable, net of allowance for doubtful accounts	30,328	6[illegible]09
Inventories	10,296	10,506
Prepaid expenses and other current assets	8,985	32,476
Net assets of discontinued operations	2,105	2,105
Total current assets	470,976	960,961
Property and equipment, net	284,835	304,074
Licenses, net	174,763	218,101
Intangible assets, net	14,293	123,558
Deferred financing costs	27,463	39,442
Other assets	4,071	2,277
Total assets	$ 976,401	$ 1,648,413

LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Current portion of long-term debt	$ 386	$ 1,733
Accounts payable and accrued expenses	97,714	94,238
Current portion of capitalized lease obligations	6,848	12,554
Total current liabilities	104,948	108,525
Capitalized lease obligations, less current portion	21,823	47,089
Long-term debt, less current portion	768,469	1,236,972
Deferred income taxes	24,000	22,900
Total liabilities	919,240	1,41 [illegible]86
Series C exchangeable redeemable preferred stock	175,553	181,779
Series D senior cumulative convertible redeemable preferred stock	-	200,000
Commitments and contingencies		
Stockholders' equity (deficit)		
Preferred stock	39	40
Common stock, par value $.01; authorized 200,000 shares, issued and outstanding 34,610 and 37,111, respectively	346	371
Additional paid-in-capital	255,741	310,214
Accumulated deficit	(374,518)	(459,47[illegible]
Total stockholders' deficit	(118,392)	(148,85[illegible]
Total liabilities, redeemable preferred stock and stockholders' deficit	$ 976,401	$ 1,648,413

</TABLE>

See Notes to Condensed Consolidated Financial Statements

<PAGE>

Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

<TABLE>
<CAPTION>

	For the three months ended March 31, 1997	For the three months ended March 31, 1998
<S>	<C>	<C>
Operating revenues		
Telecommunications services		
CLEC	$ 1,979	$ 18,635
Other	5,084	16,852
Total telecommunications services	7,063	35,487
Information services	6,014	11,949
Total operating revenues	13,077	47,436
Operating expenses		
Cost of services and products	12,959	42,775
Selling, general and administrative expenses	29,553	53,611
Depreciation and amortization	3,501	11,399
Total operating expenses	46,013	107,785
Operating loss	(32,936)	(60,349)
Other (expense) income		
Interest expense	(10,798)	(28,656)
Interest income	2,235	4,928
Loss from continuing operations before income tax benefit	(41,499)	(84,077)
Income tax benefit	-	1,100
Loss from continuing operations	(41,499)	(82,977)
Loss from discontinued operations	(477)	(1,982)
Net loss	(41,976)	(84,959)
Preferred stock dividends	-	(8,198)
Net loss applicable to common stockholders	$ (41,976)	$ (93,157)

Basic and diluted income loss per share:		
From continuing operations	$ (1.27)	$ (2.54)
From discontinued operations	(0.02)	(0.06)
Net loss per share	$ (1.29)	$ (2.60)
Weighted average shares outstanding	32,610	35,899

</TABLE>

See Notes to Condensed Consolidated Financial Statements

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

<TABLE>
<CAPTION>

	For the three months ended March 31,	
	1997	1998
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	$ (41,976)	$ (84,959)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net loss from discontinued operations	477	1,982
Depreciation and amortization	3,791	12,518
Deferred income tax benefit	-	(1,100)
Provision for doubtful accounts	699	1,919
Non cash interest expense	9,691	18,502
(Increase) decrease in operating assets:		
Accounts receivable	(2,696)	(22,427)
Inventories	(1,352)	(209)

Prepaid expenses and other current assets	(306)	(1,343)
Other assets	(258)	1,794
Increase (decrease) in accounts payable and accrued expenses	2,794	(20,786)
Net cash used in discontinued operations	(617)	(1,982)
Net cash used in operating activities	(29,753)	(96,091)
Cash flows from investing activities:		
Increase in short-term investments, net	(10,720)	(10,996)
Purchase of property and equipment, net	(32,380)	(29,641)
Acquisitions	(34,917)	(107,955)
Other, net	40	-
Net cash used in investing activities	(77,977)	(148,592)
Cash flows from financing activities:		
(Repayments) of proceeds from long-term debt, net	288,818	438,113
Net proceeds from redeemable preferred stock	-	193,145
Net proceeds from equity transactions	96,644	8,019
Proceeds from equipment lease financing	3,347	30,900
Payment of capital lease obligations	(709)	(1,030)
Other, net	(103)	(1,357)
Net cash provided by financing activities	387,997	667,790
Net increase in cash and cash equivalents	280,267	423,107
Cash and cash equivalents at beginning of period	95,490	402,359
Cash and cash equivalents at end of period	375,757	825,466
Short-term investments at end of period	37,717	27,899
Cash, cash equivalents and short-term investments at end of period	$ 413,474	$ 853,365

</TABLE>

See Notes to Condensed Consolidated Financial Statements

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WinStar Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 1998
(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 capacity to provide other telecommunications services, 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.

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 March 31, 1998 and the statements of operations and cash flows for the three months ended March 31, 1997 and 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 month period ended March 31, 1997 reflect certain reclassifications such that they conform to the current period presentation.

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WinStar Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 1998
(unaudited)

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

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 quarter ended March 31, 1997.

5. Acquisitions

GoodNet

On January 12, 1998, pursuant to an agreement between the Company, Telesoft Corp. and others, the Company acquired 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 communications 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. The purchase price is subject to a downward adjustment of up to $15 million in certain circumstances.

The Company has retained an independent third party to fully evaluate the assets 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 study. 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.

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WinStar Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 1998
(unaudited)

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 March 31,	
	1997	1998
Operating Revenues	$ 37,383	$ 51,208
Net Loss applicable to common stockholders	(62,141)	(93,559)
Basic and diluted loss per share	$ (1.91)	$ (2.61)

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 in (i) cash or (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 marke 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, at which time, each share of convertible stock will be redeemable, at the Company's option, in whole or in part, at defined

redemption prices, payable in cash plus accumulated and unpaid dividends, if any. The Convertible Preferred Stock is mandatorily redeemable on March 15, 2010 at a redemption price of $50 per share plus accrued and unpaid dividends.

