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PROFESSIONAL CORPORATION

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MAR 17 2000

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ROBERT K. ANGSTEAD
MARK W. COMLEY
CATHLEEN A. MARTIN
STEPHEN G. NEWMAN
JOHN A. RUTH
D. GREGORY STONEBARGER

Missouri Public
Service Commission

March 17, 2000

~~RECEIVED~~³
MAR 17 2000
Records
Public Service Commission

The Honorable Dale H. Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
The Truman State Office Building
301 West High St.
5th Floor
Jefferson City, Missouri 65102

TA-2000-581

Re: Teligent Services, Inc.
Application for Certificate of Service Authority and for Competitive Classification

Dear Mr. Roberts:

Enclosed for filing on behalf of Teligent Services, Inc. please find an original and fourteen copies of an Application for a Certificate of Service Authority and for Competitive Classification. Attached to the application is a set of proposed tariffs, and I enclose the original and three copies of those tariffs.

Should you have any questions, please do not hesitate to contact me. Thank you very much.

Very truly yours,

NEWMAN, COMLEY & RUTH P.C.

By:

Mark W. Comley
Mark W. Comley

MWC:ab

Enclosure

cc: Office of Public Counsel
General Counsel's Office
Carolyn K. Stup
Robert E. Stup, Jr.

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MAR 17 2000

Records
Public Service Commission

BEFORE THE PUBLIC SERVICE
COMMISSION OF THE STATE OF MISSOURI

In the Matter of the Application of)
)
TELIGENT SERVICES, INC.)
)
for a Certificate of Service Authority to Provide)
Interexchange and Local Exchange)
Telecommunications Services)
in the State of Missouri)
and for Competitive Classification)

Case No. TA-2000-581

APPLICATION FOR A CERTIFICATE OF SERVICE AUTHORITY AND
FOR COMPETITIVE CLASSIFICATION

TELIGENT SERVICES, INC. ("TSI" or "Applicant"), a Delaware corporation, files this verified Application respectfully requesting that the Missouri Public Service Commission ("Commission") issue an order that:

- (a) grants Applicant a Certificate of Service Authority to provide all forms of resold and facilities-based interexchange and local exchange telecommunications services in the State of Missouri pursuant to Section 392.440 RSMo.
- (b) grants competitive status to Applicant; and
- (c) waives certain Commission rules and statutory provisions pursuant to Section 392.420, RSMo.

Pursuant to Section 392.455, RSMo. Supp. 1999, Applicant is simultaneously filing an application for basic local telecommunications certification. In support of its request, Applicant states:

1. Applicant's legal name is Teligent Services Inc. Applicant maintains its principal place of business at:

Teligent Services Inc.
8065 Leesburg Pike, Suite 400
Vienna, VA 22182
Austin, TX 78746
Telephone:
Facsimile:

A copy of TSI's Certificate of Incorporation, Articles of Incorporation and Authority to Transact Business in the State of Missouri are attached hereto as Exhibit 1. TSI, is a direct, wholly-owned subsidiary of Teligent, Inc., itself a Delaware corporation

2. TSI was created by Teligent, Inc. in connection with a comprehensive corporate restructuring by which TSI will act as Teligent's operating company to provide telecommunications services to customers and will be the direct parent of Teligent's other current domestic subsidiaries. Teligent will restructure itself similarly to the holding company structure used by numerous other certificated carriers in Missouri. Upon receipt of the necessary regulatory approvals, all of the state authorizations currently held by Teligent will be assigned directly, or in effect, to TSI, and Teligent's employees who are dedicated to telecommunications services will be transferred internally to TSI's operations. Attached as Exhibit 2 are charts showing Teligent's current and proposed corporate structure.

3. All correspondence, communications, pleadings, notices, order and decisions relating to this Application should be addressed to:

Mark W. Comley
NEWMAN, COMLEY & RUTH P.C.
601 Monroe Street, Suite 301
P.O. Box 537
Jefferson City, MO 65102-0537
(573) 634-2266
(573) 636-3306 FAX
comleym@ncrpc.com

Carolyn K. Stup
Regulatory Counsel
TELIGENT SERVICES INC.
8065 Leesburg Pike, Suite 400
Vienna, VA 22182
(703) 762-5143
(703) 762-5584 FAX
carolyn.stup@teligent.com

Description of Services

4. TSI seeks authority to provide facilities-based and resold local exchange and resold intrastate interexchange telecommunications services to subscribers to and from all points in the State of Missouri, and, therefore, seeks statewide authorization. Applicant's services will be available on a full-time basis, 24 hours a day, seven days a week. TSI intends to provide all the services which its corporate parent, Teligent, Inc., currently offers and provides in the State of Missouri which include switched and high speed dedicated telecommunications services to small and medium size businesses. This service will be offered over a digital microwave network operating in 24 GHZ frequency range which is interconnected to the IXC's point of presence. TSI will own its own facilities for these services or will resell the services of other IXC's. Teligent will transfer assets to TSI for purposes of its operations.¹

Technical, Managerial & Financial Qualifications

5. TSI is technically and managerially qualified to provide the proposed services within the State of Missouri.

6. TSI possesses the same managerial ability to provide the proposed telecommunications service within the state of Missouri that the Commission found Teligent to possess in Case No. TA-98-258. As set forth in Exhibit 3, Teligent's current senior management team, which will be the senior management team of TSI, has extensive competitive telecommunications experience in the provision of competitive telecommunications services, including wireless services. Indeed, the highly qualified team was assembled because of their unique qualifications to operate, manage, and market Teligent's telecommunications businesses. This

¹Simultaneously with this application, Teligent and TSI have filed a joint application for authority to restructure, and to transfer certain assets to TSI as part of the restructuring.

experience, coupled with the progress Teligent has made to date in building and operating its local and long distance networks, demonstrates TSI's managerial ability to provide facilities-based service in the State of Missouri.

7. In addition, TSI possesses the requisite technical ability to provide service in the State of Missouri. Teligent has already constructed many of its local communications networks and is currently serving customers in 29 of the nation's top markets, including New York, Los Angeles, Chicago, Houston, Philadelphia, Dallas-Fort Worth, San Diego, San Antonio, San Jose, San Francisco-Oakland, Baltimore, Jacksonville, Milwaukee, Washington D.C., Boston, Austin, Denver, Atlanta, Miami-Fort Lauderdale, Orlando, Tampa, Richmond, West Palm Beach, Wilmington, Del., New Orleans, Sacramento, Cleveland, Seattle, and Phoenix. Teligent's subsidiaries currently have FCC licenses to provide its facilities-based service in approximately 74 markets, in 39 states and the District of Columbia. Teligent is currently authorized to provide the full range of telecommunications services in all 39 of these states and the District of Columbia. Through the technical telecommunications experience of Teligent's current officers, directors, and employees, as well as the technologically advanced state of the art equipment it has developed and is currently developing in conjunction with numerous vendors, TSI has the requisite technical ability to render the telecommunications services for which authority is sought herein.

8. Finally, TSI possesses the requisite financial ability to provide telecommunications services within the State of Missouri. TSI will rely on the financial resources of its parent, Teligent. Teligent is a publicly-owned company (NASDAQ symbol: TGNT) with a market capitalization of approximately 3.36 billion, as of April 1999. Attached hereto as Exhibit 4 is a copy of Teligent's most recent annual report.

Tariff Requirement

9. TSI’s proposed local exchange and interexchange tariffs are being filed simultaneously with this Application. The tariffs contain the rules and regulations applicable to its customers, a description of the services offered, a list of rates associated with such services, and has a forty-five (45) day effective date as required by 4 CSR 240-060(4)(H).

Classification as a Competitive Company

10. TSI also seeks classification as a competitive company, with accompanying reduced regulation, pursuant to Section 392.361.2 and 392.361.3, RSMo. TSI further requests classification of services described in its Tariff as competitive services pursuant to §392.361 RSMo, with accompanying reduced regulation. TSI believes that its proposed services will be subject to sufficient competition to justify a lesser degree of regulation. Granting of this application will allow greater price and service options for telephone users.

11. TSI will not unjustly discriminate among its subscribers, as prohibited by Section 392.200 RSMo.

Requests for Waivers

12. TSI will comply with all applicable statutes and Commission rules, regulations, decisions, and orders governing the provision of TSI’s proposed services. TSI, however, requests that, at a minimum, the following statutes and regulations be waived at this time consistent with the Commission's previous decisions regarding other telecommunications providers:

Statutes

392.210.2	--	Uniform System of Accounts
392.240(l)	--	rate making
392.270	--	valuation of property (rate making)
392.280	--	depreciation accounts
392.290	--	issuance of securities

392.300.2	-	acquisition of stock
392.310	--	stock and debt issuance
392.320	--	stock dividend payment
392.330 RSMo. Supp. 1997	--	issuance of securities, debts & notes
392.340	--	reorganization(s)

Commission Rules

4 CSR 240-10.020	-	depreciation fund income
4 CSR 240-30.010(2)(c)	-	rate schedules
4 CSR 240-30.040	-	Uniform System of Accounts
4 CSR 240-32.030(1)(B)	-	exchange boundary maps
4 CSR 240-32.030(1)(C)	-	Records regarding access lines
4 CSR 240-32.030(2)	-	in-state record keeping
4 CSR 240-32.050(3)	-	local office record keeping
4 CSR 240-32.050(4)	-	telephone directories
4 CSR 240-32.050(5)	-	call intercept
4 CSR 240-32.050(6)	-	telephone number changes
4 CSR 240-32.070(4)	-	public coin telephone
4 CSR 240-33.030	-	minimum charges rule
4 CSR 240-33.040(5)	-	financing fees
4 CSR 240-35	-	Bypass

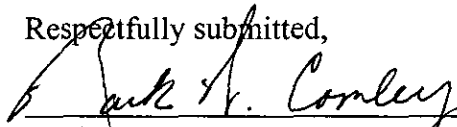
13. TSI, consistent with Section 386.570, RSMo. will comply with all applicable Commission rules except those which are specifically waived by the Commission pursuant to a this or other requests filed by TSI.

CONCLUSION

The telecommunications industry is characterized by unprecedented growth and increasing opportunity. TSI' entry into the telecommunications market will enhance competition in the provision of telecommunications services throughout the State of Missouri, one of the primary goals of both state and federal telecommunications legislation. Approval of its application will serve the public interest.

WHEREFORE, Teligent Services, Inc. requests that the Missouri Public Service Commission grant it a Certificate of Service Authority to provide all forms of resold and facilities-based interexchange and local exchange telecommunications services, classify TSI as a Competitive Company, and grant TSI a waiver of the statutes and regulations referenced above.

Respectfully submitted,

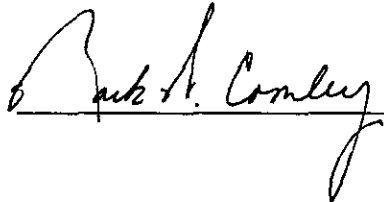


Mark W. Comley
NEWMAN, COMLEY & RUTH, P.C.
601 Monroe Street, Suite 301
P.O. Box 537
Jefferson City, Missouri 65102-0537
Telephone: (573) 634-2266
Facsimile: (573) 636-3306

Counsel for TELIGENT SERVICES, INC.

Certificate of Service

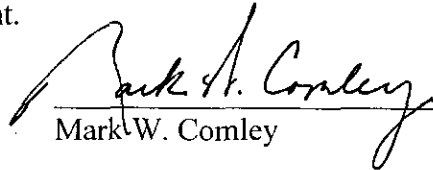
I hereby certify that a copy of this document has been hand delivered or mailed by first-class mail, postage prepaid, to General Counsel, P.O. Box 360, Jefferson City, MO 65102 and the Office of Public Counsel, on this 17th day of April, 2000.



ATTORNEY VERIFICATION

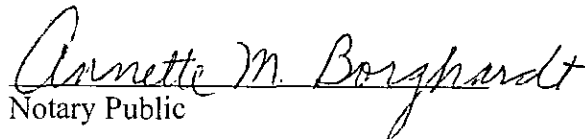
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, Mark W. Comley, being first duly sworn, do hereby certify, depose and state that I am the attorney for TELIGENT SERVICES, INC., Applicant in the above captioned proceeding; that I have read the above and foregoing Application and the allegations therein contained are true and correct to the best of my knowledge, information and belief; and I further state that I am authorized to verify the foregoing application by the above said applicant.



Mark W. Comley

Subscribed and sworn to before me, a Notary Public, this 17th day of March, 2000.



Notary Public

My Commission expires:

ANNETTE M. BORGHARDT
Notary Public
State of Missouri
Commission Expires 3/11/02
Cole County, MO

EXHIBITS

Exhibit 1 Articles of Incorporation and
Certificate of Authority to Transact Business

Exhibit 2 Current and Proposed Corporate Structure

Exhibit 3 Senior Management Team

Exhibit 4 Financial Statements

Tariffs

EXHIBIT 1

**Articles of Incorporation
and
Certificate of Authority to Transact Business**

State of Delaware
Office of the Secretary of State

PAGE 1

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "TELIGENT SERVICES, INC.", FILED IN THIS OFFICE ON THE TWENTY-EIGHTH DAY OF APRIL, A.D. 1999, AT 3:30 O'CLOCK P.M.



A handwritten signature in cursive script, reading "Edward J. Freel".

Edward J. Freel, Secretary of State

AUTHENTICATION:

3030243 8100

DATE: 9721374

991174362

05-03-99

CERTIFICATE OF INCORPORATION

OF

TELIGENT SERVICES, INC.

FIRST: The name of the Corporation is Teligent Services, Inc. (hereinafter the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware as set forth in Title 8 of the Delaware Code (the "GCL").

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is One Thousand (1,000) shares of Common Stock, each having a par value of one cent (\$0.01).

FIFTH: The name and mailing address of the Sole Incorporator is as follows:

<u>Name</u>	<u>Address</u>
Mary E. Keogh	P.O. Box 636 Wilmington, DE 19899

SIXTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

(1) The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

(2) The directors shall have concurrent power with the stockholders to make, alter, amend, change, add to or repeal the By-Laws of the Corporation.

(3) The number of directors of the Corporation shall be as from time to time fixed by, or in the manner provided in, the By-Laws of the Corporation. Election of directors need not be by written ballot unless the By-Laws so provide.

(4) No director shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the GCL or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or modification of this Article SIXTH by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

(5) In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the GCL, this Certificate of Incorporation, and any By-Laws adopted by the stockholders; provided, however, that no By-Laws hereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such By-Laws had not been adopted.

SEVENTH: Meetings of stockholders may be held within or without the State of Delaware, as the By-Laws

may provide. The books of the Corporation may be kept (subject to any provision contained in the GCL) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-Laws of the Corporation.

EIGHTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

I, THE UNDERSIGNED, being the Sole Incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the GCL, do make this Certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true, and accordingly have hereunto set my hand this 28th day of April, 1999.



Mary E. Keogh
Sole Incorporator

STATE OF MISSOURI



Rebecca McDowell Cook
Secretary of State

CORPORATION DIVISION - CERTIFICATE OF AUTHORITY

WHEREAS,
TELIGENT SERVICES, INC.

USING IN MISSOURI THE NAME
TELIGENT SERVICES, INC.

HAS COMPLIED WITH THE GENERAL AND BUSINESS CORPORATION LAW WHICH GOVERNS FOREIGN CORPORATIONS; BY FILING IN THE OFFICE OF THE SECRETARY OF STATE OF MISSOURI AUTHENTICATED EVIDENCE OF ITS INCORPORATION AND GOOD STANDING UNDER THE LAWS OF THE STATE OF DELAWARE.

