Globalstar, Inc.
Form 10-Q
November 15, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

S **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2012**

**OR**

£ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number 001-33117**

**GLOBALSTAR, INC.**

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Delaware** | **41-2116508** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

**300 Holiday Square Blvd.**

**Covington, Louisiana 70433**

(Address of principal executive offices and zip code)

**(985) 335-1500**

Registrant’s telephone number, including area code

Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer x |
| Non-accelerated filer ¨ | Smaller reporting company ¨ |

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 26, 2012, 305,985,723 shares of voting common stock and 127,105,723 shares of nonvoting common stock were outstanding. Unless the context otherwise requires, references to common stock in this Report mean Registrant’s voting common stock.

**GLOBALSTAR, INC.**

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**GLOBALSTAR, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(In thousands, except per share data)**

**(Unaudited)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| Revenue: | | | | |
| Service revenues | $15,368 | $ 14,198 | $42,146 | $ 41,774 |
| Subscriber equipment sales | 5,169 | 3,989 | 15,110 | 13,666 |
| Total revenue | 20,537 | 18,187 | 57,256 | 55,440 |
| Operating expenses: | | | | |
| Cost of services (exclusive of depreciation, amortization, and accretion shown separately below) | 5,558 | 8,332 | 16,715 | 22,684 |
| Cost of subscriber equipment sales | 4,040 | 2,871 | 10,465 | 9,321 |
| Cost of subscriber equipment sales – reduction in the value of inventory | 660 | 979 | 957 | 1,401 |
| Marketing, general, and administrative | 9,280 | 12,249 | 26,565 | 34,004 |
| Reduction in the value of long-lived assets | — | 3,038 | 7,218 | 3,484 |
| Contract termination charge | — | — | 22,048 | — |
| Depreciation, amortization, and accretion | 18,654 | 12,106 | 49,277 | 35,512 |
| Total operating expenses | 38,192 | 39,575 | 133,245 | 106,406 |
| Loss from operations | (17,655) | (21,388) | (75,989) | (50,966) |
| Other income (expense): | | | | |
| Interest income and expense, net of amounts capitalized | (6,565) | (1,232) | (13,396) | (3,599) |
| Derivative gain (loss) | (16,473) | 23,793 | (2,562) | 34,090 |
| Other | (439) | (1,876) | (938) | (573) |
| Total other income (expense) | (23,477) | 20,685 | (16,896) | 29,918 |
| Loss before income taxes | (41,132) | (703) | (92,885) | (21,048) |
| Income tax benefit (expense) | 56 | (22) | 361 | 167 |
| Net loss | $(41,188) | $ (681) | $(93,246) | $ (21,215) |
| Loss per common share: | | | | |
| Basic | $(0.10) | $ (0.00) | $(0.25) | $ (0.07) |
| Diluted | (0.10) | (0.00) | (0.25) | (0.07) |
| Weighted-average shares outstanding: | | | | |
| Basic | 392,344 | 295,513 | 376,518 | 294,519 |
| Diluted | 392,344 | 295,513 | 376,518 | 294,519 |

| | | | | |
|---|---|---|---|---|
| Comprehensive loss | $(40,069 ) | $ (815 ) | $(91,578 ) | $ (21,356 ) |

See accompanying notes to unaudited interim condensed consolidated financial statements.

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**GLOBALSTAR, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(In thousands, except par value and share data)**

| | (Unaudited) September 30, 2012 | (Audited) December 31, 2011 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,219 | $ 9,951 |
| Restricted cash | 50,426 | — |
| Accounts receivable, net of allowance of $7,328 and $7,296, respectively | 13,601 | 12,393 |
| Inventory | 43,045 | 41,848 |
| Deferred financing costs, current | 36,911 | — |
| Prepaid expenses and other current assets | 5,785 | 5,281 |
| Total current assets | 150,987 | 69,473 |
| Property and equipment, net | 1,226,314 | 1,217,718 |
| Restricted cash | — | 46,776 |
| Deferred financing costs | 10,528 | 53,482 |
| Advances for inventory | 9,158 | 9,158 |
| Intangible and other assets, net | 7,122 | 23,798 |
| Total assets | $ 1,404,109 | $ 1,420,405 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 651,909 | $ — |
| Accounts payable, including contractor payables of $33,455 and $32,275, respectively | 42,755 | 47,808 |
| Accrued contract termination charge | 22,048 | — |
| Accrued expenses | 29,513 | 28,806 |
| Payables to affiliates | 231 | 378 |
| Deferred revenue | 16,417 | 14,588 |
| Total current liabilities | 762,873 | 91,580 |
| Long-term debt, less current portion | 90,204 | 723,888 |
| Employee benefit obligations | 7,152 | 7,407 |
| Derivative liabilities | 34,720 | 38,996 |
| Deferred revenue | 7,730 | 7,295 |
| Other non-current liabilities | 17,357 | 17,444 |
| Total non-current liabilities | 157,163 | 795,030 |

Commitments and contingences (Notes 8 and 9)

| | | |
|---|---|---|
| Stockholders' equity: | | |
| Preferred Stock of $0.0001 par value; 100,000,000 shares authorized and none issued and outstanding at September 30, 2012 and December 31, 2011: | | |
| Series A Preferred Convertible Stock of $0.0001 par value, one share authorized and none issued and outstanding at September 30, 2012 and December 31, 2011 | — | — |
| Voting Common Stock of $0.0001 par value; 865,000,000 shares authorized; 305,968,821 and 297,175,777 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively | 30 | 30 |
| Nonvoting Common Stock of $0.0001 par value. 135,000,000 shares authorized; 106,767,684 and 55,881,512 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively | 11 | 5 |
| Additional paid-in capital | 834,434 | 792,584 |
| Accumulated other comprehensive loss | (1,432) | (3,100) |
| Retained deficit | (348,970) | (255,724) |
| Total stockholders' equity | 484,073 | 533,795 |
| Total liabilities and stockholders' equity | $ 1,404,109 | $ 1,420,405 |

See accompanying notes to unaudited interim condensed consolidated financial statements.

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**GLOBALSTAR, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

**(Unaudited)**

| | Nine Months Ended | |
|---|---|---|
| | September 30, 2012 | September 30, 2011 |
| Cash flows provided by (used in) operating activities: | | |
| Net loss | $(93,246) | $ (21,215) |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Depreciation, amortization, and accretion | 49,277 | 35,512 |
| Change in fair value of derivative assets and liabilities | 2,562 | (34,090) |
| Stock-based compensation expense | 585 | 1,908 |
| Amortization of deferred financing costs | 2,498 | 2,734 |
| Provisions for bad debt | 695 | 2,245 |
| Contingent reimbursements | 106 | 1,853 |
| Noncash interest expense | 9,415 | — |
| Reduction in the value of long-lived assets and equipment | 8,176 | 4,885 |
| Contract termination charge | 22,048 | — |
| Foreign currency and other, net | 1,843 | 1,569 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,919) | (1,955) |
| Inventory | (240) | 3,240 |
| Prepaid expenses and other current assets | 1,459 | (1,395) |
| Other assets | 6,253 | (831) |
| Accounts payable and accrued expenses | 360 | (2,202) |
| Payables to affiliates | (147) | (500) |
| Other non-current liabilities | (1,093) | (2,546) |
| Deferred revenue | 2,246 | (62) |
| Net cash provided by (used in) operating activities | 10,878 | (10,850) |
| Cash flows used in investing activities: | | |
| Second-generation satellites, ground and related launch costs | (43,305) | (71,212) |
| Property and equipment additions | (382) | (2,385) |
| Investment in businesses | (450) | (500) |
| Restricted cash | (3,650) | (10,436) |
| Net cash used in investing activities | (47,787) | (84,533) |
| Cash flows from financing activities: | | |
| Borrowings from Facility Agreement | 5,008 | 18,659 |