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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 has filed a shelf registration with the Securities and Exchange Commission with respect to resales of the Convertible Preferred Stock, the common stock related to the conversion thereof and the dividend common stock and is obligated to use its best efforts to cause the Shelf Registration Statement to be declared effective by August 15, 1998. Failure to comply with the registration requirement will cause dividends to accrue at 9% per annum until such time as the securities are registered.

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") and is obligated to use its best efforts to cause such Exchange Offer Registration to be declared effective under the Securities Act within 150 days after the date of original issuance of such Notes. Failure to comply with the registration requirement will cause the interest on the Notes to be increased by 0.50% per annum until such time as the Notes are registered.

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WinStar Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 1998
(unaudited)

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 same to the Company's other telecommunications subsidiaries. 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 March 31, 1998 is as follows:

	WEC	WEC II
Current assets	$118,689	$ 47,608
Long term assets	91,693	2,751
Current liabilities	(24,424)	(2,653)
Long term liabilities	(200,000)	(50,000)
Stockholders' deficit	$(14,042)	$(2,294)

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WinStar Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 1998
(unaudited)

Statements of operations information for WEC for the three months ended March 31, 1998 and from its inception through March 31, 1997, and for WEC II for the three months ended March 31, 1998, are as follows (in thousands):

<TABLE>
<CAPTION>

	WEC		WEC II
	Period from March 13, 1997 (Inception) to March 31, 1997	Three Months Ended March 31, 1998	Three Months Ended March 31, 1998
<S>	<C>	<C>	<C>
Rental revenues from other WinStar subsidiaries	$ -	$ 512	
Interest income from other WinStar subsidiaries	-	864	
Interest income - investments	391	1,542	646
Selling, general and administrative expenses	-	(1,042)	
Interest expense	(833)	(5,745)	(1,562)

Net loss....................................	$ (442)	$ (3,869)	$ (916)

</TABLE>

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 net realizable value. During the quarter ended March 31, 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.

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WinStar Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 1998
(unaudited)

Information relating to the discontinued operations of Global Products is as follows (in thousands of dollars):
<TABLE>
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	For The Three Months Ended March 31,	
	1997	1998

<S>	<C>	<C>
Operating revenues	$ 3,692	$ 2,292
Cost of services and products	2,550	2,315
Selling, general & administrative expenses	1,266	1,044
Depreciation and amortization	58	58
Total operating expenses	3,874	3,417
Operating loss	(182)	(1,125)
Interest expense	(295)	(176)
Net loss	$ (477)	$ (1,301)

</TABLE>

Net assets of the discontinued operations of Global Products at December 31, 1997 and March 31, 1998 are composed of the following (in thousands of dollars):
<TABLE>
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	December 31, 1997	March 31, 1998
<S>	<C>	<C>
Assets:		
Accounts Receivable, net	$ 4,383	$ 1,317
Inventories	4,663	4,667
Other Assets	1,268	1,179
Total assets	10,314	7,163
Liabilities:		
Current Liabilities	3,570	4,289
Other Liabilities	9,951	5,443
Total liabilities	13,521	9,732
Net deficit	$ (3,207)	$ (2,569)

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WinStar Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 1998
(unaudited)

10. Comprehensive Income

The Financial Accounting Standards Board ("FASB") released Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" governing the reporting and display of comprehensive income and its components. Comprehensive income is defined as net income and other comprehensive income (i.e. the change in equity of a business enterprise during a period, from transactions and other events and circumstances from non-owner sources). Other comprehensive income for the three month periods ended March 31, 1997 and 1998 was immaterial.

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 April 1998, the Company sold a 10% equity stake in WinStar New Media, its media and information services subsidiary, to a group of private investors for $10 million.

In April 1998, the Company agreed to purchase 14.9% of the outstanding common stock of Advanced Radio Telecom Corp. ("ART") from private investors. The Company will issue 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 $17.39 per ART share based on the Company's closing stock price on the date the agreement was signed, a 22% premium to ART's market price on that date. The Company will issue approximately 1,525,000 restricted common shares in connection with the transaction and will receive approximately 3,314,000 common shares of ART and certain other unrelated assets. The purchase price is subject to a waiting period under the Hart Scott Rodino Act.

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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 capacity to provide other telecommunications services, 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 telecomunications 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.

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Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

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

Three Months Ended
March 31,

	1997	1998
Telecommunications Services:		
CLEC Services	$ 1,979	$18,635
Other Services	5,084	16,852
	7,063	35,487
Information Services	6,014	11,949
Total Revenues	$13,077	$47,436

Revenues increased by $34.4 million, or 263%, for the three months ended March 31, 1998, to $47.4 million, from $13.1 million for the three months ended March 31, 1997. This increase was attributable to the growth in revenues generated by the Company's CLEC and information services businesses, as well as, revenues attributable to Midcom's long distance operations.

Revenues from CLEC services were $18.6 million in the quarter ended March 31, 1998, compared to $2.0 million in the quarter ended March 31, 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, and, as of March 31, 1998, had installed over 145,000 lines in 21 markets, up from approximately 13,000 lines at March 31, 1997. As of March 31, 1998, the annualized revenues from the CLEC business were $89 million, up from $46 million annualized as of December 31, 1997 and $10 million annualized as of March 31, 1997.

Revenues from other telecommunications services increased $11.8 million to $16.9 million in the quarter ended March 31, 1998, as compared to $5.1 million in the quarter ended March 31, 1997. Other telecommunications services include:

commercial long distance, for former Midcom customers, wholesale carrier access services, and WinStar Gateway Network residential long distance services. The increase resulted primarily from sales, attributable to former Midcom long distance operations which were acquired in January 1998. These revenues are not classified as CLEC revenues because this customer group is not currently known by the Company to be located in buildings targeted by the Company's local network. Over time the Company will target its network to a portion of these customers and include them in CLEC results.

