

PROFILE OF GLOBAL CROSSING (GC)¹

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Introduction

GC was first mentioned within the pages of the FT as recently as February 1998. In November that year the New York Times was still referring to the company as a “small international communications carrier”.² By May 1999 its progress had been such that the hard-to-impress Economist was suggesting that:

“When the history of the great Internet madness of the 1990s is written, a special chapter may be devoted to Global Crossing”³

In June 1999 the FT was suggesting that GC was the “most talked-of company” in the industry.⁴ Summing up the rapid progress made by the company Forbes suggested that, “Global Crossing’s 20 month ascent is unexcelled in the history of enterprise”.⁵ The company would seem to agree with these latter comments as it reproduced this quotation in its “Corporate Backgrounder” document provided as part of its investment pack.

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² New York Times (16/11/98)

³ Economist (22/5/99)

⁴ FT (14/6/99)

⁵ Forbes (Jan.1999)

1/Origins and Development

Main players

Gary Winnick

The name most readily associated with GC is that of Gary Winnick, presently Co-Chairman of the company, who made his corporate reputation at Drexel Burnham Lambert at the side of junk bond specialist, Michael Milken during the 1980's. In this capacity he was involved in the financing of the original MCI. - his first experience of the telecoms sector.

In 1985 he left Drexel to form his own investment partnership called the Pacific Capital Group (PCG). At first he retained strong ties with Drexel but these were weakened after the investigation which led to the downfall of Milken. Winnick was in no way implicated in that enquiry, but he was ordered by a court to testify in Milken's case in exchange for immunity. As it turned out, Milken, charged with violating securities laws, reached an agreement with prosecutors before testimony took place.⁶

The deals which PCG undertook were described by Forbes⁷ as "unremarkable", but did include an aborted, albeit profitable, attempt to acquire Western Union - Winnick's second brush with the telecoms sector. In general, however, Winnick had little knowledge or prior experience of the telecoms business prior to his involvement with GC. As The New York Times put it, "One could not have found a more unlikely telecommunications baron than Gary Winnick".⁸

The same publication described his track record as a financier prior to GC as "mixed", with a furniture chain and a mattress company he bought in the late 1980s both declaring bankruptcy within weeks of each other in 1991.⁹ On the positive side, he had more success with Ornda Healthcorp, sold to Tenet Healthcare, and with Optel, a cable TV service sold to Le Groupe Videotron.¹⁰

In late 1996 he encouraged a PCG partner, David Lee, to sound out AT&T for any potential deals. As Winnick put it, "I knew the company was in turmoil...I thought there might be some crumbs swept off the table that would be good opportunities".¹¹ Those crumbs, suggested Forbes, developed into GC, with a value of around \$20 billion.¹² More specifically, AT&T proposed that if Winnick could raise \$750 million

⁶ New York Times (18/5/99)

⁷ Forbes (19/4/99)

⁸ The New York Times (6/7/99)

⁹ Ibid

¹⁰ New York Times (18/5/99)

¹¹ quoted in Forbes (19/4/99)

¹² Forbes (19/4/99)

it would guarantee the construction of a new undersea cable linking the U.S. and Europe. The rationale from AT&T's side seemed to be that it hoped to divest itself of its cable-laying operation and thought that this would be made easier if it could point to a large contract in progress.¹³

Winnick duly raised the money, contributing \$15 million of his own funds. Before doing so he watched a video to educate himself on the submarine cable business. This so impressed him that he had another video prepared, costing \$12,000, in order to secure the remainder of the money from equally "telecom-naive" investors.¹⁴

At first Winnick found it difficult to sell capacity on the cable under construction. Things changed, though, in October 1997 when Winnick gathered together industry executives in a hotel in New York to thrash out a pricing deal. At that time the going rate for a "circuit" (enough bandwidth on a fibre to handle 155 megabits a second) was \$20 million.¹⁵ Winnick tempted and ultimately swayed his audience with a price of \$8 million. As a result of this meeting alone he was able to recoup almost half of the initial investment with 90 percent of the cable's capacity still unallocated. "That's when I knew it was going to work", commented Winnick.¹⁶ At this stage, with only one cable, the company was known as Atlantic Crossing. Later, as more cables were added, the company took on the grander name of Global Crossing.

In looking at the other key individuals in the company's early development, Forbes suggested that, "An entire management dream team has signed on because of Gary Winnick's ability to dish out immense wealth".¹⁷ His desire to dish out stock in the company seems to know no bounds, with individuals as diverse as former President, George Bush to Winnick's housekeeper being allocated shares (see Shares section for the Bush connection).¹⁸

This ability to allocate stock naturally made Winnick the key individual during the company's early development. As the New York Times put it, "there is much to suggest that he is the one calling the shots".¹⁹ One indication of this is that while GC is "supposedly based in Bermuda", its executives are based in the same Beverley Hills offices as Winnick's investment firm, Pacific Capital.²⁰

Robert Annunziata

Robert Annunziata, was head hunted as the new Chief Executive of GC in February 1999. Not for the first time, it was AT&T who saw a key executive depart in order to join a start-up company. Annunziata had re-joined that company in 1998 as part of the deal through which his creation, Teleport, was taken over by his former employer. Along with Winnick he quickly became the public face of GC, not least during the

¹³ Ibid

¹⁴ Ibid

¹⁵ Ibid

¹⁶ quoted in Ibid

¹⁷ Ibid

¹⁸ New York Times (18/5/99)

¹⁹ New York Times (6/7/99)

²⁰ New York Times (18/5/99)

drawn out and, at times, personalised, battle with Qwest over Frontier and US West (see Mergers section).

Annunziata had started with AT&T in 1966, straight out of school, as a technician. According to The New York Times he was "the most obvious internal victim" of AT&T's policy of promoting according to credentials rather than talent.²¹ This lack of recognition within AT&T convinced him to leave, joining Merrill Lynch who appointed him CEO of the operation that was to become Teleport. When he left AT&T for the second time, Business Week asked the question of him: "once an entrepreneur always an entrepreneur?".²²

The FT maintained the entrepreneurial theme, suggesting that he is "one of the best-regarded telecoms entrepreneurs in the US".²³ In the battle with Qwest for control of Frontier and US West in mid 1999 he was seldom out of the US business news and was widely seen as a tenacious, "scrappy fighter", going head-to-head with Qwest's Joseph Nacchio.²⁴

Annunziata was replaced as CEO a little over a year after he had taken the job. He did, however, continue as a Director with the company. During his tenure he had been singled out by corporate governance activists as a CEO who was excessive in his demands on the company. In particular there were objections to the part of his contract which provided a monthly first-class air ticket for his mother which allowed her to visit her son.

Other Key Players

Dr David Lee, who had acted as go-between with AT&T on the deal referred to above, is now GC's President and Chief Operating Officer. He is described by Forbes as "a cofounder" of the company and thus a billionaire.²⁵ He held various executive positions at TRW and communication satellite company COMSAT. He holds doctoral degrees in both physics and economics.²⁶ In May 2000 it was announced that Lee would shortly be leaving the company.²⁷

Barry Porter is another figure described by Forbes as "a cofounder" which also confers upon him membership of GC's billionaires' club.²⁸ He is currently Senior Vice President of Corporate Development. He was affiliated with Bear, Stearns and Co between 1986-1993, rising to Senior MD of the investment banking department. He has also been MD of Winnick's PCG since 1993.²⁹

The head of AT&T's cable arm at the time of the deal with Winnick was William Carter. In September 1997 Winnick tempted Carter on board GC by offering him a \$2

²¹ The New York Times (23/7/99)

²² Business Week (8/3/99)

²³ FT (15/5/99)

²⁴ New York Times (6/7/99)

²⁵ Forbes (19/4/99)

²⁶ GC, Corporate Background, p3

²⁷ FT (1/5/2000)

²⁸ Forbes (19/4/99)

²⁹ SEC Form 10k, 1998, p5

million cheque and substantial stock options. Those options were worth around \$140 million in mid-1999.³⁰

When Winnick realised that the New York hotel meeting was going to lead to contracts he called the company's lawyers, Simpson Thacher, and told one of the partners, James Gorton, that he would quickly need some contracts drawn up. Later, Winnick was to offer Gorton a position as GC's full time Counsel. As Forbes put it "Winnick knew how to return a favour".³¹

In April 1988 John Scanlon was brought in as Chief Executive from Motorola, where he was President and General Manager of its Cellular Networks and Space Sector. Mr. Scanlon has over 30 years of experience in the telecommunications industry, including 24 years with AT&T and Bell Laboratories. After the arrival of Annunziata he took on the position of Vice-Chairman.³²

The preceding list of significant figures in the early development of GC shows that it has been far from a one man operation. This abundance of key personnel led the New York Times to suggest that GC has "an Executive Suite...packed with high-powered executives".³³ It later reiterated the observation, stating that the recruitment of so many senior post holders, including two Chairmen and two Vice-Chairmen, "has made Global Crossing top heavy by conventional standards".³⁴ That it was prepared to cram even more executives on board was shown by the intention to make Sol Trujillo of US West joint-CEO after the proposed merger between the two companies (see Mergers section, below). This proposal (which never came to fruition) was seen as unwise and probably unworkable by a number of financial analysts.