| | | |
|---|---|---|
| Proceeds from contingent equity agreement | 23,000 | — |
| Proceeds from issuance of common stock and exercise of warrants | 100 | 526 |
| Proceeds from the issuance of 5.0% convertible notes | — | 38,000 |
| Borrowings from subordinated loan agreement | — | 12,500 |
| Payment of deferred financing costs | (250) | (925) |
| Net cash from financing activities | 27,858 | 68,760 |
| Effect of exchange rate changes on cash | 319 | (314) |
| Net (decrease) increase in cash and cash equivalents | (8,732) | (26,937) |
| Cash and cash equivalents, beginning of period | 9,951 | 33,017 |
| Cash and cash equivalents, end of period | $1,219 | $ 6,080 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for: | | |
| Interest | $18,958 | $ 19,097 |
| Income taxes | 216 | 82 |
| Supplemental disclosure of non-cash financing and investing activities: | | |
| Reduction in accrued second-generation satellites and ground costs | 4,646 | 3,992 |
| Increase in capitalized accrued interest for second-generation satellites and ground costs | 4,309 | 1,117 |
| Capitalization of the accretion of debt discount and amortization of prepaid finance costs | 6,786 | 17,962 |
| Capitalized interest paid in common stock on the 5% and 8% Notes | 2,874 | 1,799 |
| Conversion of convertible notes into common stock | 2,000 | 1,000 |
| Payments made in Common Stock | 1,755 | 1,740 |
| Reduction in assets and liabilities due to note conversions and warrant exercises | 1,812 | 1,538 |
| Conversion of contingent equity account derivative liability to equity | 5,853 | 5,955 |
| Value of warrants issued in connection with the contingent equity account loan fee | 2,226 | 8,318 |
| Recognition of a beneficial conversion feature on long-term debt | — | 17,100 |
| Value of warrants issued in connection with raising capital and debt | — | 8,081 |
| Recognition of contingent reimbursement | — | 1,852 |

See accompanying notes to unaudited interim condensed consolidated financial statements.

**GLOBALSTAR, INC.**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

The Company has prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information. Certain information and footnote disclosures normally in financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission; however, management believes the disclosures made are adequate to make the information presented not misleading. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in Globalstar, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2011 and Management's Discussion and Analysis of Financial Condition and Results of Operations herein.

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates estimates on an ongoing basis. Significant estimates include the value of derivative instruments, the allowance for doubtful accounts, the net realizable value of inventory, the useful life and value of property and equipment, the value of stock-based compensation, the reserve for product warranties, and income taxes. Actual results could differ from these estimates.

All significant intercompany transactions and balances have been eliminated in the consolidation. In the opinion of management, such information includes all adjustments, consisting of normal recurring adjustments, that are necessary for a fair presentation of the Company’s condensed consolidated statements of operations, condensed consolidated balance sheets, and condensed consolidated statements of cash flows for the periods presented. These unaudited interim condensed consolidated financial statements include the accounts of Globalstar and its majority owned or otherwise controlled subsidiaries. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the full year or any future period.

*Recently Issued Accounting Pronouncements*

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." This ASU defers the changes in ASU 2011-05 that relate to the presentation of reclassification adjustments and supersedes certain pending paragraphs. ASU 2011-12 will be applied retrospectively. ASU 2011-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This adoption has been reflected in the Company's condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This ASU amends the FASB Accounting Standards Codification ("Codification") to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 will be applied retrospectively. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. This adoption has been reflected in the Company's condensed consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRS. The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. This adoption did not have an impact on the Company's condensed consolidated financial statements.

**2. MANAGEMENT'S PLANS REGARDING FUTURE OPERATIONS**

In each of the last three years and the nine months ended September 30, 2012, the Company has generated operating losses, which has adversely affected the Company's liquidity. These operating losses were caused primarily by the deterioration of the Company's first-generation satellite constellation and delays in the launch and deployment of its second-generation satellites, which in turn reduced its ability to provide reliable Duplex service to its customers. In response to these circumstances, the Company developed a plan to improve operations; complete the launches of the remaining second-generation satellites; complete the construction, deployment and activation of additional second-generation satellites and next-generation ground upgrades; and obtain additional financing.

As further described below, the Company has taken the following steps pursuant to its plan.

- Reduced operating expenses by, among other things, streamlining its supply chain and other operations, consolidating its world-wide operations, including the completion of the relocation of its corporate headquarters to Covington, Louisiana, and simplifying its product offerings.
- Increased revenues by transitioning legacy Duplex customers to more profitable plans and by streamlining its Simplex and SPOT product offerings and targeting them to the consumer and enterprise markets.
- Successfully launched 18 second-generation satellites.
- Issued $38.0 million in 5.0% Notes and drew $37.2 million from its contingent equity account.
- Obtained lender agreement to defer principal payments previously due to begin in June 2012 to June 2013 on its senior secured facility agreement (the "Facility Agreement").
- Obtained the required licensing to activate its ground stations in North America, permitting call traffic with its second-generation satellites.
- Settled disputes with Thales Alenia Space ("Thales") regarding prior contractual issues and entered into an agreement with Thales for the manufacture and delivery of six additional second-generation satellites.
- Completed negotiations with Arianespace regarding additional expenses associated with previous launch delays, thus permitting continued preparation for the Company's fourth launch scheduled for the first quarter of 2013.

- Received an extension of its NASDAQ listing on the Capital Market of the NASDAQ Stock Market through the end of 2012.

- Entered into initial agreements with third parties to restart operations at existing Globalstar gateways around the world to increase commercial coverage.

- Successfully uploaded the AOCS software solution to the final previously launched satellite, which the Company intends to place into service in the near future. This will permit any satellite, if affected by a momentum wheel issue, to continue to operate.

The Company believes that these actions, combined with additional actions included in its operating plan, will result in improved cash flows from operations, provided the significant uncertainties further described in the last two paragraphs of this footnote are successfully resolved. These additional actions include, among other things, the following:

- Completing the deployment of its second-generation constellation by launching six more second-generation satellites in the first quarter of 2013.

- Engaging in a proceeding before the FCC to receive authority to utilize the Company's spectrum to offer terrestrial communications services separate and apart from, but coordinated with, its satellite-based communications services.

- Continuing to identify and pursue opportunities to construct new gateways in areas of the world where the Company has not previously operated.

- Continuing to pursue numerous opportunities in the field of aviation; including next-generation "space-based" air traffic management services, in association with our technology partner, ADS-B Technologies, LLC.

- Completing the second-generation ground infrastructure upgrades that will permit the Company to offer a new suite of consumer and enterprise products that leverage our new, inexpensive chip architecture.

- Completing the financing and purchase of the additional six second-generation satellites beyond the first 24 from Thales.

- Continuing to control operating expenses while redirecting available resources to the marketing and sales of product offerings.

- Improving its key business processes and leveraging its information technology platform.

- Implementing sales and marketing programs designed to take advantage of the continued expansion of the Company's Duplex coverage.

- Introducing new and innovative Simplex and Duplex products to the market that will further drive sales volume and revenue.

Despite continued improvements in the Company's operations, it does not have sufficient cash on hand, cash flows from operations, and available funds in its contingent equity account to meet its existing contractual obligations over the next 12 months. The Company is currently seeking additional external financing and amendments to its existing debt obligations, including the Facility and the 5.75% Convertible Senior Unsecured Notes (the "5.75% Notes") and certain other contractual obligations. In addition, substantial uncertainties remain related to the outcome of the fourth launch of six second-generation satellites, the Company's noncompliance with certain of the Facility's covenants (see Note 4 for further discussion), the remaining useful life of the first-generation satellites still in service and the impact and timing of the Company's plans to improve operating cash flows and to restructure its contractual obligations. If the resolution of these uncertainties materially and negatively impacts cash and liquidity, the Company's ability to continue to execute its business plans will be adversely affected.

Further, the Company's longer-term business plan includes launching additional second-generation satellites in addition to the first 24, making improvements to its ground infrastructure, and releasing new products. To execute these longer-term plans successfully, the Company will need to obtain additional external financing to fund these expenditures. Although the Company is seeking such financing and is continuing to address requirements with contractors, there is no guarantee that these efforts will be successful given the scope, complexity, cost and risk of completing the construction of the space and ground components of its second-generation constellation and the development of marketable new products. Accordingly, the Company is not in a position to provide an estimate when, or if, these longer-term plans will be completed and the effect this will have on the Company's performance and liquidity.

