

Posted to the Gilder forum - March 21, 2001

No News is Good News for G*

Today's news adds to the "body language" of the players that says that there will be no bankruptcy. All the partners have been acting as if there will be no bankruptcy, they continue to deploy gateways, they make new announcements about data and e-mail and data modems. Our local G* sales rep (Globalstar TE.SA.M. de Venezuela) told me that they don't expect bankruptcy, that they have been told that there is some kind of agreement with the note holders.

I think the really important piece of news is the one we never did hear. The note holders could have sued by now and they have not done so!!!! I think we can interpret that as follows:

The note holders must have spoken with Loral/Qualcomm/Blackstone and they must be convinced that it is not in their interest to sue for bankruptcy. The only road for G* that makes sense to me is to capitalize all or part of the debt. I'm sure that Qualcomm and Loral welcome the idea but they won't do it unless they have an assurance from the note holders that they will not sue for bankruptcy. This assurance can take several forms. (a) the note holders can exchange the notes for partnership interests or probably more likely, preferred shares, maybe convertible preferreds; (b) the note holders that don't want to do the exchange, will agree to forgo the bankruptcy proceedings for a certain lapse of time in exchange for some other valuable consideration. We are going to exchange bankruptcy for dilution. The question is, how much dilution?

Some time back I did some calculations using the book value as the fair value and converting all the debt, at par, into capital ([Whatiffing G*](#)). My conclusions were that the G* shareholders would be diluted anywhere from 4:1 to 10:1 with 6:1 being the most probable outcome. I have had no reason to change this calculation and this opinion. Loral and Qualcomm have good reasons to drive a hard bargain with the note holders, the more the note holders get the less Loral and Qualcomm get. Our fate is intimately tied in with Loral and Qualcomm because what they get we get since we are all partners of GLP.

Assuming the above is correct, what is the market saying? The book value per GSTRF share is \$6.83. At today's closing price of 21/32, and assuming a 6:1

dilution, the market is paying \$3.94 for \$6.83 of book value. Assuming a dilution of 10:1, the market is paying \$6.56 for \$6.83 of market value. These are reasonable numbers for a company with no debt (the debt has been capitalized), excellent technical plant (10 years life expectancy instead of the original 7.5 for the satellites, and, according to our local sales rep, zero failure rate so far), but with no visible paying customers so far.

It should be perfectly clear by now that G* for voice is dead as a business. Our local sales rep told me that when the original plan was drawn up, there was no global roaming but that is no longer the case. The customer base for satellite mobile voice, at the rates they are charging, is just non existent. Iqbal Hussain, a board member, formerly from South Africa, told me that in SA they are charging 17 Rand a minute, over \$2.50. As Bernie Schwartz told us many months ago, the future lies with vertical markets and with data products. Let's hope that in this reorganization G* winds up with enough cash to operate for at least 2 years to guarantee marketing success.

I'm fairly sure that G* has seen the bottom of the share price.

Denny

"Demand creates queues. Supply gets rid of them."

[Software Times](#)