

WILLKIE FARR & GALLAGHER

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May 19, 1998

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MAY 19 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Ex Parte Filing
CC Docket No. 96-98
CS Docket No. 95-184/
ET Docket No. 95-183, RM 8553
IB Docket No. 97-95, RM 8811

Dear Ms. Salas:

Yesterday, representatives of WinStar Communications, Inc. met with Chairman Kennard, Legal Advisors Tom Powers and Ari Fitzgerald, and Commission staffers Jeanine Poltronieri, MaryAnne McCormick and Lisa Gelb to discuss various issues pertaining to WinStar. Representatives of WinStar included William Rouhana, Jr., Tim Graham, Joseph Sandri, Jr., Gary Markovits, Phil Verveer, and the undersigned.

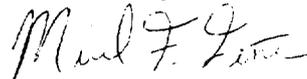
During the meeting, WinStar discussed the points contained on the attached agenda. Specifically, it provided background on the company, i.e., it is a wireless CLEC with licenses in the top 50 U.S. cities. WinStar also explained that one of the largest obstacles to building out its systems and competing with incumbent LECs is an inability to access rooftops and inside wiring on fair terms. WinStar urged the Commission to resolve swiftly the band segmentation plan for 37-40 GHz as well as discussing its WinStar For Education initiative, the importance of the Universal Service Schools and Library fund, and WinStar's LATTICE program for D.C. schools.

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Ms. Magalie Roman Salas
May 19, 1998
Page 2

Pursuant to the Commission's rules, two copies of this document are being filed with your office.

Sincerely,



Michael F. Finn

Enclosures

CC w/o enclosures:

Chairman William Kennard
Tom Powers
Ari Fitzgerald
Jeanine Poltronieri
MaryAnne McCormick
Lisa Gelb

AGENDA
Federal Communications Commission/WinStar Communications, Inc.
May 18, 1998
3pm

1. Introduction to WinStar Communications, Inc.
 - Facilities-based voice and data
 - 38 GHz Licenses
 - Licenses in Top 50 U.S. Cities
 - 256 area licenses covering up to 10,000 square miles
 - 28 GHz Licenses
 - Wireless Fiber – Fiber Optic-type Quality. 99.999%
 - Since Jan. 1, 1998: Raised \$1.4 Billion
 - Hub Networks Attached to Lucent Class 5 Switches
 - CLEC Authorities: 38 Jurisdictions
 - Interconnection Agreements: RBOCs, GTE, Independents
2. Building Access/Inside Wire
 - Sept. 30, 1996. WinStar Petition for Clarification or Reconsideration (CC Dkt. 96-98)
 - Aug. 7, 1997. WinStar Comments (CS Dkt. 95-184)
3. 38 GHz
 - Resolve 36-51 GHz Band Plan Proceeding (Dkt. 97-95)
 - Resolve Outstanding Applications
 - Buildout: Responding to the Market
4. WinStar for Education
 - Urban Solution
 - Fund Inside Wire
 - LATTICE
 - <http://www.win4edu.com>
 - <http://www.tidalpassages.com>

Hello, You've Reached The

Future

Don't Miss Out on This

Amazing Opportunity

Now Available

WinStar Communications provides broadband telecommunications services to customers in major metropolitan markets throughout the United States. The company's integrated data and voice network, utilizing fixed wireless circuits in the 38 GHz band, can deliver high-speed communications to thousands of buildings and customers not being served by other broadband communications carriers.

WinStar's 38 GHz spectrum licenses represent the largest single holding of bandwidth in the U.S. They enable the company to quickly and cost efficiently extend its wireless broadband network to customer buildings. WinStar's spectrum licenses cover all 50 of the largest markets in the country, and more than 100 other cities, encompassing a total population of approximately 200 million.

WinStar's services are marketed through a rapidly growing direct sales force and service organization of more than 800 professionals. The company is passionate about customer satisfaction, and emphasizes individual solutions to telecommunications needs backed by personal service, the most advanced information systems and a network which is establishing new benchmarks for reliability.

Beyond providing local, long distance, broadband data and Internet services, WinStar develops specialized valued-added information content for customers linked to its digital network and for other users. The company's broadband network capacity enables customers to efficiently access this information.

The company employs more than 2,200 people and is headquartered in New York City.