**3. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following (in thousands):

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Globalstar System: | | |
| Space component | $ 931,936 | $ 532,487 |
| Ground component | 49,040 | 49,109 |
| Construction in progress: | | |
| Space component | 294,093 | 650,920 |
| Ground component | 84,240 | 80,071 |
| Prepaid long-lead items and other | 18,135 | 18,028 |
| Total Globalstar System | 1,377,444 | 1,330,615 |
| Internally developed and purchased software | 14,140 | 14,052 |
| Equipment | 12,625 | 12,333 |
| Land and buildings | 4,021 | 4,152 |
| Leasehold improvements | 1,481 | 1,402 |
| | 1,409,711 | 1,362,554 |
| Accumulated depreciation and amortization | (183,397) | (144,836) |
| | $ 1,226,314 | $ 1,217,718 |

***Contracts***

The following table presents the core contract prices for the construction of the first 24 satellites of the Company's second-generation constellation, related launch services and ground upgrades (in thousands):

| | Contract Price |
|---|---|
| Thales second-generation satellites | $622,690 |
| Arianespace launch services | 216,000 |
| Launch insurance | 39,903 |
| Hughes next-generation ground component | 104,597 |
| Ericsson next-generation ground network | 29,036 |
| Total | $1,012,226 |

As of September 30, 2012, the Company had incurred $945.6 million of costs under these contracts, including contracts payable and accrued expenses of $23.8 million, excluding interest.  Of the amounts incurred, the Company had capitalized $940.1 million and expensed $5.5 million of research and development costs. The table above does not include any amounts for the manufacture and launch of six additional second-generation satellites, as discussed further below.

*Second-Generation Satellites*

The Company has a contract with Thales for the construction of the Company's second-generation low-earth orbit satellites and related services. The Company has launched 18 of the 24 second-generation satellites and plans to launch the remaining six satellites in the first quarter of 2013; however, this plan is subject to numerous factors that are outside of the Company's control.

In June 2012, the Company and Thales agreed to settle their prior commercial disputes including those disputes which were the subject of a May 2012 arbitration award.

In September 2012, the Company entered into an agreement with Thales for the manufacture and delivery of six additional satellites for the Globalstar second-generation constellation. The purchase price for the six satellites, certain software upgrades and related services is €149.9 million, with an initial payment due upon the close of financing and subsequent payments due over a 34-month period subject to Thales' reaching construction milestones. Neither party is obligated to perform under the contract until Globalstar obtains financing for at least 85% of the total contract price, among other conditions. See Note 9 for further discussion.

In accordance with its plans, during October 2012, the Company successfully uploaded the AOCS software solution to the second-generation satellite that was previously taken out of service due to anomalous behavior with its momentum wheels. The Company intends to place this satellite into service in the near future. Although the Company does not expect this problem to arise in other satellites, this software solution can be uploaded to any satellite that may experience similar anomalous behaviors with its momentum wheels.

For assets that are no longer providing service, the Company removes the estimated cost and accumulated depreciation from property and equipment. During the second quarter of 2012, the Company reduced the carrying value of its first-generation constellation by approximately $7.1 million. This loss is recorded in operating expenses for the nine months ended September 30, 2012.

The Company has a contract with Arianespace for the launch of the Company's second-generation satellites and certain pre and post-launch services under which Arianespace agreed to make four launches of six satellites each. As previously disclosed, the Company was negotiating with Arianespace regarding certain additional costs related to prior launches. In September 2012, the Company completed these negotiations. All amounts owed to Arianespace for these prior launch costs are included in accounts payable as of September 30, 2012.

*Next-Generation Gateways and Other Ground Facilities*

In May 2008, the Company and Hughes entered into an agreement under which Hughes agreed to design, supply and implement (a) the Radio Access Network (RAN) ground network equipment and software upgrades for installation at a number of the Company's satellite gateway ground stations and (b) satellite interface chips to be a part of the User Terminal Subsystem (UTS) in various next-generation Globalstar devices. The Company and Hughes have amended this agreement extending the performance, revising certain payment milestones and adding new features. The Company has the option to purchase additional RANs and other software and hardware improvements at pre-negotiated prices. The Company and Hughes have also amended their agreement to extend the deadline to make certain scheduled payments previously due under the contract. See Note 8 for further discussion.

In October 2008, the Company entered into an agreement with Ericsson, a leading global provider of technology and services to telecom operators. The Company and Ericsson have amended this contract to increase the Company's obligations for additional deliverables and features. According to the contract, Ericsson will work with the Company to develop, implement and maintain a ground interface, or core network, system that will be installed at the Company's satellite gateway ground stations. The Company has the option to purchase additional core networks at pre-negotiated prices. The Company and Ericsson have amended their agreement to extend the deadline to make certain scheduled payments previously due under the contract. See Note 8 for further discussion.

***Capitalized Interest and Depreciation Expense***

The following tables summarize capitalized interest for the periods indicated below (in thousands):

| | As of September 30, 2012 | December 31, 2011 |
|---|---|---|
| Total Interest Capitalized | $209,533 | $ 176,361 |

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **September 30, 2012** | **September 30, 2011** | September 30, 2012 | September 30, 2011 |
| Current Period Interest Capitalized | $8,234 | $14,221 | $33,172 | $39,823 |

The following table summarizes depreciation expense for the periods indicated below (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| Depreciation Expense | $ 17,964 | $ 12,078 | $47,542 | $ 33,550 |

**4. BORROWINGS**

Long-term debt consists of the following (in thousands):

| | September 30, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Principal Amount | Carrying Value | Principal Amount | Carrying Value |
| Facility Agreement | $583,303 | $583,303 | $578,295 | $578,295 |
| Subordinated Loan | 51,891 | 48,099 | 47,384 | 43,255 |
| 5.0% Convertible Senior Unsecured Notes | 39,922 | 15,268 | 38,949 | 13,077 |
| 8.00% Convertible Senior Unsecured Notes | 46,846 | 26,837 | 47,516 | 25,203 |
| 5.75% Convertible Senior Unsecured Notes | 71,804 | 68,606 | 71,804 | 64,058 |
| Total debt | 793,766 | 742,113 | 783,948 | 723,888 |
| Less: current portion | 655,107 | 651,909 | — | — |
| Long-term debt | $138,659 | $90,204 | $783,948 | $723,888 |

***Facility Agreement***

The Company has a $586.3 million Facility Agreement, as amended, that is scheduled to mature 84 months after the first repayment date. Scheduled semi-annual principal repayments will begin on June 30, 2013. The facility bears interest at a floating LIBOR rate, plus a margin of 2.07% through December 2012, increasing to 2.25% through December 2017 and 2.40% thereafter. Ninety-five percent of the Company's obligations under the Facility Agreement are guaranteed by COFACE, the French export credit agency. The Company's obligations under the facility are guaranteed on a senior secured basis by all of its domestic subsidiaries and are secured by a first priority lien on substantially all of the assets of the Company and its domestic subsidiaries (other than their FCC licenses), including patents and trademarks, 100% of the equity of the Company's domestic subsidiaries and 65% of the equity of certain foreign subsidiaries. The Facility Agreement contains customary events of default and requires that the Company satisfy various financial and nonfinancial covenants. As a result of satellite delivery delays, the Company has entered into various amendments and waivers to the Facility Agreement, including amendments to covenant levels specified in the Facility Agreement and other administrative items.

During the second quarter of 2012, the Company received two reservation of rights letters from the COFACE Agent identifying potential existing defaults of certain non-financial provisions of the Facility Agreement that may have occurred as a result of the Thales arbitration ruling and the subsequent settlement agreements reached with Thales related to the arbitration. The letters indicated that the lenders were evaluating their position with respect to the potential defaults. During the evaluation process, the lenders did not permit funding of the remaining $3.0 million available under the Facility Agreement for the remaining milestone payments to Thales or allow the Company to draw from its Contingent Equity Account.

On October 12, 2012, the Company entered into Waiver Letter No. 11, which permitted the Company to make a draw from the Contingent Equity Account. The waiver letter acknowledged the conclusion by the lenders that events of default did occur as a result of the Company entering into settlement agreements with Thales related to the arbitration ruling. As of the date these financial statements were issued, the COFACE Agent had not notified the Company of its intention to accelerate the debt; however, the borrowings have been shown as current on the September 30, 2012 balance sheet in accordance with applicable accounting rules. Globalstar is currently working with the lenders to obtain all necessary waivers or amendments associated with any default issues. On October 24, 2012, the lenders permitted funding of $2.4 million of the amounts available under the Facility Agreement to make a milestone payment to Thales.