NOW, THEREFORE, I, REBECCA MCDOWELL COOK, SECRETARY OF STATE OF THE STATE OF MISSOURI, DO HEREBY CERTIFY THAT SAID CORPORATION IS FROM THIS DATE DULY AUTHORIZED TO TRANSACT BUSINESS IN THIS STATE, AND IS ENTITLED TO ALL RIGHTS AND PRIVILEGES GRANTED TO FOREIGN CORPORATIONS UNDER THE GENERAL AND BUSINESS CORPORATION LAW OF MISSOURI.

IN TESTIMONY WHEREOF, I HAVE SET MY HAND AND IMPRINTED THE GREAT SEAL OF THE STATE OF MISSOURI, ON THIS, THE 4TH DAY OF JUNE, 1999.

Rebecca McDowell Cook
Secretary of State



\$155.00

No. F00470414

STATE OF MISSOURI



Rebecca McDowell Cook
Secretary of State

CORPORATION DIVISION

CERTIFICATE OF CORPORATE GOOD STANDING - FOREIGN CORPORATION

I, REBECCA McDOWELL COOK, Secretary of State of the State of Missouri, do hereby certify that the records in my office and in my care and custody reveal that

TELIGENT SERVICES, INC.

using in Missouri the name

TELIGENT SERVICES, INC.

a DELAWARE corporation filed its Evidence of Incorporation with this State on the 4th day of JUNE, 1999, and is in good standing, having fully complied with all requirements of this office.

IN TESTIMONY WHEREOF, I have set my hand and imprinted the GREAT SEAL of the State of Missouri, on this, the 16th day of MARCH, 2000.


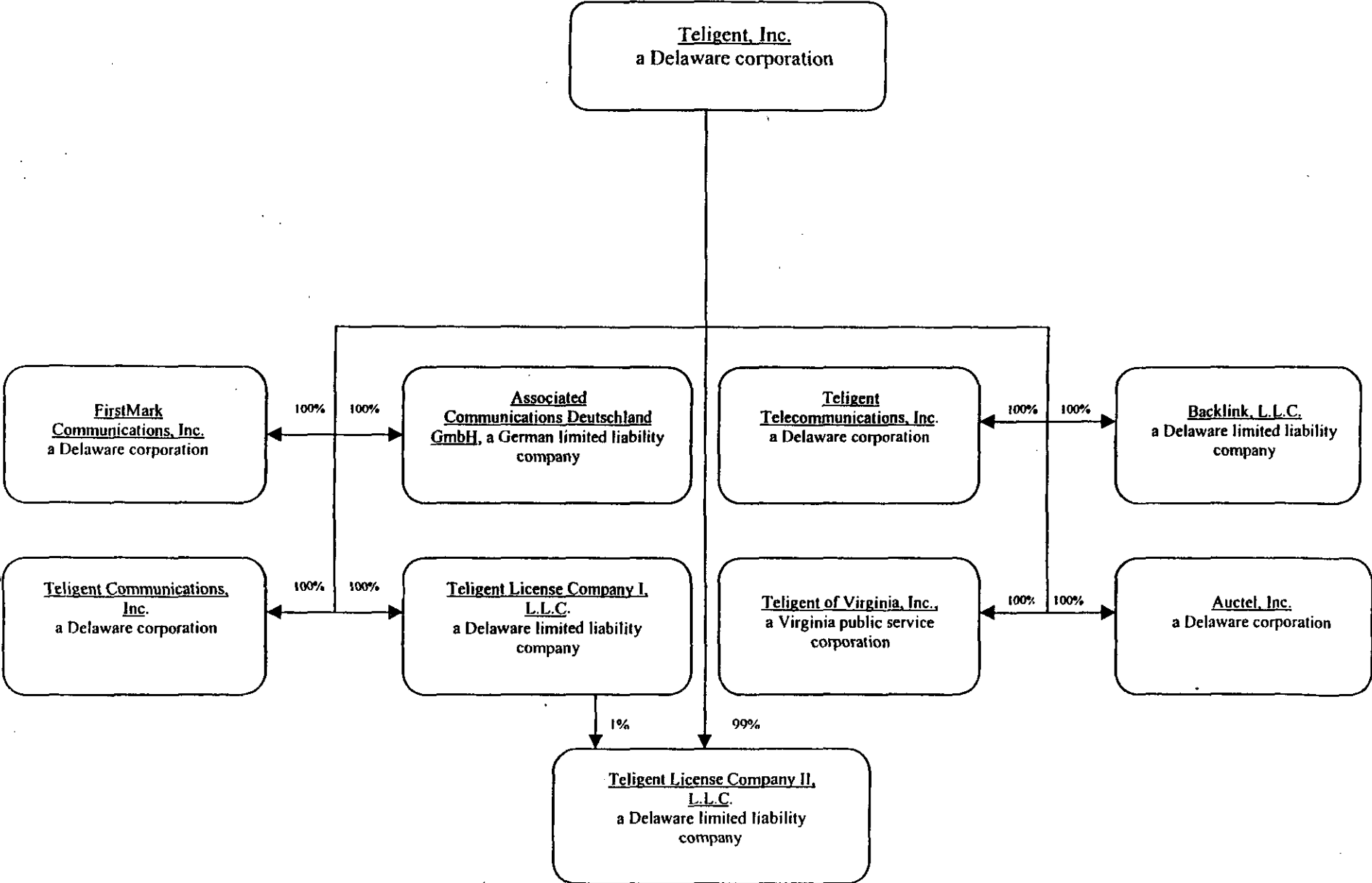

Secretary of State



EXHIBIT 2

Current and Proposed Corporate Structure

TELIGENT, INC.
CURRENT CORPORATE STRUCTURE



TELIGENT, INC.
PROPOSED CORPORATE STRUCTURE

Teligent, Inc.
a Delaware corporation



100%

Teligent Services, Inc.
a Delaware corporation



FirstMark Communications, Inc.
a Delaware corporation

100%

100%

Associated Communications Deutschland GmbH, a German limited liability company

Teligent Telecommunications, Inc.
a Delaware corporation

100%

100%

Backlink, L.L.C.
a Delaware limited liability company

Teligent Communications, Inc.
a Delaware corporation

100%

100%

Teligent License Company I, L.L.C.
a Delaware limited liability company

Teligent of Virginia, Inc.
a Virginia public service corporation

100%

100%

Auctel, Inc.
a Delaware corporation

1%

99%

Teligent License Company II, L.L.C.
a Delaware limited liability company

EXHIBIT 3

Senior Management Team

Alex J. Mandl
Chairman and Chief Executive Officer

Mr. Mandl, 54, joined Teligent in August, 1996, after serving as president and chief operating officer of AT&T. At AT&T, Mr. Mandl had overall responsibility for directing the company's long distance, wireless and local communications services, in addition to its Direct TV, credit card and Internet businesses. He also led the team that planned AT&T's entry into the local service market to compete against the regional Bell operating companies and other local telephone monopolies.

Before becoming AT&T's president, Mr. Mandl was the company's executive vice president and chief executive officer of its Communications Services Group, where he was responsible for the company's core long distance and wireless businesses.

Earlier, he served as chief financial officer and group executive. In that capacity, he directed AT&T's overall financial strategy, policy and operations and oversaw AT&T Capital Corp. (an equipment leasing company), as well as AT&T's corporate purchasing, real estate and information systems functions. During his tenure as CFO, Mr. Mandl orchestrated AT&T's successful, \$11.5 billion acquisition of McCaw Cellular, and supervised its integration into the company.

Between 1988 and 1991, Mr. Mandl was chairman and chief executive officer of Sea-Land Services, Inc., the world's leading provider of ocean transport and distribution services. Under his leadership, Sea-Land nearly doubled in size and became a highly profitable company.

Mr. Mandl began his business career in 1969, when he joined Boise Cascade Corp. as a merger and acquisition analyst. He held various financial posts with the company during the next 11 years. In 1980, he joined Seaboard Coast Line Industries, a diversified transportation company, as senior vice president and chief financial officer. After Seaboard merged with Chessie Systems to become CSX Corp., Mr. Mandl was named senior vice president in charge of corporate development and human resources, and chief information officer. In addition, he had operating responsibility for three transportation and information technology subsidiaries.

Mr. Mandl serves on the boards of Dell Computer, Warner-Lambert Company, Forstmann Little & Co., General Instrument Corp., WETA-Public Television and Radio, The Museum of Television and Radio, the Walter A. Haas School of Business at the University of California at Berkeley and Willamette University. He is on the Advisory Board of the Chancellor of Austria and a board member of the American Enterprise Institute for Public Policy Research.

Mr. Mandl holds an M.B.A. from the University of California at Berkeley and a B.A. in economics from Willamette University in Salem, Oregon.

Kirby G. ("Buddy") Pickle, Jr.
President and Chief Operating Officer

Buddy Pickle, President and Chief Operating Officer of Teligent, has the day-to-day responsibility for building the company into a first-choice provider of advanced local telecommunications services.

Mr. Pickle's move to Teligent in February, 1997 caps a long career in telecommunications. Most recently, Mr. Pickle, 40, was executive vice president of MFS Communications Co., an early entrant into the competitive local telecommunications market. Mr. Pickle was directly involved in the MFS acquisition of UUNET Technologies, Inc., a major supplier of Internet services to business customers. Following the acquisition, Mr. Pickle became UUNET's president and chief operating officer.

Mr. Pickle joined MFS in 1991, eventually becoming president and chief operating officer of the MFS Intelenet Companies. In that role, he ran Centex Telemanagement, MFS Intelenet and Realcom Communications, which together generated more than 60 percent of MFS Communications' revenues. The three companies were the first to offer facilities-based, bundled, local, long distance and customer equipment services to small and medium-sized businesses.

Earlier, Mr. Pickle held a series of executive positions at US Sprint, the long distance carrier and local service provider now known simply as Sprint. He left Sprint as vice president of sales operations.

During he tenure at MCI, in 1984 and 1985, Mr. Pickle was a regional sales manager. Before that, worked for Southern Bell and AT&T in a series of management positions.

Mr. Pickle received a B.B.A. in management from the University of Georgia in 1978.

Laurence E. Harris
Senior Vice President and General Counsel

Larry Harris, Senior Vice President and General Counsel of Teligent, oversees the company's legal group and is responsible for the company's political relationships, including those with the White House, Congress, and state and federal regulators.

Before joining Teligent in December 1996, Mr. Harris, 61, was senior vice president for law and public policy at MCI. He directed the company's federal, state and international policy initiatives, and led MCI's efforts to enact balanced telecommunications legislation.

In an earlier stint at MCI that lasted from 1972 until 1982, Mr. Harris served as the fledgling long distance carrier's vice president of telephone company relations and tariffs. He managed corporate relations with AT&T, independent telephone companies, the Federal Communications Commission and the office of Telecommunications Policy at the White House. He also coordinated the company's anti-trust lawsuits.

After leaving MCI, Mr. Harris went to work for the FCC, where he was chief of the commission's mass media bureau. In that capacity, he acted as a principal adviser to the FCC chairman on matters involving policy and programs for radio, television and cable.

In addition to his work in the public policy arena, Mr. Harris has extensive experience in the wireless industry. Before he re-joined MCI in 1993, he was president and chief executive officer of International Telecom Systems, Inc. and CRICO Communications, major paging firms that he founded. Earlier, he served as president and chief operating officer of Metromedia Telecommunications.

Mr. Harris was a Lieutenant in the U.S. Navy, serving in the destroyer fleet. He holds a B.A. in mathematics and history from Columbia University and a J.D. from Georgetown University, where he was editor of the law review. He is a member of the board of directors of the Association for Local Telecommunications Services and the board of visitors of the Georgetown University Law School.

Abraham L. Morris
Senior Vice President and Chief Financial Officer

As Senior Vice President and Chief Financial Officer of Teligent, Abe Morris is responsible for building the economic foundation of an important new communications competitor.

Before joining Teligent, Mr. Morris, 38, served as senior vice president, operations support, at MFS Communications Company, Inc. Recently acquired by WorldCom, MFS was an early entrant into the competitive local telecommunications market for switched and dedicated access service.

At MFS, Mr. Morris was directly involved in raising the company's capital, including MFS' initial public stock offering. He also was involved in the company's business development, revenue assurance, toll fraud management and co-carrier/local service activities. Mr. Morris joined MFS in 1992 as a vice president, and later became the company's treasurer. In 1994, he was named vice president and chief transition officer for MFS Intelenet, Inc. Along with two other companies in the Intelenet group, MFS Intelenet was the first to offer bundled, facilities-based local, long distance and customer equipment services to small and medium sized businesses.

Between 1986 and 1991, Mr. Morris was general manager for mergers and acquisitions for Peter Kiewit Sons', Inc. (PKS), a diversified industrial services company engaged in construction, mining, telecommunications, energy and packaging. Mr. Morris was responsible for identifying, evaluating and executing domestic and international mergers and acquisitions. PKS was the original equity investor in MFS.

Mr. Morris was an associate specializing in corporate securities at the law firm of Akin, Gump, Strauss, Hauer & Feld in Washington, D.C. between 1984 and 1986.

He received a J.D. with high honors from the National Law Center at The George Washington University in 1984, and a B.A. in political science from The George Washington University in 1981.

Steven F. Bell
Senior Vice President for Human Resources

As Teligent's Senior Vice President for Human Resources, Steve Bell is responsible for building the team of professional executives, managers, engineers and staff. Before joining Teligent, Mr. Bell, 47, served as vice president for human resources and organization development at COMSAT Corporation. Mr. Bell was responsible for executive and staff recruitment and development at the 4,000-employee satellite communications company. He is credited with building a highly successful, customer-focused human resources organization during a period of rapid change and intense competitive pressure.

Between 1988 and 1992, Mr. Bell was vice president, human resources for the worldwide technologies division of American Express Corporation. He led a group that was responsible for human resources support of 2,600 employees in locations around the globe.

Earlier, Mr. Bell served as director of human resources of Sprint International/Telenet, where he directed a staffing program that successfully filled 250 vacancies under tight deadline pressure. He also held human resources positions at Martin Marietta Data Systems, Connecticut Bank and Trust Company and the University of Connecticut.

Mr. Bell holds a B.S. degree from the University of Connecticut.

Richard J. Hanna
President of Field Operations Group

As President of the Field Operations Group at Teligent, Rick Hanna oversees all local market operations, sales and marketing.

Before joining Teligent in April, 1997, Mr. Hanna, 44, was president and chief executive officer of MFS Intelenet, based in San Ramon, California. Along with two other companies in the Intelenet group, MFS Intelenet was the first to offer bundled, facilities-based local, long distance and customer equipment services to small and medium-sized businesses. In his three years at MFS Intelenet, Mr. Hanna and his team grew the company from a start-up to a thriving, profitable enterprise with national revenues of \$340 million.

Mr. Hanna previously served as vice president of sales for AT&T at the company's headquarters in Basking Ridge, N.J. At AT&T, Mr. Hanna presided over the build-up of a commercial sales force of 5,000 representatives, packaged AT&T's long distance products to recapture market share and built and managed new support systems for order processing, commission accounting and sales reporting.

Earlier, Mr. Hanna held senior sales positions at MCI Communications Corp.; US Sprint (now known as Sprint); Telic Corporation, the largest independent software consulting company for the regional Bell companies; and Telelogic, a manufacturer of auto-dialing equipment for the long distance industry.

Mr. Hanna earned a bachelor's degree from Central Connecticut University in 1977, and did post-graduate work at Stanford University.

Keith W. Kaczmarek
President of the Network Services Group

As President of the Network Services Group, Keith Kaczmarek is responsible for designing, building, maintaining and integrating Teligent's state-of-the-art digital microwave networks and other technical facilities.

Before joining Associated in May of 1997, Mr. Kaczmarek, 41, served as vice president for engineering and operations and chief technology officer for PrimeCo PCS, based in Westlake, Texas. At PrimeCo, he oversaw development and installation of the first and largest PCS deployment of CDMA (code division multiple access) wireless technology.