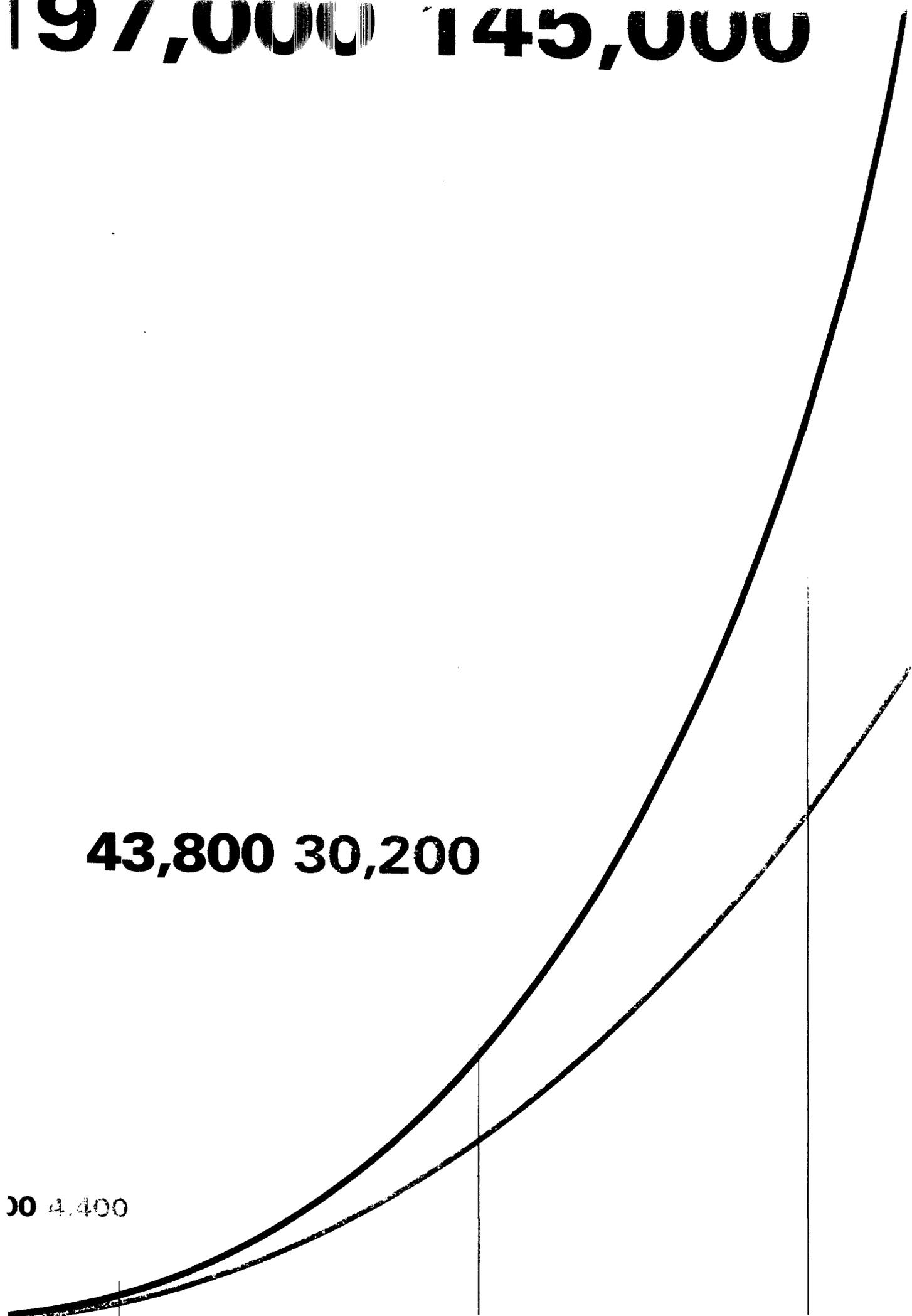
March 31, 1998

Annualized Revenues	\$230 million
Cumulative CLEC Lines Installed	148,000
Cumulative CLEC Lines Ordered	199,000
Customers with Installed Lines	7,100
Markets Served	21

197,000 145,000

43,800 30,200

00 4,400



To Our Stockholders, Employees and Customers



WILLIAM J. ROUHANA, JR.

In 1997, we got our first view of just how vast the demand for broadband telecommunications capacity is in the U.S., and how uniquely positioned WinStar is to meet this demand and translate it into a meaningful business opportunity.

Our accomplishments over the past year extended to every corner of the company. They highlighted the superiority of our Wireless Fiber™ solution for extending fiber networks, and they propelled us to a position where we are ready to grow our business significantly. By year end, we had gained the critical mass of people, systems, network and marketing firepower necessary to establish a large and successful phone company. The investment community began to take active

"Our employees are totally committed to WinStar's mission: bringing people into the information age through high-quality wireless broadband services, and helping our customers use our network to productively share information with each other."

WILLIAM J. ROUBANAL, JR.
CHAIRMAN & CHIEF EXECUTIVE OFFICER

more than tripled since I last wrote to you. Although we were pleased by this turn of events, we believe WinStar's current stock price has only begun to reflect the true value of our company.

A Strong Emphasis on Rapid & Robust Growth

The major expansion of WinStar's network over the past year shows our strong emphasis on rapid growth. Today, WinStar is offering services in 21 major metropolitan markets, in contrast to one at the close of 1996. By the end of 1998, we expect to provide switched services in 30 cities, 12 months ahead of our original schedule.

Our network is not only larger than it was a year ago, it's far more robust, providing for the high-speed transport of broadband data and voice traffic. In January 1998, we acquired GoodNet, a Tier I Internet service provider with a national backbone and points-of-presence in 27 cities across the country. We are incorporating its network of ATM data switches into our national local network. We also acquired the PacNet data network the same month, adding 17 frame relay switches plus a direct connection to the Unispan consortium which routes frame relay traffic throughout the U.S. and internationally. Now WinStar can provide customers with a choice of Internet, ATM and frame relay modes of data transmission, in addition to a full complement of local and long distance voice services.

WinStar's network will further evolve in 1998, as we take steps to aggregate voice and data traffic onto a leased long distance fiber backbone that will interconnect *all* our switches. We should realize substantial economies and efficiencies from this integration.

Using a Successful & Superior Networking Model

We believe that our fixed wireless broadband solution for networking customer buildings is clearly superior to the approach used by companies that rely on fiber-based connections. There are several key reasons for this: our lower deployment costs, our ability to reach thousands of buildings that fiber cannot serve economically, and the high percentage of customer traffic we'll be able to carry on our own network. We estimate that, over time, at least two thirds of our lines will be on our own network, and therefore unaffected by provisioning systems and cost issues impacting lines leased from the incumbent local exchange carrier. These on-net lines will give us excellent profitability and greater control over the type and quality of service we provide to customers.

Our recent experience in our first market, New York City, demonstrates that our model works, and works exceptionally well. We began by reselling long distance services while we were building our switch, establishing hub sites and obtaining roof rights. We then gradually moved an increasing percentage of our lines onto our network as it was built. By year-end 1997, 13 months after we launched our service, more than 50% of our New York lines were on our own network; and an even greater percentage of lines were installed on our Lucent 5ESS switch. We expect this experience to be repeated in each of our cities as WinStar extends its network to a total of 40 markets by the end of 1999.

Extending Our Service Capabilities to the 50 Largest U.S. Markets

The value of our radio spectrum holdings, which represent WinStar's core asset, was substantially enhanced in 1997 and early 1998. This came about through the addition of new spectrum licenses, and favorable rulings from the FCC on how we can use our spectrum. In the fall of 1997, the FCC set out new rules permitting 38 GHz licensees to hold up to the full 1,400 MHz of

spectrum available in a given market, while also allowing utilization of that spectrum for a wide range of fixed or mobile communications services.