Revenues from information services increased by $5.9 million, or 99%, for the three months ended March 31, 1998, to $11.9 million, from $6.0 million for the three months ended March 31, 1997, due to higher demand for its specialized information content for businesses, as well as, continued internal growth and acquisitions.

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Cost of services and products increased by $29.8 million, or 230.0%, for the three months ended March 31, 1998, to $42.8 million, from $13.0 million for the three months ended March 31, 1997.

As a percentage of revenues, cost of services and products in the quarter ended March 31, 1998 was 90.1%, compared with 99.2% in the quarter ended March 31, 1997, and 108.3% for the quarter ended December 31,1997. This decrease in the cost of revenue percentage is the result of increased volumes and a larger percentage of traffic being provisioned on the Company's network.

Selling, general and administrative expense increased by $24.1 million to $53.6 million for the three months ended March 31, 1998, from $29.6 million for the three months ended March 31, 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 500 employees at March 31, 1997 and over 2,100 at March 31, 1998. As a percentage of revenues, selling, general and administrative expenses declined from 226% for the quarter ended March 31, 1997 to 113% for the quarter ended March 31, 1998. With the rapid expansion of its markets from 1 in December 1996 to 21 at March 31, 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 amount but to be a steadily declining percentage of revenues.

Depreciation and amortization expense increased by $7.9 million for the three months ended March 31, 1998, to $11.4 million, from $3.5 million for the three months ended March 31, 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 March 31, 1998, was $60.3 million, compared with an operating loss of $32.9 million for the three months ended March 31, 1997.

Interest expense increased by $17.9 million, or 165%, for the three months ended March 31, 1998, to $28.7 million, from $10.8 million for the three months ended March 31, 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. $18.5 million of the $28.7 million interest expense for the quarter is not payable in cash.

Interest income increased by $2.7 million, or 120.5%, for the three months ended March 31, 1998, to $4.9 million, from $2.2 million for the three months ended March 31, 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 $83.0 million for the three months ended March 31, 1998, compared to a net loss from continuing operations of $41.5 million for the three months ended March 31, 1997.

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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 $192.9 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 March 31, 1998, the Company had approximately $853.4 million in cash, cash equivalents and short term investments, approximately $149.9 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 24 major cities 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 March 31, 1998 was approximately $48.9 million, and purchases of property and equipment during the three months ended March 31, 1998 was approximately $30 million. At March 31, 1998, working capital was $852.4 million, including cash, cash equivalents and short-term investments of $853.4 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 on 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 with 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 18 to 24 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

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arrangements, the Company may be required to seek additional sources of capital sooner than currently anticipated.

Additionally, the Company was the highest bidder on certain LMDS licenses in the LMDS Auction and has committed to pay approximately $30.4 million in connection therewith (in addition to the Company's $13.0 million initial downpayment in such auction).

In addition to binding commitments to purchase approximately $20.0 million of telecommunications equipment, the Company is committed to pay approximately $24.2 million in Common Stock, or at the Company's election, cash, in connection with the acquisition of additional spectrum licenses.

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) gereral economic conditions.

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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 first quarter of 1998, without registration of such securities under the Securities Act:

<TABLE>
<CAPTION>

Securities Sold (Date Sold)	Purchaser(s)	Consideration	Exemption Claimed	Terms of Conversion or Exercise	Use of Proceeds
<S>	<C>	<C>	<C>	<C>	<C>
926,643 shares of Common Stock (various dates from 1/1/98 - 3/31/98)	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
732,783 shares of Common Stock (January 12, 1998)	Telesoft Corp. and certain individuals	Shares issued in connection with the purchase of the GoodNet business from Telesoft Corp. and certain individual stockholders	4(2)	Not Applicable	The Company did not receive cash proceeds for these shares
4,000,000 shares of Series D 7% Senior Cumulative Convertible Preferred Stock Due 2010 (March 12, 1998)	Certain Institutions	$200 million, less certain discounts and expenses	4(2) and Rule 144A	Convertible at the option of the holder into Common Stock of the Company at a rate of 1.0079 shares of Common Stock for each share of Convertible Preferred Stock	The proceeds of this issue were/will be used for general corporate purposes in connection with the growth of the Company's business
$200,000,000 10% Senior Subordinated Notes due 2008 and $250,000,000 Senior Subordinated Deferred Interest Note due 2008	Certain Institutions	$450 million, less certain discounts and expenses	4(2) and Rule 144A	Not Applicable	The proceeds of this issue were/will be used for general corporate purposes in connection with the growth of the

Company's business

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Item 6. Exhibits and Reports on Form 8-K
(a) Exhibits

10.1 Form of Executive Severence Agreement entered into between the Company and certain officers and other senior executives.

(b) Reports on Form 8-K

(1) Current Report on Form 8-K/A filed January 30, 1998.

(2) Current Report on Form 8-K/A filed February 5, 1998.

(3) Current Report on Form 8-K filed March 12, 1998.

(4) Current Report on Form 8-K filed March 30, 1998.

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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: May 15, 1998

By: /s/Joseph P. Dwyer

Joseph P. Dwyer
Vice President, Finance
(Principal Accounting Officer)

Dated: May 15, 1998

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EXHIBIT 10.1

[WINSTAR COMMUNICATIONS, INC. LETTERHEAD]

[Date]

[Executive Name]
[Address]
[Telecopier No.]

Re: Executive Severance Benefits

Dear :

WinStar Communications, Inc. (the "Company") considers it essential and in the best interests of the Company's stockholders to foster the continued employment of key management personnel. In this connection, the Board of Directors of the Company (the "Board") recognizes that, as with many publicly held corporations, the possibility of a change of control of the Company may exist and that such possibility, along with the uncertainties it could raise among management, may result in the distraction or unwanted departure of management personnel to the detriment of the Company and its stockholders.

Accordingly, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including yourself, to their assigned duties without distraction in the face of potentially disturbing circumstances that could arise out of a change of control of the Company.