Between 1993 and 1995, Mr. Kaczmarek was vice president for technology development and product development for Nextel Communications in Lafayette, California. He was responsible for identifying, analyzing and developing new technologies to introduce into Nextel's digital mobile wireless networks. He managed strategic alliances with foreign and domestic companies, and also helped manage relations with the investment community.

Earlier, Mr. Kaczmarek held a number of technology-development positions at Pacific Telesis Group's wireless subsidiary, which was spun off as AirTouch Communications in 1994.

Between 1983 and 1989, Mr. Kaczmarek worked in a variety of engineering and management positions at GTE Corp. and GTE Mobilnet, Inc.

Mr. Kaczmarek holds B.S., M.S., and M.B.A. degrees from the University of Illinois.

David S. Turetsky
Vice President for Law and Regulatory Affairs

As Vice President for Law and Regulatory Affairs for Teligent, David Turetsky is responsible for guiding an important new competitor in the local communications market through the thicket of federal, state and international communications law and public policy issues.

Before he joined Teligent in May, 1997, Mr. Turetsky, 40, served as Deputy Assistant Attorney General for civil and regulatory affairs in the Antitrust Division of the U.S. Department of Justice. He joined the Justice Department in October, 1993 as senior counsel to Assistant Attorney General Anne K. Bingaman. During his tenure at the Justice Department, Mr. Turetsky was involved in a wide range of anti-trust issues, focusing on matters involving the media and telecommunications industry.

He acted as the department's principal liaison with the interagency group led by Vice President Al Gore that was charged with developing the Administration's policy on telecommunications issues. That effort culminated in the enactment of the Telecommunications Act of 1996. He has testified frequently before Congress on telecommunications and competition issues, both domestic and international.

Mr. Turetsky has represented the United States government in a variety of international forums on telecommunications policy. He also served as the Justice Department's representative on the White House group that worked for the successful conclusion of the World Trade Organization's negotiations on an international telecommunications accord.

Earlier, Mr. Turetsky was a litigation partner in the New York and New Jersey law offices of LeBoeuf, Lamb, Leiby & MacRae. He also has served as vice chair of the committee on Legislation of the American Bar Association Section of Antitrust Law, and is a member of the Bar in New York and New Jersey.

A 1979 graduate of Amherst College, *magna cum laude*, Mr. Turetsky attended the London School of Economics and Political Science. He was awarded a J.D. by the University of Chicago School of Law.

EXHIBIT 4

**Annual Report
Teligent, Inc.**

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 1998.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from

to

Commission File Number 000-23387

TELIGENT, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)

54-1866562
(I.R.S. EMPLOYER IDENTIFICATION NO.)

8065 LEESBURG PIKE
SUITE 400
VIENNA, VIRGINIA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

22182
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (703) 762-5100

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12 (g) of the Act:

11½ % Senior Notes due 2007
11½ % Senior Discount Notes due 2008
Common Stock, Class A, par value \$0.01 per share

Indicate by check mark 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 No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant was approximately \$270 million on March 19, 1999, based on the closing sales price of the registrant's Class A Common Stock as reported on The Nasdaq Stock Market as of such date.

The number of shares outstanding of each of the registrant's classes of common stock as of March 19, 1999 was as follows:

Common Stock, Class A	8,268,796
Common Stock, Class B	44,426,299

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the Registrant's 1999 Annual Meeting of Stockholders, are incorporated by reference into Part III.

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Except for any historical information contained herein, the matters discussed in this Annual Report on Form 10-K contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the Company's financial condition, results of operation and business. 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 our current views with respect to future events and involve known and unknown risks, uncertainties and other factors including, but not limited to, economic, key employee, competitive, regulatory, governmental and technological factors affecting the Company's growth, operations, markets, products, services, licenses and other factors discussed in the Company's other filings with the Securities and Exchange Commission. The Company cannot be sure that any of its expectations will be realized. Factors that may cause actual results, performance or achievements of the Company, or industry results, to differ materially from those contemplated by such forward-looking statements, include, without limitation: (1) the Company's ability to meet its existing debt service obligations and the availability of additional funds to pursue the Company's business plan; (2) the Company's pace of entry into new markets and ability to secure building access; (3) the time and expense required to build the Company's planned network; (4) the Company's ability to integrate and maintain internal management, technical information and accounting systems; (5) the impact of changes in telecommunication laws and regulations; (6) the Company's success in gaining regulatory approval for its products and services, when required; (7) the Company's ability to successfully interconnect with the incumbent carriers; (8) the timely supply of necessary equipment; (9) the intensity of competition; and (10) general economic conditions.

Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements.

PART I

In this Annual Report on Form 10-K, we will refer to Teligent, Inc., a Delaware Corporation, as "Teligent," the "Company," "we," "us," and "our." Where applicable, such references refer to Teligent's limited liability company predecessor.

ITEM 1. BUSINESS

Teligent

Teligent is a full-service, facilities-based communications company. We offer small and medium-sized business customers local, long distance, high-speed data and dedicated Internet services over our digital SmartWave™ local networks. Our SmartWave™ local networks integrate point-to-point and point-to-multipoint wireless technologies with traditional broadband wireline technology. By integrating these technologies, we believe we are able to increase local network efficiency and significantly lower network costs. We are currently offering commercial service using our SmartWave™ local networks in 24 markets that comprise more than 405 cities and towns with a combined population of more than 75 million. We offer service over our SmartWave™ networks in New York, Los Angeles, Chicago, Baltimore, Richmond, Houston, Philadelphia, Dallas-Fort Worth, San Francisco-Oakland, Miami-Fort Lauderdale, Denver, Washington DC, Boston, Atlanta, San Jose, San Antonio, Orlando, Jacksonville, Tampa, Austin, West Palm Beach, Milwaukee, New Orleans and Wilmington, Delaware.

Teligent serves its customers primarily by placing a small digital microwave antenna on the roof of customer's building. When the customer picks up the telephone, accesses the Internet or activates a videoconference, the signal travels over the building's inside wiring to Teligent's equipment and the rooftop antenna. The antenna sends voice, data and video signals to a nearby Teligent base station, where the signals are communicated to a Teligent broadband switching center and then onto their final destination.

Our digital wireless technology provides fiber-like quality and can transmit information at speeds more than 350 times faster than conventional copper wire-based networks. We believe that the speed and reliability of our services responds to the growing marketplace demand from small to medium-sized businesses for fast and reliable telecommunications services. We believe this demand results in part from the increased acceptance and reliance on the Internet by business users as well as the emergence of bandwidth intensive applications such as videoconferencing and large data file transfers.

We believe we are well positioned to capture revenues in the estimated \$128 billion business communications market. Our focus is on the estimated \$51 billion local exchange market, which is currently one of the most profitable segments in the communications industry. Local exchange services have historically been provided by regional monopolies known as incumbent local exchange carriers or "ILECs." ILECs have typically used older, existing copper wire-based networks. The ILECs' networks, faced with increasing demand from businesses for new services, such as Internet access, at reasonable costs, have created a "last mile bottleneck" between the customer location and the ILEC network switch. Our market research indicates that the ILECs have been unable to satisfy customer demands for cost-effective, flexible and responsive service and that a significant portion of Teligent's target customer base – small and medium-sized businesses – is currently dissatisfied with its ILEC service. The potential revenue opportunity in this market, coupled with changes in the regulatory environment designed to enhance competition, have created opportunities for competitive local exchange carriers, or "CLECs," such as Teligent. We intend to reduce or eliminate this last mile local bottleneck and gain market share primarily through the use of our SmartWave™ local networks while providing quality customer service and competitive pricing.

We believe we can provide service throughout major market areas with lower capital requirements than either fiber-based or exclusively point-to-point wireless competitive local exchange carriers, enabling us to offer our services to a broader customer base faster and at a lower cost. Our networks allow both transmissions between multiple customer antennas and a single base station antenna (point-to-multipoint) and transmissions between a single customer antenna and a single base station (point-to-point), thereby allowing us to share the same radio frequency spectrum among our customers and reducing our capital expenditures. We also provide communications services to our customers using traditional broadband wireline technology which also has been integrated into our SmartWave™ local networks.

Teligent's Corporate History

Teligent, Inc. was formed in September 1997 as a wholly owned subsidiary of Teligent, L.L.C., a limited liability company formed in March 1996. Teligent, L.L.C. was formed by Microwave Services, Inc. ("MSI"), a subsidiary of The Associated Group, Inc., and Digital Services Corporation ("DSC"), an affiliate of Telcom Ventures, L.L.C., both of which have extensive experience in pioneering wireless communications businesses. In September 1996, Alex J. Mandl, formerly President and Chief Operating Officer of AT&T, was named Chairman of the Board and Chief Executive Officer of Teligent. In October 1997, Teligent, L.L.C. acquired all of the stock of FirstMark Communications, Inc. for cash and a 5% member interest in Teligent, L.L.C. FirstMark Communications, Inc. held various fixed wireless licenses. On November 21, 1997, in connection with the initial public offering of Teligent Class A common stock, Teligent, L.L.C. merged into Teligent ("the Merger"). Prior to the Merger, a wholly owned subsidiary of Nippon Telegraph and Telephone Corporation ("NTT") acquired a 5% interest in Teligent, L.L.C., and immediately after the Merger acquired an additional 7.5% equity interest in Teligent, Inc. Pursuant to the Merger, all of the ownership interests of Teligent, L.L.C. were exchanged for shares of Teligent, Inc. Class B common stock, except for the ownership interest held by FirstMark Communications, Inc. which was exchanged for shares of Class A common stock.

Teligent's FCC Licenses

We hold 24 GHz fixed wireless digital message service (DEMS) licenses granted by the Federal Communications Commission, the FCC. Our DEMS licenses cover 74 market areas, comprising more than 750 municipalities in the United States, including 320-400 MHz of spectrum in 27 of the 35 most populous market areas in the United States, and at least 80 MHz of spectrum in 47 other major market areas. These licenses which were previously granted for operations only in the 18 GHz band, were not subject to grant by auction. See "Business - Government Regulation - Federal Regulation - Relocation of Licenses to 24 GHz." The majority of the 24 GHz licenses were either transferred or assigned to Teligent pursuant to FCC authority. Teligent also holds certain common carrier microwave licenses at other frequencies for use in its business.

Teligent's Service Offerings

We offer an integrated package of services, including local and long distance services (domestic and international) as well as Internet services, voice mail, conferencing, videoconferencing, advanced fax management, integrated single number service, call screening, call forwarding and other advanced communications services.

Local Phone Services. We provide our customers a complete range of local phone services. These services include basic local services, access to long distance and intra-LATA (local access and transport area) switched and dedicated lines, direct inward dialing, Digital PBX, Centrex and custom calling services.

Long Distance. As a complement to our local phone services, we also offer long distance services as part of a product bundle to customers through agreements with national long distance companies. These long distance services include domestic intrastate, interstate and international calling, toll-free services (800, 888, 877), calling card, and conferencing and other enhanced services. When our coverage area spans multiple LATAs, we use our own facilities to provide inter-LATA long distance service.

Internet and Data Services. Using the high bandwidth capacity of our SmartWave™ local networks that allows high volumes of information to be transmitted at high speeds, we offer transport for Internet services from our customer's premise to an Internet access point in each city in which we offer services.

Dedicated Private Line. We provide local dedicated data access circuits as well as the long distance portion of those circuits. These links are used to connect offices for file sharing, e-mail and workgroup applications.

Teligent's Network Architecture

We deploy our SmartWave™ local networks, which are made up of fixed wireless point-to-multipoint and point-to-point broadband local networks, as well as traditional broadband wireline networks, to provide last mile customer connection in our licensed market areas. We believe that having these types of integrated networks allows us to accommodate new customers quickly, as well as expand our customer base.

We use a combination of wired and wireless facilities to connect the voice switching and data routing center to the base stations distributed throughout the market area. Our base stations transmit to and receive signals from wireless equipment at a customer premise allowing transmissions between multiple customer antennas and a single base station antenna. In the case of our wireless customers, the customer premise equipment includes two components: (i) a small digital microwave antenna installed generally on the roof of the customer's building and (ii) indoor equipment installed within the building which is connected to the internal building wiring. The antenna communicates with a Teligent base station by a microwave signal. Our base stations have an average coverage area of up to 30 square miles, depending on a number of factors such as power levels used, customer density, local weather environment and network design. We provide services to our wireline customers by using T-1 lines that we have installed at our customer's premises.



Our broadband switching centers house traditional circuit-based systems as well as more advanced packet and cell-based switching systems. These switching systems are engineered to interconnect customer traffic with other local exchange networks, long distance networks and the Internet, as well as with other locations the customer may have within the Teligent network. Our customer premise equipment is shared among all customers in the building. Similarly, equipment at each node site is shared among all customer premise equipment served by that node.

In June 1998, we opened a state-of-the-art customer service and network operations center near our headquarters just outside of Washington, DC. Our network operations center monitors our networks 24 hours-a-day, seven days-a-week and provides real-time alarm, status and performance information. Our network operations center also allows us to provide customers remote circuit provisioning to ensure service availability, monitor various network elements to ensure consistent and reliable performance, and plan for and conduct preventative maintenance activities in order to avoid network outages and to respond promptly to any network disruption that might occur.

Key Vendors

The majority of our network equipment, including switches, base stations and antennas is currently provided by Northern Telecom, Inc. ("Nortel"), pursuant to a Network Products Purchase Agreement signed in December 1997. Although Nortel is our primary vendor and systems integrator, our strategy is to identify and use additional suppliers to ensure a high level of quality and reduce the cost of our equipment over time. In this regard, we evaluate different suppliers and have begun testing equipment manufactured by suppliers other than Nortel.

Teligent's Business Strategy

Our goal is to be a premier facilities-based communications provider to small and medium-sized businesses. The steps we are taking to achieve this objective are as follows:

Target Small and Medium-Sized Businesses. Our primary marketing efforts are focused on small and medium-sized businesses with 5 to 500 telephone lines. These types of customers are located in more than 750,000 commercial buildings throughout the United States. We target these customers through direct sales efforts, telesales and indirect sales channels. We offer new and innovative products like the industry's first flat rate service and our on-line "e-maginesm" billing system. We may also, from time to time, selectively pursue sales opportunities with larger businesses in certain situations.

End User Focus. We currently offer our services directly to end users, as opposed to acting as a "carrier's carrier" by offering services on the wholesale level to others for resale to the end user. By earning the majority of our revenues from providing services directly to end user customers, we believe that we (i) are establishing and will be able to maintain a broad base of our own customers, thereby minimizing the risk of having to rely on a limited number of customers for the majority of our revenues, (ii) maximize revenues and profitability by doing business in the higher priced retail market, and (iii) distinguish ourselves through high quality service that is responsive to the customer.

Develop Brand Awareness. We are positioning Teligent as a high quality service operator that provides reliable communications services and quality customer support at competitive prices. In the fall of 1998, we launched a nationwide mass media marketing campaign to reflect these objectives.

Achieve Market Share Via Competitive Pricing. As a new market entrant, our strategy is to price Teligent's services competitively to gain market share early. We believe that we price our services at a significant discount to existing competing offers. Generally, we average several representative bills from our customer's current service providers and deduct up to 30% from such average to arrive at the customer's

new flat rate. Under this pricing plan, local and Internet services are unlimited. If customers wish to increase their long distance and international usage over current levels, they can purchase more Teligent services at attractive prices. We anticipate that some ILECs may reduce their prices as increased competition begins to erode their market share. We expect to remain competitive if market prices decline. We believe that we will be able to compete economically because of our lower network costs compared to those of the ILECs.