As a result of license acquisitions, grants, and our participation in the LMDS auction, WinStar's potential service area has been extended to include all 50 of the largest U.S. markets. Our bandwidth holdings in those key markets now average approximately 740 MHz. WinStar's coverage area encompasses *more than 200 million people* and over one billion channel population (covered population times the number of 100 MHz equivalent channels).

Setting a New Standard with a Point-to-Multipoint System

The competitive value and utility of our spectrum holdings will be further enhanced beginning in the latter part of 1998, when we expect to start deploying our point-to-multipoint wireless network on a commercial basis. This is a major development for the company and an entirely new paradigm for our industry.

Point-to-multipoint systems will enable us to install radios with 155 Mbps data rates and higher on a customer building for a capital cost of as little as \$4,000 per incremental building as our rollout reaches national scale in 1999. This data rate is triple the speed of current point-to-point radios which have capital costs of about \$20,000 per building. Our point-to-multipoint technology has many other important benefits, including an ATM over-the-air interface to carry voice, video and data traffic over a single network, and the ability to provide bandwidth on demand to our customers.

Our successful advanced testing of the technology reinforces our belief that we can deliver a rich blend of essential services, ranging from voice and data communications, LAN-LAN interconnections and MPEG-2 video, to high-speed Internet access and distance learning. This will be the *Information Superhighway* in operation.

Building Toward a Much Bigger Future

The national deployment of services, systems, switches, and people on the large scale and accelerated schedule we are pursuing is expensive. However, the infrastructure we are putting in place today will support the needs of the far larger company we expect to become over the next several years. We have met with great success in raising the capital to build our network. Between January 1997 and April 1998 alone we secured more than \$1.4 billion in debt and equity financing. The receptivity to our securities offerings is a solid vote of confidence in our business plans and investment decisions.

During 1997, we also saw significant growth in WinStar's New Media business which develops information content targeted to the business, educational and consumer markets. Their services help drive usage of the bandwidth we provide our customers and differentiate us from other telecommunications companies. They also strengthen the loyalty of our customers by helping them become more productive through our broadband connectivity and improved access to interactive services. This is how we enable the true convergence of broadband connectivity, computer technology and content.

In 1997, we also added significant depth and breadth to our already strong management team. This led, among other things, to the formation of a stand-alone broadband services unit to spearhead the development of our data business, and to the creation of a new division concentrating on the acquisition of building access rights. In a related vein, the deployment of a new sales force to call on large businesses expanded our focus to a previously unaddressed market segment.

These initiatives gave us three major sources of telecommunications revenues: voice services for small and medium-sized businesses, voice services for large businesses, and broadband data services. WinStar's now broadened universe of potential customers is quickening the pace of our orders and installations.

Addressing Our Business Priorities for 1998

For 1998, our priorities focus on executing our plan to deploy WinStar's network and systems to 30 cities. The valuable lessons we learned in 1997 are being applied in 1998. We expect to increase efficiency as we add sales volume to our growing infrastructure. We will also continue to analyze potential acquisitions that can lead to greater utilization of our network or enhance our service offerings. At the same time, we remain extremely focused on the goal of gradually reducing EBITDA losses from the inflection point we reached in the fourth quarter of 1997.

During 1998, we also expect to begin leveraging our expertise in creating fixed wireless communications networks in markets *outside* the U.S. The demand for bandwidth is a global phenomenon, and our approach to meeting it is not limited to national boundaries. Over the near term, we will likely seek spectrum rights in Canada, Europe and other regions. We could be in a position to launch some operational networks in 1999.

Our employees are totally committed to WinStar's mission: bringing people into the information age through high-quality wireless broadband services, and helping our customers use our network to productively share information with each other. Of the more than 180 million local loop connections that make up the U.S. telecommunications network, only a fraction have been upgraded to broadband status. This means we have an amazingly large business opportunity.

I look forward to keeping you updated on how WinStar is taking advantage of this great opportunity, and transforming it into value for our shareholders, customers, employees and community. In the meantime, I would like to thank all of you, and particularly our employees, for your tremendous enthusiasm and support, and for sharing WinStar's vision of the future, a future we are beginning to turn into a reality.



WILLIAM J. ROUHANA, JR.
CHAIRMAN & CHIEF EXECUTIVE OFFICER

April 24, 1998

Report on Operations

We're Making Excellent Progress with Operations Nationwide

We made excellent progress developing WinStar's nationwide operations in 1997, and equally impressive strides in the first months of 1998. WinStar has extremely ambitious goals, and our employees are rising to these challenges with great enthusiasm and ingenuity.

Looking at revenues, our core telecommunications business began to take on significant scale in 1997; we ended the calendar year at a \$62 million annualized revenue run rate, as the growth in CLEC operations more than compensated for an anticipated \$21 million decline in our residential long distance business, which is no longer an area of focus for the company.

It was also an outstanding year for WinStar's information services business, where sales soared 182%, or almost \$27 million over 1996. This was due to excellent demand for information content developed by our New Media subsidiary, and to the acquisition of *Telebase*, a leading developer of online business information services.

Total operating revenues reached approximately \$80 million, a gain of more than 60% from the prior year. At the end of the 1998 first quarter, the revenue run rate for our consolidated operations had risen to \$230 million as a result both of internal



NATHAN KANTOR

WinStar's telecommunications *network* has grown substantially since the installation of our first local network switch only 17 months ago. Looking toward the end of this year, we plan to have 23 Lucent 5ESS switches installed, and an additional 29 ATM switches and 17 frame relay switches in service. This extensive switching capability should increase again in 1999.

We're Fielding a Direct Sales Force of Trained Professionals

To generate traffic for WinStar's expanding network, we've built a professional field sales force to call directly on potential business customers. More than 800 WinStar sales and service representatives have been trained to assist customers with total solutions to their telecommunications needs; including data specialists and salespeople concentrating solely on large businesses.