In order to induce you to remain in the employ of the Company and its subsidiaries, the Company agrees that you shall receive the severance benefits set forth in this letter agreement ("Agreement") in the event your employment with the Company and its subsidiaries is terminated subsequent to a "Change of Control" (as defined in Section 2 hereof) under the circumstances described below.

I. TERM OF AGREEMENT. The term of this Agreement shall commence on the date hereof and shall continue in effect until the third (3rd) anniversary of the date of this Agreement; provided, however, that the term of this Agreement shall automatically be extended for one (1) additional year commencing on such third (3rd) anniversary and each anniversary thereafter without action of the parties hereto unless, not later than the date which is six (6) months preceding any such anniversary, the Company shall have given notice that it does not wish to extend this Agreement. Notwithstanding the foregoing and any such notice by the Company not to extend, if a Change of Control has occurred during the original or any extended term of this Agreement, this Agreement shall continue in effect for a period of twenty-four (24) months beyond the month in which such Change of Control occurred or such other period determined under Section 3(v).

2. CHANGE OF CONTROL. No benefits shall be payable pursuant to this Agreement unless there shall have been a Change of Control of the Company as set forth below.

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For purposes of this Agreement, a "Change of Control" of the Company shall mean the occurrence of one of the following events during the term of this Agreement:

(i) any "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) becomes the "beneficial owner" (within the meaning of Rule 13d-3 under the Exchange Act) of common stock having thirty-five percent (35%) or more of the total voting power of all of the Company's voting capital stock then outstanding, unless such person or group is or includes (a) an individual who, as of the date of this Agreement, is an executive officer of the Company and holds beneficial ownership in excess of two percent (2%) of the outstanding common stock of the Company, or an Affiliate or Associate (within the meaning of Rule 12b-2 under the Exchange Act) of such individual, or (b) an underwriter who obtains such thirty-five percent (35%) interest in connection with a public offering;

(ii) a merger or consolidation of the Company other than one resulting in the Company's voting securities outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least sixty-five percent (65%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(iii) the sale or other disposition of all, or substantially all, of the Company's assets, or the approval of a plan of liquidation of the Company other than a sale to an entity which is owned by the shareholders of the Company in substantially the same proportion as they own the Company immediately prior to such sale.

You agree that, subject to the terms and conditions of this Agreement, in the event of a "potential change of control of the Company" (as defined below) occurring during the term of this Agreement, you will not voluntarily terminate your employment with the Company or its subsidiaries (other than for Good Reason) for a period of six (6) months from the occurrence of such potential change of control of the Company. If more than one potential change of control of the Company occurs during the term of this Agreement, the provisions of the preceding sentence shall be applicable to each potential change of control of the Company occurring prior to the occurrence of a Change of Control. Solely for purposes of Sections 1, 3, 4 and 8 of this Agreement, references to a Change of Control shall be deemed to refer also to a "potential change of control of the Company." A potential change of control of the Company shall be deemed to have occurred if (A) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change of Control; (B) any person (including the Company) publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change of Control and subsequently takes affirmative action toward such consummation; (C) the rights to purchase units of the Company's Class B Preferred Stock issued to the Company's stockholders pursuant to the

Rights Agreement dated July 2, 1997 shall have become exercisable; or (D) the Board adopts a resolution to the effect that, for purposes of this Agreement, a potential change in control of the Company has occurred.

3. TERMINATION FOLLOWING A CHANGE OF CONTROL. If a Change of Control described in Section 2 hereof occurs, you will be entitled to the benefits provided pursuant to Sections 4(iv) or 5 hereof, as applicable, upon the subsequent termination of your employment with the Company and its subsidiaries during the term of this Agreement unless such termination is (A) a result of your death, (B) by the Company or any of its subsidiaries for Disability or Cause (as defined in Sections 3(i) and 3(ii) hereof, respectively) or (C) except as otherwise provided in

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Section 5 below, by you for other than Good Reason (as defined in Section 3(iii) hereof).

(i) Disability. You may be terminated for "Disability" if (A) you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which is reasonably expected to last for a continuous period of not less than twelve (12) months, (B) you have been absent from the full-time performance of your duties with the Company for a period of one hundred eighty (180) consecutive days, and (C) within thirty (30) days of the Company's written notice to you of the termination of your employment with the Company and its subsidiaries, you have not returned to full-time performance of your duties for the Company.

(ii) Cause. For purposes of this Agreement, "Cause" shall mean a termination of your employment during the term of this Agreement which is a result of (A) your conviction of or plea of nolo contendere to a felony involving fraud, dishonesty or moral turpitude, (B) your willful disclosure of material trade secrets or other material confidential information (which has been identified in writing as such to you) related to the business of the Company and its subsidiaries, or (C) your willful and continued failure substantially to perform your duties for the Company or its subsidiaries (other than any such failure resulting from your incapacity due to physical or mental illness or any such actual or anticipated failure resulting from a resignation by you for Good Reason) after a written demand for substantial performance is delivered to you by the Board, which demand specifically identifies the manner in which the Board believes that you have not substantially performed your duties, and which performance is not substantially corrected (if capable of correction) by you within thirty (30) days of receipt of such demand. For purposes of this Section 3(ii), no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you intentionally and in bad faith (i. e., without reasonable belief that your action or omission was in furtherance of the interests of the Company and its subsidiaries). Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in this Section 3(ii) and specifying the particulars thereof in detail.