Due to the launch delays, the Company expects that it may not be in compliance with certain financial and nonfinancial covenants specified in the Facility Agreement during the next 12 months.  If the Company cannot obtain either a waiver or an amendment, the failure to comply would represent an event of default. An event of default under the Facility Agreement would permit acceleration of indebtedness under the Facility. That acceleration would permit acceleration of the Company's obligations under other agreements that contain cross-acceleration provisions.

***Contingent Equity Agreement***

The Company has a Contingent Equity Agreement with Thermo whereby Thermo agreed to deposit $60 million into a contingent equity account to fulfill a condition precedent for borrowing under the Facility Agreement. Under the terms of the Facility Agreement, the Company has the right to make draws from this account if and to the extent it has an actual or projected deficiency in its ability to meet obligations due within a forward-looking 90-day period. Thermo has pledged the contingent equity account to secure the Company's obligations under the Facility Agreement.

The Contingent Equity Agreement provides that the Company will pay Thermo an availability fee of 10% per year for maintaining funds in the contingent equity account. This annual fee is payable solely in warrants entitling the holder to purchase shares of the Company's common stock at $0.01 per share during a five-year exercise period from issuance. The number of shares issuable under the warrants is calculated by taking the outstanding funds available in the contingent equity account multiplied by 10% divided by the lower of the Company's common stock price on the issuance date or $1.37, but not to be lower than $0.20. Prior to June 19, 2012, the common stock price was subject to a reset provision on certain valuation dates subsequent to issuance whereby the warrant price used in the calculation was the lower of the warrant price on the issuance date or the Company's common stock price on the valuation date. The Company determined that the warrants issued in conjunction with the availability fee were derivatives and recorded the value of the derivatives as a component of other non-current liabilities at issuance. The offset was recorded in other assets and was amortized over the one-year availability period. The warrants issued on June 19, 2012 are not subject to a reset provision subsequent to issuance. The value of the warrants issued was recorded as equity and the offset was recorded in other assets and is being amortized over the one-year availability period.

When the Company draws on the contingent equity account, it issues Thermo a number of shares of common stock calculated using a price per share equal to 80% of the average closing price of the common stock for the 15 trading days immediately preceding the draw. The 20% discount on the value of the shares issued to Thermo is recognized as a deferred financing cost and is amortized over the remaining term of the Facility Agreement. Amounts can only be withdrawn from the account provided that no default has occurred and is continuing under the Facility Agreement. Thermo may withdraw undrawn amounts in the account after December 31, 2014.

The following table summarizes the balance of and the draws on the contingent equity account (dollars in thousands) and the related warrants and shares issued to Thermo since origination of the agreement as of September 30, 2012:

| | **Available Amount** | **Draws** | **Warrants Issued** | **Shares Issued** |
|---|---|---|---|---|
| June 19, 2009 (1) | $ 60,000 | $— | 4,379,562 | — |
| December 31, 2009 (2) | 60,000 | — | 2,516,990 | — |
| June 19, 2010 (1) | 60,000 | — | 4,379,562 | — |
| June 19, 2011 (2) | 60,000 | — | 620,438 | — |
| June 19, 2011 (1) | 60,000 | — | 5,000,000 | — |
| November 4, 2011(3) | 54,600 | 5,400 | — | 11,376,404 |
| November 30, 2011 (3) | 45,800 | 8,800 | — | 25,229,358 |
| January 11, 2012 (3) | 36,000 | 9,800 | — | 22,546,012 |
| March 23, 2012 (3) | 27,300 | 8,700 | — | 14,135,615 |
| May 30, 2012 (3) | 22,800 | 4,500 | — | 14,204,545 |
| June 19, 2012 (2) | 22,800 | — | 16,428,571 | — |
| June 19, 2012 (1), (4) | 22,800 | — | 8,142,857 | — |
| September 30, 2012 | 22,800 | $37,200 | 41,467,980 | 87,491,934 |

(1) Warrants to purchase common stock were issued to Thermo for the annual availability fee pursuant to the terms of the Contingent Equity Agreement.
(2) Additional warrants were issued to Thermo due to the reset provisions in the Contingent Equity Agreement.
(3) Nonvoting shares of common stock were issued to Thermo with respect to the Company's draws on the contingent equity account pursuant to the terms of the Contingent Equity Agreement.
(4) Warrants issued on June 19, 2012 are not subject to the reset provisions in the Contingent Equity Agreement.

On June 19, 2010, the warrants issued on June 19, 2009 and on December 31, 2009 were no longer variable and the related $11.9 million liability was reclassified to equity. On June 19, 2011, the warrants issued on June 19, 2010 were no longer variable and the related $6.0 million liability was reclassified to equity. On June 19, 2012, the warrants issued on June 19, 2011 were no longer variable and the related $5.9 million liability was reclassified to equity.

As of September 30, 2012, no warrants issued in connection with the Contingent Equity Agreement had been exercised.

No voting common stock is issuable if it would cause Thermo and its affiliates to own more than 70% of the Company's outstanding voting stock. The Company may issue nonvoting common stock in lieu of common stock to the extent issuing common stock would cause Thermo and its affiliates to exceed this 70% ownership level. The Company issued nonvoting shares to Thermo as a result of the draws made during 2011 and the first three quarters of 2012.

***Subordinated Loan Agreement***

The Company has a Loan Agreement with Thermo whereby Thermo loaned the Company $25 million for the purpose of funding the debt service reserve account required under the Facility Agreement. This loan is subordinated to, and the debt service reserve account is pledged to secure, all of the Company's obligations under the Facility Agreement. Amounts deposited in the debt service reserve account are restricted to making payments due under the Facility Agreement.

The loan accrues interest at 12% per annum, which is capitalized and added to the outstanding principal in lieu of cash payments. The Company will make payments to Thermo only when permitted under the Facility Agreement. The loan becomes due and payable six months after the obligations under the Facility Agreement have been paid in full, the Company has a change in control or any acceleration of the maturity of the loans under the Facility Agreement occurs. As additional consideration for the loan, the Company issued Thermo a warrant to purchase 4,205,608 shares of common stock at $0.01 per share with a five-year exercise period. No voting common stock is issuable upon such exercise if the issuance would cause Thermo and its affiliates to own more than 70% of the Company's outstanding voting stock. The Company may issue nonvoting common stock in lieu of common stock to the extent issuing common stock would cause Thermo and its affiliates to exceed this 70% ownership level.

The Company determined that the warrant was an equity instrument and recorded it as a part of stockholders' equity with a corresponding debt discount of $5.2 million, which is netted against the principal amount of the loan. The Company is accreting the debt discount associated with the warrant to interest expense over the term of the loan agreement using an effective interest method. As of September 30, 2012, the remaining debt discount was $3.8 million and $14.4 million of interest was outstanding; these are included in long-term debt on the Company's consolidated balance sheet.

In 2009, Thermo borrowed $20 million of the $25 million it loaned to the Company under the Loan Agreement from two Company vendors and also agreed to reimburse another Company vendor if its guarantee of a portion of the debt service reserve account were called. During 2011, this Company vendor funded the debt service reserve account in the amount of $12.5 million, for a total of $37.5 million under the subordinated loan.

Pursuant to the terms of the Facility Agreement, the Company was required to fund a total of $46.8 million in the debt service reserve account. The funds in this account are restricted to making principal and interest payments on the Facility Agreement. The minimum required balance, not to exceed $46.8 million, fluctuates over time based on the timing of principal and interest payment dates. As of September 30, 2012, the entire amount of $46.8 million is recorded in restricted cash.

***5.00% Convertible Senior Notes***

In 2011, the Company issued $38 million in aggregate principal amount of the 5.0% Convertible Senior Unsecured Notes (the "5.0% Notes") and warrants (the "5.0% Warrants") to purchase 15,200,000 shares of voting common stock of the Company at an exercise price of $1.25 per share. The 5.0% Notes are convertible into shares of common stock at an initial conversion price of $1.25 per share of common stock, or 800 shares of the Company's common stock per $1,000 principal amount of the 5.0% Notes, subject to adjustment in the manner set forth in the Indenture. The 5.0% Notes are guaranteed on a subordinated basis by substantially all of the Company's domestic subsidiaries (the "Guarantors"), on an unconditional joint and several basis, pursuant to a Guaranty Agreement (the "Guaranty"). The 5.0% Warrants are exercisable until five years after their issuance. The 5.0% Notes and 5.0% Warrants have anti-dilution protection in the event of certain stock splits or extraordinary share distributions, and a reset of the conversion and exercise price on April 15, 2013 if the Company's common stock is below the initial conversion and exercise price at that time. The 5.0% Notes are senior unsecured debt obligations of the Company and rank pari passu with the Company's existing 5.75% and 8.00% Convertible Senior Notes and are subordinated to the Company's obligations pursuant to its Facility Agreement. There is no sinking fund for the 5.0% Notes. The 5.0% Notes will mature at the earlier to occur of (i) December 14, 2021, or (ii) six months following the maturity date of the Facility Agreement and bear interest at a rate of 5.0% per annum. Interest on the 5.0% Notes will be payable in-kind semi-annually in arrears on June 15 and December 15 of each year. Under certain circumstances, interest on the 5.0% Notes will be payable in cash at the election of the holder if such payments are permitted under the Facility Agreement. The indenture governing the 5.0% Notes contains customary events of default. No event of default existed as of September 30, 2012.