Rapid Deployment. We intend to take advantage of our ability to quickly establish service in our market areas because of our lower capital requirements. Our ability to enter our market areas quickly and establish service allows us to establish an initial presence in a market, which further enhances Teligent's relative cost advantage, attracts additional customers and develops our brand reputation. In the fall of 1998, we announced a plan to accelerate our 1999 deployment schedule and we currently expect to be in 40 markets by the end of the year.

Exploit Future Growth Opportunities. We intend to continue building on the capabilities of our networks to expand our target market and service offerings. This expansion may include targeting international opportunities.

Sales and Marketing

Overview. To develop the market potential of our network, we have organized our operations into five geographic regions. Each region has its own Regional Vice President in charge of operations, field service, site acquisition, proactive customer service and sales and marketing. The extent of sales activity in each market depends upon a number of factors including (i) number of license areas, (ii) geographic size of license areas, (iii) customer density within licensed areas, and (iv) the competitive landscape.

Sales Force/Customer Care. We seek to recruit salespeople with successful experience in competitive communications businesses, including individuals with backgrounds in competitive local exchange, competitive long distance, telecommunications equipment and data services. Teligent's salespeople have performance incentives that ties a significant portion of their compensation to the actual revenue they produce. In addition, salespeople receive performance incentives that encourage them to maximize penetration in buildings in which we have installed customer premise equipment. Our sales force is trained to sell Teligent's full product line of local, long distance, Internet and data services.

Marketing. We supplement our direct sales force through various marketing plans, including direct mail, partnership marketing (in specific buildings or associated properties), targeted advertising and promotional efforts in our coverage areas. In addition, we use alternate or indirect channels of distribution, including a sales agent program.

Competition in the Telecommunications Industry

Local Telecommunications Market

Competition from ILECs. The local telecommunications market is intensely competitive for newer entrants and currently is dominated by the Regional Bell Operating Companies, known as RBOCs, and other ILECs. In each market area in which we are authorized to provide services, we compete or will compete with several other service providers and technologies. We expect to compete on the basis of local service features, quality, price, reliability, customer service and rapid response to customer needs. The ILECs have long standing relationships with their customers, have significant name recognition and financial resources, have the potential to subsidize competitive services with revenues from a variety of business services, and benefit from existing state and federal regulations that favor the ILECs over us in certain respects.

The Telecommunications Act of 1996 (the "Telecommunications Act") reduced barriers to entry into new segments of the industry. We believe that the requirements of the Telecommunications Act promote greater competition and have helped provide opportunities for broader entrance into the local exchange markets. However, as ILECs face increased competition, regulatory decisions are likely to provide

them with increased pricing flexibility, which in turn may result in increased price competition. Increased price competition may negatively impact Teligent.

A number of companies, including the ILECs themselves, are developing enhancements to increase the performance of ILECs' copper wire-based legacy networks. These generally consist of digital subscriber line products, such as ADSL, HDSL and VDSL. We may not be able to compete effectively with these enhancements.

Competition from New 24 GHz and Other Fixed Wireless Companies. We face potential competition from new entrants to the fixed wireless market, such as Winstar Communications, Inc. and NextLink Communications, Inc., as well as IXC's and other CLECs and other leading telecommunications companies. In addition, the FCC has announced that it will devise rules for the issuance of 24 GHz licenses for up to five 80 MHz channels in each market except for those licenses already issued to Teligent. See "Business - Government Regulation." We believe that additional 24 GHz licenses will be made available through an auction, and that other entities having greater resources than we do could acquire authorizations, when made available by the FCC. See "Business - Government Regulation."

We also face competition from entities that offer or are licensed to offer other terrestrial fixed wireless services, including Multichannel Multipoint Distribution Service, 28 GHz Local Multipoint Distribution Service and 38 GHz wireless communications systems, 2.8 GHz Wireless Communications Service, FCC Part 15 unlicensed wireless radio devices, and other services that use existing point-to-point wireless channels on other frequencies. One such competitor, NextLink Communications, Inc., recently agreed to acquire WNP Communications, Inc.'s Local Multipoint Distribution System wireless licenses and announced plans to use the fixed wireless licenses to build extensions to the local fiber optic networks that it plans to build in most major U.S. cities. Additionally, other companies have filed applications for global broadband satellite systems proposed to be used for broadband voice and data services. If developed, these systems could also present us with significant competition.

Other Competitors. We also face local and long distance competition from AT&T, MCI WorldCom, Sprint, and other IXCs. We may face competition from electric utilities (several have secured the necessary authorizations to provide local telephone service and are in various stages of implementing their business plans), ILECs operating outside their current local service areas, and other providers. These entities provide transmission services using technologies that may enjoy a greater degree of market acceptance than our wireless broadband technology in the provision of last mile broadband services. Moreover, the consolidation of telecommunications companies and the formation of business alliances within the telecommunications industry, which are expected to accelerate as a result of the passage of the Telecommunications Act, could give rise to significant new or stronger competitors. We may not be able to compete effectively in any of our markets.

Internet Services

Our Internet services face significant competition from other Internet Service Providers ("ISPs") as well as from other ILECs, CLECs and IXCs. There is a great deal of competition in this industry, in the delivery of Internet service to small and medium-sized businesses, our target market. Teligent believes its local networks provide a low-cost advantage in delivering Internet service. However, there can be no assurance that we can successfully compete with larger and more established companies that already provide Internet service or have resources to enter the market.

Long Distance Telecommunications Market

The long distance market has relatively insignificant barriers to entry, numerous entities competing for the same customers and a high average churn rate as customers frequently change long distance providers in response to the offering of lower rates or promotional incentives by competitors. We compete with major carriers such as AT&T, Sprint and MCI WorldCom, as well as other national and regional long distance carriers and resellers. We believe that one or more of the RBOCs may compete in the long distance telecommunications industry in some states by year-end 1999. See "Business - Government Regulation." ISPs also will compete in this market. We believe that the principal competitive factors affecting our market share will be pricing, customer service, accurate billing, clear pricing policies and, to a lesser extent, variety of services. Our ability to compete effectively will depend on maintaining high quality, market-driven services at prices generally perceived to be equal to or below those charged by our competitors. To maintain a competitive posture, we believe that we must be in a position to reduce prices in order to meet reductions in rates, if any, by others. Any such reductions could adversely affect us. In addition, ILECs have been obtaining additional pricing flexibility. This may enable ILECs to gain volume discounts from larger long distance companies, which also would put our long distance business at a disadvantage in competing with these providers.

Intellectual Property

We use the name "Teligent" as our primary business name and servicemark in the United States. We own U.S. Reg. No. 1.893.005 - TELIGENT, which was originally issued on May 9, 1995 to Creative Integrated Systems, Inc. for various items of communication equipment, based on use in commerce since January 6, 1994. We have licensed Creative Integrated Systems, Inc. to continue using the mark in connection with communications equipment.

On April 7, 1997, we filed applications to register our name and logo design in the United States Patent and Trademark Office for "land based and satellite communications services." Those applications are currently pending. In addition, we applied for and obtained registration of THE SMART WAY TO COMMUNICATE, U.S. Reg. No. 2.220,244, issued January 26, 1999. We have also acquired rights in connection with one other mark that we are using and have filed several applications with the U.S. Trademark Office to register marks that we are using or which we intend to use. We reasonably believe that the applications will mature to registration, but there is no assurance until the registrations actually issue. We are also pursuing the registration of service marks and trademarks in various countries outside the United States, but we have not yet secured those registrations. If we decide to conduct business in a country in which we are unable to obtain rights to some of the marks we use in the U.S., including "TELIGENT," we may determine to license rights to use those marks or conduct business under a different name or mark.

We rely upon a combination of licenses, confidentiality agreements and other contractual covenants to establish and protect our technology and other intellectual property rights. We currently have no patents and one patent application pending addressing the online billing system known as "e-magineSM." We cannot be sure the steps we take will be adequate to prevent misappropriation of our technology or other intellectual property or that our competitors will not independently develop technologies that are substantially equivalent or superior to Teligent's technology. Moreover, although we believe that our business as currently conducted does not infringe upon the valid proprietary rights of others, we cannot be sure that third parties will not assert infringement claims against Teligent or that, in the event of an unfavorable ruling on any such claim, a license or similar agreement to utilize technology that we rely upon in the conduct of our business will be available on reasonable terms.

Government Regulation

Overview

Our fixed wireless broadband services are subject to regulation by federal, state and local governmental agencies. We have received authority to offer competitive local telephone services in 39 states and the District of Columbia, comprising all of our 74 markets. That compares to 27 markets in which authority had been granted at the end of 1997. We have also successfully negotiated interconnection agreements covering 72 markets with all of the major local exchange carriers, including Ameritech, Bell Atlantic, GTE, Pacific Bell, Southwestern Bell, Sprint, Bell South and US WEST. At the end of 1997, we had interconnection agreements covering 35 markets.

At the federal level, the FCC has jurisdiction over the use of the electromagnetic spectrum (i.e., wireless services) and has exclusive jurisdiction over all interstate telecommunications services, that is, those that originate in one state and terminate in another state. State regulatory commissions generally have jurisdiction over intrastate communications, that is, those that originate and terminate in the same state. Municipalities and other local jurisdictions may regulate limited aspects of our business by, for example, imposing zoning and franchise requirements and requiring installation permits. We are also subject to taxation at the federal and state levels and may be subject to varying taxes and fees from local jurisdictions.

Federal Legislation

The Telecommunications Act. The Telecommunications Act, enacted on February 8, 1996, established local exchange competition as a national policy by removing state regulatory barriers to competition and the preemption of laws restricting competition in the local exchange market. The Telecommunications Act mandated that ILECs comply with various requirements designed to foster competition. In addition, the Telecommunications Act allows RBOCs to provide in-region inter-LATA services on a state-by-state basis once certain market-opening requirements are implemented and entry is determined to be in the public interest. The provisions of the Telecommunications Act are designed to ensure that RBOCs take affirmative steps to level the playing field for their competitors so that others can compete effectively before the RBOC secures in-region long-distance entry. To date, no RBOCs have gained authority to provide in-region inter-LATA service.

Federal Regulation

The Telecommunications Act Regulations. The Telecommunications Act in some sections is self-executing, but in most cases the FCC must issue regulations that identify specific requirements before we and our competitors can proceed to implement the changes prescribed by the Telecommunications Act. The outcome of these various ongoing FCC rulemaking proceedings or judicial appeals of such proceedings could materially affect our business, financial condition and results of operations.

Pursuant to the Telecommunications Act, the FCC adopted, in August 1996, new rules implementing the interconnection and resale provisions of the Telecommunications Act (the "Interconnection Order"). In July 1997, the United States Court of Appeals for the Eighth Circuit set aside significant portions of the FCC's Interconnection Order. On January 25, 1999, however, the Supreme Court reinstated key provisions of the FCC's Interconnection Order including provisions governing the pricing of local services and elements as well as its "pick and choose" provision. The Supreme Court vacated the FCC's unbundled element rule, however, pursuant to which ILECs are required to make divisible elements of their networks and services (for example local loops available for lease by CLECs). The Supreme Court decision creates the greatest uncertainties for competitors who largely depend on such elements to compete. We believe that this decision may comparatively advantage Teligent which does not rely heavily on ILEC unbundled elements. The FCC is expected to issue a rulemaking proceeding in the future to address this issue.

FCC Licensing. The Communications Act of 1934 (the "Communications Act") imposes certain requirements relating to licensing, common carrier obligations, reporting and treatment of competition. We believe that we are in compliance with all FCC requirements relating to our licenses and common carrier obligations. Teligent has also obtained a "Section 214" authorization from the FCC. This authorizes us to provide international facilities-based telecommunications services between the U.S. and virtually any other country. We must maintain—and currently do have—tariffs on file with the FCC governing our provision of domestic interstate and international common carrier telecommunications services.

Relocation of Licenses to 24 GHz. The FCC issued an Order (the "Relocation Order") on March 14, 1997, essentially relocating certain DEMS licensees in the 18 GHz band to a reallocated portion of the 24 GHz band, pursuant to a request of the National Telecommunications and Information Administration ("NTIA") acting on behalf of the Department of Defense. The Relocation Order provided for the relocation of these licenses from 100 MHz over 5 channels in the 18 GHz band to 400 MHz over 5 corresponding channels in the 24 GHz band. On June 24, 1997, the FCC issued a subsequent order (the "Modification Order") that implemented the Relocation Order by modifying the affected 18 GHz licenses, including ours, to authorize operations at 24 GHz. Pursuant to the Relocation Order, those 18 GHz fixed wireless operators in the Washington, DC and Denver, CO areas (including our Washington, DC, Baltimore, MD and Denver, CO facilities) were required to relocate to corresponding channels in the 24 GHz band no later than June 5, 1997. Although we are permitted to continue operations in the 18 GHz band outside of the Washington, DC and Denver, CO areas until January 1, 2001, we have converted most of our facilities to 24 GHz band operations.

The FCC implemented the relocation to 24 GHz without notice and comment procedures in order to give effect to NTIA's request to protect national security satellite operations from harmful interference from 18 GHz licensed stations. A number of parties filed petitions for reconsideration. The FCC issued its Reconsideration Order (the "Reconsideration Order") on July 17, 1998 affirming its original Relocation Order in all respects. One party, Webcel Communication appealed the FCC's Order to the United States Court of Appeals for the District of Columbia. We filed a motion to intervene and a motion to dismiss for lack of standing on December 7, 1998. On February 16, 1999, the court granted our motion to intervene but the motion to dismiss is still pending. There can be no assurance that the FCC will be able to defend any such litigation successfully. The court has many options. For example, the court may affirm the Reconsideration Order, vacate and remand the matter to the FCC for initiation of a rulemaking proceeding, or make any other ruling. If the matter is remanded, the FCC could fully affirm its DEMs relocation or it could make a different decision, which may be adverse to Teligent. Failure by the court to affirm the terms of the Reconsideration Order could have a negative effect on Teligent.

Alien Ownership. On October 30, 1998, the FCC granted Teligent's petition for a public interest determination that its licensed subsidiaries could increase indirect foreign ownership up to a 49.9% non-controlling level through fluctuations in publicly traded shares without obtaining prior FCC approval. Our foreign ownership is currently below 49.9%.

State Regulation

Many of our services are classified as intrastate services subject to state regulation. All of the states where we operate, or will operate, require some degree of state regulatory commission approval to provide certain intrastate services. In most states, intrastate tariffs are also required for various intrastate services, although we are not typically subject to price or rate of return regulation for tariffed intrastate services. We have received state authorizations to provide facilities-based local and long distance services in 39 states and the District of Columbia, covering all 74 of our licensed markets. Of the remaining eleven states, we have obtained long distance only authorization in six states and we have applications pending for long distance authority in the other five.

Local Regulation

We need to interact with local governments in a variety of ways. How diverse local governments will exercise traditional functions, including zoning, permitting and management of rights of ways, and address the expansion of telecommunications competition and varying means of entry in particular, is uncertain. The kinds and timing of approvals required to install antennas and conduct other aspects of our business varies among local governments and may also vary with the specific technology or equipment configuration.

While the Telecommunications Act permits local governments to manage rights of way, the scope of that authority, including the circumstances when fees can be charged and the amount of such charges, has already been the subject of numerous disputes between telecommunications carriers and local governments. In addition, some local governments have been requiring substantial filings and review before telecommunications carriers can operate in their licensed areas and have also required the payment of significant franchise fees or taxes. Some of these disputes involving licensing of telecommunications carriers, antenna siting, and rights of way are in litigation and more litigation is likely. On December 12, 1997, we accepted under protest a franchise with the City of Dallas, which is similar to other Dallas franchises agreed to by other CLECs. On the same date, we filed a Complaint for Declaratory Judgment against the City of Dallas in the United States District Court for the Northern District of Texas alleging that Teligent does not own, construct, install or maintain facilities located in public rights of way, and that the City of Dallas is therefore prohibited both by federal and state law from barring Teligent's competitive entry into the Dallas market unless Teligent first accepts a franchise. Teligent secured a preliminary injunction providing that it does not need to comply with the Dallas ordinance. We cannot make assurances as to the outcome of the litigation. The FCC has recently prevented enforcement of certain state and local regulations that had the effect of inhibiting local competition. Any inability or unwillingness by the FCC or the courts to preempt additional state and local regulations in a timely fashion could adversely impact Teligent.