Another personality who crops up in the early years of GC (and also Qwest) is analyst Jack Grubman of Salomon Smith Barney. The FT described him as "the most prominent of Wall Street's new band of superstar analysts."³⁵ He had been instrumental in bringing together MCI and WorldCom and also played a key role in the proposed mergers between GC and both Frontier and US West (see Mergers section, below).

Things got rather complicated when Qwest entered the fray, since Grubman had been central in bringing both this company and GC to market and was an "unabashed bull" of both outfits.³⁶ In other words he had a close involvement with both of the "two darlings" of the telecom world.³⁷ In the case of Qwest the links went further since he had worked with its CEO, Joe Nacchio, at AT&T and had been instrumental in getting him recruited in that position at Qwest. During the protracted and often highly personalised battle between GC and Qwest (see Mergers section, below), Grubman had to walk something of a diplomatic tightrope, although given that Salomon Smith

³⁰ Forbes (19/4/99)

³¹ Ibid

³² SEC Form 10k, 1998, p5

³³ New York Times (17/5/99)

³⁴ New York Times (18/5/99)

³⁵ FT (23/6/99)

³⁶ Ibid

³⁷ Forbes (5/7/99)

Barney were acting on behalf of GC he had little choice but to come down on their side.

Leo Hindery

In March 2000 it was announced that Annunziata was being replaced as CEO by Leo Hindery, who had been brought into the company in December 1999 to take charge of GC's web hosting business. The move which was announced soon after GC's purchase of data supplier IXnet (see Mergers section, below) was presented as part of the company's increasing focus upon data services. The move was also linked to GC's plans to create a separate tracking stock for GlobalCenter, its web hosting division. Hindery already had experience in managing such stocks while he was CEO at the cable company, TCI.³⁸

The tracking stock never materialised, however, with GlobalCenter being sold to Exodus later in the year. In recognition of this change of strategic thinking it was subsequently announced that Hindery would be stepping down as CEO. His replacement was to be Vice-Chairman Thomas Casey.³⁹

2/Investors

The following table shows the dominant equity-owning organisations within GC. As stated earlier, the principle shareholder, PCG, is the investment arm of Gary Winnick and his associates. By the end of the 1999 financial year the Directors and other Executives of GC held 25 percent of the company. Such a significant holding reinforces the view that the company has a large and powerful board of directors.

Table 1 - Main Investors in GC		
Investment Group	Total Holding (percent)	
	1998	1999
Pacific Capital Group (PCG)	23	12
Canadian Imperial Bank of Commerce (CIBC)	22	10
Continental Casualty Company	9	---
MRCO, Inc	8	---

³⁸ FT (3/3/2000)

³⁹ FT (11/10/2000)

Directors and Officers	N/A	25*
* Gary Winnick alone accounted for 12%		
Source: Annual Report (Form 10k, 1998, 1999)		

As of March 12, 1999, PCG and CIBC collectively, beneficially owned 45.29 percent of GC's outstanding common stock. Accordingly, the company was obliged to state that PCG and CIBC:

“may be able to materially influence the outcome of matters submitted to a vote of our shareholders, including the election of directors”⁴⁰

Upon going public, Gary Winnick saw his 24 percent stake in GC valued at around \$1.2 billion.⁴¹ As of mid-1999 his \$15 million initial investment was estimated to be worth around \$5 billion.⁴² According to Forbes, this increase in the value of his investment meant that Winnick would go down in history as the man who made the fastest fortune, ever.⁴³

When negotiating the US West deal (see below), provision was made for Winnick to bank more than \$300 million through US West's purchase of GC stock. Commenting upon the speed at which the new telecoms entrepreneurs such as Winnick were seeking to cash in part of their investments, the FT suggested that:

"for executives who have done little so far to prove that they can make their big ideas work, the haste seems almost unseemly".⁴⁴

In his defence, Winnick could, of course, argue that compared with his overall stake of around \$5 billion, the amount cashed in was proportionally quite small.

One of the key investment institutions which helped to finance GC was the World Markets division of the Canadian Imperial Bank of Commerce (CIBC). In the process of bringing GC to the market, the bank took a 17 percent stake for \$30 million in 1996. As the FT pointed out, this investment "paid handsome dividends", with their shares worth around \$3 billion by mid 1999.⁴⁵ According to Dean Kehler, MD at World Markets, the GC investment was "without a doubt" the most profitable investment ever made by the company.⁴⁶

One "celebrity" stock holder in GC is former US President George Bush who made the "smart move" of accepting stock in the start-up company instead of his usual fee of \$80,000 when addressing an audience at a GC event in Tokyo in 1998.⁴⁷ By mid-

⁴⁰ SEC Form 10k, 1998, p17

⁴¹ Business Week (12/10/98)

⁴² New York Times (6/7/99)

⁴³ Forbes (19/4/99)

⁴⁴ FT (31/5/99)

⁴⁵ FT (25/5/99)

⁴⁶ Quoted in Ibid

⁴⁷ New York Times (20/3/99)

1999 his stake was worth well over a million dollars.⁴⁸

3/Mergers, Acquisitions and Joint Ventures

Mergers: The battle with Qwest

In early 1999 the “upstart” telecom companies Qwest and GC were little known outside of specialist circles. By the middle of that year they were seldom out of the business news. Much could be written about the tussle between the two for control of Frontier and US West. Here, only a brief account is given but suffice to say that the episode was in keeping with the comments by Telephony that the telecommunications industry was becoming “a virtual soap opera”.⁴⁹

In March 1999 GC announced that it had reached a merger agreement with Frontier Corporation, one of the country’s leading providers of facilities-based integrated communications and Internet services and owner of GlobalCenter, one of the biggest web hosting concerns. The deal was worth \$11.2 billion.⁵⁰ Frontier, once known as Rochester Telecom, had been one of the first companies to buy capacity from Qwest as a way of branching out into the long distance business.⁵¹ This early business relationship provided the first link with Qwest which would in time make its own counter bid.

In May 1999 GC indicated that it was also to merge with US West, the smallest and most rural remaining “Baby Bell” in an agreement valued at \$37 billion.⁵² As Forbes put it US West was “nobody’s idea of a glamour stock”⁵³; indeed it was often referred to as “US Worst” due to its “horrible customer service”.⁵⁴ The New York Times called the company the “slow growing runt of the Baby Bell local phone family”.⁵⁵ But with almost 55,000 employees it was still a big fish for a minnow like GC (with a workforce of under 200) to consider. The Economist referred to the move as “a piece of social climbing which would make Cinderella gasp”.⁵⁶ The FT, for its part, implied it was an audacious step for a mere “paper company” such as GC.⁵⁷

As part of the deal US West agreed to take 9.5 percent of GC for \$2.45 billion.⁵⁸ As stated earlier, \$300 million of this was to be taken in cash by Winnick. The logic behind the deal, from GC’s point of view, was that it would gain an “anchor tenant”, with local links to 30 million customers. This would allow GC to fill part of its growing network.

⁴⁸ New York Times (18/5/99)

⁴⁹ Telephony (5/4/99)

⁵⁰ Global Crossing Web site

⁵¹ FT (18/3/99)

⁵² New York Times (17/5/99)

⁵³ Forbes (5/7/99)

⁵⁴ Internetweek (21/6/99)

⁵⁵ The New York Times (23/5/99)

⁵⁶ The Economist (22/5/99)

⁵⁷ FT (15/6/99)

⁵⁸ FT (18/5/99)

The new company, to be called Global Crossing Corporation, would have joint CEOs - Sol Trujillo of US West and Robert Annunziata from GC. Fortune described this arrangement as “a recipe for trouble”.⁵⁹ The two-sided theme was to be replicated through the creation of two “tracking stocks”, which would help reflect the strong growth and more mature, slow growing sides of the joint business. This scheme was to avoid any stock market dislocation which the merger might have created given that GC was valued essentially on its growth potential with US West judged according to existing earnings. The FT was not impressed, with Lex referring to the arrangement as a “tortuous attempt not to lose the go-go Internet valuation”.⁶⁰ Elsewhere, the FT suggested that it “is worth pausing for a moment to ask: does a merger that starts off with two separate stocks and ends up with two really make sense?”⁶¹ The same strategy had been used by Sprint in 1998 to reflect the fortunes of its wireless activities, although the reception from Wall Street had been “lukewarm”.⁶²

The reaction of Wall Street on this occasion was also less than favourable with the shares dropping by 16 percent in the days after the announcement.⁶³ By the end of June 1999 GC’s share price was 25 percent below the level it was at prior to expressing an interest in US West.⁶⁴

Things were further complicated by the negative reaction which the deal’s announcement received from the Frontier camp, which under their merger agreement had the right to block further expansion plans. Subsequently, GC had to improve the purchase terms with Frontier in order to achieve its backing.⁶⁵ Given the increasing complications the New York Times deliberated that, “In fact, nothing is simple about this deal”.⁶⁶

While complicated, however, the strategic rationale behind the moves upon Frontier and US West was seen as quite straightforward. Reviewing GC’s strategy, Telephony suggested that:

“With the acquisition of Frontier Corp., Global Crossing will make its fiber network coup, while the merger with US West will offer local voice, data, and Internet services”⁶⁷

Business Week suggested that its merger strategy, if successful, would make GC a “giant” within the industry.⁶⁸ Network World argued that it was “looking to graduate from being a simple wholesaler of international bandwidth to becoming a broadband retail telecom carrier”.⁶⁹ Telephony agreed, suggesting that it was “trying to shed its

⁵⁹ Fortune (21/6/99)

⁶⁰ FT (18/5/99)

⁶¹ FT (18/5/99)

⁶² FT (17/5/99)

⁶³ FT (21/5/99)

⁶⁴ FT (24/6/99)

⁶⁵ FT (18/5/99)

⁶⁶ New York Times (15/5/99)

⁶⁷ Telephony (7/6/99)

⁶⁸ Business Week (31/5/99)

⁶⁹ Network World (24/5/99)

reputation as a carriers' carrier to play a new role as a supercarrier".⁷⁰

Many commentators were impressed with the assertiveness shown by GC in its strategic manoeuvring. Utility Business suggested that the company "at two years considered just a toddler in the telecommunications industry, is hitting the terrible twos in grand style".⁷¹ But then came along an older child, in the form of Qwest, which had its sights set on the toddler's new toys.