(iii) Good Reason. You shall be entitled to terminate your employment for Good Reason. For the purposes of this Agreement, "Good Reason" shall mean your good faith determination that any of the following circumstances has occurred without your express written consent unless, in the case of Paragraphs (D), (E), (F), or (G), such circumstances are fully corrected prior to the Date of Termination (as defined in Section 3(v)) specified in the Notice of Termination (as defined in Section 3(iv)) given in respect thereof:

(A) the assignment to you of any duties inconsistent with your status as an officer of the Company or its subsidiaries, your removal from that position, a substantial diminution in the nature or status of your responsibilities from those in effect immediately prior to the Change of Control, the assignment of duties or responsibilities to others that diminishes the scope or status of your position, or an adverse change in your reporting relationship;

(B) a reduction by the Company or any of its subsidiaries in your annual base salary as in effect on the date hereof or as the same may be increased from time to time;

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(C) the relocation of your principal office to a location greater than ten (10) miles from its present location (or relocation from any subsequent office agreed to by you or within such ten (10) mile limit) except for required travel on Company business to an extent substantially consistent with your business travel obligations on the date hereof, or a substantial increase in your travel obligations;

(D) the failure by the Company or any of its subsidiaries to continue in effect any compensation plan in which you were participating immediately prior to the Change of Control which is material in your total compensation (including, but not limited to, the Company's 1995 Performance Equity Plan and other stock option plans and arrangements), unless an equivalent alternative compensation arrangement (embodied in an ongoing substitute or alternative plan) has been provided for you, or the failure by the Company or any of its subsidiaries to continue your participation in any such incentive plan on the same basis, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the Change of Control, or the failure by the Company to award a cash bonus to you in an amount and at the time substantially consistent with past practice but in no event less than the amount received in the immediately preceding year;

(E) except as required by law, the failure by the Company or any of its subsidiaries to continue to provide you with benefits at least as favorable as those enjoyed by you under the employee benefit and welfare plans of the Company and its subsidiaries, including, without limitation, the pension, life insurance, medical, dental, health and accident, disability,

deferred compensation, retirement and savings plans, in which you were participating at the time of the Change of Control, the taking of any action by the Company or any of its subsidiaries which would directly or indirectly materially reduce any of such benefits or deprive you of any material fringe benefit enjoyed by you at the time of the Change of Control, or the failure by the Company or any of its subsidiaries to provide you with the number of paid vacation days to which you are entitled at the time of the Change of Control, or a material reduction in your perquisites or amenities of office (including your physical office space, secretarial and travel support) from those in existence immediately prior to the Change in Control;

(F) the failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 6 hereof; or

(G) any purported termination of your employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3(iv) below (and, if applicable, the requirements of Section 3(ii) above); for purposes of this Agreement, no such purported termination shall be effective.

Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason hereunder.

(iv) Notice of Termination. Any purported termination of your employment by the Company or its subsidiaries or by you shall be communicated by Notice of Termination to the other party hereto in accordance with Section 7 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a written notice which shall indicate the specific termination provision in this Agreement or such other basis relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment and, in the case of Notice of Termination by the Company, shall include a written certification by the chief

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executive officer of the Company certifying under oath to the truth of such facts and circumstances.

(v) Date of Termination. "Date of Termination" shall mean, if your employment with the Company is terminated pursuant to Section 3(ii) (Cause) or 3(iii) (Good Reason) above or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Section 3(ii) (Cause) above shall not be less than thirty (30) days, and in the case of a termination pursuant to Section 3(iii) (Good Reason) above shall not be less than thirty (30) nor more than (60) days, respectively, from the date such Notice of Termination is given); provided that, if within thirty (30) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the grounds for termination, the Date of Termination shall be the date on which the dispute is finally

determined, either by mutual written agreement of the parties, by a binding arbitration award or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or the time for appeal therefrom having expired and no appeal having been perfected); provided further that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute or the provisions of Paragraphs 4(i) through 4(iv), the Company and its subsidiaries will continue to pay you your full compensation in effect when the Notice of Termination giving rise to the dispute was given (including, but not limited to, base salary (payable in the amount and at the intervals in effect immediately prior to Notice of Termination or, if greater, immediately prior to a Change of Control) and "Applicable Bonus" (payable not later than the date bonuses were payable to executives in comparable positions in the immediately preceding year)) and continue you as a participant in all compensation, benefit and welfare plans in which you were participating when the Notice of Termination giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Section 3(v) or, if sooner, the date which is four (4) months following the date Notice of Termination is given; provided, further, that you shall not be required to perform services for the Company during such period. For purposes of this Agreement, "Applicable Bonus" shall mean (A) the annual bonus you received (or, if you received a partial-year bonus, an amount equal to your annualized bonus) for the immediately preceding year, or (B) if you did not receive a bonus for such immediately preceding year, one-third (1/3) of your current base salary. In the event of such a dispute, the term of this Agreement shall continue in effect until the date on which the dispute is finally determined. Amounts paid under this Section 3(v) are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4. COMPENSATION UPON TERMINATION. Following a Change of Control during the term of this Agreement, as defined by Section 2, upon termination of your employment you shall be entitled to the following benefits, provided that your Date of Termination occurs during the term of this Agreement:

(i) Disability. If your employment is terminated by the Company or any of its subsidiaries for Disability, your benefits shall be determined in accordance with the compensation and benefit plans, programs and agreements of the Company and its subsidiaries then in effect, and the Company shall have no further obligations to you under this Agreement.

(ii) Cause; Other than Good Reason. If your employment is terminated by the Company or any of its subsidiaries for Cause or by you other than for Good Reason, the Company (or one of its subsidiaries, if applicable) shall pay you not later than the fifth (5th) day

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following the Date of Termination your full base salary through the Date of Termination, at the rate in effect at the time Notice of Termination is given and shall pay any amounts to be paid to you pursuant to any other compensation plans, programs or employment agreements of the Company then in effect, and

the Company shall have no further obligations to you under this Agreement and you shall have no obligations to the Company.

(iii) Death. If your employment shall be terminated by reason of your death, the Company (or one of its subsidiaries, if applicable) shall pay your estate not later than the fifth (5th) day following the date of your death your full base salary through the date of your death at the rate then in effect, and a pro-rata portion of your Applicable Bonus, and shall pay any amounts to be paid to you pursuant to any other compensation and benefit plans, programs and agreements of the Company then in effect, and the Company shall have no further obligations to you under this Agreement.