The rewards of this investment have come in the form of continually rising flows of line orders and installations. Cumulative line orders reached 118,000 at the end of 1997, an encouraging conclusion for a 12-month period that started with only about 6,000 ordered lines. We achieved further gains in the first quarter of 1998, when cumulative orders rose to nearly 200,000. Our base of installed lines expanded over thirty-fold, from 4,400 at the beginning of 1997, to 82,000 as of December 31, to 145,000 at the end of the first quarter of 1998. The cumulative orders and installations reported for March 1998 included some 24,500 lines acquired with our new broadband data businesses. However, WinStar's ongoing rate of installation already exceeds 40,000 lines per quarter. The number of quarterly installations should continue to rise as our services come on stream in additional major cities.

We're Gaining Momentum with Hub Sites, Access Rights & Interconnect Agreements

Creating hub sites, to collect traffic from customer buildings and route it to our switches, is essential to the successful buildout of our network. From no completed hubs at the beginning of 1997, within 15 months we had over 50 in service. Meeting our target for 1998 will bring the total to more than 100.

Wireless connectivity to our hubs hinges on our success in obtaining building access rights to install a small antenna and radio atop customer buildings. This makes access rights a second critical factor in deploying our wireless network nationwide. Accordingly, we're giving this effort a significant amount of focused attention. During 1997, the number of building access rights held by WinStar climbed to 2,100, versus 800 in 1996. We are finding that building owners increasingly recognize the value of having broadband telecommunications services available to tenants within their buildings. In 1998, we're broadening our rights acquisition program to include negotiations with REITs and other property owners and managers who control large numbers of commercial office buildings. By year-end, we expect to have gained access to a total of 4,000 locations.

Clearly, WinStar's network cannot be of true value without connecting it to the national telecommunications system. Doing so requires us to negotiate individual agreements with the Regional Bell Operating Companies (RBOCs) and other established local and long distance carriers. It's well worth noting that WinStar has made interconnect agreements that today cover 44 of the top 50 U.S. markets. Additionally, the company has peering arrangements with more than 130 U.S. and foreign Internet service providers.



CLEC authorizations represent a fourth crucial building block for a national telecommunications provider like WinStar, and our progress here has been very satisfactory. We currently have authorizations applying to 48 of the largest markets in the country. That's up considerably from 30 markets at the end of 1996.

We're Investing Heavily in Customers and the Future

The fact is, WinStar's combination of innovative service offerings, value-based pricing and passion for customer satisfaction is being met with great enthusiasm in the marketplace. We have quickly built a solid base of more than 7,000 customers. Our rate of customer acquisition remains on a strong upswing, and our services are being enhanced by the most advanced operational and business support systems in the industry. This is a critical area for the company, and we continue to make substantial investments in order entry, order provisioning, billing and network management systems. We have also designed new network elements to support the deployment of WinStar's point-to-multipoint technology, commencing later this year. It is equally gratifying to report that WinStar's wireless network achieved a 99.999% ("five-nines") level of availability in 1997. This accomplishment proved that our unique approach to providing broadband connectivity is of the utmost quality and reliability.

WinStar's success is being further supported by an aggressive marketing program which incorporates media advertising and a wide range of special activities conducted inside our target buildings. Our marketing themes differentiate WinStar from other service providers and encourage heightened expectations among our potential customers. Once they experience WinStar's services, we work with our customers to handle an increasing amount of their communications requirements, and integrate WinStar into their business. This approach has been highly effective.

We're looking ahead and working toward even greater achievements in 1998. We're supremely confident about the unique and talented group of employees we have at WinStar, and the bright new people we are attracting, who are delivering on our promise: "See things from a phone company you've never seen before."

NATHAN KANTOR
PRESIDENT & CHIEF OPERATING OFFICER

Getting More Businesses & People Into the Fast Lane

With the deployment of our revolutionary point-to-multipoint (PMP) technology, there are hundreds of thousands of buildings we can reach and connect with high-speed telecommunications services. We're going to bring the people in those buildings all the features and benefits of today's and tomorrow's Information Superhighway.

This rich, new and extremely robust networking approach significantly expands our ability to service many more customers, and dramatically lowers the cost of reaching them. It also creates a totally new paradigm for broadband local networks: marking the first time that voice, data and video capabilities have been integrated into one network.

Point-to-Multipoint is a *line-of-sight* technology. It begins at our hub sites, where we have a universe of buildings in our sight, a universe that includes customers located in buildings as small as 20,000 square feet. It's an affordable and relatively easy-to-install alternative to the higher cost, old wireline technology systems offered by the country's entrenched monopoly carriers. When the buildout of the company's hubs is complete in our 50 major target markets, we'll be able to see from our hub sites and reach close to 75% of all commercial office buildings in these cities.

Lacking broadband connectivity, these buildings can be classified as "access disadvantaged." As such, they're perfect candidates to benefit from our PMP "on ramp," which will be able to connect them - with bandwidth-on-demand - to the nation's telecommunications infrastructure, and to the current and future Information Superhighway.

WinStar's hub sites each provide line-of-sight to hundreds of buildings which can be served by the company's wireless broadband network

Fixed wireless broadband communications is not cellular service. It's a high capacity communications channel that matches the performance and quality of fiber-based networks and systems. Connections are made through the air by way of antennae on building roofs. Service is delivered faster and less expensively than by fiber, and isn't vulnerable to construction-related outages involving cut cables. With point-to-multipoint technology, WinStar doesn't have to build specific pipes to each building, or try to fill them. Our virtual "pipe" can get bigger or smaller as demand increases or lessens; the cost to our customer is based on actual bandwidth use, not on capacity that is unused. These significant cost advantages, coupled with our strong service edge, make a compelling argument for customers to switch to WinStar from other local exchange carriers.