On June 12 1999 Qwest announced simultaneous hostile bids for both Frontier and US West. Together the bids represented the largest ever unsolicited take-over offer.⁷² Clearly such a move would "scuttle the plans of Global Crossing Ltd".⁷³ As the FT observed, Qwest seemed to be attempting "to take over Global Crossing's strategy lock, stock and barrel".⁷⁴ The initial offers were rejected by both Frontier and US West. In assessing the bids Lex was quite scathing, suggesting that Qwest was "more-or-less a virtual company", although admittedly it was not simply "a paper company" like GC.⁷⁵

While rumours had been flying around Wall Street that a counter bid might be made for US West by Qwest, few analysts expected the double-barrelled attack which materialised. The Economist focused upon Qwest's CEO, Joe Nacchio, suggesting that "Some of Nacchio's admirers feared that this time he may have let his natural aggression get the better of his business sense".⁷⁶ The FT, followed a similar line, referring to Mr Nacchio's "chagrin" when "Mr Winnick's Global Crossing emerged from nowhere to unseat Qwest as the most talked-of company in the industry".⁷⁷ It went on to imply that US West merging with GC would have been all the more painful given that both Qwest and US West were based in Denver and had previously enjoyed a close marketing agreement.

Immediately after the bid Qwest's shares fell by around 25 percent in record trading, removing most of the premium over GC's original offers.⁷⁸ As the New York Times put it, investors had "panned" the offer.⁷⁹ The publication, Telephony agreed, suggesting that Qwest's stock had experienced "a staggering fall".⁸⁰ As Pensions & Investments put it, Qwest "was a growth stock when the market closed June 11. Portfolio managers were treating it as a laggard 3 days later."⁸¹ By June 23 its stock was 30 percent down on its pre-bid levels.⁸²

Before long a war of words had erupted between GC and Qwest. On balance, though,

⁷⁰ Telephony (24/5/99)

⁷¹ Utility Business (June, 1999)

⁷² FT (14/6/99)

⁷³ Pensions and Investments (28/6/99)

⁷⁴ FT (15/6/99)

⁷⁵ FT (15/6/99)

⁷⁶ The Economist (19/6/99)

⁷⁷ FT (14/6/99)

⁷⁸ Economist (19/6/99)

⁷⁹ The New York Times ((24/6/99)

⁸⁰ Telephony (21/6/99)

⁸¹ Pensions & Investments (28/6/99)

⁸² FT (24/6/99)

it is probably fair to say that most of the verbal barrage came from Qwest and from Nacchio in particular. Part of this was attributable to the gagging order which was effectively placed upon Annunziata until GC could file the necessary documentation with the regulators.⁸³ When Nacchio of Qwest was asked if he would consider a take-over of GC itself, he replied, “let’s face it, all Global Crossing has is one cable under the sea”.⁸⁴ This was not the first time Nacchio had homed in on this side of GC. In another interview he had stated that:

“Global Crossing have described themselves as the wet Qwest - Qwest under the ocean. They have aspirations to be like us but they’re not. We’ve completed our nation-wide network. They have one cable under the Atlantic”⁸⁵

Neither of the initial bids were accepted, not least due to the fall in Qwest’s share price which had reduced the value of their all-paper offers. On June 23 Qwest made an improved bid for the two companies containing various “sweeteners”. The response of the two target companies was less than enthusiastic. Lex, in the FT was not impressed either, asking, “What is worse than launching a hostile bid that fails to impress? Raising it and still not delivering a killer blow”. Lex went on to suggest that Qwest could finally prove victorious but that it had “hardly looked smart so far”.⁸⁶ After Qwest had struggled to impress for the second time the New York Times repeated the comments of one Wall Street banker who had commented after the original hostile bids that “This will be a Harvard Business School case study someday on how not to launch a hostile take-over”.⁸⁷

On June 18 the New York Times implied that Qwest was much more interested in US West than in Frontier. This view was supported by Brian Hayward, manager at Invesco Worldwide Communications fund, who stated that “if I were guessing, I could see Global Crossing getting Frontier and US West going with Qwest”.⁸⁸ He guessed correctly.

On July 19 it was announced that GC and Qwest had reached a “gentleman’s agreement” whereby GC was to go ahead with its merger with Frontier and Qwest was to get US West in a \$36.5 billion deal.⁸⁹ In August 1999, GC announced that 77 percent of holders of its outstanding shares had agreed to vote in favour of the deal with Frontier which was finally valued at \$12.9 billion.⁹⁰

Commenting upon the original agreement between GC and US West, Annunziata, in keeping with his dynamic reputation, indicated that the joint outfit would be a thorn in the side of the major players since “the good news is we know how to move quick”.⁹¹

⁸³ New York Times (25/7/99)

⁸⁴ Quoted in New York Times (24/6/99)

⁸⁵ Quoted in New York Times (14/6/99)

⁸⁶ FT (24/6/99)

⁸⁷ New York Times (6/7/99)

⁸⁸ Quoted in New York Times (20/6/99)

⁸⁹ The New York Times (19/7/99)

⁹⁰ Bloomberg (5/8/99)

⁹¹ Quoted in Fortune (21/6/99)

Unfortunately, on this occasion GC did not move quickly enough to prevent this deal being scuppered by Qwest. Annunziata and GC did, however, have the consolation of a break-up fee of \$420 million from US West to help restore their wounded pride. This comprised of three equal \$140 million increments, namely:

- * cash, to be paid immediately;
- * returned Global Crossing stock from the tender offer (valued at the same \$62.75 per share at which US West acquired it); and
- * capacity purchase on the Global Crossing network, to be purchased over two years at GC's published Tier 3 prices.⁹²

Interestingly, this final break up fee represented less than half the agreed sum of \$850 million which had been written into the original agreement. The lesser penalty to US West is likely to have formed part of the merger compromise reached between GC and Qwest - the result of what the New York Times called "weeks of almost Machiavellian manoeuvring".⁹³

While GC and Qwest were fighting it out in these take-over battles it could have been easy to overlook just how similar the aims of the two companies were. Both had reached a critical time in their development whereby they needed to acquire customers and attempt to join the big-league players. This was recognised by the FT which stated that:

"By providing customers, an instant sales force and direct access to customers through local networks, those acquisitions would help to turn both companies from construction projects into rounded telephone companies"⁹⁴

The New York Times made a similar point:

"Both Global Crossing and Qwest need customers, and they need to get them before investors realize how great the need really is".⁹⁵

Earlier, this newspaper had helped to add some historical perspective to the episode arguing that:

"The Global Crossing - Qwest showdown is just the latest bombshell in the telecommunications industry which has come to resemble the railroad and steel industries of a century ago in its ruthless dashes for assets and market share"⁹⁶

Reading the post-merger comments by both GC and Qwest it is easy to accept the theory than the outcome represented a "win-win" compromise with both companies getting what they truly coveted. Mark Bruneau, of Renaissance Worldwide, was less inclined to accept this "victimless" assessment, suggesting that:

⁹² GC Letter to Shareholders, 18/7/99

⁹³ New York Times (25/6/99, 21/7/99)

⁹⁴ FT (30/6/99),

⁹⁵ The New York Times (19/6/99)

⁹⁶ The New York Times (14/6/99)

“This is a big win for Qwest because it’s proving that you can acquire your way into local access...and it’s a big loss for Global Crossing because it has limited time to convert its lofty market valuation into a real, sustainable revenue engine and operation”⁹⁷

While Qwest can be presented as victorious, however, the reputation of Mr Nacchio was not enhanced during the episode, with the business press frequently questioning his motives and temperament. Rather than a “win-win” outcome, then, it seems just as valid to argue that to some extent both companies emerged as losers from the affair.

