Posted to the Gilder forum - February 2, 2001

Whatiffing G*

I've been doing some serious whatiffing about G* based on the SI post.

First you need to decide if there will be bankruptcy proceeding. If so, skip to the next thread. All what follows is based on the premise that Bernie Schwartz is not going to let G* slip away from him. I figured that there was a high stakes poker game being played between Bernie and the other limited partners and that he was expecting Jacobs to blink first. Based on the SI post, I now think that the poker game was between Bernie and the note holders and they didn't even know it!

Here is the list of Globalstar partners and stake holders:

Telecommunications Service Providers

- Vodafone AirTouch
- China Telecom (Hong Kong) Group Ltd.
- Dacom Corporation
- Elsacom
- TE.SA.M

Telecommunications Equipment And Aerospace Systems Manufacturers

- Alcatel
- Alenia Spazio S.p.A
- DaimlerChrysler Aerospace A.G.
- Hyundai Electronics Industries Co. Ltd.
- Space Systems/Loral, Inc. (**LOR**)
- QUALCOMM Incorporated (**QCOM**)

General Partner

- Globalstar Telecommunications Ltd. (**GSTRF**)

Note Holders

Loral Subcontractors

Globalstar Limited Partners (Globalstar or G*) does not trade on any exchange while Globalstar Telecommunications Ltd. (GTL) does under the ticker symbol **GSTRF**. This is the first mistake lots of people are making, they think of GSTRF as the common or equity of Globalstar that would be wiped out in a bankruptcy reorganization. Wrong. What would be wiped out is the equity stake that all the companies listed above by name have in **Globalstar Limited Partners (Globalstar or G*).** That includes the **equity and control** that Loral has in the system. It includes the **equity** that Qualcomm has in the system. The problem for Bernie with a bankruptcy is that he would lose not only money, but **control** of the system as well. Now, following the logic of the SI poster, since Loral and Qualcomm own between them more that 50% of the "senior" debt of GLP, they can dictate the terms of a reorganization. That a reorganization is imminent is clear, that is why Bernie hired The Blackstone Group.

One of the problem I had with G* was that G* was a prisoner of the service providers. Here is a quote from the most recent 10-K:

Under Globalstar's agreements with its service providers, these partners are the exclusive providers of Globalstar service within their assigned territory and will retain their exclusivity **as long as they meet minimum performance goals.** Under these agreements, Globalstar acts as a wholesaler of capacity on its space segment to its service providers. Globalstar has assigned the largest service territories to its founding strategic partners, including France Telecom (TE.SA.M), Vodafone AirTouch, ChinaSat, Elsacom and Dacom.

Under these terms, Bernie is free to "reassign" territories to new service providers because the current ones clearly have not met minimum performance goals.

The reason I mention this here is that it shows that Bernie has not only control over the senior debt but also over the service providing partners so he is basically free to do anything that he wishes, within reason, reason meaning that he should not stiff the note holders too badly ;-))).

Since Globalstar Telecommunications Ltd. (GTL) or **GSTRF** as we know it, has the same equity rights as Loral and Qualcomm in a reorganization, Bernie is our friend, whether he likes it or not. Yes, our equity will be diluted in a reorganization but not wiped out like it would be in bankruptcy. And the whole point is that Bernie would lose control in a bankruptcy but not in a reorganization. If the G* assets are sold to the highest bidder in auction, Bernie loses control. If the debt is converted to new shares, if it is capitalized, then current shareholders are diluted but Bernie does NOT lose control over the reorganized company. If the senior debt is capitalized, since G* has very low operating expenses, it can continue to seek new "vertical" customers for quite a long time. Nothing has been heard from IFN for quite some time but they claim that they can use most of the available G* capacity by themselves. One of the big worries I had about IFN was their rates. I figured that if they tried to charge huge rates like the current service providers are doing, that the service would go nowhere. Bob692 sent me an article about the in-flight business (thanks Bob!) that puts that fear to rest. The New Hot Markets: Mobile Applications Live On. Here are two quotes:

"Tenzing's (an IFN competitor) price structure is subscription-based, similar to a cell phone plan. Pellegrini says that per-use prices will also be available, at around $10-20 per flight domestically, and about 50 percent higher for international routes."

"IFN's Web and Internet access services are subscription based. "There's no thought of these outrageous 'per-minute' charges," Whales says. "That's proven to be a complete failure in the telephony market, and we believe it will be a failure in this market as well.""

The above quotes are very important because it shows that the business plans are being done based on "reasonable" charges that have a chance to succeed in the market.

I think it is important to note that both Loral and Qualcomm have decided to write down their G* debt and have let the world (the note holders) know about it before there is any formal talk of reorganization. This means that going into the talks they can tell the note holders: "we only have our equity to lose, the debt has been written down already." Loral has also told the world to forget about retail satellite based cellular for now -- it's vertical markets or nothing. These are preparations so that both Qualcomm and Loral can play hardball with the note holders.

Since Globalstar is not traded on any market, for the purposes of this discussion I have "merged" GLP with GTL into a single entity with 310 million shares outstanding, 106 million for GSTRF's 34% and 204 million for the other partners' 66%. I have "issued" new shares to "replace" the "senior debt" not just the notes. If all the "senior debt" is traded in for the new shares, this is what the new ownership will look like:

	Current	Pessimist	Most likely	Optimist
G* book value (millions)		4,000	6,000	8,000
Shares (million)	310	1,550	930	620
Share value		$2.58	$6.45	$12.90
Minority partners	20.0%	4.0%	6.7%	10.0%
Subcontractors	0.0%	3.1%	2.6%	2.0%
GSTRF	**34.0%**	**6.8%**	**11.3%**	**17.0%**
Qualcomm	8.0%	15.9%	14.6%	12.9%
Loral	38.0%	31.1%	32.2%	33.7%
Note holders	0.0%	39.1%	32.6%	24.4%
	100.0%	100.0%	100.0%	100.0%

In the optimistic scenario, our GSTRF shares are diluted by 50% (1 for 2). In the pessimistic scenario our GSTRF shares are diluted by 80% (1 for 5). But in both cases we will have shares of a company practically free of debt. Notice that for Qualcomm and the note holders the most favorable outcome is the "pessimistic" one. It does not make too much difference for Loral which of the tree scenarios plays out. For Loral the important thing is a friendly restructuring of the debt.

Do I believe what I'm saying? Yesterday I bought some GSTRF at 19/32 and today I bought some more at 17/32. I find it difficult to believe that GSTRF shares are worth less than $2.50 even after a deep hair cut from a debt restructuring. The only real risk is bankruptcy and Bernie seems to have found a way around it. That is what I'm banking on.

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

Software Times