Connecting Children's Minds

Education in America is undergoing a transformation, aimed at improving children's learning and giving them the skills they need to succeed in tomorrow's world. This transformation represents an evolution from "products of the muscle" to "products of the mind." In the future, the ability to access information, and use the tools of technology to analyze and creatively solve problems, will be the defining factor in determining who succeeds. WinStar is an active part of this big and important picture, guiding schools through the sea of new technology.

The Seven "C's" of Education and the Internet

WinStar has a strong and socially responsible vision for America's schools, intended to build the foundation of a nationwide community of lifelong learners. It begins with *connectivity*: getting schools connected to the Internet. Here, our Wireless Fiber service is an ideal technology, providing high-speed connectivity at a fraction of the price of conventional alternatives. *Content*: once connected, content is the critical issue. Our *NewsNow* program enables children to publish their content on the Web. *Context*: Our *LivingPage* enables schools to create their own electronic library, and students' electronic bibliographies for Web-based research. *Collaboration*: the true power of the Web is connecting minds to other minds. Programs like our *WebBoard*, *MindsEye Monster Exchange* and *The Journey* are bringing thousands of children from hundreds of schools around the world into collaboration. *Creativity*: essential to creating value. We're building a suite of creative problem-solving tools, and working with top experts in the field to develop an Internet curriculum. *Commerce*: children must learn the fundamentals of electronic commerce. We'll be introducing tools and programs to give them great hands-on experience. *Community*: we're dedicated to improving communities through the creative use of telecommunications. In the nation's capital, we took the lead in forming a broad business and community coalition involving D.C. public schools, the D.C. public library and various foundations and groups, with the goal of making a significant difference, and closing the "digital divide" for inner city families. Vice President Al Gore hailed it as a model for the nation.

Everyone focuses on the content, yet that's only 10% of the equation. 90% is the process of collaboration. It's not about connecting children with other computers and Web pages, it's about connecting their minds with other minds. This is the true power of the Internet.

Creating a Model for America's Communities

We're about to link an inner city housing project in Washington, D.C. with neighborhood elementary, middle and high schools, and a local senior citizens home. The Internet environment we're creating is extending the schools into the home, and opening the door to rich, cross-generational communication between seniors and children. WinStar is today's new phone company not only in terms of its technology, but also in terms of our passionate sense of social responsibility to the country's schools and communities.

Consolidated Statements of Operations

(In thousands, except per share data)

	FOR THE TEN		
	MONTHS ENDED		
	FOR THE YEAR ENDED	DECEMBER 31,	
	1995	1996	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
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
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)
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)

Please refer to the company's Form 10-K for complete financial information)

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
	122,487	419,262
Cash, cash equivalents and short term investments		
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
	161,117	470,976
Total current assets		
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
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Current portion of long-term debt	\$ 19,901	\$ 386
Account payable and accrued expenses	29,442	97,714
Current portion of capitalized lease obligations	3,110	6,848
	52,453	104,948
Total current liabilities		
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
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)	—

Consolidated Statements of Cash flows

(In thousands)

	FOR THE TEN		FOR THE YEAR ENDED	
	MONTHS ENDED		DECEMBER 31,	
	1995	1996	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	—	
Cash flows from investing activities:				
Investment 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)	
Acquisition of licenses and other	—	(2,121)	(40,190)	
Other, net	(499)	(1,619)	2,494	
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 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	

(Please refer to the company's Form 10-K for complete financial information)

Corporate Information

Board of Directors

William J. Rouhana, Jr.
Chairman & Chief Executive Officer
WinStar Communications, Inc.

Nathan Kantor
President & Chief Operating Officer
WinStar Communications, Inc.

Steven G. Chrust
Vice Chairman
WinStar Communications, Inc.

James I. Cash, Jr.
The James E. Robison Professor of
Business Administration
Graduate School of Business
Administration
Harvard University

Steven B. Magyar
Financial Consultant

William J. vanden Heuvel
Of Counsel
Stroock & Stroock & Lavan
Sr. Advisor
Allen & Company

Bert W. Wasserman
Executive Vice President &
Chief Financial Officer (retired)
Time Warner

Officers

William J. Rouhana, Jr.
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President & Chief Operating Officer

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General Counsel

David W. Ackerman
Executive Vice President
Business Development

Robert K. McGuire
President & Chief Operating Officer
WinStar Wireless

Stuart B. Rekant
President
WinStar New Media

David R. Schmieg
President & Chief Operating Officer
WinStar Telecommunications

Howard E. Taylor
President & Chief Operating Officer
WinStar Broadband Services

Richard J. Uhl
President & Chief Operating Officer
WinStar for Buildings

Ruth A. Shields
Executive Vice President &
Chief Operating Officer
WinStar New Media

SEC FORM 10-K AND STOCKHOLDER INQUIRES

Copies of the Company's Form 10-K for the fiscal year ended December 31, 1997, as filed with the Securities and Exchange Commission, can be obtained without charge upon written request to: Manager of Investor Relations, WinStar Communications, Inc., 230 Park Avenue, Suite 2700, New York, New York 10169 Tel. (212) 584-4053 Fax. (212) 867-1565