(iv) Other Terminations. If your employment by the Company and its subsidiaries shall be terminated (a) by the Company (or one of its subsidiaries, if applicable) other than for either Cause, your death or Disability, or (b) by you for Good Reason, then you shall be entitled, subject to Section 4(iv)(E) hereof, to the benefits provided below:

(A) The Company (or one of its subsidiaries, if applicable) shall pay you the sum of (I) your full base salary through the Date of Termination, at the rate then in effect (or if greater, at the rate in effect immediately prior to a Change of Control), any unpaid bonus earned in a year prior to the year of your Date of Termination and a pro rata portion of your Applicable Bonus, plus (II) all other amounts to which you are entitled under any compensation plan of the Company applicable to you in accordance with the terms of such plan at the time such payments are due.

(B) In lieu of any further salary payments to you for periods subsequent to the Date of Termination, the Company shall pay to you a lump sum severance payment (the "Severance Payment") in an amount equal to one hundred and fifty percent (150%) of the sum of (I) your base salary at the rate then in effect, or if greater, at the rate in effect immediately prior to a Change of Control, plus (II) your average annual bonus for the number of full years in which you were eligible for a bonus (but not more than two (2) such full years) prior to the year in which your termination of employment occurs, or if greater, the number of full years in which you were eligible for a bonus (but not more than two (2) such full years) prior to a Change of Control. In the event you were not eligible for a full-year bonus in any of such years, the Severance Payment will be the Applicable Bonus.

(C) For a period of eighteen (18) months after your termination of employment, the Company shall arrange to provide you with life, disability, accident and health insurance benefits substantially similar to those which you are receiving immediately prior to the Notice of Termination, or if greater, immediately prior to a Change of Control.

(D) For a period of eighteen (18) months after your termination of employment, the Company shall provide to you executive level career outplacement services from the provider of your choice with a maximum cost to the Company equal to twenty percent (20%) of your base salary at the rate in effect on the Date of Termination, or if greater, at the rate in effect immediately prior to a Change of Control.

(E) Notwithstanding any other provision of this Agreement to

the contrary, in

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the event that any payment received or to be received by you in connection with a Change of Control or the termination of your employment from the Company (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Change of Control or any person affiliated with the Company or such person) (collectively, the "Total Payments") would not be deductible (in whole or in part) by the Company or an affiliate or other person making such payment or providing such benefit, as a result of the application of Section 280G of the Internal Revenue Code (the "Code"), then the aggregate present value of any amounts or benefits which are payable, distributable or provided to you pursuant to this Agreement (such amounts or benefits pursuant to this Agreement, the "Agreement Payments") shall be reduced (but not below zero) to an amount (the "Reduced Amount") expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any of the Total Payments to be nondeductible by the Company as a result of the application of Section 280G of the Code. If an independent accounting firm selected by the Company's independent auditors and approved by you in writing (the "Accounting Firm") determines that any of the Total Payments would be nondeductible by the Company as a result of the application of Section 280G of the Code, the Company shall promptly give you notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and you may then elect, in your sole discretion, which and how much of the Agreement Payments shall be eliminated or reduced (provided that after such election no portion of the Total Payments would be nondeductible by the Company), and you shall advise the Company, in writing, of your election within thirty (30) days of your receipt of the calculation of the Accounting Firm. If no such written election is made by you within such thirty (30) day period, the Company may elect which and how much of the Agreement Payments shall be eliminated or reduced (provided that after such election by the Company no portion of the Total Payments would be nondeductible by the Company) and shall notify you promptly thereafter. For purposes of this Paragraph (E), present value shall be determined in accordance with Section 280G(d)(3) and (4) of the Code. All determinations made by the Accounting Firm under this Paragraph (E) shall be binding upon the Company and you, and shall be made within thirty (30) days of the termination of your employment from the Company. All fees and expenses of the Accounting Firm in connection with the determinations made hereunder shall be paid by the Company.

(F) The cash payments provided for in Paragraphs (A) and (B) above shall be made not later than the fifth (5th) day following the Date of Termination, provided, however, that if the amount of such payments, and the limitation on such payments set forth in Paragraph (E) above, cannot be finally determined on or before such day, the Company shall pay to you on such fifth (5th) day an estimated amount, as determined in good faith by the Company, of the maximum amount of such payments which would not trigger the limitation of Paragraph (E) above and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined, but in no event later than the sixtieth (60th) day after the Date of Termination. In the event that

the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to you, payable on the fifth (5th) day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code). All other amounts or benefits payable, distributable or provided to you under this Agreement shall be paid, distributed or provided in accordance with the terms of the applicable Company plan or other arrangement with respect to such benefits except as otherwise expressly set forth herein.

(G) The Company shall also pay to you all legal fees and expenses as reasonably incurred by you in connection with this Agreement (including all such fees and expenses, if any, incurred in contesting or disputing the nature of your termination for purposes of this Agreement or

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in defending this Agreement or settling any dispute regarding this Agreement or in seeking to obtain or enforce any right or benefit provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code to any payment or benefit provided under this Agreement) except to the extent that the payment of such fees and expenses would not be, or would cause any other portion of the Total Payments not to be, deductible by reason of Section 280G of the Code. Such payment shall be made at the later of the times specified in Paragraph (F) above, or within five (5) days after your request for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require). If the payment by the Company of any fees and legal expenses pursuant to this Paragraph (G) shall constitute taxable income to you, the Company agrees, as a separate and independent undertaking, to pay to you upon demand any and all taxes, of whatever nature or description, applicable to such payment, together with any taxes thereon (on the basis of a customary "gross-up" formula and assuming you are in the highest tax bracket for applicable federal, state and local taxes).

(H) All payments and benefits payable, distributable or provided to you under this Agreement shall be offset and reduced by any similar amounts or benefits payable, distributable or provided to you at the same time or with respect to the same period or on the same terms and conditions under any employment agreement executed between you and the Company which is in effect immediately prior to the Date of Termination the ("Employment Agreement").