Acquisitions

In April 1999, GC announced that it was taking over the Global Marine subsidiary of Cable and Wireless in a transaction valued at £550 million. The company which traced its history back to 1850 had a fleet of 13 cable ships (33 percent of the global total) and 1,200 employees.⁹⁸ It was the world’s largest undersea cable installation and maintenance company. Speaking on the deal, Bill Carter, President of GC said:

“With their credibility and their history, it helps us a lot. It also saves us some money, and there will be a lot of revenue with it also. C&W Marine is a perfect match for us”⁹⁹

The Lex column in the FT suggested that GC had paid a “rich sum” for the outfit but that it got a fair deal.¹⁰⁰ Apart from making it more self sufficient for its own cable laying needs (saving it around \$100 million a year) it put it in a strong position within a key market. As Lex went on to comment:

“With internet communication growing like topsy and competition driving down the price of international calls, capacity is a good resource to be peddling.”¹⁰¹

In October 1999 the FT reported that GC had held talks with Deutsche Telekom which was widely seen to be on the look out for a US network. With takeover speculation mounting GC’s share price rose by around 30 percent in the first week of October.¹⁰² The speculation was to come to nothing, with the German company opting for a takeover attempt of Qwest the following year (an attempt which proved unsuccessful). GC has maintained close links with Deutsch Telekom, however, with the German operator representing one of GC’s largest wholesale customers.¹⁰³

Later in October 1999 GC showed itself to be the predator rather than the potential prey in the world of corporate takeovers. It did this through the purchase of British

⁹⁷ Quoted in The New York Times (17/7/99)

⁹⁸ GC, Press Release (26/4/99)

⁹⁹ Quoted in FT (27/4/99)

¹⁰⁰ FT (26/4/99)

¹⁰¹ Ibid

¹⁰² FT (8/10/99)

¹⁰³ SEC Form 10k, 1999, p1

company, Racal Telecom, for around £1 billion. Until GC made its move the British operator looked as though it would be bought by Energis for between £750-£800 million in cash and shares. Racal Telecom, which grew out of the former British Rail, had laid more than 7,000 km of cable throughout the UK. Racal's assets would take GC's European network to about 17,000 km and would enhance its position as a true global operator.¹⁰⁴ In Britain GC would gain access to a broad base of business customers and government organisations. This would facilitate its strategy of moving away from the wholesale market towards the provision of value added data services to the business sector.

Speaking on the deal Annunziata stated that it was “a significant moment in the company's global telecoms strategy” and that it would give the company “a deeper reach”.¹⁰⁵ By significantly outbidding Energis to secure the deal GC was seen by some commentators to have over paid for the British company. In response to this Lex pointed out in the FT that 90 percent of the funding was coming from Goldman Sachs – an “extraordinary” arrangement which freed GC from the bulk of the risk associated with the deal. The markets were still cautious, however, with GC's share price falling by more than five percent after the deal was announced.¹⁰⁶

In February 2000 GC paid \$3.65 billion in stock for IXnet, a supplier of data services to financial institutions. GC intended to transfer the company's data traffic onto its own network thereby saving the cost of leasing lines. It also intended to combine the company's operations with its own web hosting services. Commenting on the deal Annunziata indicated that it allowed GC's network to move from building to building to desktop to desktop.¹⁰⁷ The deal was seen as another stage in GC's strategy of focusing on data and web hosting operations.

In June 2000 it was reported that GC had been in merger talks with Dutch-based company, Equant, but that no agreement had been reached due to differences over the price. GC was said to have offered \$10 billion for the telecommunications network company which had started off as an airline reservation system.¹⁰⁸

Disposals

In July 2000 GC sold its local exchange operations (previously part of Frontier) to Citizens Communications for \$3.65 billion in cash. The FT reported that the sale allowed GC to move a step closer to sorting out its “tangle of assets” resulting from its own acquisitions.¹⁰⁹

In September 2000 another of Frontier's assets, GlobalCenter, the web-hosting division was sold to Exodus Communications for about \$6.1 billion in shares.¹¹⁰

¹⁰⁴ FT (12/10/2000)

¹⁰⁵ Quoted in FT (12/10/2000)

¹⁰⁶ FT (12/10/2000)

¹⁰⁷ FT (23/2/2000)

¹⁰⁸ FT (17/6/2000)

¹⁰⁹ FT (13/7/2000)

¹¹⁰ FT (27/9/2000)

Originally the company had indicated that it intended to establish a tracking stock for the business. A previous attempt at a deal had floundered in July. It was thought that the two companies were forced back to the negotiation table by WorldCom's subsequent takeover of Digex, another web-hosting company, in a three-way auction in which GC and Exodus were the unsuccessful bidders. This left Exodus as the only large web hosting operation without a network partner, while GlobalCenter risked being marginalized in a consolidating market. The deal addressed both these issues. Under the arrangement Exodus agreed to use GC as its primary network partner for the next 10 years. It also agreed to enter into a new joint venture with Asia Global Crossing, a partnership which also involved Microsoft and Softbank. A joint marketing agreement was also reached which would allow GC to market web-hosting services to its own customers.

Lex saw the deal as "an elegant exit from web-hosting" for GC.¹¹¹ Soon after the deal was concluded, however, it was announced that CEO Leo Hindery would be stepping down. GC's replacement of yet another CEO in such a short space of time looked rather less elegant and implied that the company lacked a definite strategic direction.

In October 2000 GC held an IPO for Asia Global Crossing raising \$476, about half the amount originally anticipated.¹¹² Faced with a rather tepid IPO market the company had been forced to reduce the price and the number of shares on offer.

Joint Ventures

In May 1998 GC signed an agreement with Marubeni Corp. and KDD-SCS of Japan and Tyco of the US to construct the Pacific Crossing (PC-1) to connect the US and Japan. The joint venture was to be 50 percent owned by the two US companies and 50 percent by the two Japanese partners.¹¹³

In June 1998 an agreement was reached with Alcatel Submarine networks to construct the Mid Atlantic Crossing (MAC). Later that year GC reached an agreement with Level 3 Communications for transatlantic capacity on the AC-1 system.¹¹⁴

In October 1998 GC secured rights of way for Holland and Belgium for the PEC system through an agreement with VersaTel Telecom Europe BV. Under the agreement VersaTel received capacity and dark fibre on the network. In November that year GC reached an agreement with GasLINE for rights of way on the German leg of the PEC network.¹¹⁵

In January 1999 an arrangement was reached with Lucent Technologies to provide GC with extensive access the cable technologies. In April that year Tyco Submarines Ltd was selected as supplier for the South American crossing project.¹¹⁶

¹¹¹ FT (29/9/2000)

¹¹² FT (6/10/2000)

¹¹³ FT (27/2/98)

¹¹⁴ GC Web site

¹¹⁵ Ibid

¹¹⁶ Ibid

In July 1999 GC reached an agreement with the Industrial Development Authority in Ireland to construct an \$80 million fibre-optic cable linking Ireland's leading companies to Europe and the world's major cities.¹¹⁷ By exploiting the GC network Ireland hoped to become the first European country where every home and office had broadband access to the Internet.¹¹⁸

On July 26, 1999, Frontier Communications (by now part of GC) announced it would provide Internet services to Chicago-based Globalcom, Inc. in a long-term, multi-million dollar agreement. Globalcom was a full-service telecommunications carrier providing domestic and international voice and data communications services. The Globalcom switching facility in Chicago combined the Nortel DMS-500 switching platform with Cisco Systems equipment to offer DSL, voice, data and Internet services to small- and medium-sized business customers in the Midwest.

Globalcom was Frontier's first customer to utilise Ready, Set, Connect!(SM), the company's complete, end-to-end dedicated Internet solution. The program enabled carriers, such as Globalcom, to develop an IP-based network infrastructure utilising Internet access services, bandwidth and training from Frontier, along with hardware from Cisco.¹¹⁹

On 27 July 1999 Frontier GlobalCenter, the data and Internet arm of Frontier Communications, announced that it planned to work together with Oracle Corp., the industry's leading supplier of e-business solutions, on offering an Internet hosting platform for Applications Service Providers (ASPs). The two companies planned to work on a technology concept that would leverage Frontier GlobalCenter's Digital Distribution Architecture and the Oracle Internet Platform to offer customers accessibility to applications used in every day e-business practices.¹²⁰

On 10th August 1999 GC announced a partnership with Newcourt Capital, the corporate finance subsidiary of Newcourt Credit Group. The arrangement would provide financing to select customers including Internet service providers, data companies, and telecom providers. Financing under the program would cover up to 100 percent of the cost of capacity purchases on the Global Crossing Network.¹²¹

In November 2000 it was announced that GC would be working with Hutchison Whampoa (HW), the Hong Kong based telecoms group. The deal involved giving GC access to HW's fixed-line network.¹²² The joint venture known as Hutchison Global Crossing gave the Hong Kong group \$400 million of convertible stock in GC. As part of the deal HW agreed that any fixed-line telecommunications activities it pursued in China would be carried out by the joint venture.¹²³ The deal also gave HW representation on the GC Board.

¹¹⁷ PC Week (19/7/99)

¹¹⁸ FT (24/6/2000)

¹¹⁹ News Wire (26/7/99)

¹²⁰ Business Wire (27/7/99)

¹²¹ GC press release (10/10/99)

¹²² FT (16/11/2000)

¹²³ 1999 SEC 10k, p2

4/Network

An explanation of the logic behind GC's network (using layman's terms) was provided by the specialist publication, *Telephony*, which stated that "The plan was to build a souped-up mega network that will link the continents via undersea fiber".¹²⁴ Using more technical language, the publication went on to explain that, "The company aims to provide a one-stop, total solution, integrating both trans-oceanic transport with terrestrial backhaul on a city-to-city basis."