Employees

As of March 19, 1999, Teligent had a total of 1,821 employees.

ITEM 2. PROPERTIES

Our main executive offices are located at Vienna, Virginia, where we lease approximately 75,000 square feet. We also lease approximately 50,000 square feet of space for our network operating center, located in Herndon, Virginia. We have been leasing space in and around each of our licensed areas to house personnel, switching and other communications equipment.

ITEM 3. LEGAL PROCEEDINGS

Other than the license and regulatory proceedings described under "Government Regulation," we are not currently a party to any legal proceedings which we believe will have a material adverse effect on our financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year covered by this Annual Report on Form 10-K, there were no matters submitted to a vote of security holders through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

We have two classes of common stock authorized and outstanding. Class A common stock and Class B common stock. Our Class A common stock, par value \$0.01 per share was first offered to the public on November 21, 1997 and is listed on The Nasdaq National Market under the symbol "TGNT." Our Class B common stock, par value \$0.01 per share, is not traded on any exchange. As of March 19, 1999, there were three stockholders of record of the Class B common stock. The following table shows the high and low sales price information of the Class A common stock as reported on The Nasdaq National Market. These transactions reflect inter-dealer quotations, without retail markup, markdown or commission and may not necessarily represent actual transactions.

	CLASS A COMMON STOCK	
	HIGH	LOW
November 21, 1997 to December 31, 1997	\$27	\$23 1/2
Quarter Ended:		
March 31, 1998	\$34 15/16	\$24 1/4
June 30, 1998	\$31 5/8	\$26 1/4
September 30, 1998	\$33 1/4	\$19 1/2
December 31, 1998	\$33	\$21 15/16

As of March 19, 1999, the last sale price of the Class A common stock as reported on The Nasdaq National Market was \$38 15/16 per share. As of March 19, 1999 there were 183 record holders of Teligent's Class A common stock. This number does not include stockholders who beneficially own shares held in street name by brokers.

We have not paid any cash dividends on our common stock in the past and do not plan to in the foreseeable future. The terms of the Existing Credit Facility (see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources"), the indentures relating to our 11 1/2% Senior Notes due 2007, and our 11 1/2% Senior Discount Notes due 2008, restrict our ability to pay dividends on common stock.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below as of December 31, 1998, 1997 and 1996, and for the years ended December 31, 1998, 1997, and the period from March 5, 1996 (date of inception) to December 31, 1996, were derived from our audited financial statements. You should read this data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements and related notes, included elsewhere in this Annual Report on Form 10-K.

	<u>Years Ended December 31.</u>		<u>March 5, 1996</u>
	<u>1998</u>	<u>1997</u>	<u>(date of inception) to</u> <u>December 31, 1996</u>
	<i>(in thousands, except share and per share data)</i>		
Statement of Operations Data: (1)			
Revenues	\$ 960	\$ 3,311	\$ 1,386
Cost and expenses:			
Cost of services	81,044	4,785	1,625
Sales, general and administrative	172,256	38,398	8,290
Stock-based and other noncash compensation	32,164	89,111	4,071
Depreciation and amortization	14,193	6,454	164
Total costs and expenses	<u>349,657</u>	<u>138,748</u>	<u>14,150</u>
Loss from operations	(248,697)	(135,437)	(12,764)
Interest and other income	34,106	3,242	10
Interest expense	(66,880)	(5,859)	(879)
Net loss	<u>\$ (281,471)</u>	<u>\$ (138,054)</u>	<u>\$ (13,633)</u>
Other Data:			
Basic and diluted net loss per share	\$ (5.35)	\$ (2.94)	\$ (0.29)
Weighted average common shares outstanding	52,596,573	46,950,860	46,257,709
EBITDA ⁽²⁾	\$ (202,340)	\$ (39,872)	\$ (8,529)
Cash used in operating activities	(162,077)	(33,260)	(6,046)
Cash used in investing activities	(68,172)	(115,755)	(3,709)
Cash provided by financing activities	221,595	572,613	11,058
		<u>December 31.</u>	
	<u>1998</u>	<u>1997</u>	<u>1996</u>
		<i>(in thousands)</i>	
Balance Sheet Data:			
Cash and cash equivalents	\$ 416,247	\$ 424,901	\$ 1,303
Working capital	302,408	441,316	(6,978)
Property and equipment, net	180,726	8,186	3,545
Total assets	763,434	607,380	19,145
Long-term debt, less current portion	576,058	300,000	-
Stockholders' equity	31,053	285,146	10,425

- (1) Certain amounts in the prior periods' financial statements have been reclassified to conform to the current year's presentation.
- (2) EBITDA consists of earnings before interest, taxes, depreciation, amortization, and charges for stock-based and other non-cash compensation. While not a measure under generally accepted accounting principles ("GAAP"), EBITDA is a measure commonly used in the telecommunications industry, and we include it to help you understand the Company's operating results. Although you should not assume that EBITDA is a substitute for operating income determined in accordance with GAAP, we present it to provide additional information about our ability to meet future debt service, capital expenditures and working capital requirements. See the Financial Statements and the related notes. Since all companies and analysts do not calculate these non-GAAP measurements the same way, the amount may not be comparable to other calculations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements set forth below under this caption constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to page 3 of this Annual Report on Form 10-K for additional factors relating to such statements.

General

The following discussion and analysis is based on Teligent's financial statements from its inception on March 5, 1996 to December 31, 1998 and should be read together with the Financial Statements and related notes contained elsewhere in this Annual Report on Form 10-K.

Overview

From our inception, on March 5, 1996, through our launch date in October 1998, our main activities were the acquisition of licenses and authorizations, the acquisition of building access rights, the hiring of management and other key personnel, the raising of cash, the development of operating systems, the negotiation of interconnection agreements and the acquisition and deployment of our network.

On October 27, 1998, we introduced our integrated package of communication services, and launched commercial services in our first ten markets. Since then, we have initiated communications services in fourteen additional markets. We offer local, long distance, high-speed data and dedicated Internet services for one flat monthly rate, offering up to 30 percent savings compared to the customer's existing provider. We expect that the creation of our own digital networks will give us a lower cost structure than the traditional local telephone companies, or other competitors that use the existing local networks, allowing us to pass these savings on to our customers.

Our losses, as well as our negative operating cash flow have been significant to date, and we expect both to continue until we develop a customer base that will generate sufficient revenues to fund operating expenses. After we initiate service in most of our of markets, we expect to have positive operating margins over time by increasing the number of customers and selling them additional capacity without significantly increasing related capital expenditures, costs of building access rights and other operating costs. We expect that operating and net losses and negative operating cash flow in 1999 will increase over 1998 as we begin our first full year providing commercial service. See "Liquidity and Capital Resources."

Factors Affecting Future Operations

The successful execution of our business plan is expected to result in rapid expansion of our operations. Rapid expansion of our operations may place a significant strain on our management, financial and other resources. Our ability to manage this expansion effectively will depend upon, among other things, monitoring operations, controlling costs, maintaining regulatory compliance, interconnecting successfully with the incumbent carriers, maintaining effective quality controls, securing building access, and significantly expanding our internal management, technical, information and accounting systems and to attract, assimilate and retain qualified management and professional and technical personnel. If we are unable to hire and retain staff, expand our facilities, purchase adequate supplies of equipment, increase the capacity of our information systems and/or successfully manage and integrate such additional resources, customers could experience delays in connection of service and/or lower levels of customer service. Failure to meet the demands of customers and to manage the expansion of our business and operations could have a material adverse effect on our business, financial condition and results of operations.

Although fixed wireless technology has been in use for a significant period of time, our point-to-multipoint technology has only been commercially used on a limited basis. We selected point-to-multipoint technology because we believe it compliments existing wireless and wireline technologies that we employ in our networks. If our point-to-multipoint technology does not perform as expected or provide the advantages that we expect, our business, financial condition and results of operations may be materially adversely affected.

Revenues

We offer an integrated package of local and long distance telephone services, value-added services, high-speed data connectivity, Internet access and videoconferencing. As a new market entrant, our strategy is to price our services competitively to gain market share early. We believe that we price our services at a significant discount to existing competing offers. Generally, we average several representative bills from our customer's current service providers and deduct up to 30% from that average to arrive at the customer's new flat rate. Local and Internet services are unlimited. We anticipate that some ILECs may reduce their prices as increased competition begins to reduce their market share. We expect to remain competitive if market prices decline because of our lower network costs compared to those of the ILECs.

Cost of Services

Certain costs are required to operate and maintain our networks, including: real estate leases for switching centers, base station sites and customer sites; preparation, installation, operation and maintenance of switching centers, base station sites and individual customer radio links, as well as customer premise equipment; leasing of backhaul facilities between base station sites and switching centers; network operation center facility expense; the cost to interconnect and terminate traffic with other network providers; software licensing fees; and network design and base station configuration planning.

Sales, General and Administrative Costs

We incur costs related to the selling, marketing and promotion of our products and services. These costs primarily include headcount costs for our sales and other personnel, as well as advertising costs to develop brand awareness of the Teligent name.

We also incur operating costs that are common to all telecommunications providers including customer service and technical support, information systems, billing and collections, general management and overhead expense, office leases, bad debt expense and administrative functions. Those areas that will require more personnel as our customer base grows, such as customer service, will increase gradually as customer demand increases. Other areas, particularly information and billing systems, have required significant up-front capital expenditures and operating costs.

Capital Expenditures

Our main capital expenditure requirements include the purchase and installation of customer premise equipment, base stations, network switches, switch electronics and network operations center expenditures.

Customer Premise Equipment ("CPE"). The purchase and installation of CPE is the largest single capital expense component in our business plan. Our CPE costs include an integrated radio/antenna unit, modem(s), power supply, multiplexer and router equipment, line interface cards, and cables and installation materials. Portions of the CPE costs can be shared by customers in the same building, which reduces the capital expenditures required per customer. In the event a customer leaves us, our CPE can be used at other

customer premises, which reduces stranded assets. While a certain amount of equipment must initially be installed at each base station, the majority of the equipment (and cost) will depend on the number of customers acquired. As more customers are loaded onto a given base station area, we will add additional sectors, radio antennas and modems to the initial base station equipment to meet customer demand.

Base Station Site. A base station can serve customers within a 360-degree coverage area, subject to lines of sight. Teligent's average coverage area is approximately 30 square miles, depending on local conditions. A base station typically comprises four to eight sectors, each of which cover a section of the service area depending on coverage and capacity requirements. Each sector requires one or more radio/antenna units and modems, depending on the system deployed. Construction costs per base station are typically higher than are construction costs per customer site. We expect that our sites will typically be built on top of buildings as opposed to towers constructed by us.

Base Station to Switch Transport. We transport traffic between our base stations and switching sites. To the extent we use wireless transport rather than leased fiber, we would incur capital expenditures as opposed to operating costs.

Switching. Switching costs include traditional circuit-based switches, line cards for interfacing with the backhaul networks and with the networks of other carriers, packet- and cell-based switching systems, such as ATM and Frame Relay switches, power systems, and environmental maintenance equipment.

Year 2000

The Year 2000 Challenge. An issue affecting Teligent and other companies is whether computer systems and applications will recognize and process date data for the Year 2000 and beyond. The "Year 2000 issue" arises primarily because many computer programs were written using two, rather than four digits to identify the applicable year. As a result, date-sensitive computer programs may recognize a two-digit code for a year in the next century as one related to this century.

Teligent's Response. Our first priority in our Year 2000 effort is to protect mission-critical operations from material service interruptions that could occur as a result of the Year 2000 transition. We define mission-critical operations as those systems and applications that are vital to the provision of voice, video and data switching, processing and transport services to our customers. To that end, in September 1998 the Audit Committee of the Teligent Board of Directors considered a Year 2000 plan. Around that same time, the Company appointed a Year 2000 committee to lead the Company-wide effort to assess the extent of our risks and ensure our applications will function properly. Our Year 2000 committee consists of senior executives and other key personnel given the responsibility of directing the Company's Year 2000 activities and helping to resolve issues, overcome obstacles and make decisions relating to the Year 2000 effort.

Teligent's Status of Readiness. Our approach to addressing the Year 2000 challenge is consistent with industry practice and is organized into four key phases:

- (1) Inventory -- identify related data for any element within the Teligent enterprise that may be impacted by the Year 2000 date change;
- (2) Assessment -- analyze Teligent's Year 2000 exposure based on available information and determine risks to our business continuity. Risk is a factor of the likelihood of Year 2000 problems occurring and the impact of such occurrences on us;

- (3) Test & Remediate -- validate the assessment, determine remediation approach, and take remediation action if we deem it necessary and appropriate. Remediation may entail repair, replacement, manual work-arounds, or, in some cases, no action. In this phase we will develop mitigation and contingency plans for mission critical aspects of our business; and
- (4) Implement -- place mitigation and contingency plans into effect in order of priority based on mission criticality, and, where necessary, validate remediation action.

For purposes of its Year 2000 efforts, we have divided our operations into five categories or functions: Information Technology ("IT") infrastructure; end user computing; suppliers; facilities and equipment; and products and services. We have substantially completed a Year 2000 inventory for all five business functions, and have made substantial progress in assessing these functions. Our remediation and implementation progress for the IT infrastructure, end user, computing, suppliers, and products and services functions is in the initial stages. Remediation and the implementation of the facilities and equipment category will follow further assessment in that category.

Generally, we require our key vendors and suppliers to warrant in writing that they are Year 2000 ready. We purchased most of our mission-critical systems from third party vendors. We have identified certain key vendors and contacted them to discuss the readiness of their products. These discussions are ongoing. If a vendor or supplier is not able to provide satisfactory Year 2000 assurances, we will monitor their progress in this area and, if appropriate, may arrange to have available an alternate vendor or supplier who can give such assurances. Like other telecommunications providers, our products and services are also dependent upon other service and telecommunications providers. For those providers with which our systems interface and exchange data, we are initiating or continuing discussions regarding their Year 2000 readiness.

Costs to Address Year 2000 Issues. We have not determined the exact cost we expect to incur to prepare our systems for the Year 2000. So far, our main cost has been the retention of outside consultants together with the cost of internal resources, both dedicated to Year 2000 program management, inventory, and assessment efforts. We estimate these costs to be less than \$5 million. Based on current assessments and compliance plans in process, we do not expect that the Year 2000 issue, including the cost of making our mission critical systems and applications Year 2000 ready, will materially effect our business, consolidated financial condition, cash flows and results of operations.

Risk Associated with the Company's Year 2000 Issues. Despite our efforts to address the Year 2000 impact on operations, we may not be able to fully identify the impact or resolve it without disruption to our business and without incurring significant expense. If appropriate modifications are not made on time by our vendors or by other providers on which we depend, or if our actual costs or timing for our Year 2000 readiness differ materially from our present estimates, our business, financial condition and results of operations and financial results could be significantly adversely affected. In particular, we cannot make assurances that the systems of other parties that we rely on will be ready on time.

The Company's Contingency Plans. Our contingency plans, which will be developed as the inventory and assessment phases progress, will be designed to minimize the disruptions or other adverse effects resulting from Year 2000 incompatibilities with mission-critical systems.