INDEPENDENT AUDITORS

Grant Thornton LLP, New York, New York

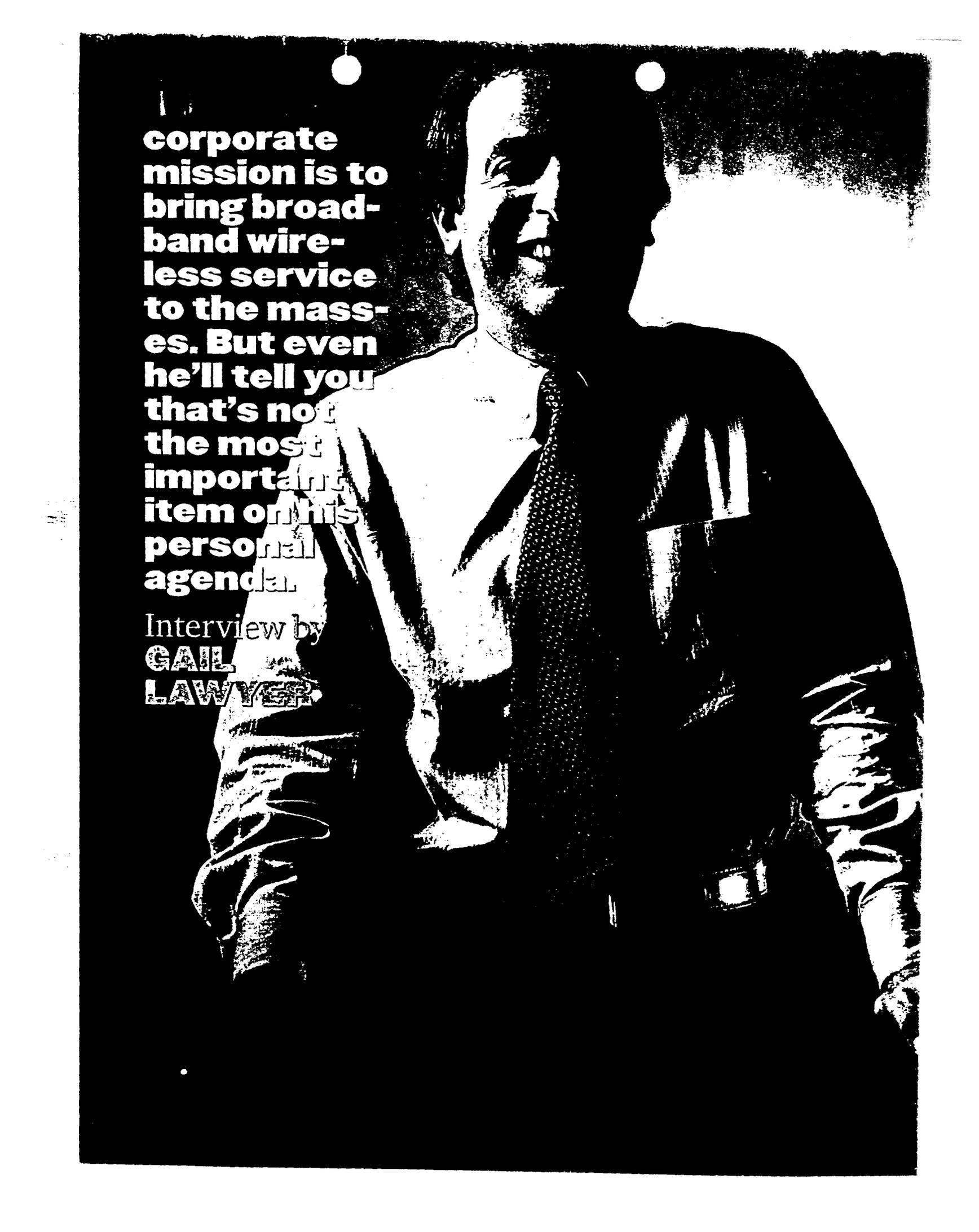
TRANSFER AGENT AND REGISTRAR

Continental Stock Transfer and Trust Company, New York, New York

ANNUAL MEETING

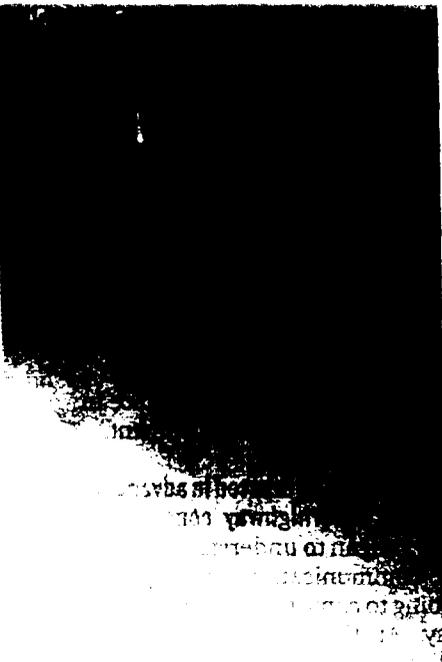
Shareholders are invited to WinStar's Annual Meeting which will be held at 10:00 a.m. on Wednesday, June 10, 1998 at the Hotel Inter-Continental, 111 East 48th Street, New York, New York 10017

Except for any historical information contained herein, the matters discussed in this document contain forward-looking statements that involve risks and uncertainties.



**corporate
mission is to
bring broad-
band wire-
less service
to the mass-
es. But even
he'll tell you
that's not
the most
important
item on his
personal
agenda.**

Interview by
**GAIL
LAWYER**



GIVE YOUR STEREOTYPICAL corporate mogul a couple of days off, and he'll probably start thinking about tee times or the latest marine weather forecast.

Offer that same spare time to Bill Rouhana, and he might start thinking about how to rid the planet of land mines or about booking a flight to the world's latest trouble spot. Besides his corporate duties as **founder, chairman, and CEO of WinStar Communica-**

QUALITY TIME



tions Inc., Rouhana travels to United Nations peace-keeping missions in war zones, such as the Golan Heights, Cambodia, Bosnia, El Salvador, and Somalia. Since 1990, he has been meeting with the good, the bad, and the humanitarian to assess and offer advice on how the UN mission could be more effective and efficient. More recently, he has taken up the cause of removing land mines and expects to be appointed to a presidential commission now being formed to address

the issue. "Land mines can be removed, but it's a painstaking, expensive process. I've been working to galvanize financing and expertise to get them taken out," he notes.

At competitive local exchange carrier WinStar (New York), Rouhana is also championing a cause. The 45-year-old former media and entertainment lawyer and merchant banker hopes to make his mark as the one who brought the information superhighway to America's front door. "What I believe WinStar is doing is moving the information superhighway forward," Rouhana explains. "We're really building it. Before we came along, the ability to create that superhighway was more difficult to do and much less likely to happen."

