ExecutiveCaliber (Lease Training by Jeffrey Taylor)
Copyright (c) 2001-2002 All rights reserved

email: JTaylor@executivecaliber.ws

Welcome

- Home
- Company Profile
- Travel Schedule
- Contact
- Teleconference
- Article Archive

Utilities

- Search
- Leasing Glossary
- Download Arena
- News Links
- Other Links

Accounting

- Fair Value
- FASB 13
- FASB 52
- FASB 133 Derivatives
- FASB 140 Disclosure Study
- G4 1 Discussion Paper
- Guarantees
- IAS 17 Project
- Introduction to Leasing
- Lease Accounting
- Lease Lifecycle
- Leasing Specific FASBs
- LKE
- Off Balance Sheet Financing
- Overhaul
- Peer Review
- Revenue Recognition
- SSAP 21

Global Crossing

Global Crossing, a telecommunications company, filed for Chapter 11, making it the biggest telecom flameout. Ranked by assets, Global's bankruptcy is the nation's fourth largest after Enron and Texaco.

If Global Crossing emerges from bankruptcy proceedings, investors could get shares in the reorganized company, or they could get nothing.

Morgan, their lead bank, stands to lose billions of dollars because they commonly accepted shares in Global Crossing subsidiaries as collateral for some of their loans.

The Bermuda company hopes to reorganize behind a $750 million investment from two Asian technology companies, Hutchison Whampoa and Singapore Technologies (commonly referred to as SingTel).

The two have signed a preliminary letter of intent to take a 60% interest in the reorganized company, putting the equity value of Global at $1.25 billion, a sharp contrast with Global Crossing's peak market capitalization of approximately $48 billion in 2000. The deal will essentially get Hutchison and Singapore Technologies the undersea cable network that cost Global Crossing more than $10 billion to build.

By swooping in on debt-strapped Global Crossing, Hutchinson Whampoa may be picking up another undervalued asset at a cheap price. That is because they have a $400 million convertible-bond holding in the ailing fiber-optic carrier.

Hutchison's convertible-bond holding in Global Crossing is virtually worthless today. But by putting fresh capital into Global Crossing, paring down its $12.4 billion debt load and positioning it for an expected revival in demand for broadband services, Hutchinson stands a chance to eventually double or triple the firm's $375 million investment.

Global Crossing once was considered the strongest of the challengers to AT&T and the Baby Bells who were slow in providing bandwidth to their corporate customers. The company took on billions in debt to build an undersea fiber-optic cable system that now represents 20% of all undersea capacity leaving the U.S.

Telecom executives and analysts say a number of factors, ranging from aggressive accounting to a "turnstile" of chief executives (Global Crossing had five CEOs since its founding in 1997) contributed to the company's fall.

Some analysts and investors say that Global Crossing sold capacity on its fiber-optic network and then accounted for the sales in a legal but aggressive way. The methodology was common practice throughout the telecommunications industry, and helped to fuel a run-up in stock prices through March 2000.

SPE Consolidation

The Leasing Organization

Time Value of Money

Tax

AMT

Bermuda

NewTaxLaw

Audio

Dealing With Arrogance

Destiny Set

Getting Around The Rate

Getting To The Decision Maker

Good Days Bad Days

Handling The Pricing Objection

Making It Happen

Making Promises

Manipulation

Selling Against Cash

Selling Bundled Services

Selling To Executives

Case Studies

Air France

AOL

Arthur Andersen

Boeing

Cisco

Conseco

Deutsche Bank

Enron

Fair Isaacs

GE Capital

Global Crossing

Back in 1997, investors reasoned that Internet-driven telecom demand would grow exponentially, and companies such as Global Crossing would do the lucrative work of laying the "pipes" over which data were sent.

The thrust of Global Crossing's original business plan was to sell capacity on its 27-country telecom network to other carriers, offering them 20-year contracts in what is known as an indefeasible right of use.

These contracts were attractive to upstart telecom firms such as Global Crossing because they could book most of the 20-year revenue upfront as one lump sum. At the same time, Global Crossing would offer to buy similar capacity in another area from the same carrier but book those costs as a capital expense, allowing it to show large revenue increases with little or no operating expenses.