Our contingency plans will consider an assessment of all our critical internal information technology systems and our internal operational systems that use computer-based controls. In addition, we will assess any critical disruptions due to Year 2000-related failures that are external to the Company. These processes will begin January 1, 2000, and will continue as long as circumstances require.

Our contingency plans will include the creation of teams that will be prepared to respond immediately to critical Year 2000 problems as soon as they become known. The make up of teams that are assigned to deal with such problems will vary according to the nature, significance, and location of the problem.

Results of Operations

Year Ended December 31, 1998 Compared to 1997

For the year ended December 31, 1998 ("1998"), we generated revenues of approximately \$1.0 million from communication services, compared to approximately \$33.000 for the year ended December 31, 1997 ("1997"). In 1997, we generated approximately \$3.3 million of revenues related to management services and equipment leases primarily provided to MSI and DSC.

Cost of services, consisting primarily of personnel-related costs and site rent and acquisition expenses related to network operations, was approximately \$81.0 million for 1998, compared with approximately \$4.8 million in 1997. This increase reflects the establishment of our initial fifteen markets and development of network operations.

Sales, general and administrative expenses, consisting primarily of headcount-related costs, were approximately \$122.3 million for 1998, compared with approximately \$38.4 million in 1997. This increase relates primarily to costs incurred to develop our infrastructure and sales force as we prepared for commencement of operations in 1998.

Stock-based and other noncash compensation expense was approximately \$32.2 million in 1998, compared to approximately \$89.1 million in 1997. The decrease is due to the charge related to company appreciation rights granted prior to our initial public offering in 1997.

Depreciation and amortization for 1998 was approximately \$14.2 million, compared with approximately \$6.5 million in 1997, due primarily to higher capital expenditures in 1998, and amortization expense of intangibles which were principally acquired in the fourth quarter of 1997.

Interest and other income for 1998 was approximately \$34.1 million, compared to approximately \$3.2 million in 1997. This increase was primarily the result of interest earned on increased levels of cash and investments resulting from our initial public equity offering and our two debt offerings in 1997 and 1998.

Interest expense was approximately \$66.9 million for 1998, compared to approximately \$5.9 million in 1997. This increase was due to the 11½ % Senior Notes issued in November 1997 and the 11½ % Senior Discount Notes issued in February 1998.

Year Ended December 31, 1997 Compared to the Period March 5, 1996 (date of inception) to December 31, 1996

For the year ended December 31, 1997, we generated revenues of approximately \$3.3 million, including approximately \$2.7 million of management and other services primarily provided to MSI and DSC, and approximately \$0.6 million from equipment leases. For the period March 5, 1996 (date of inception) to December 31, 1996 ("1996"), we generated revenues of approximately \$1.4 million, including approximately \$1.2 million of management and other services primarily provided to MSI and DSC, and approximately \$0.2 million from equipment leases.

In 1997, our cost of services was approximately \$4.8 million, compared to approximately \$1.6 million in 1996. In 1997, sales, general and administrative expenses were approximately \$38.4 million, compared to approximately \$8.3 million in 1996. Increases in these categories were primarily related to increased payroll and consulting costs relating to the start-up activities of the Company.

Stock-based and other noncash compensation expense was approximately \$89.1 million in 1997, compared to approximately \$4.1 million in 1996. The increase is due to the nature of the charge related to company appreciation rights granted prior to our initial public offering in 1997.

Depreciation and amortization was approximately \$6.5 million in 1997, compared to approximately \$0.2 million in 1996, due to an impairment loss included in depreciation expense of \$5.0 million, as well as higher capital expenditures and amortization of intangibles acquired in 1997.

Interest expense for 1997 increased to approximately \$5.9 million, from approximately \$0.9 million in 1996, due to borrowings under a Revolving Credit Agreement (terminated in November 1997), and the 11½ % Senior Notes offering which occurred in November 1997. Interest and other income for 1997 was approximately \$3.2 million, compared to approximately \$10,000 in 1996.

Liquidity and Capital Resources

In order to develop our business, we will need a significant amount of money to pay for equipment, meet our debt obligations and operate the business on a day-to-day basis. Our principal equipment-related needs include the purchase and installation of CPE, base stations, network switches and switch electronics, network operations center expenditures and information systems, platforms and interfaces. Based on our current business plan, we anticipate our existing cash and cash equivalents on hand together with the Existing Credit Facility (defined below) will provide enough money to carry out our current business plan through the year 2000. Actual requirements may vary based upon the timing and success of our roll-out. If demand for our services is lower than anticipated, we may be able to cut back on purchases of equipment such as CPE and switch electronics, which are not needed until a customer signs up with us. If we accelerate implementation of our network roll-out, we may need to obtain additional financing earlier than anticipated.

We expect that we will need additional financing after December 2000, which may include commercial bank borrowings, additional credit facilities or the sale or issuance of equity or debt securities either through one or more offerings or to one or more strategic investors. There can be no assurance that we will be able to obtain additional financing at all, or on terms acceptable to us.

Because the cost of rolling-out our networks and operating our business will depend on a variety of factors (including our ability to meet our roll-out schedules, our ability to negotiate favorable prices for purchases of network equipment, the number of customers and the services for which they subscribe, the nature and success of new services that we may offer, regulatory changes and changes in technology), actual costs and revenues may vary from expected amounts, possibly to a material degree, and such variations are likely to affect how much additional financing we will need. Further, the exact amount of our financial needs will depend upon other factors, including the cost to develop our networks in each of our markets, the extent of competition and pricing of telecommunications services in our markets, the acceptance of our services and the development of new products. Accordingly, there can be no assurance that our actual financial needs will not exceed the anticipated amounts described above.

Existing Credit Facility

On July 2, 1998, we entered into a credit agreement (the "Bank Credit Agreement") with The Chase Manhattan Bank, Goldman Sachs, and Toronto Dominion Bank, and other lenders, providing for credit facilities up to an aggregate of \$800 million (the "Existing Credit Facility"). The Existing Credit Facility

will be used primarily for the purchase of telecommunications equipment, software and services and is also available for working capital and general corporate purposes. Availability of funds under the Existing Credit Facility is subject to certain conditions as defined in the Bank Credit Agreement. Our obligations under the Bank Credit Agreement are secured by substantially all of our assets and certain of our subsidiaries' assets.

The Existing Credit Facility is structured into three separate tranches consisting of a term loan facility, a delayed draw term loan facility and a revolving credit facility. We have the ability to borrow funds over the next four years (other than with respect to the delayed draw facility which is scheduled to expire on July 1, 1999, subject to extension), with a final maturity of eight years. Interest accrues on outstanding borrowings based on a floating rate tied to the prevailing LIBOR rate or an alternate base rate, and adjusts based on our attainment of certain key revenue and leverage benchmarks. We incurred commitment and other fees in connection with obtaining the Existing Credit Facility totaling \$19.9 million, which is being amortized on a straight line basis over eight years. As of December 31, 1998, we had no outstanding loan balance under the Existing Credit Facility. The Existing Credit Facility contains certain financial and other covenants that restrict, among other things, our ability to (a) incur or create additional debt, (b) enter into mergers or consolidations, (c) dispose a significant amount of assets, (d) pay dividends, or (e) change the nature of our business. The amounts outstanding under the Existing Credit Facility are subject to mandatory prepayments in certain circumstances.

Senior Discount Notes Offering

On February 20, 1998, we completed an offering (the "Discount Notes Offering") of \$440 million 11½ % Senior Discount Notes due 2008 (the "Senior Discount Notes"). We received approximately \$243.1 million in net proceeds from the Discount Notes Offering, after deductions for offering expenses of approximately \$7.6 million. Under an exchange offer which was completed on August 15, 1998, all outstanding Senior Discount Notes were exchanged for 11½ % Series B Discount Notes due 2008 (the "New Discount Notes"), which have been registered under the Securities Act of 1933, as amended. The New Discount Notes are identical in all material respects to the Senior Discount Notes.

Senior Notes Offering

In November 1997, we issued \$300 million of 11 ½% Senior Notes due 2007 (the "Senior Notes"). We received approximately \$289 million in net proceeds from the Senior Notes offering, after deductions for offering expenses of approximately \$11 million. We used approximately \$93.9 million of the net proceeds of this offering to purchase a portfolio of U.S. Treasury securities, which are classified as restricted cash and investments on the balance sheet, and have been pledged as collateral for the payment of interest on the Senior Notes through December 1, 2000. Interest on the Senior Notes accrues at a rate of 11 ½ % per annum and is payable semi-annually on June 1 and December 1, commencing June 1, 1998.

Initial Public Common Stock Offering

In November 1997, we completed an initial public offering of 6,325,000 shares of Class A common stock at \$21.50 per share, raising approximately \$125.7 million of net proceeds, after deducting approximately \$10.3 million of offering expenses.

Former Credit Facility

In December 1996, we entered into a loan agreement with a bank providing for a \$50.0 million senior secured revolving credit facility (the "Former Credit Facility") which expired December 19, 1997. In November 1997, we used \$42.5 million of proceeds from member cash contributions to repay all outstanding amounts under the Former Credit Facility, which was terminated.

Historical Cash Flows

To develop our networks, we have relied upon several sources for cash flow. We received cumulative cash contributions of approximately \$70.4 million from MSI and DSC. In November 1997, we received net proceeds of cash contributions totaling \$99.0 million (net of transaction expenses) from NTT's investment, and we received an additional \$414.3 million of net proceeds from our initial public debt and equity offerings. We used \$42.5 million of these contributions to repay the outstanding balance of the Former Credit Facility. We also used \$93.9 million of the net proceeds from the debt offering to purchase a portfolio of U.S. Treasury Securities, pledged as collateral for the payment of interest on the Senior Notes through December 1, 2000.

From inception through December 31, 1998, we used approximately \$201.4 million of cash for operating activities and approximately \$187.6 million of cash in our investing activities. At December 31, 1998, we had working capital of approximately \$302.4 million and unrestricted cash (including cash equivalents) of approximately \$416.2 million, compared to working capital of approximately \$41.3 million and cash of approximately \$424.9 million at December 31, 1997. The decrease in working capital from December 31, 1997 to December 31, 1998 is primarily a result of an increase in accounts payable to vendors as the Company implements its growth strategy. We will need a significant amount of cash to build our networks, market our services and cover operating expenditures.

Our total assets increased from approximately \$607.4 million as of December 31, 1997 to approximately \$763.4 million at December 31, 1998, due primarily to receiving proceeds from the Discount Notes Offering, and the acquisition of property and equipment which was accrued and will be paid in 1999.

For the year ended December 31, 1998 we used cash in operations of approximately \$162.1 million, due primarily to the operating loss for the period reduced by non-cash stock-based compensation and current liabilities at December 31, 1998. We used cash in operations of approximately \$33.3 million for the year ended December 31, 1997, due primarily to the operating loss for the period reduced by non-cash stock-based compensation and current liabilities at December 31, 1997.

We used approximately \$68.2 million cash in investing activities in 1998, consisting of \$97.2 million for the purchase of property and equipment, offset by \$29.0 million of interest received on the U.S. Treasury securities. In 1997, we used cash in investing activities of approximately \$115.8 million, consisting primarily of \$10.0 million for the purchase of property and equipment, \$10.7 million of payments for the acquisition of FirstMark Communications, Inc. and \$93.9 million for the purchase of U.S. Treasury securities which are pledged as collateral for the payment of interest on the Senior Notes through December 1, 2000.

Cash flows provided by financing activities amounted to approximately \$221.6 million in 1998, consisting primarily of net proceeds from the Company's Senior Discount Notes Offering, after costs of \$29.5 million. For 1997, cash flows provided by financing activities amounted to approximately \$572.6 million, consisting primarily of \$160.3 million of cash contributions from MSI, DSC and NTT, and \$414.3 million of net proceeds from our initial public offering and the offering of the Senior Notes, after costs of \$21.7 million.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Although all of our long-term debt bears interest at a fixed rate, the fair market value of the fixed-rate long-term debt is sensitive to changes in interest rates. We run a risk that market rates will decline and that required payments will exceed those based on the current market rate. We currently do not use interest rate derivative instruments to manage our exposure to interest rate changes, but may do so when we draw on our Existing Credit Facility.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements and supplementary data, together with the report of the independent auditor, are included or incorporated by reference elsewhere in this report. Refer to the "Index to Financial Statements and Financial Statement Schedule" following the signature pages.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated here by reference to our definitive proxy statement for our 1999 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated here by reference to our definitive proxy statement for our 1999 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated here by reference to our definitive proxy statement for our 1999 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated here by reference to our definitive proxy statement for our 1999 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

(1) **Financial Statements**

Consolidated Balance Sheets as of December 31, 1998 and 1997
Consolidated Statements of Operations for the years ended December 31, 1998 and 1997,
and the period from March 5, 1996 (date of inception) to December 31, 1996
Consolidated Statements of Stockholders' Equity for the period from March 5, 1996 (date
of inception) to December 31, 1998
Consolidated Statements of Cash Flows for the years ended December 31, 1998 and 1997,
and the period from March 5, 1996 (date of inception) to December 31, 1996
Notes to Consolidated Financial Statements

(2) **Financial Statement Schedules**

All schedules are omitted because they are not applicable or not required or because the
required information is incorporated here by reference or included in the financial
statements or related notes included elsewhere in this report.

(b) **Reports on Form 8-K.**

Current Report on Form 8-K was filed with the Securities and Exchange Commission on October
30, 1998 to announce the launch of Teligent's integrated communications services in its first ten
markets.

(c) **Exhibits.** The following exhibits are filed as a part of this Annual Report on Form 10-K:

- 3.1 Form of Certificate of Incorporation of Registrant, filed as Exhibit 3.1 to the Company's
Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and
incorporated herein by reference.
- 3.2 Form of By-laws of Registrant, filed as Exhibit 3.2 to the Company's Registration Statement on
Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by
reference.
- 4.1 Form of Stockholders Agreement, filed as Exhibit 4.1 to the Company's Registration Statement on
Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by
reference.
- 4.2 Form of Indenture between the Registrant, as issuer, and First Union National Bank, as Trustee,
relating to Registrant's Senior Notes due 2007, including form of Note, filed as Exhibit 4.2 to the
Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November
26, 1997, and incorporated herein by reference.
- 4.3 Form of Pledge Agreement between Registrant, as issuer, and First Union National Bank, as
Escrow Agent, relating to Registrant's Senior Notes due 2007, filed as Exhibit 4.3 to the
Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November
26, 1997, and incorporated herein by reference.
- 4.4 Form of Indenture between the Registrant, as issuer, and First Union National Bank, as Trustee,
relating to Registrant's Senior Discount Notes due 2008, including form of Note, filed as Exhibit
4.4 to the Company's Annual Report on Form 10-K filed with the Commission on March 31,
1998, and incorporated herein by reference.