Rouhana's five-year-old company is one of many competitors battling to gain market share in the local exchange. But rather than laying fiber in the ground, WinStar is staging an air strike through its more than 275 38-GHz wireless licenses covering more than 190 million people. Currently, WinStar is offering competitive services in 21 major markets, and it expects to be in a total of 30 by the end of this year. WinStar's "wireless fiber" delivers point-to-point broadband service to business customers over pizza pan-sized dishes, with reliability comparable to landline fiber optic networks. Last month the company began a trial of point-to-multipoint service in the Washington, D.C., area. In the trial, WinStar is overlaying its existing point-to-point network with three hub sites connecting more than four buildings. This technology, Rouhana believes, is how the broadband service will ultimately reach the residential market.

Not only does WinStar have the network infrastructure to support the infobahn, it also is developing content for educational institutions and small and midsize businesses. Its award-winning Tidal Passages, an interactive educational Web site (www.tidalpassages.com) that is chronicling the around-the-world voyage of a sailing ship, was created as part of Community School Network Inc. (CSNet). CSNet, which WinStar purchased in October 1997 and renamed WinStar for Education, is a provider of Internet access and specialized software for schools and libraries. There is also WinStar Telebase Inc. (Wayne, Pa.), an Internet service purchased by WinStar in September 1997 that gives small-budget businesses access to more than 500 databases—including Dun & Bradstreet, TRW, and trademark searches—and charges customers on a per-usage basis. Typically, these services are out of reach for smaller companies, which couldn't afford the minimum monthly fees.

Rouhana spoke recently at WinStar's headquarters with *tele.com* services editor Gail Lawyer.

How did you get involved with the United Nations? I've always been interested in international affairs and government. I was very interested in the UN because I thought it was an underutilized vehicle that could be made more effective. Starting in early 1990, I volunteered to travel to the various

peacekeeping operations around the world and sit on a task force that would suggest better ways for the UN to do peacekeeping. At that time, there was a real jump in the number of peacekeeping operations. The UN felt overwhelmed, so they were looking for people to help them figure out how to do it more efficiently. I became a board member of the United Nations Association, a not-for-profit organization.

What does the work with the UN consist of? It's almost like being a consultant. I think being a businessperson gives me a special perspective. My particular interest is trying to figure out what's going to happen afterward. I'd like to see there be a permanent peace in these places and economic development.



INFOBAHN DREAMS:

"Imagine five billion people on a planet sharing what they know.... I bought into that dream."

When did you become interested in advancing the information superhighway concept? In the late '80s I began to understand that information, communication, and computers were going to come together in a meaningful way. At the same time, people started talking about this "information superhighway" idea. I thought it was one of the most incredible things I'd ever heard. Imagine five billion people on a planet sharing what they know. There would be an explosion of learning, more progress, more goods and services created, and we would be better educated and entertained. The fact that a broadband network was being created that would allow us to share what we know was incredible. Think about all the possibilities—distance learning, telemedicine. If all of this could become a reality, it could be the single most important thing that happened while we were alive. I bought into that dream. I wanted to be a part of it. With my entertainment and communications background, I wanted to play a role. I got very frustrated in the early 1990s when I saw big companies trying to figure out how to do this information superhighway and making a mess out of it.

WinStar has both network and content businesses. If the giant companies couldn't make this work, how can you? It's about corporate

culture. The reason Bell Atlantic and TCI [Telecommunications Inc.] didn't make it work wasn't because it didn't make intellectual sense. They had two very different cultures that could not coexist. To do it, you had to create a new kind of culture that could pull together networking, computer technology, and content in one place. Those are different skills, but they don't automatically come with different cultures. That just happens when you have existing operations that have different cultures. We started from day one knowing this is where we wanted to be. It was accepted from the very beginning that this is what we were doing, and these people could work together.

What are the advantages of being both a provider of content and an infrastructure? We seem more valuable in some way. When we sell the content to customers, if they're accessing it a lot, what are they doing? They're buying bandwidth

from us. That's what we sell. So we're driving the use of our network.

Is it hard to sell a package of network services and content? No. There's a fascinatingly receptive market. Everybody wants it. But nobody knows how to get it, so we're helping. You could summarize our business plan by saying we're building a broadband network and teaching people how to use it. We want to be partners with our customers in helping them be more productive.

When you founded WinStar Communications in 1993, what was your biggest challenge? When I decided to start a convergence company, I realized the problem was "where's the bandwidth?" There's plenty of it out there between switches. But when you looked at what was between switches and people it was copper, and that isn't broadband. No matter how hard they try to turn copper into gold, alchemy does not work, and even the regional Bell companies are not going to be able to do that. So we asked, "What could create that broadband connection between people and the backbone network?" That was the problem I wanted to solve, because I knew if I could solve that problem, the rest would fall into place. The computer technology existed, and the content was there.

How did you come up with the game plan to deliver broadband services via 38-GHz spectrum? Over the last three months of 1993, I looked seriously at 75 or 80 different ways that people thought could solve this problem. There were all kinds of weird things, from employing early forms of DSL [digital subscriber loop] technology to using narrowband wireless solutions in a fixed way. I couldn't find the bandwidth in any of those things that would solve the problem long term. Then I received this little business plan from Leo George [a former MCI Corp. attorney who worked with MCI cofounder Bill McGowan]. He was seeking financing for his company, which would own 38-GHz licenses to connect PCS cell sites. I read the plan, but I wasn't too excited about the idea. Yet there were two lines in this 12-page plan that haunted me for 24 hours. I couldn't sleep the whole night. It said that "38 GHz is the functional equivalent of fiber optics in bandwidth and throughput, and it's reliable 99.999 percent of the time." I kept thinking that, if this is true, shouldn't we use this to extend the fiber optic network?