The systems completed or under development, which will form a state-of-the-art interconnected world-wide high capacity fibre optic network, consists of:

- * Atlantic Crossing ("AC-1") and Atlantic Crossing-2 ("AC-2"), undersea systems connecting the United States and Europe;
- * Pacific Crossing ("PC-1"), an undersea system connecting the United States and Asia;
- * Mid Atlantic Crossing ("MAC"), an undersea system connecting the eastern United States and the Caribbean;
- * Pan American Crossing ("PAC"), an undersea system connecting the western United States, Mexico, Panama, Venezuela and the Caribbean;
- * South American Crossing ("SAC"), an undersea and terrestrial system connecting the major cities of South America to MAC, PAC and the rest of the Global Crossing Network;
- * Pan European Crossing ("PEC"), a terrestrial system connecting 24 European cities to AC-1; and a terrestrial system to be operated by Global Access Ltd. connecting certain cities in Japan to PC-1 ("GAL").¹²⁵

The following technical information on the network is provided on the company's web site:

Atlantic Crossing (AC-1) will utilize advanced dense wavelength division multiplexing (DWDM) technology to provide ample capacity for the large volume of voice and non-voice traffic along this very high volume route. AC-1 initially offered 40 Gbps, but due to the strong demand for AC-1, Global months to increase capacity from 40 gigabits to 80 gigabits using DWDM technology ready for use by July 1999.

Pacific Crossing (PC-1), a 21,000 kilometer, four fiber pair self-healing ring will connect the United States to Japan. Global Crossing and Japanese trading giant, Marubeni Corporation have formed a joint

¹²⁴ *Telephony* (25/1/99)

¹²⁵ GC Web site

venture to construct and own PC-1, which is scheduled to commence initial service in March 2000. PC-1 is being designed to utilize wavelength division multiplexing technology to offer an initial capacity of 80 gigabits.

Mid-Atlantic Crossing (MAC), a two fiber pair self-healing ring will connect New York (at the AC-1 Brookhaven Cable Station), the Caribbean and Florida and will commence initial service in December 1999. Pan American Crossing (PAC), will be ready for initial service in February 2000 and will link California, Mexico and Panama and will interconnect with MAC in the Caribbean. The connection between Panama and St. Croix will enable Global Crossing's initial four systems to link cities in Asia, the Americas, and Europe.

Pan European Crossing (PEC) will connect 24 major commercial centers in Europe, including London, Amsterdam and Frankfurt, with the United States, Asia and Latin America. This \$850 million high-capacity terrestrial telecommunications network will link with Global Crossing's four other undersea systems, creating a direct city-to-city network connecting 100 of the world's largest metropolitan areas to meet the growing demand for world-wide Internet and communications connectivity. PEC's terrestrial network will span approximately 10,000 route kilometers and have a fully deployed capacity of 30 fiber pairs, or 614,851 fiber kilometers. Based on fibers per kilometers, PEC is by far the highest capacity independent European network.

South American Crossing (SAC) is a four-fiber-pair system linking the U.S. Virgin Islands, Brazil, Argentina, Chile, Peru, Colombia, and Panama. SAC will be implemented in several phases with the complete self-healing ring scheduled for service in early 2001. SAC uses wavelength division multiplexing to provide 40 Gb/s initial capacity.¹²⁶

The following table contains information regarding the system cost, initial Ready For Service ("RFS") date and ownership structure of GC's network systems.

Information relating to AC-1 is based upon historical results, while information for all other systems is estimated.

¹²⁶ Ibid

Table 3 - GC Network			
System Cost		Ownership	
System	(millions)	RFS Date(1)	Structure
AC-1	\$ 750		Wholly-Owned
		February 1999 (Full Ring)	
AC-2	750		Wholly-Owned
		March 2001	
PC-1	1,200	March 2000 (Initial)	Joint Venture
		July 2000 (Full Ring)	
MAC	330	December 1999	Wholly-Owned
PAC	495	February 2000	Wholly-Owned
SAC	1,130	Dec. 2000 (First Phase)	Wholly-Owned (undersea)
		March 2001 (Full Ring)	Joint Venture (terrestrial)
PEC	850	December 1999 (First Phase)	Wholly-Owned
GAL	190	December 1999 (First Phase)	Joint Venture

	\$5,695		
	=====		
(Source: SEC Form 10K, 1998, p6)			

As of year-end 1998 the undersea component of this initial portion of the Global Crossing Network totalled 68,100 km and the terrestrial component added 13,300 km for a total of 81,400 km.¹²⁷

With the merger of GC and Frontier the combined company owned and operated the first seamless global IP network with more than 71,000 ultra-high bandwidth fibre miles (114,000km) connecting 159 major cities in 19 countries.¹²⁸

Frontier boasts one of the industry's fastest and most secure networks. Connecting more than 120 markets in the United States, the Frontier Optronics Network uses the most advanced fibre optics with Dense Wavelength Division Multiplexing (DWDM).

¹²⁷ SEC Form 10K, 1998, p1

¹²⁸ Business Wire (26/7/99)

This future proof architecture creates "liquid bandwidth," a scaleable design that gives the network virtually unlimited capacity on demand.¹²⁹

Frontier Communications announced on 26 July, 1999 its plans to introduce carrier private line service between the United States and Europe. Its initial international private line service, planned for release in August, would provide data service connections linking London, Paris, Amsterdam and Frankfurt, with the Frontier Optronics Network. Carriers and ISPs, it claimed, would benefit from a single source for state-of-the-art transmission and seamless end-to-end connectivity. This product was enabled through a service agreement established with GC, accelerating Frontier's global carrier expansion.¹³⁰

In September 1999 GC announced that it would be constructing a 17,700 km network in Asia.¹³¹ The network with a cost estimated at \$1.28 billion would involve the creation of a new subsidiary, Global Crossing Asia (which was later partially floated).

In an interview in September 2000 GC's then CEO, Leo Hindery, indicated that by Easter 2001 the company's network would stretch for 102,000 miles, linking 200 cities in 27 countries. He suggested that the company would consider expanding the network to take in Africa and India when sufficient demand had been identified.¹³²

5/Addressable Market

In 1999 the value the global communications market was put at £438 billion per year. Of this, Europe accounted for 31 percent, the U.S. for 27 percent and Japan for 12 percent.¹³³ The long-distance market in Europe has been estimated at \$200 billion a year compared with \$160 billion for the U.S..¹³⁴ The size of the local telephone market within the US has been estimated at \$100 billion a year.¹³⁵

Credit Suisse First Boston suggested that the European telecoms market was growing at around 11 percent a year (comprising of volume growth of 17 to 18 percent and price deflation of 6 to 7 percent). It calculated that the market would grow from \$194 billion in 1999 to \$413 billion by 2005.¹³⁶ Virtually all of this growth was projected to come from data and mobile traffic with voice traffic growing just enough to offset predicted price declines. The carrier segment of the European market is put at around \$30 billion.¹³⁷

According to Bear, Stearns and Co, the European market for voice, data and Internet services is worth more than \$175 billion a year.¹³⁸ As the number of European

¹²⁹ Business Wire (26/7/99)

¹³⁰ Ibid

¹³¹ FT (9/9/99)

¹³² FT (20/9/2000)

¹³³ Observer (17/10/99)

¹³⁴ Business Communications Review (July 1999)

¹³⁵ FT (9/6/99)

¹³⁶ Credit Suisse First Boston, Viatel Research Note (21/9/99)

¹³⁷ GTS Annual Report, 1998

¹³⁸ dowjones.com (13/5/99)

connecting to the Internet increases this figure will grow substantially. Dataquest estimate that the number of European PCs going on line will rise from 13 million at the start of 1997 to 69 million by the end of 2002.¹³⁹

According to Commerzbank the telecoms sector in Europe is growing at 8 percent a year. It predicts that the value of the top 6 territories: the UK, Germany, France , Italy, Spain and the Netherlands will grow from \$129 billion in 1997 to \$246 billion in 2005. Much of this growth will come from mobile services (from 19 percent in 1997 to 34 percent in 2005) and from the Internet.¹⁴⁰

Target Market

For its first few years of operation GC concentrated upon the wholesale carriers' market. With its merger with Frontier, and failed merger with US West, however, it is clearly looking to expand into the retail end of the market. The failure to acquire US West's large customer base would suggest that it may well seek to "buy in" to an alternative local market provider in the future. Its take-over of Global Marine also extends its scope to cover the cable-laying and maintenance sector. The company's recent acquisitions (IXnet and Racal) indicate that it intends focusing upon the business market, with an increasing emphasis upon data services.