No 5.0% Notes were converted and no 5.0% Warrants were exercised since their initial issuance in 2011.

***8.00% Convertible Senior Notes***

In 2009, the Company issued $55 million in aggregate principal amount of 8.00% Convertible Senior Unsecured Notes (the “8.00% Notes”) and warrants (the “8.00% Warrants”) to purchase shares of the Company’s common stock. The 8.00% Notes mature at the later of the tenth anniversary of closing (June 19, 2019) or six months following the maturity date of the Facility Agreement and bear interest at a rate of 8.00% per annum. Interest on the 8.00% Notes is payable in the form of additional 8.00% Notes or, subject to certain restrictions, in common stock at the option of the holder. Interest is payable semi-annually in arrears on June 15 and December 15 of each year. The 8.00% Notes are subordinated to all of the Company’s obligations under the Facility Agreement. The 8.00% Notes are the Company’s senior unsecured debt obligations and rank pari passu with the Company’s existing 5.0% and 5.75% Notes. The indenture governing the 8.00% Notes contains customary events of default. No event of default existed as of September 30, 2012.

The current exercise price of the 8.00% Warrants is $0.32 and the base conversion price of the 8.00% Notes is $1.59.

During the third quarter of 2012, approximately $2.0 million of the 8.00% Notes were converted resulting in the issuance of 1.9 million common shares. 8.00% Warrants were exercised during the first three quarters of 2012 to purchase approximately 0.6 million common shares with a fair value of approximately $0.4 million.

***5.75% Convertible Senior Notes***

In 2008, the Company issued $150 million aggregate principal amount of 5.75% Notes, which, subject to certain exceptions set forth in the related indenture, are subject to repurchase by the Company for cash at the option of the holders in whole or part (i) on each of April 1, 2013, April 1, 2018 and April 1, 2023 or (ii) upon a fundamental change, both at a purchase price equal to 100% of the principal amount of the 5.75% Notes, plus accrued and unpaid interest, if any. A fundamental change will occur upon certain changes in the ownership of the Company, or certain events relating to the trading of the Company's common stock. Holders may convert their 5.75% Notes into shares of common stock at their option at any time prior to maturity, subject to the Company's option to deliver cash in lieu of all or a portion of the shares. The indenture governing the 5.75% Notes contains customary events of default. No event of default existed as of September 30, 2012. The 5.75% Notes are subordinated to all of the Company's obligations under the Facility Agreement. The 5.75% Notes are the Company's senior unsecured debt obligations and rank pari passu with the Company's existing 8.00% and 5.0% Notes. The 5.75% Notes mature on April 1, 2028 and bear interest at a rate of 5.75% per annum. Interest on the 5.75% Notes is payable semi-annually in arrears on April 1 and October 1 of each year. The base conversion price of the 5.75% Notes is $6.02. As of September 30, 2012, the carrying value of the 5.75% Notes is classified as a current debt obligation on the Company's condensed consolidated balance sheet because the first put option will occur within the next 12 months.

No 5.75% Notes were converted during the first three quarters of 2012.

*Share Lending Agreement*

Concurrently with the offering of the 5.75% Notes, the Company entered into a share lending agreement (the "Share Lending Agreement") with Merrill Lynch International (the "Borrower"), pursuant to which the Company agreed to lend up to 36,144,570 shares of common stock (the "Borrowed Shares") to the Borrower, subject to certain adjustments, for a period ending on the earliest of (i) at the Company's option, at any time after the entire principal amount of the 5.75% Notes ceases to be outstanding, (ii) the written agreement of the Company and the Borrower to terminate, (iii) the occurrence of a Borrower default, at the option of Lender, and (iv) the occurrence of a Lender default, at the option of the Borrower. Pursuant to the Share Lending Agreement, upon the termination of the share loan, the Borrower must return the Borrowed Shares to the Company. Upon the conversion of 5.75% Notes (in whole or in part), a number of Borrowed Shares proportional to the conversion rate for such notes must be returned to the Company. At the Company's election, the Borrower may deliver cash equal to the market value of the corresponding Borrowed Shares instead of returning to the Company the Borrowed Shares otherwise required by conversions of 5.75% Notes.

Pursuant to and upon the terms of the Share Lending Agreement, the Company will issue and lend the Borrowed Shares to the Borrower as a share loan. The Borrowing Agent also is acting as an underwriter with respect to the Borrowed Shares, which are being offered to the public. The Borrowed Shares included approximately 32.0 million shares of common stock initially loaned by the Company to the Borrower on separate occasions, delivered pursuant to the Share Lending Agreement and the Underwriting Agreement, and an additional 4.1 million shares of common stock that, from time to time, may be borrowed from the Company by the Borrower pursuant to the Share Lending Agreement and the Underwriting Agreement and subsequently offered and sold at prevailing market prices at the time of sale or negotiated prices. The Borrowed Shares are free trading shares. At each of September 30, 2012 and December 31, 2011, approximately 17.3 million Borrowed Shares remained outstanding. As of September 30, 2012 and December 31, 2011, the unamortized amount of issuance costs associated with the Share Lending Agreement was $1.0 million and $2.3 million, respectively. As of September 30, 2012, the unamortized issuance costs are classified as a current asset on the Company's condensed consolidated balance sheet, which is consistent with the classification of the related 5.75% Notes as a current debt obligation, as further discussed above.

***Warrants Outstanding***

As of September 30, 2012 and December 31, 2011, warrants were outstanding to purchase 122.5 million shares and 76.8 million shares, respectively, of the Company's common stock as shown in the table below:

| | Outstanding Warrants | | Strike Price | |
|---|---|---|---|---|
| | September 30, 2012 | December 31, 2011 | September 30, 2012 | December 31, 2011 |
| Contingent Equity Agreement (1) | 41,467,980 | 16,896,552 | $ 0.01 | $ 0.01 |
| Subordinated Loan | 4,205,608 | 4,205,608 | 0.01 | 0.01 |
| 5.0% Notes (2) | 15,200,000 | 15,200,000 | 1.25 | 1.25 |
| 8.00% Notes (3) | 61,606,706 | 40,486,794 | 0.32 | 0.49 |
| 5.75% Notes | — | — | — | — |
| | 122,480,294 | 76,788,954 | | |

(1) On certain valuation dates, additional warrants were issued due to reset provisions in the agreement.

(2) According to the terms of the 5.0% Notes, the 5.0% Warrants are subject to reset on April 15, 2013, if the price of the Company's common stock is below the initial conversion and exercise price at that date.

(3) According to the terms of the 8.00% Notes, additional 8.00% Warrants may be issued to holders if shares of common stock are issued below the then current warrant reset price ($0.32 as of September 30, 2012). No additional warrants were issued during the first quarter of 2012. During the second quarter, the Company issued stock at $0.32 per share, which was below the previous strike price of $0.49, in connection with the contingent consideration paid as part of the acquisition of Axonn. Given this transaction and the related provisions in the warrant agreements, the holders of the 8.00% Warrants received additional 8.00% Warrants to purchase 21.7 million more shares of common stock. No additional warrants were issued during the third quarter of 2012.

