NEAR EARTH LLC

SPECIALISTS IN SATELLITE, MEDIA AND TELECOM INVESTMENT BANKING

What the 4th quarter may (or not) unfold

As markets continue to sift through liquidity issues and uncertainties that have taken a toll not only on the corporate credit environment but more recently also public equity capital – in sectors that have for a long time depended on such access – we look forward to the beginning of this year's final quarter with a blend of hopefulness and caution. Feeling the optimism of a market that seems due to "pop", as it were, judging by the historical duration of cycles, looking at a transaction pipeline that has been building up for some time, and waiting for economic policy stimuli to kick in, we also feel a tinge of anxiety about the lingering questions and risks in the months ahead. Here is a snapshot of the half-full and half-empty glass, profiling a set of variables that have underpinned our current half-way situation:

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- Investment appetite. As financial institutions continue to add to multi-billion dollar write-offs and sundry other struggles (e.g., Lehman Bros. now hoping to sell off assets), terms, prices, and lending standards remain tight at all levels. And while new borrowers are challenged, existing borrowers are working hard to avoid revisiting credit facilities in this environment. Concurrently, there has been mixed relief found in equity markets: venture capital has been selectively active, focused on "trendy" segments like alternative energy and popular web services; private equity has factored the tighter credit market into lower valuation multiples; and the IPO market has been spotty at best. Additionally, several marquee private equity groups have been forced to significantly downsize fund-raising targets in this environment, (including such names as Madison Dearborn and KKR). Looking forward, if financial institutions are truly nearing the end of asset deterioration, as has been expected by markets for some time, and if economic indicators turn more consistently favorable (see below), then a loosening of conditions could trigger a positive ripple effect throughout the system. Precisely when this reopening might happen remains difficult to predict, and difficult for all involved to plan around.

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- Oil prices. The equities markets have been cheering the precipitous fall of oil prices in recent weeks, hovering around the $110 per barrel mark at the time of this writing. That this level is well below a recent peak in the mid-$140s several weeks ago is the glass half-full. That less than 6 months ago we were watching to see if oil prices would actually increase beyond the $100 mark, having systematically risen from roughly $70 this time last year, is the glass half-empty. The direction of oil prices in months ahead will do a great deal to impact economic growth, or lack thereof, and may thus be an economic stimulus, or lack thereof, impacting availability of capital as described in the previous paragraph. In the coming weeks, all eyes will be on weather-related events that could disrupt the energy sector, and on political debates that could determine the course of futures markets.

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- Economic stimulus policies. The federal agencies have been active and visible in trying to minimize the economic disruption caused by deteriorating real estate values and other variables listed herein, but such efforts have been countered by economic factors outside of their immediate control, such as the rising and volatile cost of energy described. Interest rate reductions and tax stimulus packages have not yet sufficed to push the economy in a convincing or sustainable manner, but there is a possibility that these are still trickling through a very complex economic structure. We have to hope this is the case, because the lingering concern of inflation will limit the Fed's options in respect to further rate cuts, and a large federal deficit limits additional fiscal stimulus alternatives. The fourth quarter may provide us with added clues to economic direction and the effectiveness of earlier actions taken, while hopefully the political landscape heading into the next four years gains clarity. At the present time, however, the answers remain unclear.

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- Currency devaluation. While the tightness of financial markets described has made many private equity funds and strategic acquirers in the U.S. comparatively timid in relation to 1-2 years ago, the U.S. dollar devaluation resulting from aggressive rate cuts by the Fed has aided cross-border acquisition and investment activity by foreign buyers. This was most prominently seen in the financial sector, as banks continue to shore up balance sheets with overseas capital, (most recently a potential acquisition of Lehman Bros. by Korea Development Bank). The long-term consequences of this capital influx, given the extent of the U.S. trade deficit and a variety of geopolitical uncertainties (discussed below), remain to be seen. The extent to which overseas capital has been a welcome boost to capital markets in the near term is clear. The direction of such flows in the months ahead, assuming no further volatility in the U.S. currency to scare investors off, will undoubtedly have a material impact on the moods and temperament of all U.S. capital markets.

- Geopolitics. Adding to the turmoil of an Iranian nuclear stand-off and wars in Iraq and Afghanistan, Russia has reminded Western allies that its participation in a cooperative geopolitical environment should not be taken for granted. We note that almost all of the nations mentioned in the prior statement are major contributors to global oil supply, which is probably not a coincidence, and international affairs are thus now impacting the domestic economy very directly, (see also the cross-border investment discussion above). As we head into a momentous presidential election in which both candidates pride themselves on economic and foreign policy credentials respectively, the linkage of the two "departments" may have contributed to the vice presidential selections of both, by way of filling gaps and rounding out the respective packages. The degree to which each of the two candidates could help or harm the delicate state of global affairs and, by extension, the national economy, may also impact the state of fourth-quarter capital markets (as financial markets have always tended to be forward looking). With an election still too close to call, the financial market forecast remains murky.

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A myriad of other ingredients and complexities can be added to the above list, all of which will have every opportunity in the coming months of either refilling our glass or emptying it, a lot or a little. As was also suggested in several instances, these factors are not discrete and containable but are directly linked to many others, either as cause or as effect, and in some cases a bit of both. Because of such multi-layered interrelation and causality it is not at all implausible that the proper movement of just the right domino(s) could quickly give rise to a positive chain-reaction with material and far-reaching impact. The reverse could of course also be true… but in light of the unified and focused attention to economic conditions from all corners of the private and public sector, and from much of the world for that matter, we remain hopeful that the right dominos have a better than even chance of falling.

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