6/Stock Market History

Fund Raising

In raising funds for its global network GC has used a combination of debt, equity and project financing. It raised \$400 million in August 1998 through its IPO, to which can be added another \$3.0 billion through high yield bond offerings and project financing.¹⁴¹ This fund raising approach contrasts with other operators such as Flag who have partly funded their operations through the pre-selling of capacity.¹⁴²

A historical break down of GC's major fund raising ventures takes the following shape:

¹³⁹ Ibid

¹⁴⁰ FT (18/3/99)

¹⁴¹ GC Web site

¹⁴² FT (18/3/99)

Table 4 – Global Crossing’s Fund Raising		
Date	Amount raised (\$millions)	Description
May 1998	800	Bond
Aug 1998	400	IPO
Nov 1998	750	Preference Stock
Various	1,800	Project Financing
Source: GC Web site – September 1999		

In November 1999 GC issued convertible preference stock valued at \$969 million. The same month it issued Senior Notes valued at a total of \$2 billion. In December 1999 it issued convertible preference stock to the value of \$630 million.¹⁴³

In April 2000 GC held a secondary offering raising \$1.42 billion at a price per share of \$33. The offering had been cut back following falls in the company’s stock price. To make up the short fall the company increased a convertible bond offering from \$750 million to \$1 billion.¹⁴⁴

Share Performance

GC's shares were first offered to the public on 14 August 1998, selling at \$9.50 (split adjusted). Thereafter, the shares shot up, benefiting at least in part from the "investor frenzy for anything related to the Internet".¹⁴⁵ Commenting upon GC's IPO, Barron's argued that:

"it appears to be a sane way to play the Internet: Bet on the system's backbone and leave the software, Web site development, content and assorted unknowns in the rapidly changing field to others"¹⁴⁶

After its IPO the value of GC’s shares rose spectacularly, standing at over \$60 by June 1999. After a period of decline during the middle of the year (as investors took fright at the company’s takeover plans), the shares rallied to regain their former highs by February 2000. Since then the shares have depreciated quite considerably as the telecoms sector in general has fallen out of favour with investors. In October 2000 the shares were valued at around \$23.¹⁴⁷

One corporate investor which has timed its dealings in GC’s shares rather badly has been US West. As part of its original merger deal with the company it paid about \$2.45 billion for a 9.5 percent stake in its new partner. The purchase was made in May

¹⁴³ SEC, 1999 10k Document, p25

¹⁴⁴ FT (12/4/2000)

¹⁴⁵ New York Times (18/5/99)

¹⁴⁶ Barron's (11/8/98)

¹⁴⁷ Interactive Investor Web site

1999 at \$63 a share, which was close to the shares' peak value. Upon selling the bulk of its holding at the end of the year US West only achieved \$48 a share, resulting in a loss of \$350 million.¹⁴⁸

The incredible rise of telecom stocks such as GC's has quickly put them in a position to be acquisitive and to contemplate the purchase of older, established companies such as Frontier and US West. As the FT put it, "A pumped up stock is a powerful weapon".¹⁴⁹ As the experience with these two take-over targets demonstrated, however, the stock can quickly lose its appeal (and a big chunk of its value) when the growth story is threatened (see Mergers section).

In assessing GC's merger with Frontier, the Investment's Dealers Digest pointed out that while holders of Frontier's ordinary stock benefited from a premium price, it was a "disaster" for Frontier's bond holders.¹⁵⁰ This was due to a reduction in the merged companies credit rating, which saw the value of Frontier's bonds drop.

7/Company Data

Employees

As of December 31, 1998, GC estimated it had approximately 148 employees.¹⁵¹ With the purchase of Global Marine in April 1999, GC's number of employees shot up by 1,200.¹⁵² With the completion of the merger with Frontier, GC acquired a further 8,151 employees, given a total of 9,651.¹⁵³

By March 2000, following GC's purchase of IXnet the total number of employees was put at around 14,000.¹⁵⁴

¹⁴⁸ FT (1/1/2000)

¹⁴⁹ FT (9/6/99)

¹⁵⁰ Investment's Dealers Digest (29/3/99)

¹⁵¹ SEC Form 10K, 1998, p14

¹⁵² GC, Press Release (26/4/99)

¹⁵³ The New York Times (15/5/99)

¹⁵⁴ FT (3/3/2000)

Financial Data

Table 5 shows GC's revenues and net losses since 1997. Perhaps the most impressive side of these results is that the company has gone from zero revenues to around \$1.7 billion in less than three years. Moreover, it cut its net loss in 1999, an impressive achievement for a company in the middle of its construction phase.

Table 5 Global Crossing – Financial Data			
(\$ million)			
	1999	1998	1997*
Revenues	1,664,824	419,866	--
Net Loss	70,926	87,903	160
*covers period 19/3/97 to 31/12/97			
Source: 1999 SEC 10k			

8/Strategy

After Winnick's initial gamble in financing the Atlantic Crossing cable (A-C1) paid off so handsomely, the company set out to repeat the exercise in various directions, embarking upon the next stage of a "breakneck expansion plan".¹⁵⁵ With reference to the increasing breadth of its network, Forbes suggested that "the company was bursting beyond its fortuitous beginning to be a real multinational."¹⁵⁶

As an independent operator GC could move fast and often out flank the multinational consortiums, concerned with pre-purchase of capacity as well as construction, which had characterised the cable laying industry for the previous decade. Such alliances were very much the domain of the "cosy club of carriers which traditionally ruled the industry".¹⁵⁷ One such joint agreement in 1996 involved more than 75 separate companies, each with its own concerns relating to cost, capacity and landing rights. As David Lee, GC's President scoffed, "it was like doing business with the United Nations".¹⁵⁸ The publication, Data Communications was more restrained in suggesting that, "Buying services from global carriers or consortia can be troublesome."¹⁵⁹

In going it alone, GC has been at the vanguard of the rapid changes taking place within the international telecoms industry. In the process, suggested the FT, it has

¹⁵⁵ FT (15/5/99)

¹⁵⁶ Forbes (19/4/99)

¹⁵⁷ FT (18/3/99)

¹⁵⁸ Quoted in Forbes (19/4/99)

¹⁵⁹ Data Communications (21/5/99)

"stolen a march on potential rivals by developing its own underseas cable network, giving it a way to attack the international traffic that remains one of the most profitable parts of the industry".¹⁶⁰ Today, it is alliances such as Global One (formally between Sprint and the German and French national carriers) which are seen as the exception, not least because they have "failed to meet expectations".¹⁶¹

The New York Times saw the emphasis of companies such as GC upon the independent ownership of their own infrastructure as symptomatic of the failure of many of the long distance operators, formed after the break up of AT&T in 1984, to make consistent profits. To a large extent, it suggested, they were hampered by their decision to lease capacity from third parties. As such, the new arrivals "have been founded - and financed- on the logic that owning physical assets was essential".¹⁶² This point was made explicit within GC's Corporate Backgrounder document which stated plainly that: "The decision to own versus lease fibers is a strategic one."¹⁶³

In its early days GC could claim that it was an independent wholesaler and as such posed no competitive threat to the other carriers it sought as customers. This stance also had pricing implications, a point picked up by the FT which with reference to PC-1 stated that:

"Because the owners will not be in competition with their customers, it is thought they will be able to offer lower prices than for cables owned by telecom operators".¹⁶⁴

In its Business description in its 1998 10K submission to the SEC the company gave the following description of its initial focus:

"Global Crossing Ltd was formed in March 1997 to capitalize on the accelerating growth of international voice and data telecommunications traffic. The significant increase in Internet usage and other bandwidth-intensive applications and the growing use of corporate networks have substantially increased the demand for international fiber optic cable capacity. The proliferation of telecommunications service providers due, in large part, to industry deregulation and privatization of foreign telecommunications companies has further contributed to increased demand for such international cable capacity. Additionally, we believe other technological developments, such as improvements in "last mile" access technology, including xDSL, cable modems, broadband wireless technology, and the increasing video content of Internet applications, will result in further capacity demand growth".¹⁶⁵

The same document went on to describe their business strategy as follows:

¹⁶⁰ FT (18/3/99)

¹⁶¹ FT (26/3/99))

¹⁶² The New York Times (11/7/99)

¹⁶³ Corporate Backgrounder document (p5)

¹⁶⁴ FT (18/5/98)

¹⁶⁵ SEC 10K document, 1998, p2

“Our mission is to create the world's first independent, global, state-of-the-art fiber optic network designed to offer our customers the highest quality city-to-city communications connectivity among approximately 100 of the largest metropolitan communications markets worldwide”¹⁶⁶

The components of this overall strategy were broken down as follows:

- 1/Create a world wide network
- 2/Maintain position as a leading wholesale service provider
- 3/Utilise state of the art technology
- 4/Maintain position as a low cost provider
- 5/Provide “one stop” sales and service
- 6/Make full use of their extensive management experience¹⁶⁷

At this stage (filing lodged March 31, 1999) the company was not explicit about purchasing other companies in an attempt to become a full service provider. By the spring of 1999, however, it seemed that the company had decided to go beyond offering wholesale services and to become a fully fledged retail service provider. This strategy began to take shape with the recruitment of Annunziata as CEO.

Forbes gave an early indication of the new corporate direction, suggesting that:

"Annunziata plans to quickly move Global Crossing beyond its original business of selling wholesale capacity to other carriers. He doesn't just want the penny for running the call under the sea, he wants the dime to complete it"¹⁶⁸

And so it proved, with the Frontier deal announced almost immediately after Annunziata's arrival.

Another factor which had a bearing upon GC's decision to diversify was the threat of over capacity and the commoditisation of the long distance market - especially at the wholesale level. To expand upon Annunziata's concern for getting the whole dime, there was now the lurking danger that the penny itself would soon come under threat (the subject of over capacity is discussed further in the "Additional Threats" section, below).