**5. DERIVATIVES**

The following tables disclose the fair value and locations of the derivative instruments on the Company's condensed consolidated balance sheets and condensed consolidated statements of operations (in thousands):

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Intangible and other assets: | | |
| Interest rate cap | $ 94 | $ 255 |
| Total intangible and other assets | $ 94 | $ 255 |
| Derivative liabilities: | | |
| Compound embedded conversion option with 8.00% Notes | $ (5,421) | $ (7,111) |
| Warrants issued with 8.00% Notes | (26,284) | (22,673) |
| Warrants issued in conjunction with contingent equity agreement | — | (6,155) |
| Contingent put feature embedded in the 5.0% Notes | (3,015) | (3,057) |
| Total derivative liabilities | $ (34,720) | $ (38,996) |

| | Three Months Ended | |
|---|---|---|
| | September 30, 2012 | September 30, 2011 |
| Interest rate cap | $ (39) | $ (437) |
| Compound embedded conversion option with 8.00% Notes | (2,417) | 13,330 |
| Warrants issued with 8.00% Notes | (13,963) | 10,336 |
| Warrants issued in conjunction with contingent equity agreement | — | 2,259 |
| Contingent put feature embedded in the 5.0% Notes | (54) | (1,695) |
| Total derivative gain (loss) | $ (16,473) | $ 23,793 |

| | Nine Months Ended | |
|---|---|---|
| | September 30, 2012 | September 30, 2011 |
| Interest rate cap | $ (161) | $ (697) |
| Compound embedded conversion option with 8.00% Notes | 1,287 | 17,370 |
| Warrants issued with 8.00% Notes | (4,031) | 14,987 |
| Warrants issued in conjunction with contingent equity agreement | 301 | 4,125 |
| Contingent put feature embedded in the 5.0% Notes | 42 | (1,695) |
| Total derivative gain (loss) | $ (2,562) | $ 34,090 |

None of the derivative instruments is designated as a hedge.

*Interest Rate Cap*

In June 2009, in connection with entering into the Facility Agreement, which provides for interest at a variable rate, the Company entered into five ten-year interest rate cap agreements. The interest rate cap agreements reflect a variable notional amount ranging from $586.3 million to $14.8 million at interest rates that provide coverage to the Company for exposure resulting from escalating interest rates over the term of the Facility Agreement. The interest rate cap provides limits on the six-month Libor rate ("Base Rate") used to calculate the coupon interest on outstanding amounts on the Facility Agreement of 4.00% from the date of issuance through December 2012. Thereafter, the Base Rate is capped at 5.50% should the Base Rate not exceed 6.5%. Should the Base Rate exceed 6.5%, the Company's Base Rate will be 1% less than the then six-month Libor rate. The Company paid an approximately $12.4 million upfront fee for the interest rate cap agreements. The interest rate cap did not qualify for hedge accounting treatment, and changes in the fair value of the agreements are included in the condensed consolidated statement of operations.

*Compound Embedded Conversion Option with 8.00% Notes*

The Company recorded the conversion rights and features embedded within the 8.00% Notes as a compound embedded derivative liability on its condensed consolidated balance sheet with a corresponding debt discount which is netted against the principal amount of the 8.00% Notes. The Company is accreting the debt discount associated with the compound embedded derivative liability to interest expense over the term of the 8.00% Notes using the effective interest rate method. The fair value of the compound embedded derivative liability is marked-to-market at the end of each reporting period, with any changes in value reported in the condensed consolidated statements of operations. The Company determined the fair value of the compound embedded derivative using a Monte Carlo simulation model.

*Warrants Issued with 8.00% Notes*

Due to the cash settlement provisions and reset features in the 8.00% Warrants issued with the 8.00% Notes, the Company recorded the 8.00% Warrants as an embedded derivative liability on its condensed consolidated balance sheet with a corresponding debt discount which is netted against the principal amount of the 8.00% Notes. The Company is accreting the debt discount associated with the warrant liability to interest expense over the term of the 8.00% Warrants using the effective interest rate method. The fair value of the warrant liability is marked-to-market at the end of each reporting period, with any changes in value reported in the condensed consolidated statements of operations. The Company determined the fair value of the warrant derivative using a Monte Carlo simulation model.

*Warrants Issued in Conjunction with Contingent Equity Agreement*

Prior to June 19, 2012, the Company determined that the warrants issued in conjunction with the availability fee for the Contingent Equity Agreement were a liability at issuance. The offset was recorded in other non-current assets and was amortized over the one-year availability period. The fair value of the warrant liability was marked-to-market at the end of each reporting period, with any changes in value reported in the condensed consolidated statements of operations. The Company determined the principal amount of the warrant derivative using a Monte Carlo simulation model.

On June 19, 2012, the Company issued additional warrants in conjunction with the availability fee for the Contingent Equity Agreement. This tranche of warrants is not subject to a reset provision and therefore is not marked-to-market at the end of each reporting period. The Company determined that the warrant was an equity instrument and recorded it as equity. The offset is recorded in other non-current assets and is being amortized over the one-year availability period.

*Contingent Put Feature Embedded in the 5.0% Notes*

The Company evaluated the embedded derivative resulting from the contingent put feature within the Indenture for bifurcation from the 5.0% Notes. The contingent put feature was not deemed clearly and closely related to the 5.0% Notes and was bifurcated as a standalone derivative. The Company recorded this embedded derivative liability as a non-current liability on its condensed consolidated balance sheets with a corresponding debt discount which is netted against the principal amount of the 5.0% Notes. The fair value of the contingent put feature liability is marked-to-market at the end of each reporting period. The Company determined the fair value of the contingent put feature derivative using a Monte Carlo simulation model based upon a risk-neutral stock price model.

**6. FAIR VALUE MEASUREMENTS**

The Company follows the authoritative guidance for fair value measurements relating to financial and non-financial assets and liabilities, including presentation of required disclosures herein. This guidance establishes a fair value framework requiring the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets and liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

*Level 1:* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

*Level 2:* Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

*Level 3:* Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

*Recurring Fair Value Measurements*

The following table provides a summary of the financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 and December 31, 2011 (in thousands):

| | Fair Value Measurements at September 30, 2012: | | | |
|---|---|---|---|---|
| | (Level 1) | (Level 2) | (Level 3) | **Total Balance** |
| Other assets: | | | | |
| Interest rate cap | $ — | $ 94 | $ — | $ 94 |
| Total other assets measured at fair value | $ — | $ 94 | $ — | $ 94 |
| Other liabilities: | | | | |
| Liability for contingent consideration | $ — | $ — | $ (4,052) | $ (4,052) |
| Compound embedded conversion option with 8.00% Notes | — | — | (5,421) | (5,421) |
| Warrants issued with 8.00% Notes | — | — | (26,284) | (26,284) |
| Contingent put feature embedded in 5.0% Notes | — | — | (3,015) | (3,015) |
| Total other liabilities measured at fair value | $ — | $ — | $ (38,772) | $ (38,772) |

| | Fair Value Measurements at December 31, 2011: | | | |
|---|---|---|---|---|
| | (Level 1) | (Level 2) | (Level 3) | **Total Balance** |
| Other assets: | | | | |
| Interest rate cap | $ — | $ 255 | $ — | $ 255 |
| Total other assets measured at fair value | $ — | $ 255 | $ — | $ 255 |
| Other liabilities: | | | | |
| Liability for contingent consideration | $ — | $ — | $ (4,963) | $ (4,963) |
| Compound embedded conversion option with 8.00% Notes | — | — | (7,111) | (7,111) |
| Warrants issued with 8.00% Notes | — | — | (22,673) | (22,673) |
| Warrants issued with contingent equity agreement | — | — | (6,155) | (6,155) |
| Contingent put feature embedded in 5.0% Notes | — | — | (3,057) | (3,057) |
| Total other liabilities measured at fair value | $ — | $ — | $ (43,959) | $ (43,959) |

*Interest Rate Cap*

The fair value of the interest rate cap is determined using observable pricing inputs including benchmark yields, reported trades, and broker/dealer quotes at the reporting date. See Note 5 for further discussion.

*Liability for Contingent Consideration*

In connection with the acquisition of Axonn in December 2009, the Company is obligated to pay up to an additional $10.8 million in contingent consideration for earnouts based on sales of existing and new products over a five-year earnout period beginning January 1, 2010. The Company will make earnout payments in stock (not to exceed 10% of the Company's pre-transaction outstanding common stock), but at its option may make payments in cash after 13 million shares have been issued. The Company's initial estimate of the total earnout expected to be paid was $10.8 million. Since the earnout period started, the Company has made revisions to this estimate, which is currently $10.2 million. Through September 30, 2012, the Company had made $4.6 million in earnout payments by issuing 12,697,593 shares of voting common stock.