Weren't there initially concerns about the reliability of this technology? I checked in Europe with the folks who were already using 38 GHz, and it came back with a perfect record. Everybody in the United States thought it wouldn't work in the rain. So I asked the people in England, "Does it ever rain there?" They said, "Occasionally." I asked if this stuff works. They said, "Are you crazy? Do you think we would use it if it didn't work?" At that time, people had old information about the quality of the technology. They

didn't realize that in the late 1980s our government was perfecting the use of super-high frequencies for the smart bomb program. When we watched that dazzling Iraq war, those bombs were controlled at 40 GHz. The government spent hundreds of millions of dollars moving this technology to the point that it was basically perfect.

Now WinStar is the largest holder of 38-GHz licenses. Is it possible for newcomers or existing broadband wireless license holders, such as Advanced Radio Telecom Corp. and Teligent Inc., to achieve the scope that WinStar has? Spectrum is now a scarcity. People have told me for a long time that there's plenty of spectrum, but I want to know where else substantial amounts of broadband spectrum exist and how someone is going to re-create what we have. We have significant spectrum—an average of 740 MHz across the entire top 50 markets in the United States. I can't see how anyone else can do it.

It's been said that wireless broadband is only a temporary solution until fiber is built out to end-users. That's not true. That's an old wives' tale that somebody started one day, and it's taken on a life of its own. Ultimately people will ask, "Why build fiber to a building?" It makes no economic sense. It's too expensive. There's no building in this country that justifies the expense of fiber. It's foolish.

WinStar was the third-largest bidder in the Federal Communications Commission's recent LMDS [local multipoint distribution service] auctions, taking home 15 licenses covering six major markets. But more than 100 licenses remained unsold. Why was there such a lack of interest in this auction? The way it was handled, it was destined to be a failure. There was only a limited group of companies that could bid on the licenses: local telcos, cable companies, long-distance carriers, big foreign companies, and designated entities. The local phone companies were told they could only bid outside their region. The cable guys had the same restriction. That's not exciting. The long-distance carriers were somewhat preoccupied with their merger activities. The large foreign PTTs were only given the right on Jan. 1, 1998, to come into the States and own any meaningful wireless licenses. They had 30 days to get ready for this auction, and they're not 30-day kinds of movers. That left the designated entities, which, by definition, are supposed to be small companies. But no more than 60 days before the auction, the FCC changed the rules. When you looked at the rules, the only way you could get a discount was if you didn't have any money, but if you didn't have any money, how could you bid on the licenses? They basically told everyone who might bid to forget it.

Did you get LMDS licenses to cover all the markets that you wanted? We got just about all that we wanted. We had a target list that included seven of the top 50 markets. We got six



BUSINESS PLAN: "You could say that we're building a broadband network and teaching people how to use it."

of them. The seventh we didn't, it was the 50th of the top 50 markets—Middlesex County, N.J.—and it'll just have to wait for WinStar to get there. But we'll be there eventually.

What was your bidding strategy? I wanted to fill in coverage gaps in existing markets. I was hopeful that no one else would emerge from the auctions with 50 markets, because we're the only company in the country that has substantial bandwidth in all of the top 50 markets. This is an enormous competitive advantage over anyone else. As it turned out, that's the way it ended up.

You paid \$43.4 million for the 15 licenses. It was a bargain.

How does this compare to what you paid for 38-GHz licenses? Ironically, it's very close to what we were paying for the 38-GHz spectrum. We paid about 45 cents a channel pop [population] for the top 50 market spectrum. We paid 43 cents a channel pop for the 28-GHz spectrum in this auction. It shouldn't have gone for that. If you look at the markets where it was contested, the average cost per pop was a couple of dollars. But for most of the places there weren't enough bidders and there wasn't enough money.

Some press reports indicate you're looking for a buyer for WinStar. Is that the case? You could read in the *Wall Street Journal* that I can't wait to sell the company, and on Dow Jones that I'll never sell the company. The truth is I think that WinStar has an incredible future because there's nobody like us in the country. We have \$900 million in cash available to build our business. We're proving that wireless broadband is the key to the local loop. I want the opportunity to build this company because I believe we have the right idea, unique assets, and are uniquely positioned. But I'm chairman and CEO of a public company. That means I have a fiduciary responsibility to shareholders to maximize value. So if somebody comes to us, I have to at least listen. That's exactly the answer that I gave to everybody who's ever asked me. I don't want to sell it. But if an offer that shareholders are entitled to accept is made, then I'm going to meet my fiduciary duties.

Last month WinStar began a massive test of point-to-multipoint service in the Washington, D.C., area. What are the benefits of this technology? Multipoint technology does a lot of things. It drives down the cost of the network very significantly. It makes it easier to install, because once you put in the point, you don't have to work on the sender anymore. You only have to work on the receiving end. It allows us to deliver bandwidth on demand. Inside a sector we can allocate a certain amount of bandwidth and then shift it between users. It's a much more efficient use of spectrum. We are creating the first distributed data network that is local,

ATM based, and s bandwidth on demand to the customer premises.

How much will point-to-multipoint reduce WinStar's costs? It will bring our costs down to \$4,000 per building now in the commercial marketplace. Point-to-point costs about \$15,000 per building. We amortize the cost over 100 months, so our capital costs to add a building to our network will go down to \$40 a month. Can you think of many commercial customers from whom we can't recover \$40 a month in capital costs? Wireless fiber is the one shot at ubiquitous deployment of a broadband network that this country has. We're going to make sure everybody gets it.



AUCTION BLOCKED:

“I was hopeful that no one else would emerge from the auction with 50 markets.... That's the way it ended up.”

We may need equipment, installation, and brand partners to bring the information superhighway to people's homes. That's our goal.

Has the work you've been doing with the United Nations had an impact on your business style? I think I'm a better manager because I help other people become better managers. Plus, getting away from things and having a little distance is a great way to recalibrate and figure out how to do things right again. Every single time I went on one of these trips and came back, I saw that I did my job better. I just learned something, but I couldn't really tell you what it was. ●

GAIL LAWYER is services editor for tele.com. She can be reached over the internet at gail_lawyer@mcgraw-hill.com.