The danger faced by GC in restricting itself to its original market was looked at by the New York Times which indicated that along with the other new arrivals, it was in affect laying the seeds of its own downfall at the same time as laying its vast cable network: "Hence the new carriers' predicament: Their investments are alleviating the very scarcity that made their original business plans so attractive".¹⁶⁹ The reaction of GC and its cohort of new companies was to attempt to move up the "digital food chain" - the quickest means to which was via acquisitions. Thus, we are seeing, "the

¹⁶⁶ Ibid p3

¹⁶⁷ Ibid

¹⁶⁸ Forbes (19/4/99)

¹⁶⁹ The New York Times (11/7/99)

paroxysm of take-overs reshaping the communications landscape".¹⁷⁰ This logic was put more concisely by Howard Anderson, MD of the Yankee Group: "you are either the application service innovator, or you're dead meat".¹⁷¹ Or to use another like-minded metaphor, "The future is not in electronic pork bellies; it is in the fiber optic equivalent of processed meats".¹⁷²

With the announcement of the Frontier and US West deals it seemed that GC was well on its way into the big league of telecom players. As the FT put it:

"The move catapults the company from being a pure wholesale carrier...into a full-service company with both retail and wholesale operations".¹⁷³

Unfortunately for GC, Qwest was thinking along similar strategic lines and US West slipped through its fingers.

The strategic model for companies such as GC and Qwest is, according to the FT, largely that originally devised by MCI WorldCom under Bernie Ebbers.¹⁷⁴ It was this company, it argued, which first decided to construct end-to-end networks which would originate and complete customer calls without recourse to other companies and the prohibitively expensive "layered charges" that would involve. It was this mutual desire to "emulate" MCI WorldCom's strategy which led to the newer arrivals locking horns over Frontier and US West. Given this background the FT labelled GC as "Another WorldCom wannabe" and went on to suggest that it "is already privately comparing itself with Mr Ebbers' creation".¹⁷⁵ The similarity in style between the three companies was commented upon further by the FT when it stated that:

"Some of the fastest growing telecom companies have set out with the single-minded objective of creating...end-to-end networks to handle the growing traffic of multinational companies. MCI WorldCom, along with newcomers Qwest and Global Crossing, have all made their names this way".¹⁷⁶

The new arrivals have also tried to follow WorldCom's example on the stock market, using their strong valuations to take-over longer established operators. As the FT put it, "Led by WorldCom's acquisition of MCI, these companies have used high-flying stock prices to buy their way into contention."¹⁷⁷

Speaking of the battle for Frontier and US West, Merrill Lynch argued that, "Regardless of who wins (Qwest or GBLX) the loser will need local connectivity and will likely go on a buying binge of CLEC's".¹⁷⁸ Given that most of the local connectivity lay with US West we can view GC as the loser in these terms. Following

¹⁷⁰ Ibid

¹⁷¹ Quoted in Ibid

¹⁷² Ibid

¹⁷³ FT (18/3/99)

¹⁷⁴ FT (3/6/99)

¹⁷⁵ FT (17/5/99)

¹⁷⁶ FT (26/4/99)

¹⁷⁷ FT (9/6/99)

¹⁷⁸ Merrill Lynch Web site (24/6/99)

the Frontier/US West compromise GC indicated that it would indeed look at potential acquisitions, such as competitive local exchange carriers or telephone resellers, to add customer traffic to its networks. It also showed an inclination to build local phone networks of its own, instead of relying solely on Frontier's operations as a reseller of local services .¹⁷⁹ Annunziata said in an interview that:

"We will have the network with Frontier. We now will look even greater at 'How do you fill the network with products and services?' And that's either you have to do it organically or if you see something that fits nicely then we'll do some acquisitions... Clearly what we need to do is have more feet on the street or salespeople to grow it and have more products and services to fill the network"¹⁸⁰

In making future acquisitions GC might find that the availability of suitable telecom companies is rather limited (see Additional Threats section). Peter Treadway, an analyst at Southeast Research Group has, however, identified the following companies as possible targets:

- RSL Communications Ltd which has operations in 20 countries and focuses principally on the small and medium business sector
- COLT Telecom with operations in nine European countries and 18 cities which operates an integrated IP-based network that links Europe's major business centres
- Primus Telecommunications Group which offers domestic and international long-distance voice, data, Internet, private network services over owned and leased facilities
- Winstar, a Competitive Local Exchange Carrier (CLEC), which is one of the few CLEC's which is of sufficient size to interest GC¹⁸¹

With its purchase of IXnet and Racal the company has demonstrated that it intends focusing upon the business market with an increasing emphasis upon data services. With the elevation of Leo Hindery to CEO in early 2000 it appeared as though GC was placing GlobalCenter at the centre of its strategy, with Web hosting taking centre stage. Within a short space of time, however, GlobalCenter had been sold to Exodus and Hindery had been replaced as CEO. While the company retains an interest in Web hosting through a partnership agreement with Exodus, this episode would indicate that certain parts of the company's overall strategy were still in a state of flux as of mid-2000. This impression was heightened by the fact that GC had toyed with floating off the subsidiary or establishing a tracking stock before finally reaching its agreement with Exodus (and then only at the second attempt).

9/Competition

According to the categorisation used by Multex.Com, GC can be placed within the "Major Telecom Equipment Manufacturers" peer group.¹⁸² As such it is competing

¹⁷⁹ Reuters (18/7/99)

¹⁸⁰ Quoted in Ibid

¹⁸¹ Individual Investor web site (21/7/99)

with companies such as Cable Design Technologies Corp., CIENA Corp and Superior Telecom. This is a rather misleading classification, however, as it takes no account of GC's obvious ambition to develop into a full telecom service provider.

In term of competition it is revealing to look at the company's own remarks upon the subject as contained in their 1998 Form 10k submission:

The international telecommunications industry is highly competitive. We face competition from existing and planned systems along each of our planned routes. We also compete with satellite providers, including existing geosynchronous satellites and low- and medium-earth orbit systems now under construction. We compete primarily on the basis of price, availability, transmission quality and reliability, customer service and the location of our systems. Traditionally, carriers have made substantial long term investments in ownership of cable capacity. There can be no assurance that we will be able to compete successfully against systems to which prospective customers have made long term commitments.¹⁸³

In the same SEC submission GC went on to give a more detailed outline of its perceived competition. The breakdown was as follows:

Existing and Planned Cable Systems

The routes addressed by our planned systems are currently served by several cable systems as well as satellites. Currently, there are several fiber optic transatlantic cable systems, each of which competes directly with AC-1. Primary future sources of transatlantic competition for us may result from, among others,

(i) TAT-14, a transatlantic cable system which is being developed by its consortium members, including British Telecom, AT&T, FranceTelecom and Deutsche Telekom,

(ii) Flag Atlantic-1, a transatlantic system which is being developed by Flag Telecom and Global Telesystems Group Inc.

(iii) Gemini, a transatlantic cable system being operated and marketed by MCI WorldCom, Inc. and Cable & Wireless. We believe that such other cable systems will compete directly with our Atlantic capacity and the commitments of the developers and other carriers on these systems could substantially reduce estimated demand for capacity on our systems.

Similarly, there are several cable systems currently operating between the United States and Asia, the route to be served by PC-1. PC-1 may face

¹⁸² Multex.Com (31/7/99)

¹⁸³ 1998 SEC 10K document, p17

competition in the transpacific market from, among others,

(i) the China--U.S. Cable Network, a transpacific system being developed as a "private cable system" by fourteen large carriers, including SBC Communications Inc. ("SBC"), MCI WorldCom Inc., AT&T and Sprint, most of which have traditionally sponsored consortium cables and

(ii) the Japan--U.S. Cable Network, a transpacific system being developed by a consortium of major telecommunications carriers, including MCI WorldCom Inc., AT&T, Kokusai Denshin Denwa Co. Ltd. ("KDD"), Nippon Telegraph and Telephone Corp. ("NTT"), Cable & Wireless and GTE.¹⁸⁴

In terms of its planned trans-European network the company mentioned the following competitors: Viatel, KPN-Qwest, MCI WorldCom, Global One, British Telecom and Hermes.

Again, it must be said that the comments on competition reproduced above principally cover the wholesale side of the market. If GC continues to make inroads into the retail market then it is going to be competing with the big name players such as AT&T, MCI WorldCom, Sprint, Bell Atlantic, SBC Communications and BT. Qwest can, of course, be added to this list and who is to say that this company won't be waiting in the wings to compete with GC for its next take-over target.

In early 2000 a new competitor emerged in the form of America's Fiber Network (AFN). The new company represented an alliance between three of the US's biggest power companies who intended to combine their networks to offer broadband services to small and medium sized town and cities, many of which have been by-passed by the existing networks. By pooling their existing networks the power companies claimed that they would start with a 7,000 mile network within the US.¹⁸⁵

10/Additional Threats

Over capacity

Originally, GC was established purely as carriers' carrier and as such was, and still is, susceptible to any over capacity within the market which would lead to a fall in prices. By 2001, suggests Mark Bruneau, President of the Consultants, Renaissance Worldwide, the capacity on US telephone networks will be 400 times what it was in 1998. This, he suggests, will lead to a "bandwidth glut", an experience which will also afflict Europe around 2004.¹⁸⁶ This potential has also been recognised by Forbes which talks of the present "fiber-building frenzy" and maintains that "if and when a

¹⁸⁴ Ibid p12-14

¹⁸⁵ FT (21/3/2000)

¹⁸⁶ FT (30/6/99)

glut arrives, the new comers might slash prices to frightfully low levels."¹⁸⁷

With the proliferation of new entrants laying their own network the prospect of over supply has become a reality. This was recognised by the FT which stated that:

"if the growth in data fails to match the growth in capacity, further consolidation will leave a few large groups fighting over distinctly thin pickings"¹⁸⁸

In early 1999 one of GC's main European rivals, GTS, pointed out that it had sunk enough fibre cabling across Europe to carry 20 times the total current traffic across the continent. The FT picked up on the inherent danger within this emphasis upon capacity, pointing out that GTS was only one of a dozen operations constructing state of the art pan-European networks. The consultancy, Analysys, put the number of telecom firms across Europe which intend to create their own facilities at around 140.¹⁸⁹ Such a proliferation, suggested the FT, "will see the death or withdrawal of some of the weaker operators, particularly among the later entrants".¹⁹⁰

In September 2000 this prediction proved correct with UK-based Iaxis going into receivership with debts of \$200 million.¹⁹¹ The company was widely seen as the first victim of the capacity glut in bandwidth and the resultant fall in prices. With the steady fall in GC's share price during 2000 it was finding it difficult to convince the markets that it would not also fall prey to the changing economics of the industry.