The fair value of the accrued contingent consideration was determined using a probability-weighted discounted cash flow approach at the acquisition date and reporting date. The approach is based on significant inputs that are not observable in the market, which are referred to as Level 3 inputs. The fair value is based on the Company reaching specific performance metrics through the remaining earnout period. The change in fair value of the contingent consideration is recorded through accretion expense in the Company's statements of operations.

The significant unobservable inputs used in the fair value measurement of the Company's liability for contingent consideration are projected future sales of existing and new products as well as earnout payments made each quarter determined by actual product sales. Decreases in forecasted sales would result in a lower fair value measurement.

*Compound Embedded Conversion Options with 8.00% Notes*

The derivative liabilities in Level 3 include the compound embedded conversion option in the 8.00% Notes. See Note 5 for further discussion. The Company marks-to-market this liability at each reporting date with the changes in fair value recognized in the Company's statements of operations.

As of September 30, 2012, the Company utilized valuation models that rely exclusively on Level 3 inputs including, among other things: (i) the underlying features of the compound embedded conversion option, including payment in kind interest payments, make whole premiums, automatic conversions, and future equity issuances; (ii) stock price volatility ranges from 32% - 111%; (iii) risk-free interest rates ranges from 0.06% - 1.65%; (iv) base conversion price of $1.59; and (v) market price of common stock at the valuation date of $0.46.

As of December 31, 2011, the Company utilized valuation models that rely exclusively on Level 3 inputs including, among other things: (i) the underlying features of the compound embedded conversion option, including payment in kind interest payments, make whole premiums, automatic conversions, and future equity issuances; (ii) stock price volatility ranges from 35% - 103%; (iii) risk-free interest rates ranges from 0.01% - 1.89%; (iv) base conversion price of $1.61; and (v) market price of common stock at the valuation date of $0.54.

The significant unobservable inputs used in the fair value measurement of the Company's compound embedded conversion option within the Company's 8.00% Notes are future equity issuances and expected volatility. In connection with the acquisition of Axonn in December 2009, the Company will make future earnout payments in stock. Certain issuances of common stock may cause the base conversion rate of the 8.00% Notes to be adjusted, which will increase the fair value of the conversion option liability. The simulated fair value of this liability is also sensitive to changes in the Company's expected volatility. Decreases in expected volatility would result in a lower fair value measurement.

*Warrants Issued with 8.00% Notes*

The derivative liabilities in Level 3 include the 8.00% Warrants issued with the 8.00% Notes. See Note 5 for further discussion. The Company marks-to-market this liability at each reporting date with the changes in fair value recognized in the Company's statements of operations.

As of September 30, 2012, the Company utilized valuation models that rely exclusively on Level 3 inputs including, among other things: (i) the underlying features of the warrants issued, including reset features and future equity issuances; (ii) stock price volatility ranges from 32% - 111%; (iii) risk-free interest rates ranges from 0.06% - 1.65%; (iv) warrant exercise price of $0.32; and (v) market price of common stock at the valuation date of $0.46.

As of December 31, 2011, the Company utilized valuation models that rely exclusively on Level 3 inputs including, among other things: (i) the underlying features of the warrants issued, including reset features and future equity issuances; (ii) stock price volatility ranges from 35% - 103%; (iii) risk-free interest rates ranges from 0.01% - 1.89%; (iv) warrant exercise price of $0.49; and (v) market price of common stock at the valuation date of $0.54.

The significant unobservable inputs used in the fair value measurement of the Company's 8.00% Warrants are future equity issuances and expected volatility. In connection with the acquisition of Axonn in December 2009, the Company will make future earnout payments in stock. If the stock price on the issuance date is less than the current exercise price of the outstanding 8.00 % Warrants, additional warrants may be issued, which will increase the fair value of the warrant liability. The simulated fair value of this liability is also sensitive to changes in the Company's expected volatility. Decreases in expected volatility would result in a lower fair value measurement.

*Warrants Issued with Contingent Equity Agreement*

Prior to June 19, 2012, the derivative liabilities in Level 3 included the warrants issued with the contingent equity account. See Note 5 for further discussion. The Company marked-to-market this liability at each reporting date with the changes in fair value recognized in the Company's statements of operations.

On June 19, 2012, the Company issued warrants in conjunction with the availability fee for the Contingent Equity Agreement. This tranche of warrants is not subject to a reset provision and is not marked-to-market at the end of each reporting period.

As of December 31, 2011, the Company utilized valuation models that rely exclusively on Level 3 inputs including, among other things: (i) the underlying features of the warrants issued; (ii) stock price volatility of 108%; (iii) risk-free interest rates ranges from 0.01% - 0.83%; (iv) warrant price of $1.20; and (v) market price of common stock at the valuation date of $0.54.

The significant unobservable inputs used in the fair value measurement of the Company's warrants issued with the contingent equity agreement were the intrinsic value of the warrants and the Company's expected volatility. The intrinsic value of the warrants was sensitive to the Company's stock price on the issuance date and subsequent valuation dates. The closing stock price on June 19, 2012 was $0.28, which was lower than $1.20 per share, the price of the warrants issued on June 19, 2011. The lower price resulted in the Company issuing additional warrants on June 19, 2012. The simulated fair value of this liability was also sensitive to changes in the Company's expected volatility. Decreases in expected volatility resulted in a lower fair value measurement.

*Contingent Put Feature Embedded in 5.0% Notes*

The derivative liabilities in Level 3 include the contingent put feature embedded in the 5.0% Notes. See Note 5 for further discussion. The Company marks-to-market this liability at each reporting date with the changes in fair value recognized in the Company's statements of operations.

As of September 30, 2012, the Company utilized valuation models that rely exclusively on Level 3 inputs including, among other things: (i) the underlying features of the warrants issued including the probability of change of control of the Company, payment in kind interest and reset features; (ii) stock price volatility ranges from 32% - 111%; (iii) risk-free interest rates ranges from 0.06% - 1.65%; (iv) base conversion price of $1.25; and (v) market price of common stock at the valuation date of $0.46.

As of December 31, 2011, the Company utilized valuation models that rely exclusively on Level 3 inputs including, among other things: (i) the underlying features of the warrants issued including the probability of change of control of the Company, payment in kind interest and reset features; (ii) stock price volatility ranges from 35% - 103%; (iii) risk-free interest rates ranges from 0.01% - 1.89%; (iv) base conversion price of $1.25; and (v) market price of common stock at the valuation date of $0.54.

The significant unobservable inputs used in the fair value measurement of the Company’s contingent put feature embedded in the Company’s 5.0% Notes are the assumed probability of a change of control occurring within each year through maturity of the 5.0% Notes and the Company’s expected volatility. Significant increases or decreases in assumed probability of a change in control would result in a significant change in the fair value measurement. As the probability of change of control increases, the value of the liability also increases. The simulated fair value of this liability is also sensitive to changes in the Company’s expected volatility. Decreases in expected volatility would result in a lower fair value measurement.

*Level 3 Reconciliation*

The following tables present a rollforward for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2012 and 2011 as follows (in thousands):

| | |
|---|---|
| Balance at June 30, 2012 | $(23,169) |
| Derivative adjustment related to conversions and exercises | 404 |
| Earnout payments made related to liability for contingent consideration | 779 |
| Change in fair value of contingent consideration | (351) |
| Unrealized gain, included in derivative gain (loss) | (16,435) |
| Balance at September 30, 2012 | $(38,772) |

| | |
|---|---|
| Balance at December 31, 2011 | $(43,959) |
| Derivative adjustment related to conversions and exercises | 824 |
| Earnout payments made related to liability for contingent consideration | 1,632 |
| Change in fair value of contingent consideration | (721) |
| Contingent equity warrant liability reclassed to equity | 5,853 |

| | |
|---|---|
| Unrealized gain, included in derivative gain (loss) | (2,401 ) |
| Balance at September 30, 2012 | $(38,772) |
| | |
| Balance at June 30, 2011 | $(59,296) |
| Earnout payments made related to liability for contingent consideration | 967 |
| Change in fair value of contingent consideration | 1,090 |
| Unrealized gain, included in derivative gain (loss) | 24,230 |
| Balance at September 30, 2011 | $(33,009) |
| | |
| Balance at December 31, 2010 | $(66,838) |
| Issuance of contingent equity warrant liability | (8,313 ) |
| Issuance of contingent put feature embedded in 5.0% Notes | (1,503 ) |
| Derivative adjustment related to conversions and exercises | 1,100 |
| Earnout payments made related to liability for contingent consideration | 1,455 |
| Change in fair value of contingent consideration | 348 |
| Contingent equity warrant liability reclassed to equity | 5,955 |
| Unrealized gain, included in derivative gain (loss) | 34,787 |
| Balance at September, 2011 | $(33,009) |

