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SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

1440 NEW YORK AVENUE, N.W.
WASHINGTON, D.C. 20005-2111

TEL: (202) 371-7000
FAX: (202) 393-5760

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July 22, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Via Hand Delivery

William Caton
Secretary
Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

Re: General Wireless, Inc.
Docket No. ET 97-82

Dear Mr. Caton:

Several parties to the above-referenced proceeding regarding C block PCS debt restructuring have suggested that there will be negative tax consequences if the Commission implements any type of C block debt restructuring. General Wireless, Inc. ("GWI") submits the enclosed letter dated July 11, 1997 for the record to refute such claims. The July 11 letter discusses the tax consequences to GWI of the federal government reducing the debt associated with the purchase of its C block licenses.

Sincerely,

Jennifer P. Brovey

Jennifer P. Brovey*
Counsel for
General Wireless, Inc.

Enclosure

cc: Roger Linquist

* Admitted in New York only.

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ARTHUR ANDERSEN

Arthur Andersen LLP

Suite 5600
901 Main Street
Dallas TX 75202-3799
214 741 8300

July 11, 1997

Mr. Dennis Spickler
General Wireless, Inc.
8144 Walnut Hill Lane
Suite 600
Dallas, Texas 75231

Dear Dennis:

Pursuant to your request, below is a discussion regarding the tax consequences to General Wireless, Inc. (GWI) of the federal government reducing the debt associated with the purchase of the C block licenses.

CONCLUSION

Based on the discussion below, there are two exceptions to the general rule requiring taxpayers to recognize debt forgiveness income under IRC section 61. First, if it is determined that all of GWI's liabilities from whatever source exceed the fair market value of its assets immediately prior to any reduction in the debt by the Federal Communication Commission (FCC), then the reduction in the debt would not be recognized as taxable income, but would reduce the cost basis of GWI's assets under specified ordering rules. The key to this exception is the fair market value of GWI's assets immediately before the agreed reduction. Given the current status of the industry and values paid for the C block licenses compared to more recent auctions of D, E and F block licenses, the current fair value of the C block licenses appear to be less than what was originally paid for the licenses.

The other exception is that if GWI is determined to be solvent when the debt is reduced by the FCC, the general rule under IRC section 61 is not applicable. When the original purchaser (GWI) and original seller (FCC) of property agree to reduce the debt issued by the purchaser for the property, the reduction is treated as a reduction in the purchase price and not debt forgiveness income under section 61.

Before we could issue GWI an opinion as to which provisions of section 108 would apply to GWI and to the extent of the exclusion of the gross income associated with the discharge of debt, we would need to perform additional work. The area of debt forgiveness is a very complex and requires detailed calculations. However, based on the facts as we understand them, it appears that the provisions under section 108 would apply to GWI.

DISCUSSION

IRC section 61(a)(12) specifies that gross income means income from whatever source, including income from the discharge of indebtedness. Under IRC Reg. Section 1.61-12, a reduction in the outstanding principal balance of the debt issued to the federal government would result in gross income to GWI. Prop. Reg. Section 1.61-12(c) indicates that an issuer realizes income from the discharge of indebtedness upon the repurchase of a debt instrument for an amount less than its adjusted issue price or repurchases debt through the issuance of a new debt instrument with an issue price of less than the issue price of the original debt.

IRC section 108(a) specifies that gross income does not include any amount which, but for section 108, would be includible in gross income by reason of discharge (in whole or part) of indebtedness of the taxpayer if, among other things:

(A) the discharge occurs in a title 11 case (Bankruptcy),
(B) the discharge occurs when the taxpayer is insolvent.

Under IRC section 108(a)(3), the amount excluded from income under (B) above is limited to the amount by which the taxpayer is insolvent.

IRC section 108(d)(1) defines the term "indebtedness of the taxpayer" to mean any debt for which the taxpayer is liable or subject to which the taxpayer holds property. IRC section 108(d)(3), defines "insolvent" as the excess of liabilities over the fair market value of assets.

IRC section 108(b) specifies that the amount excluded from gross income under (A) or (B) above shall reduce the tax attributes of the taxpayer. Under IRC section 108(b)(2), there is a listing of seven tax attributes that would be reduced. Since GWI has been in a start up mode under IRC section 195, generally the only tax attribute to be reduced would be the basis of property. Alternatively, a taxpayer can elect to reduce the basis of depreciable property over the other six tax attributes under (b)(2).

Another exception to IRC section 61 is IRC section 108(e)(5). Under this section, if the debt of a purchaser of property to the seller of such property which arose out of the purchase of such property is reduced, and such reduction does not occur when the debtor is insolvent or in a title 11 case, and except for this paragraph, such reduction would be treated as income to the purchaser, then such reduction would be treated as a purchase price adjustment. Since the debtor, GWI, is the original purchaser of the C block licenses from the original seller of the licenses, US Government, this subsection could be applicable to GWI if it is determined that GWI is solvent.

ARTHUR
ANDERSEN

After reviewing this information, please do not hesitate to call me at (214) 741-8523.

Very truly yours,

ARTHUR ANDERSEN LLP

By
William M. Jackson

WMJ