- 4.5 Form of Certificate for the Class A common stock, filed as Exhibit 4.4 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.1 Employment Agreement, dated August 19, 1996, between Associated Communications, L.L.C. and Alex J. Mandl, filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.2 Stock Contribution Agreement, dated as of March 10, 1997, among Associated Communications, L.L.C., FirstMark Communications, Inc. and Lynn Forester, filed as Exhibit 10.2 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.3 Securities Purchase Agreement, dated as of September 30, 1997, by and among Teligent, L.L.C., Microwave Services, Inc., Digital Services Corporation, and Nippon Telegraph and Telephone Corporation, filed as Exhibit 10.3 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.4 Form of Registration Rights Agreement, by and among Teligent, L.L.C. and Nippon Telegraph and Telephone Corporation, filed as Exhibit 10.4 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.5 Form of Technical Services Agreement, by and among Teligent, L.L.C. and NTT America, Inc., filed as Exhibit 10.5 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.6 Agreement, dated September 29, 1997, among Teligent, L.L.C., Digital Services Corporation, Telcom-DTS Investors, L.L.C., Microwave Services, Inc., The Associated Group, Inc. and certain other parties, filed as Exhibit 10.6 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.7 Agreement and Plan of Merger, dated as of October 6, 1997, by and between Teligent, Inc. and Teligent, L.L.C., filed as Exhibit 10.7 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.8 Form of Lease Agreement, dated as of July 22, 1997, for the 8065 Leesburg Pike, Vienna, Virginia office space lease between NHP Incorporated and Teligent, L.L.C., filed as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.9 Form of Teligent, Inc. 1997 Stock Incentive Plan, filed as Exhibit 10.9 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.10 Network Products Purchase Agreement, dated December 11, 1997, by and between Northern Telecom Inc. and Teligent, Inc., filed as Exhibit 10.10 to the Company's Annual Report on Form 10-K filed with the Commission on March 31, 1997, and incorporated herein by reference [Confidential treatment has been granted for portions of this document].
- 10.11 Credit Agreement, dated July 2, 1998 among Teligent, Inc., several banks and other financial institutions or entities, Chase Securities, Inc., Goldman Sachs Credit Partners L.P. and TD Securities (USA) Inc., as advisers and arrangers, Goldman Sachs Credit Partners L.P., as syndication agent, The Chase Manhattan Bank, as administrative agent and Toronto Dominion (Texas), Inc. as documentation agent. Filed as exhibit 10 to the Company's Form 8-K, filed on August 13, 1998, and incorporated herein by reference.
- 10.12 Promissory Note, dated February 1, 1997, by Kirby G. Pickle, Jr. to Associated Communications, L.L.C., filed as Exhibit 10.10 to the Company's Registration Statement (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.13 Promissory Notes, each dated October 29, 1997, by Abraham L. Morris to Teligent, L.L.C., filed as Exhibit 10.11 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.

- 10.14 Promissory Note, dated August 5, 1997, by Laurence E. Harris to Associated Communications, L.L.C., filed as Exhibit 10.12 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.15 Promissory Note, dated April 7, 1997, by Steven F. Bell to Associated Communications, L.L.C., filed as Exhibit 10.14 to the Company's Registration Statement on Form S-1 (Registration No. 333-37381), dated November 26, 1997, and incorporated herein by reference.
- 10.16 Registration rights agreement dated as of March 6, 1998, by and between Teligent, Inc. and Microwave Services, Inc., filed as exhibit 10.16 to the Company's Annual Report on Form 10-K, filed with the Commission on March 31, 1998, and incorporated herein by reference.
- 10.17 Registration rights agreement dated as of February 20, 1998 by and between Teligent, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), Goldman Sachs & Co., Salomon Brothers Inc., and TD Securities (USA) Inc., filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K, filed with the Commission on March 31, 1998, and incorporated herein by reference.
- 21.1 Significant Subsidiaries of the Registrant.
- 23.1 Consent of Ernst & Young LLP, Independent Auditors.
- 27.1 Financial Data Schedule (filed only electronically with the Securities and Exchange Commission).
- 99.1 Press release of Teligent, Inc. dated March 1, 1999 (filed herein).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELIGENT, INC.
(Registrant)

Date: March 26, 1999

By: /s/ Alex J. Mandl
Alex J. Mandl
Chairman of the Board, Chief
Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: March 26, 1999

By: /s/ Alex J. Mandl
Alex J. Mandl
Chairman of the Board, Chief
Executive Officer and Director

Date: March 26, 1999

By: /s/ Abraham L. Morris
Abraham L. Morris
Senior Vice President, Chief Financial
Officer and treasurer (Principal
Financial Officer)

Date: March 26, 1999

By: /s/ Cindy L. Tallent
Cindy L. Tallent
Vice President and Controller
(Principal Accounting Officer)

Date: March 26, 1999

By: /s/ Myles P. Berkman
Myles P. Berkman
Director

Date: March 26, 1999

By: /s/ David J. Berkman
David J. Berkman
Director

Date: March 26, 1999

By: /s/ William H. Berkman
William H. Berkman
Director

Date: March 26, 1999

By: /s/ Donald H. Jones
Donald H. Jones
Director

Date: March 26, 1999

By: /s/ Tetsuro Mikami
Tetsuro Mikami
Director

Date: March 26, 1999

By: /s/ Rajendra Singh
Rajendra Singh
Director

TELIGENT, INC.
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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Teligent, Inc.

We have audited the accompanying consolidated balance sheets of Teligent, Inc., as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 1998 and 1997 and for the period from March 5, 1996 (date of inception) to December 31, 1996. The consolidated 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 Teligent, Inc., at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for the years ended December 31, 1998 and 1997 and for the period from March 5, 1996 (date of inception) to December 31, 1996, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Vienna, Virginia
February 12, 1999

TELIGENT, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31,	
	1998	1997
Assets		
Current assets:		
Cash and cash equivalents	\$ 416,247	\$ 424,901
Prepaid expenses and other current assets	8,155	7,087
Restricted cash and investments	32,184	30,373
Total current assets	456,586	462,361
Property and equipment, net	180,726	8,186
Restricted cash and investments	33,117	64,702
Intangible assets, net	83,857	60,354
Other assets	9,148	11,777
Total assets	\$ 763,434	\$ 607,380
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 135,158	\$ 16,578
Accrued interest and other	19,020	4,467
Total current liabilities	154,178	21,045
11 1/2% Senior Notes, due 2007	300,000	300,000
11 1/2% Series B Discount Notes, due 2008	276,058	-
Other non-current liabilities	2,145	1,189
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	-	-
Common stock	526	526
Additional paid-in capital	463,685	436,307
Accumulated deficit	(433,158)	(151,687)
Total stockholders' equity	31,053	285,146
Total liabilities and stockholders' equity	\$ 763,434	\$ 607,380

See notes to financial statements.

TELIGENT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

	Year ended December 31.		Period from March 5, 1996 (date of inception) to December 31.
	1998	1997	1996
Revenues:			
Communication services	\$ 960	\$ 33	\$ -
Management fees and other services	-	3,278	1,386
Total revenues	960	3,311	1,386
Costs and expenses:			
Cost of services	81,044	4,785	1,625
Sales, general and administrative expenses	122,256	38,398	8,290
Stock-based and other noncash compensation	32,164	89,111	4,071
Depreciation and amortization	14,193	6,454	164
Total costs and expenses	249,657	138,748	14,150
Loss from operations	(248,697)	(135,437)	(12,764)
Interest and other income	34,106	3,242	10
Interest expense	(66,880)	(3,859)	(879)
Net loss before provision for income taxes	(281,471)	(138,054)	(13,633)
Provision for income taxes	-	-	-
Net loss	\$ (281,471)	\$ (138,054)	\$ (13,633)
Basic and diluted net loss per share	\$ (5.35)	\$ (2.94)	\$ (0.29)
Weighted average common shares outstanding	52,596,573	46,950,860	46,257,709

See notes to financial statements.

TELIGENT, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Period from March 5, 1996 (date of inception) to December 31, 1998
(In thousands)

	Capital Contributions	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at March 5, 1996 (date of inception)	\$ -	\$ -	\$ -	\$ -	\$ -
Member capital contributions	24,058				24,058
Net loss				(13,633)	(13,633)
Balance at December 31, 1996	<u>24,058</u>	<u>-</u>	<u>-</u>	<u>(13,633)</u>	<u>10,425</u>
Contribution of licenses from members	8,497				8,497
Acquisition	31,500				31,500
Cash contributions	100,301				100,301
Contribution of equity prior to public offering		35	59,965		60,000
Conversion of member interests to capital stock	(164,356)	428	163,928		-
Conversion of CARs and Appreciation Units to stock options			86,821		86,821
Public stock offering		63	125,593		125,656
Net loss				(138,054)	(138,054)
Balance at December 31, 1997	<u>-</u>	<u>526</u>	<u>436,307</u>	<u>(151,687)</u>	<u>285,146</u>
Exercise of stock options			372		372
Stock-based compensation			27,006		27,006
Net loss				(281,471)	(281,471)
Balance at December 31, 1998	<u>\$ -</u>	<u>\$ 526</u>	<u>\$ 463,685</u>	<u>\$ (433,158)</u>	<u>\$ 31,053</u>

See notes to financial statements.

TELIGENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year ended December 31,		Period from March 5, 1996 (date of inception to December 31,
	1998	1997	1996
Cash flows from operating activities:			
Net loss	\$ (281,471)	\$ (138,054)	\$ (13,633)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	14,193	6,454	164
Amortization of discount on long-term debt	25,355	-	-
Amortization of debt issue costs	2,525	59	-
Other noncurrent liabilities	956	897	293
Stock-based and other noncash compensation	32,164	89,111	4,071
Other	(495)	(626)	(151)
Changes in current assets and current liabilities:			
Prepaid expenses and other current assets	(2,527)	(8,496)	(439)
Accounts payable	32,671	13,575	3,002
Accrued interest and other	14,552	3,820	647
Net cash used in operating activities	<u>(162,077)</u>	<u>(33,260)</u>	<u>(6,046)</u>
Cash flows from investing activities:			
Restricted cash and investments	29,016	(95,075)	-
Purchase of property and equipment	(97,188)	(9,960)	(3,709)
Acquisition and other investments	-	(10,720)	-
Net cash used in investing activities	<u>(68,172)</u>	<u>(115,755)</u>	<u>(3,709)</u>
Cash flows from financing activities:			
Proceeds from bank borrowing	-	40,500	2,000
Repayment of bank borrowing	-	(42,500)	-
Equity contribution prior to public offering	-	60,000	-
Net proceeds from issuance of common stock	372	125,656	-
Proceeds from long-term debt	250,703	300,000	-
Debt financing costs	(29,480)	(11,344)	-
Member contributions	-	100,301	9,058
Net cash provided by financing activities	<u>221,595</u>	<u>572,613</u>	<u>11,058</u>
Net (decrease) increase in cash and equivalents	(8,654)	423,598	1,303
Cash and cash equivalents, beginning of period	424,901	1,303	-
Cash and cash equivalents, end of period	<u>\$ 416,247</u>	<u>\$ 424,901</u>	<u>\$ 1,303</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	<u>\$ 39,279</u>	<u>\$ 2,450</u>	<u>\$ 875</u>

See notes to financial statements.

TELIGENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

Teligent, Inc. ("Teligent" or the "Company"), is a full-service, integrated communications company that offers small and medium-sized business customers local, long-distance, high-speed data and dedicated Internet services over its Digital SmartWave™ local networks.

The Company was formed in September 1997, as a wholly owned subsidiary of Teligent, L.L.C. On November 21, 1997, concurrent with an initial public offering of the Company's Class A Common Stock, Teligent, L.L.C. merged with and into the Company (the "Merger") with the Company as the surviving entity. Teligent, L.L.C. was originally formed in March 1996, by Microwave Services, Inc. ("MSI") and Digital Services Corporation ("DSC"), both of which, through affiliates, have extensive experience in pioneering wireless telecommunications businesses. Prior to the Merger, Nippon Telegraph and Telephone Corporation ("NTT"), through its wholly owned subsidiary NTTA&T, acquired a 5% interest in Teligent L.L.C., and immediately after the Merger acquired an additional 7.5% equity interest in the Company. All of Teligent, L.L.C.'s member interests were converted into shares of common stock upon the Merger in a manner proportionate to each member's percentage interest in Teligent, L.L.C. immediately prior to the Merger.

The Company has previously been classified as a development stage company. On October 27, 1998, the Company officially launched its communication service offerings and began providing commercial services. As such, the Company is no longer in the development stage.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all significant intercompany transactions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with maturity dates of 90 days or less at the time of purchase to be cash equivalents. Cash equivalents consist of money market fund investments and short-term commercial paper, substantially all of which were held with one institution. Restricted cash and investments relates to cash and securities held exclusively to fund future interest payments and to secure letters of credit obtained by the Company.

Property and Equipment

Property and equipment is recorded at cost. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets: 3-10 years for operating equipment, computer equipment, and furniture, and the lesser of the life of the asset or the lease term for leasehold improvements. Maintenance and repairs are charged to expense when incurred.

The amounts included in property and equipment are as follows as of December 31 (in thousands):

	<u>December 31.</u>	
	<u>1998</u>	<u>1997</u>
Operating systems	\$ 99,153	\$ 4,816
Computer systems	38,057	2,105
Furniture and leasehold improvements	11,849	2,072
Undeployed equipment	<u>48,211</u>	<u>5,178</u>
	197,270	14,171
Accumulated depreciation	<u>(16,544)</u>	<u>(5,985)</u>
	<u>\$ 180,726</u>	<u>\$ 8,186</u>

During the year ended December 31, 1998, the Company incurred capital expenditures of \$183.1 million, of which approximately \$85.9 million was accrued, and is not reflected in the accompanying consolidated statement of cash flows.

Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", management periodically reviews, if impairment indicators exist, the carrying value and lives of property and equipment and intangible assets based on expected future cash flows.

Intangible Assets

Intangible assets and their respective amortization lives are as follows as of December 31 (in thousands):

	<u>1998</u>	<u>1997</u>	<u>Years</u>
Fixed wireless licenses	\$ 51,813	\$ 49,809	15
Debt financing costs	<u>38,820</u>	<u>11,344</u>	8-10
	90,633	61,153	
Accumulated amortization	<u>(6,776)</u>	<u>(799)</u>	
	<u>\$ 83,857</u>	<u>\$ 60,354</u>	

Fixed wireless licenses represent the direct costs of obtaining such licenses, including \$41.6 million acquired from FirstMark Communications, Inc. ("FirstMark", see Note 8). Debt financing costs represent fees and other costs incurred in connection with the Existing Credit Facility (see note 4), and the issuance of long-term debt. Debt financing costs are amortized to interest expense over the term of the related debt. Amortization of fixed wireless licenses was approximately \$3.5 million and \$0.8 million for the years ended December 31, 1998 and 1997, respectively, and is included in depreciation and amortization expense in the accompanying consolidated statements of operations.

Income Taxes

The Company uses the liability method of accounting for income taxes. Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and the basis reported in the financial statements.

Revenue Recognition

Revenue from providing communications services is recognized when services are rendered based on usage of the Company's exchange networks and facilities.

Advertising Costs

Costs related to advertising are expensed when the advertising occurs. Advertising expense was approximately \$14.1 million in 1998, and \$0 in 1997 and for the period March 5, 1996 (date of inception) to December 31, 1996.

Net Loss Per Share

During 1997, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share", which requires the Company to present basic and fully diluted earnings per share for all years presented. For the periods prior to 1998, the Company's net loss per share calculation (basic and fully diluted), is based upon the number of common shares outstanding immediately prior to the initial public offering, as if outstanding for all periods presented similar to a stock split, plus the weighted average common shares issued subsequent to the initial public offering. The Company's 1998 net loss per share calculation (basic and fully diluted) is based on the weighted average common shares outstanding. There are no reconciling items in the numerator or denominator of the Company's net loss per share calculation. Employee stock options have been excluded from the net loss per share calculation because their effect would be anti-dilutive.

Stock-Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") established a fair value method of accounting for employee stock options and similar equity instruments. The fair value method requires compensation cost to be measured at the grant date, based on the value of the award, and recognized over the service period. SFAS No. 123 allows companies to either account for stock-based compensation under the provisions of SFAS No. 123 or under the provisions of APB No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). The Company has elected to account for its stock-based compensation in accordance with the provisions of APB No. 25 and has provided pro forma disclosures of net loss as if the fair value method had been adopted.

Comprehensive Income

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting of Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for the display of comprehensive income and its components in a full set of financial statements. Comprehensive income includes all changes in equity during a period except those resulting from the issuance of shares of stock and distributions to shareholders. There were no differences between net loss and comprehensive loss.

