

Talking Points: ABI Press Call Regarding High-Tech, Telecom and Bankruptcy

- Given the capital market environment post-deregulation of the telecommunications industry, many of the capital intensive CLECs and other alternative telecommunication service providers raised significant amounts of funding through the high yield and bank debt markets
 - *This environment encouraged network expansion at capital investment prices that have since proven unsustainable by industry economics*
- Due in large part to the anticipated negative impact of competitive pricing pressures and demand slowdown, access to the capital markets for incremental funding has become virtually non-existent within the last 24-36 months, particularly for cash-flow negative telecommunications providers
 - *Therefore, many CLECs have been unable to complete their projected network build-outs due to the related costs and constricted capital availability*
 - *Subsequently, the sector has experienced significant value erosion*
- CLECs in these circumstances have remained with under-funded business plans and significant levels of debt, especially high yield bonds
 - *The result has been a prevalence of bankruptcies, liquidations and restructurings among CLECs, ISPs and other telecommunication service providers, including, among others:*
 1. Global Crossing
 2. Covad
 3. McLeodUSA
 4. Williams Communications
 5. XO Communications
 - *As a strategic method of restructuring implementation, certain service providers have “acquired economies of scale” by consolidating network assets at prices steeply discounted relative to the original capital investment, including:*
 1. Winstar (IDT Corp)
 2. Rhythms NetCommunications (Worldcom, Inc.)
 3. Exodus Communications (Cable & Wireless, plc)
 4. GST Telecommunications (Time Warner Telecom)
 5. Global Telesystems (KPNQwest)
 6. Northpoint Communications (AT&T)
- As certain telecommunication service providers complete their restructurings and the survivors are then recapitalized with significant cash resources or gain access to liquidity through new equity sponsorship, these restructured companies will look to acquire assets at distressed levels and thereby actively compete with more established service providers