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Winstar possesses no ability to service or repay its debt obligations.

Winstar Communications, Inc. (NASDAQ Symbol: WCII $11 1/4) recently proclaimed its comfort with estimates of 2001 EBITDA approaching $30 million, and stated that it had further credit available from equipment vendors. Winstar insinuated that these developments materially improved its chance of being able to service its debts. We strongly disagree with this conclusion and find Winstar's insinuations misleading. Our analysis assumes that Winstar will meet or exceed best expectations and we use its reported EBITDA-despite our belief that Winstar's EBITDA is questionable and that it has not overcome LMDS' inherent rain-fade problems. Even ignoring these concerns, we believe that Winstar's value, as a going-concern or in liquidation, is substantially and irreparably lower than the amount it owes. As a result, we believe that Winstar's beleaguered common stock shareholders are embarking upon a dangerous gambit with a far greater probability of losing their entire investment than they realize.

Last year, even according to its own numbers, Winstar lost over $1 billion and is expected to lose approximately another $1 billion this year. Winstar's projected $30 million EBITDA (which excludes over $440 million of operating expenses) is insufficient to cover its over $540 million of annual interest expense and preferred dividends and the cash needs to maintain its $2.9 billion of property and equipment, even before incurring further vendor debt. We believe Winstar's large operating losses, already troubled debt and "toxic" preferreds materially impaired, if not entirely eliminated, its ability to obtain funding on terms favorable to its existing common stockholders.

Winstar owes over $1.3 billion to banks, mostly incurred to repay prior existing vendor debt, and has another $1.6 billion of high-yield bond debt. These debts alone are problematic. Winstar has already given the banks substantially all of its current and future assets as collateral. Winstar's high-yield junk bonds, which have already been restructured to relieve the company from the bond's restrictive covenants and default provisions, traded yesterday at yields exceeding 22%. These distressed prices imply serious default concerns despite the bonds being subordinated only to the bank debt. In addition to this $2.9 billion of troubled debt, Winstar has another $1.6 billion of vendor debt and other liabilities. These $4.5 billion in liabilities are senior to Winstar's $1.8 billion of preferred securities, which include $1.6 billion of "toxic" preferreds that are convertible into an undeterminable and unlimited amount of common shares based on the stock's future market price. In fact, the $100 million Series A "toxic" preferred comes due in less than one year. All of these are senior to the common.

Winstar's negative common shareholders' equity is over $1.5 billion and its losses continue to mount. It has no free cash flow to repay or refinance its debts, nor assets it can sell for an amount remotely approaching the sums it owes. We believe that Winstar will have to be restructured to have any chance of funding its continuing operating losses, and make required capital and repair expenditures. As a result, we see no likely outcome that can provide Winstar's common shareholders with any value.

(Note: Our opinions are based on the assumption that Winstar's reported operating results and statements concerning customer acceptance are accurate. Commercially available 28 and 38 gigahertz radios produce signals that may experience rain fade. We believe that this inherent problem negatively impacts the reliability, cost and capacity of Winstar's 28 and 38 gigahertz wireless network. We also believe that Winstar's EBITDA is questionable due to aggressive expense capitalization, asset inflation and revenue recognition from non-core businesses and sales of equipment and services to related parties. Winstar's losses would be increased by any adjustments investors deem necessary to correct for these highly significant revenue recognition and expense capitalized issues.)