(I) You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit payable, distributable or provided under this Section 4 be reduced by any compensation earned by you as the result of employment by another employer or by retirement or other benefits received after the Date of Termination or otherwise except as provided in Paragraph (H) above.

5. CHANGE OF CONTROL WINDOW. Notwithstanding the provisions of Sections 3 or 4 hereof, if (i) you provide Notice of Termination to the Company and its subsidiaries for any reason or no reason during the period

commencing on the first anniversary of a Change of Control and ending thirty (30) days thereafter, (ii) your Notice of Termination specifies a Date of Termination no less than thirty (30) and no more than sixty (60) days from the date such Notice of Termination is given, and (iii) you have not received Notice of Termination for Cause prior to the date you provide such Notice of Termination, you will be entitled to the benefits provided in Section 4(iii) hereof upon your subsequent termination of your employment with the Company and its subsidiaries as if you had terminated employment from the Company for Good Reason, regardless of the reasons for such termination.

6. SUCCESSORS; BINDING AGREEMENT.

(i) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company is required to perform it. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled hereunder if you had terminated your employment for

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Good Reason following a Change of Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law or otherwise.

(ii) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there is no such designee, to your estate.

7. NOTICE. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when (i) delivered by hand, (b) sent by

telecopier (with electronically generated written confirmation of receipt), provided that a copy is mailed by registered mail, return receipt requested, or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and telecopier numbers set forth on the first page of this Agreement with respect to you and on the signature page with respect to the Company, provided that all notices to the Company shall be directed to the attention of the General Counsel of the Company, or to such other address or telecopier numbers as either party may have furnished to the other in writing in accordance herewith, except that notice of change shall be effective only upon receipt.

8. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any conditions or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the state in which your principal office is located immediately prior to a Change of Control, except to the extent preempted by Federal law. All references to sections of the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Section 4 shall survive the expiration of the term of this Agreement.

9. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force an effect.

10. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

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11. ARBITRATION OF DISPUTES; SERVICE OF PROCESS; AND CONSENT TO SUIT. Any controversy or claim arising out of or related to this Agreement, or the breach thereof, shall be settled by binding arbitration in the City of New York, in accordance with the rules of the American Arbitration Association then in effect, and the arbitrator's decision shall be binding and final and judgment upon the award rendered may be entered in any court having jurisdiction thereof, except that you may elect to have any such controversy

or claim settled by judicial determination in lieu of arbitration by bringing a court action, if you are the plaintiff or, if you are not the plaintiff, demanding such judicial determination within the time to answer any complaint in any arbitration action that may be commenced. The Company shall bear the expense of any such arbitration or court action and shall pay or reimburse you, regardless of outcome, for all of your reasonable costs and expenses relating to such arbitration proceeding or court action, including, without limitation, reasonable attorneys' fees and expenses, as such costs and expenses are incurred, unless the trier of fact in such arbitration proceeding or court action affirmatively determines that you were not acting in good faith in such arbitration proceeding or court action. In the event that the trier of fact in such arbitration proceeding or court action affirmatively determines that the Company was not acting in good faith in such arbitration proceeding or court action, the Company shall pay to you, within five (5) days following such determination, as liquidated damages in addition to the cash payments otherwise due pursuant to Paragraphs (A) and (B) of Section 4(iv)

hereof, an additional cash payment equal to the cash payments otherwise due pursuant to such Paragraphs (A) and (B) of Section 4(iv) hereof.

12. EFFECT ON EXISTING AGREEMENT. This Agreement constitutes the entire understanding and agreement between you and the Company with regard to the matters herein and incorporates and supersedes all prior agreements between the parties concerning your employment with the Company other than the Employment Agreement and all employee benefit plans and stock option or incentive plans of the Company; other than such agreements and plans, there are no other agreements, conditions or representations, oral or written, express or implied with regard thereto.

If this letter sets forth our agreement on the subject matter hereof, kindly sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

WINSTAR COMMUNICATIONS, INC.
230 Park Avenue, 27th Floor
New York, New York 10169
Telecopier No.: (212) 922-1637

By: ______________________________

Name: ______________________________

Title: ______________________________

Agreed to this ____ day of ____________, 1998.

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(1) Receivables are net of allowance for doubtful accounts
(2) PP&E are net of acumulated depreciation
(3) Discontinued reflects operations of WinStar Global Products