Technological Change

Related to the problem of over capacity is the speed of technological change within the telecoms industry. Until now new wave companies such as GC have used the technological advances of the past few years to undercut the incumbent carriers burdened as they are with antiquated networks. As time passes, however, innovators such as GC might see themselves being overtaken by technical advances (e.g. by satellite-based systems). This danger has been recognised by the FT which in a discussion of COLT indicated that:

"what is becoming rapidly apparent... is that even sophisticated new operators are being caught out by the speed of technological progress"¹⁹²

The Local Loop Bottle Neck

The possibility of imminent long distance over capacity is particularly significant given that the "last mile" connections are often aged and in the hands of the traditional incumbents. As Bruneau of Renaissance has argued, "There's a big

¹⁸⁷ Forbes (19/4/99)

¹⁸⁸ FT (9/12/98)

¹⁸⁹ FT (17/3/98)

¹⁹⁰ FT (18/3/99)

¹⁹¹ FT (10/9/2000)

¹⁹² FT (18/3/99)

constriction in the network...It's like having a giant sewer pipe connecting to millions of thin cocktail straws".¹⁹³

Part of GC's rationale for approaching Frontier and US West was to diversify away from a complete reliance upon the wholesale market and to give it access to connections at the local level. In this respect, it is interesting to note that even Frontier, its single remaining prize after the battle with Qwest, is suffering from a fall in revenues in its long distance business, as announced in its second quarter results of 1999. On this occasion, Rolla Huff, Frontier's President, put the poor results down to "increasing price erosion" in an a sector "fast becoming commoditised".¹⁹⁴ Interestingly, Huff went on to add that this market does "not reflect the future of our business", indicating that by merging with Frontier, GC is not purely replicating its own vulnerability to pricing pressure.

No Longer Neutral

In remodelling itself as a full service provider GC risks compromising its position as a "neutral" wholesaler which poses no threat to the customers it serves. Again, this danger is similar to one faced by GTS as it became more acquisitive and in the case of GC is picked up by the New York Times, which stated that GC's strategy could:

"add risks because other carriers, now its competitors, will be more reluctant to buy transmission capacity from Global"¹⁹⁵

Slow Liberalisation and Powerful Incumbents

As a new operator in a newly deregulated global market GC is vulnerable to both national regulators who are dragging their feet and incumbents who are surreptitiously engaging in rear guard defensive action. Rival company Viatel has acknowledged this danger in the European arena, indicating that while EU members have been obliged to enact legislation to open up their telecommunications markets, certain obstacles remain. In relation to the removal of national restrictive practises, for example, it has stated that, "in certain cases this has been done on an inconsistent, and sometimes unclear basis".¹⁹⁶ The incumbents, of course, are only too quick to shelter their businesses behind any barriers which remain. As Mahoney, CEO of Viatel has put it:

"Liberalization and deregulation do not necessarily mean that the incumbents are going to throw the door open to new entrant carriers"¹⁹⁷

This tendency has also been commented upon by Price Waterhouse Coopers who stated that:

¹⁹³ Quoted in FT (30/6/99)

¹⁹⁴ Quoted in FT (30/7/99)

¹⁹⁵ The New York Times (18/5/99)

¹⁹⁶ Viatel SEC 10k Report, 1998, p35

¹⁹⁷ quoted in Global Telecoms Business (Feb/Mar 1999)

"...a shrewd telco will use what remaining degree of regulatory freedoms it still possesses to buy time while it sets about reshaping itself"¹⁹⁸

So it is no surprise when Lehman Brothers remind us that:

"International Long Distance (ILD) operators continually complain about PTT's intentionally delaying the provisioning of interconnect capacity as it is one of the last remaining mitigants to open competition"¹⁹⁹

Business Communications Review offered a comparison of the European and American experiences and concluded that:

"...while regulatory structures differ, the attitude of incumbent carriers is similar no matter where they're found around the globe. The European PTTs are using the same delaying tactics seen in the U.S. during the early 1980s"²⁰⁰

In the case of GC, it has complained to the US Justice Department that AT&T was leading a boycott among Japanese carriers against a cable link that it is constructing with Japan.²⁰¹

In the UK it was reported in September 2000 that both Global Crossing and WorldCom had abandoned their plans to offer high-speed Internet access in homes and offices throughout the country. The decision was put down to frustration at the "unbundling" process in the UK, with BT showing itself to be skilful in restricting access to its local exchanges. On this occasion OFTEL was widely criticised by alternative operators for not exerting enough pressure on the British incumbent.²⁰² This experience would seem to vindicate the Economist's observation that even when pressured by regulators to open up their markets the incumbent "will use every trick in the book to make life miserable for its rival".²⁰³

Changing Mood on Wall Street

As Forbes pointed out, in its first two years of operation GC experienced a "meteoric rise", but there was no guarantee that its impressive stock rating would not experience an equally rapid return to earth. As the publication went on to argue:

"Like so many fortune factories of the 1990's, Global Crossing is an Internet play with all the potential and risks that entails"²⁰⁴

Its experience in the attempt to take over US West showed that its stock price was

¹⁹⁸ quoted in Global Telecom Business (October 1999)

¹⁹⁹ Lehman Brothers, European High Yield Research (27/9/99), p14

²⁰⁰ Business Communications Review (July 1999)

²⁰¹ New York Times (1/7/99)

²⁰² FT (21/9/2000)

²⁰³ Economist's (13/9/97)

²⁰⁴ Forbes (19/4/99)

highly susceptible to market jitters. Further attempts at acquisition could paradoxically, reduce its total market capitalisation. Commenting upon this theme the FT stated that, “some of the new wonder-stocks of the telecommunications industry may not carry as much weight as their champions had hoped”.²⁰⁵

Subsequent events have vindicated the need for caution when viewing the progress of GC’s stock price. While its price has not suffered so badly as rivals such as GTS during 2000, its substantial decline would indicate that there is increasing doubts in investors minds as to the viability of its business model.

Expansion Difficulties

It is widely agreed that the rationale behind the battle for US West and Frontier was to give GC and Qwest a customer base to fill their networks. The repercussions of the compromise outcome was expressed by Associated Press which stated that:

“while Qwest and Global Crossing both came away with something, neither is a cinch to become one of the handful of communication super carriers that are expected to emerge in the next decade.”²⁰⁶

One of the basic problems for GC’s ambition to become such as “super carrier” is that there is a lack of domestic US outfits to acquire. As Mel Marte of the investment company Edward Jones put it, “This mating dance has been going on for several years now and there’s not that many single people left”.²⁰⁷ The same point was made by Peter Treadway, an analyst at Southeast Research Group, who stated that, “They will look at whatever opportunities come their way, but it’s not so easy to see where they could buy something”.²⁰⁸

In this environment of scarce take-over targets GC could, of course, itself be of interest to a predator. Its network could prove particularly attractive for one of the Baby Bells as they move into long distance. Business Week has already indicated that Bell South might be interested.²⁰⁹ In the past Bell South has been more frequently associated with Qwest (in whom it had a 10 percent stake). With Qwest’s merger with US West, however, it is possible that Bell South might reassess its affiliation with that company and look for alternative alliances or takeover opportunities. GC’s network would also make it a tempting takeover target for one of the international incumbent companies. With the sharp fall in GC’s share price during 2000 it has become a much more affordable target.

Accountancy Matters

Another source of uncertainty for companies such as GC is the accountancy treatment

²⁰⁵ FT (15/6/99)

²⁰⁶ Associated Press (20/7/99)

²⁰⁷ Quoted in Ibid

²⁰⁸ Quoted on Individual Investor web site (21/7/99)

²⁰⁹ Business Week (2/8/99)

of capacity sales through IRU ownership agreements. In 1999 the Federal Accounting Standards Board (FASB) was looking at the possibility of ruling that revenues from such agreements should be spread over its 20 year life span rather than treated as a one off payment (known as FASB66). This would naturally lead to a reduction in reported current year capacity sales and might lead to a negative market reaction. The actual cash flow of the company would not, however, be affected. The first company to comply with the alternative interpretation was Williams which subsequently issued an earnings warning on 2/9/99.²¹⁰ In the case of GC it announced slower revenue growth in early 2000 due to the new accountancy treatment of deferred revenues. While the company emphasised that the change was purely technical it still suffered an 8.6 percent fall in share price immediately after the announcement.²¹¹ The fall underlined just how erratic GC's share price could be.

²¹⁰ Lehman Brothers, op cit

²¹¹ FT (19/2/2000)