A capacity glut complicated the picture. Carriers found they didn't need to lock in long-term price breaks because prices were already falling as much as 50% on a year-to-year basis.

Global Crossing's accounting practices are drawing more interest in the wake of Enron's accounting scandal. AA, which audited Enron's books, also audited Global Crossing and a number of other emerging telecom carriers, including Qwest and Level 3.

Some critics say that Global's true failing was that the company was run more as a financial and deal-making entity, and less as a telecom outfit.

Dozens of banks, led by Morgan, which lent a total of $2.25 billion to Global Crossing against shares in Global's subsidiaries, are playing a prominent role in the dissolution of the company.

Bondholders, owed some $4.4 billion, have split themselves into two groups -- depending on whether their bonds were issued by the parent or by its Frontier subsidiary.

A third group are the trade creditors, who are owed about $1.1 billion for the equipment and services they provided the telecom company. Three sit on the creditors committee: Lucent, Verizon, and Alcatel.

One of the main problems for everyone is that there doesn't seem to be much to fight over.

Global Crossing listed assets of $22.4 billion and liabilities of $12 billion when it filed Jan. 28. The only firm offer on the table to take over Global Crossing's operations came from Hutchinson Whampoa of Hong Kong, a unit of Singapore Technologies.

All these groups must basically decide whether they can recover more in liquidation or through a restructuring.

The banks find themselves in a difficult position because many of Global

Kirch

Pitney Bowes

Tyco

United Airlines

Vivendi

Xerox

Interactive Exercises

Crossword Puzzles

Test - New Tax Law

History

History of Accounting

History of Leasing (1)

History of Leasing (2)

Ijara

Life in Kuwait

Islamic History

Islamic Financing

Fundamental Changes in Islam

B2B In Islam

Convention Reports

FS&T 2002

ELA Capitol Hill Day 2002

NAELB Spring Conference 2002

ELA Funding 2002

UAEL-EAEL Spring Conference 2002

Kuwait Leasing Forum 2002

Canada

Canadian Markets

CICA 3065

Synthetic Leases in Canada

Crossing's assets lie offshore, making it difficult for the banks to legally enforce a claim on them.

In addition, Global Crossing raised the money at a time when even companies that didn't have investment grade ratings could borrow without posting collateral.

Sitemap

ExecutiveCaliber 2144 South 1150 East Bountiful, UT 84010 (801) 299-9332

Home | Company Profile | Travel Schedule | Contact | Teleconference | Article Archive | Search | Leasing Glossary | Download Arena | News Links | Other Links | Fair Value | FASB 13 | FASB 52 | FASB 133 Derivatives | FASB 140 Disclosure Study | G4 1 Discussion Paper | Guarantees | IAS 17 Project | Introduction to Leasing | Lease Accounting | Lease Lifecycle | Leasing Specific FASBs | LKE | Off Balance Sheet Financing | Overhaul | Peer Review | Revenue Recognition | SSAP 21 | SPE Consolidation | The Leasing Organization | Time Value of Money | AMT | Bermuda | NewTaxLaw | Dealing With Arrogance | Destiny Set | Getting Around The Rate | Getting To The Decision Maker | Good Days Bad Days | Handling The Pricing Objection | Making It Happen | Making Promises | Manipulation | Selling Against Cash | Selling Bundled Services | Selling To Executives | Air France | AOL | Arthur Andersen | Boeing | Cisco | Conseco | Deutsche Bank | Enron | Fair Isaacs | GE Capital | Global Crossing | Kirch | Pitney Bowes | Tyco | United Airlines | Vivendi | Xerox | Crossword Puzzles | Test - New Tax Law | History of Accounting | History of Leasing (1) | History of Leasing (2) | Life in Kuwait | Islamic History | Islamic Financing | Fundamental Changes in Islam | B2B In Islam | FS&T 2002 | ELA Capitol Hill Day 2002 | NAELB Spring Conference 2002 | ELA Funding 2002 | UAEL-EAEL Spring Conference 2002 | Kuwait Leasing Forum 2002 | Canadian Markets | CICA 3065 | Synthetic Leases in Canada