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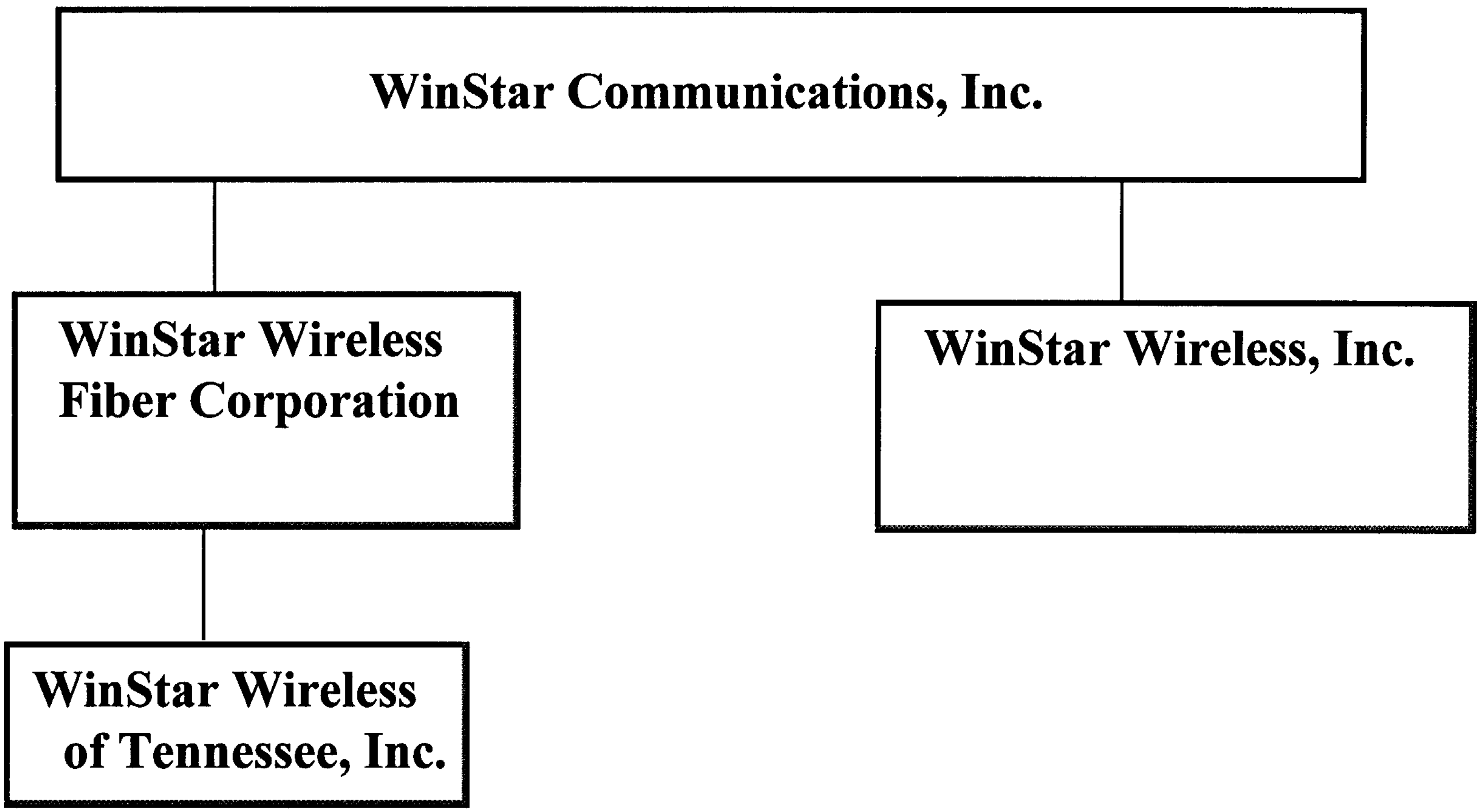
-----END PRIVACY-ENHANCED MESSAGE-----

ATTACHMENT B

Proposed Reorganization Charts

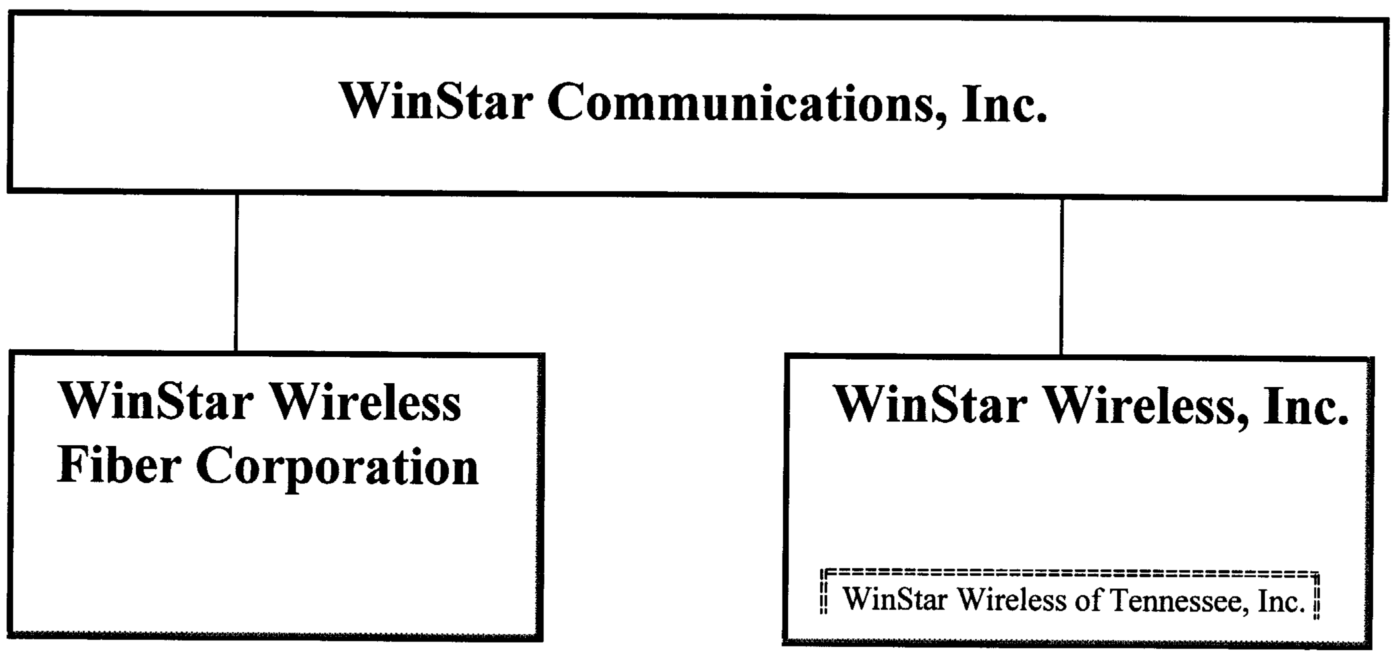
TENNESSEE

WINSTAR
Pre - Reorganization Chart



TENNESSEE

WINSTAR
Post - Reorganization Chart



VERIFICATION

VERIFICATION

I, Robert G. Berger, hereby declare under penalty of perjury, that I am Vice President Regulatory/Legal for WinStar; that I am authorized to make this verification on its behalf; that I have read the foregoing application and exhibits; and that the facts stated therein are true and correct to the best of my knowledge, information and belief.

Robert G. Berger
Vice President Regulatory/Legal
Winstar

Subscribed and sworn to before me this 14th day of October 1998.

Notary Public

My Commission expires:_________

Eleanor M. Willis
Notary Public, District of Columbia
My Commission Expires on August 1, 2003