Business Segments

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 changes the way public companies report segment information in annual financial statements and also requires those companies to report selected segment information in interim financial reports to stockholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. Management believes the Company's operations comprise only one segment and as such, adoption of SFAS No. 131 does not impact the disclosures made in the Company's financial statements.

Recent Pronouncements

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires internal and external costs incurred to develop internal-use computer software during the application development stage, as well as costs to develop or obtain software that allows for access or conversion of old data by new systems, to be capitalized. SOP 98-1 is effective for fiscal years beginning after December 15, 1998. The Company does not believe that its effect will be material to the Company's reported financial position or results of operations.

In April, 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"). This statement requires that the costs of start-up activities be expensed as incurred, including presenting the cumulative effect of a change in accounting principle upon adoption of SOP 98-5. Due to the nature of the Company's operations since inception on March 5, 1996, the Company has historically expensed all start-up costs. The Company does not believe that the adoption of SOP 98-5 will affect the Company's reported financial position or results of operations.

Reclassifications

Certain amounts in the prior periods' financial statements have been reclassified to conform to the current year's presentation.

3. CAPITAL STOCK

The Company has authorized two classes of common stock, Class A Common Stock and Class B Common Stock. The rights of the two classes of Common Stock are substantially identical, except that until the number of shares held by holders of the respective series of Class B Common Stock fall below certain thresholds, such holders will have the right to elect directors to the Company's Board of Directors as follows: a majority of the directors will be elected by the holders of Series B-1 Common Stock, one director will be elected by the holders of Series B-2 Common Stock, and one director will be elected by the holders of Series B-3 Common Stock.

The number of shares authorized, issued and outstanding at December 31, 1998 and 1997, for each class of stock is summarized below:

<u>Class</u>	<u>Par Value</u>	<u>Shares Authorized</u>	<u>Shares Issued and Outstanding</u>	
			<u>1998</u>	<u>1997</u>
A	\$.01	200,000,000	8,206,392	8,156,410
Series B-1	.01	30,000,000	21,436,689	21,436,689
Series B-2	.01	25,000,000	17,206,210	17,206,210
Series B-3	.01	10,000,000	5,783,400	5,783,400

The Company has authorized 10,000,000 shares of Preferred Stock, par value \$.01 per share, of which none are issued and outstanding.

Initial Public Common Stock Offering

In November 1997, the Company completed an initial public offering of 6,325,000 shares of Common Stock at \$21.50 per share (the "Equity Offering"), raising approximately \$125.7 million of net proceeds, after deducting approximately \$10.3 million of offering expenses.

Company Appreciation Rights and Appreciation Units

On September 1, 1996, Teligent, L.L.C. granted six separate Company Appreciation Rights ("CARs") to an executive officer of the Company (the "Executive") pursuant to an employment agreement dated September 1, 1996 (the "Employment Agreement"). For each CAR, the Executive was entitled to receive a percentage of the excess of the Company's fair market value, as defined, over the target value for the CAR, as adjusted. The CARs vested over a period of six years. Also during 1996, an aggregate of 1,600,000 appreciation units (the "Appreciation Units") were granted to certain employees and directors of the Company.

Conversion of CARs and Appreciation Units into Stock Options

Upon consummation of the Equity Offering, all outstanding CARs and Appreciation Units were converted (the "Conversion") into options (the "Conversion Options") to purchase 12,480,779 shares of Class A Common Stock at exercise prices ranging from \$5.55 to \$46.00 per share, representing the intrinsic value of the original CARs and Appreciation Units. In connection with the issuance of these options, the Company will recognize up to \$185.2 million of compensation expense over the vesting period of the options. The Company has recognized \$112.2 million of stock-based compensation expense related to the Conversion Options for the period from March 5, 1996 (date of inception) to December 31, 1998, and will recognize additional expense not to exceed \$73.1 million through September 1, 2002, as follows: \$25.2 million per year through 2000, \$20.7 million in 2001 and \$2.0 million in 2002.

Executive Employment Agreement

The Executive's Employment Agreement provides for, among other things, a forgivable loan of \$15,000,000 with a five-year term, at an interest rate of 6.53% per year, which was advanced to the Executive from certain stockholders of the Company. Those stockholders assigned their rights to the loans to the Company and, as such, the loans are recorded as a component of other assets in the accompanying balance sheets. The Employment Agreement also provides in certain circumstances for a payment of \$5,000,000 on the fifth anniversary of the Executive's employment, or earlier in certain circumstances. The Company accrues the present value of the payment due over the expected service period of five years.

Other Noncash Compensation

Certain of the Company's executive officers have received loans that, in the aggregate, totaled approximately \$3.3 million. The loans bear interest at rates ranging from 0% to 6.54%, with principal and accrued interest due generally within three years from the date of the loan. Each of the loans provides for the forgiveness of the principal balance and accrued interest, subject to the executive's continued employment with the Company. The loans are being amortized on a straight line basis over the life of the loans, and are included in stock-based and other noncash compensation expense in the accompanying financial statements.

1997 Stock Incentive Plan

The Company maintains the Teligent, Inc. 1997 Stock Incentive Plan (the "1997 Plan"). The 1997 Plan authorizes options to purchase an aggregate maximum of 14,729,125 shares of the Company's Class A Common Stock, including the options converted from the CARs and Appreciation Units. The exercise price of options granted, as determined by the Company's Compensation Committee, approximates fair value. Generally, all options granted under the 1997 Plan vest over a period of five years and expire ten years from the date of grant.

The Company applies the provisions of APB No. 25 in accounting for its stock-based compensation. Had compensation expense been determined in accordance with SFAS No. 123, the Company's net loss for the years ended December 31, 1998 and 1997, and the period from March 5, 1996 (date of inception) to December 31, 1996 would have been \$324.4 million, \$161.2 million, and \$12.5 million, or \$6.16, \$3.43 and \$0.27 per share, respectively. Options arising from the conversion of CARs and Appreciation Units have been valued based on the number and exercise price of the options issued upon conversion. The weighted average fair value of options granted was \$21.66, \$18.57 and \$14.04 in 1998, 1997 and 1996, respectively, using the Black-Scholes option pricing model with the following assumptions: dividend yield 0%, risk free rate interest rate of 5.0% in 1998, 6.6% in 1997 and 7.0% for the period from March 5, 1996 (date of inception) to December 31, 1996, an expected life of 10 years, and an expected volatility of .648 in 1998, .50 in 1997 and .34 for the period from March 5, 1996 (date of inception) to December 31, 1996.

Option activity for 1998 and 1997 is set forth below:

Year Ended December 31.	1998	Weighted-Average Exercise Price	1997	Weighted-Average Exercise Price
Outstanding, beginning of period	12,810,685	\$ 10.00	-	\$ -
Converted from Appreciation Units	-	-	6,471,047	7.07
Converted from CARs	-	-	6,009,732	12.41
Granted	2,084,714	28.43	380,450	22.18
Canceled	(194,631)	20.52	(50,544)	12.94
Exercised	(49,982)	7.44	-	-
Outstanding, end of period	14,650,786	\$ 12.32	12,810,685	\$ 10.00

Options outstanding and exercisable by price range are as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Outstanding as of 12/31/98	Weighted-Average Remaining Life (in years)	Weighted-Average Exercise Price	Exercisable as of 12/31/98	Weighted-Average Exercise Price	
\$ 3.35 - 5.00	2,003,244	7.7	\$ 3.77	2,003,244	\$ 3.77	
5.01 - 10.00	8,905,015	8.0	6.69	1,599,216	6.54	
10.01 - 15.00	402,649	8.5	13.38	82,329	13.38	
15.01 - 20.00	0	0.0	0.00	0	0.00	
20.01 - 25.00	809,390	9.0	21.98	138,710	21.81	
25.01 - 30.00	1,031,660	9.5	27.48	820	25.51	
30.01 - 35.00	497,206	9.4	31.72	0	0.00	
35.01 - 45.00	0	0.0	0.00	0	0.00	
45.01 - 50.00	1,001,622	7.7	46.00	0	0.00	
	14,650,786	8.1	\$ 12.32	3,824,319	\$ 5.79	

4. LONG-TERM DEBT

Senior Notes Offering

In November 1997, the Company issued \$300 million of 11 1/2% Senior Notes due 2007 (the "Senior Notes"). The Company used approximately \$93.9 million of the net proceeds of this offering to purchase a portfolio of U.S. Treasury securities which are classified as restricted cash and investments on the balance sheet, and have been pledged as collateral for the payment of interest on the Senior Notes through December 1, 2000. Interest on the Senior Notes accrues at a rate of 11 1/2% per annum and is payable semi-annually on June 1 and December 1, commencing June 1, 1998.

The Existing Credit Facility is structured into three separate tranches consisting of a term loan facility, a delayed draw term loan facility and a revolving credit facility. The Company has the ability to borrow funds over the next four years (other than with respect to the delayed draw facility which is scheduled to expire on July 1, 1999, subject to extension), with a final maturity of eight years. Interest accrues on outstanding borrowings based on a floating rate tied to the prevailing LIBOR rate or an alternate base rate, and adjusts based on the attainment of certain key revenue and leverage benchmarks. The Company incurred commitment and other fees in connection with obtaining the Existing Credit Facility totaling \$19.9 million, which is being amortized to interest expense on a straight line basis over eight years. As of December 31, 1998 the Company had no outstanding loan balance under the Existing Credit Facility. The Existing Credit Facility contains certain financial and other covenants that restrict, among other things, the Company's ability to (a) incur or create additional debt, (b) enter into mergers or consolidations, (c) dispose a significant amount of assets, (d) pay dividends, or (e) change the nature of its business. The amounts outstanding under the Existing Credit Facility are subject to mandatory prepayments in certain circumstances.

5. 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, restricted cash and investments and other assets, accounts payable and accrued expenses, approximate carrying value, principally because of the short maturity of these items. The fair value of the Company's non-current restricted cash and investments approximate carrying value based on their effective interest rates compared with market interest rates. As of December 31, 1998, the estimated fair values and carrying amounts of the Company's Senior Notes and Senior Discount Notes are as follows (in thousands):

	<u>Fair Value</u>	<u>Carrying Amount</u>
11 1/2% Senior Notes due 2007	\$282,000	\$300,000
11 1/2% Senior Discount Notes due 2008	\$215,256	\$276,058

6. INCOME TAXES

The Company has recorded income taxes in accordance with SFAS No. 109 for the years ended December 31, 1998 and 1997, subsequent to the Merger. The tax effects of temporary differences are as follows, as of December 31 (in thousands):

	<u>1998</u>	<u>1997</u>
Deferred tax assets:		
Net operating loss carryforward	\$ 90,171	\$ 2,357
Stock based compensation	38,905	29,519
Original issue discount	8,651	-
Other	4,381	3,672
Total deferred tax assets	<u>142,108</u>	<u>35,548</u>
Deferred tax liability:		
Intangible assets	<u>(14,305)</u>	<u>(13,107)</u>
Net deferred tax assets	127,803	22,441
Valuation allowance	<u>(127,803)</u>	<u>(22,441)</u>
Total	<u>\$ -</u>	<u>\$ -</u>

9. COMMITMENTS AND CONTINGENCIES

The Company leases various operating sites, rooftops, storage, and administrative offices under operating leases. Rent expense was approximately \$10.9 million, \$2.3 million and \$0.9 million for the years ended December 31, 1998 and 1997 and the period March 5, 1996 (date of inception) to December 31, 1996, respectively. Future minimum lease payments by year and in the aggregate, are as follows at December 31, 1998 (in thousands):

1999	\$	19,290
2000		18,050
2001		16,944
2002		15,499
2003		13,969
Thereafter		51,025
	\$	<u>134,777</u>

10. EMPLOYEE BENEFIT PLAN

Employees of the Company participate in the 401(k) retirement plan of MSI's parent company. Eligible employees may elect to contribute, on a tax-deferred basis, up to 15% of their compensation, not to exceed annual maximums as defined in the Internal Revenue Code. The Company matches one-half of a participant's contribution up to 6% of the participant's compensation. The Company's contributions to the plan were approximately \$0.9 million, \$0.1 million, and \$0 for 1998, 1997 and for the period March 5, 1996 (date of inception) to December 31, 1996.

11. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table has been prepared from the financial records of the Company, without audit, and reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods presented (in thousands, except per share amounts).

1998:	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Total
Revenues	\$ 98	\$ 143	\$ 240	\$ 479	\$ 960
Loss from operations	(34,724)	(53,032)	(68,202)	(92,739)	(248,697)
Net loss	(38,558)	(59,136)	(78,545)	(105,232)	(281,471)
Net loss per share	(0.73)	(1.12)	(1.49)	(2.00)	(5.35)
1997:	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Total
Revenues	\$ 635	\$ 1,079	\$ 1,200	\$ 397	\$ 3,311
Loss from operations	(6,639)	(43,504)	(27,611)	(57,683)	(135,437)
Net loss	(6,763)	(43,863)	(28,200)	(59,228)	(138,054)
Net loss per share	(0.15)	(0.99)	(0.63)	(1.21)	(2.94)

The sum of the per share amounts do not equal the annual amounts because of the changes in the weighted-average number of shares outstanding during the year.

On or after December 1, 2002, the Notes will be redeemable at the option of the Company, in whole at any time or in part from time to time, at the following prices (expressed in percentages of the principal amount thereof).

<u>Year</u>	<u>Percentage</u>
2002	105.750%
2003	103.833
2004	101.917
2005 and thereafter	100.000

Upon the occurrence of a change in control, as defined in the Senior Notes agreement, each holder of the Senior Notes will have the right to require the Company to repurchase all or any part of such holder's Senior Notes at a purchase price in cash equal to 101% of the principal amount thereof on any change of control payment date, plus accrued and unpaid interest, if any, to such change of control payment date.

Senior Discount Notes Offering

On February 20, 1998, the Company completed an offering (the "Discount Notes Offering") of \$440 million 11 1/2% Senior Discount Notes due 2008 (the "Senior Discount Notes"). The Company received approximately \$243.1 in million net proceeds from the Discount Notes Offering, after deductions for offering expenses of approximately \$7.6 million. Under an exchange offer which commenced on July 10, 1998 and expired on August 13, 1998 (the "Exchange Offer"), all outstanding Senior Discount Notes were exchanged for 11 1/2% Series B Discount Notes due 2008 (the "New Discount Notes") which have been registered under the Securities Act of 1933, as amended. The New Discount Notes are identical in all material respects to the Senior Discount Notes.

On or after March 1, 2003, the New Discount Notes will be redeemable at the option of the Company, in whole at any time or in part from time to time, at the following prices (expressed in percentages of the principal amount thereof).

<u>Year</u>	<u>Percentage</u>
2003	105.750%
2004	103.833
2005	101.917
2006 and thereafter	100.000

Upon the occurrence of a change in control, as defined in the New Discount Notes agreement, each holder of the Senior Notes will have the right to require the Company to repurchase all or any part of such holder's Senior Notes at a purchase price in cash equal to 101% of the principal amount thereof on any change of control payment date, plus accrued and unpaid interest, if any, to such change of control payment date.

Existing Credit Facility

On July 2, 1998, the Company entered into a credit agreement (the "Bank Credit Agreement") with certain lenders, providing for facilities up to an aggregate of \$800 million (the "Existing Credit Facility"). The Existing Credit Facility will be used primarily for the purchase of telecommunications equipment, software and services, and is also available for working capital and general corporate purposes. Availability of funds under the Existing Credit Facility is subject to certain conditions as defined in the Bank Credit Agreement. The Company's obligations under the Bank Credit Agreement are secured by substantially all of its assets and certain of its subsidiaries' assets.