**7. ACCRUED EXPENSES AND NON-CURRENT LIABILITIES**

Accrued expenses consist of the following (in thousands):

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Accrued interest | $ 8,322 | $ 2,774 |
| Accrued compensation and benefits | 3,499 | 3,567 |
| Accrued property and other taxes | 5,719 | 5,369 |
| Accrued customer liabilities and deposits | 2,946 | 3,176 |
| Accrued professional and other service provider fees | 969 | 1,826 |
| Accrued liability for contingent consideration | 2,221 | 2,020 |
| Accrued commissions | 638 | 513 |
| Accrued telecommunications expenses | 831 | 1,580 |
| Accrued satellite and ground construction costs | 773 | 5,776 |
| Other accrued expenses | 3,595 | 2,205 |
| | $ 29,513 | $ 28,806 |

Other accrued expenses primarily include outsourced logistics services, storage, inventory in transit, warranty reserve and maintenance.

Non-current liabilities consist of the following (in thousands):

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Long-term accrued interest | $ 1,733 | $ 242 |
| Asset retirement obligation | 980 | 926 |
| Deferred rent | 621 | 717 |
| Long-term liabilities related to the Cooperative Endeavor Agreement with the State of Louisiana | 2,244 | 2,445 |
| Long-term portion of liability for contingent consideration | 1,832 | 2,944 |
| Uncertain income tax positions | 5,728 | 5,408 |
| Foreign tax contingencies | 4,219 | 4,762 |
| | $ 17,357 | $ 17,444 |

**8. COMMITMENTS**

*Contractual Obligations*

The Company has purchase commitments with Thales, Arianespace, Ericsson, Hughes and other vendors related to the procurement and deployment of its second-generation constellation and ground infrastructure.

In September 2012, the Company and Hughes entered into an agreement to extend to December 21, 2012 the deadline for the Company to make payments previously due under the contract, provided the Company made payments of $0.5 million in October 2012 and $0.5 million in November 2012. The Company has made the October 2012 payment. The deferred payments continue to incur interest at the rate of 10% per annum. As of September 30, 2012, the Company had recorded $18.8 million in accounts payable related to these required payments and had incurred and capitalized $73.2 million, excluding interest, of costs related to this contract. The costs are recorded as an asset in property and equipment. If the Company is unable to modify successfully the contract payment terms, the contract may be terminated, and the Company may be required to record an impairment charge. If the contract is terminated for convenience, the Company must make a final payment of $20.0 million in either cash or Company common stock at the Company's election. If the Company elects to make payment in common stock, Hughes will have the option either to accept the common stock or instruct the Company to complete a block sale of the common stock and deliver the proceeds to Hughes. If Hughes chooses to accept common stock, the number of shares it will receive will be calculated based on the final payment amount plus 5%.

In July 2012, the Company entered into an agreement with Ericsson which deferred to February 1, 2013 approximately $4.2 million in milestone payments scheduled under the contract, provided the Company made payments of $0.7 million in July 2012 and $0.9 million in September 2012. The Company has made both payments. The remaining milestones previously due under the contract in 2012 were deferred to 2013 and beyond. The deferred payments will continue to incur interest at a rate of 6.5% per annum. As of September 30, 2012, the Company had recorded $2.6 million in accounts payable related to these required payments and has incurred and capitalized $6.8 million of costs related to this contract. The costs are recorded as an asset in property and equipment. If the Company is unable to modify successfully the contract payment terms, the contract may be terminated, and the Company may be required to record an impairment charge. If the contract is terminated for convenience, the Company must make a final payment of $10.0 million in either cash or Company common stock at the Company's election. If the Company elects to make payment in common stock, Ericsson will have the option either to accept the common stock or instruct the Company to complete a block sale of the common stock and deliver the proceeds to Ericsson. If Ericsson chooses to accept common stock, the number of shares it will receive will be calculated based on the final payment amount plus 5%.

The Company issued separate purchase orders for additional phone equipment and accessories under the terms of executed commercial agreements with Qualcomm. Within the terms of the commercial agreements, the Company paid Qualcomm approximately 7.5% to 25% of the total order price as advances for inventory. As of September 30, 2012 total advances to Qualcomm for inventory were $9.2 million, and the Company had outstanding commitment balances of $8.8 million for inventory held by Qualcomm.

**9. CONTINGENCIES**

*Arbitration*

On June 24, 2012, the Company and Thales agreed to settle their prior commercial disputes, including those disputes that were the subject of the arbitration award. In order to effectuate this settlement, the Company and Thales entered into a Release Agreement, Settlement Agreement and Submission Agreement. Under the terms of the Release Agreement, Thales agreed unconditionally and irrevocably to release and forever discharge the Company of any obligation to pay €35,623,770 of the termination charges awarded in the arbitration together with all interest on the award amount effective upon the earlier of December 31, 2012 and the effective date of the financing for the purchase of the additional six second-generation satellites. Under the terms of the Release Agreement, Globalstar agreed unconditionally and irrevocably to release and forever discharge Thales from any and all claims related to Thales' work under Phase 2 of the 2009 satellite construction contract, including any obligation to pay liquidated damages, effective upon the earlier of December 31, 2012 and the effective date of the financing for the purchase of the additional six second-generation satellites. In connection with the Release Agreement, the Company recorded a contract termination charge of approximately $22.0 million which is recorded in operating expenses for the nine months ended September 30, 2012.

Under the terms of the Settlement Agreement, Globalstar agreed to pay €17,530,000 to Thales, representing one-third of the termination charges awarded to Thales in the arbitration, on the later of the effective date of the new contract for the purchase of the six additional second-generation satellites and the effective date of the financing for the purchase of these satellites. The Company represented to Thales that it would obtain the consent of its lenders under the Facility, which the Company expects to receive in the near future and to the payment by the Thermo Companies of $12.5 million to Thales on the earlier of December 31, 2012 and the effective date of the new contract to reimburse Thales for funds it deposited in the Company's debt service reserve account under the Facility. Either Thales or the Company may terminate the Settlement Agreement if the effective date of the new contract for the purchase of the six additional second-generation satellites does not occur on or prior to February 28, 2013. Termination of the Settlement Agreement by either the Company or Thales would not terminate the Release Agreement.

Under the terms of the Submission Agreement, the Company and Thales have agreed to participate in an ad hoc arbitration proceeding to seek clarification of the award with respect to a €3,864,000 claim by Thales related to the Phase 2 satellites. If the arbitrator determines the Company must pay that amount, payment may be deferred or subject to escrow, based on the timing of delivery of the last Phase 2 satellite. If the arbitral decision is not received by the commercial contract effective date, the Company will place that amount in escrow until the decision is received.

On September 13, 2012, the Company entered into an agreement with Thales for the manufacture and delivery of six additional satellites for the Globalstar second-generation constellation. The purchase price for the six satellites, certain software upgrades and related services is €149.9 million, with an initial payment due upon the close of financing for the purchase and subsequent payments due over a 34-month period subject to Thales' reaching construction milestones. Neither party is obligated to perform under the contract until Globalstar obtains financing for at least 85% of the total contract price, among other conditions.

The Company has recorded the agreed termination charge, approximately €17.5 million, in accrued expenses. The outcome of the €3,864,000 claim by Thales related to the Phase 2 satellites is unknown, and therefore no adjustments have been made to the financial statements with respect to that claim.

*Litigation*

Due to the nature of the Company's business, the Company is involved, from time to time, in various litigation matters or subject to disputes or routine claims regarding its business activities. Legal costs related to these matters are expensed as incurred. In management's opinion, none of the pending litigation, disputes or claims are expected to have a material adverse effect on the Company's financial condition, results of operations or liquidity.

**10. RELATED PARTY TRANSACTIONS**

Payables to Thermo and other affiliates relate to normal purchase transactions and were $0.2 million and $0.4 million at September 30, 2012 and December 31, 2011, respectively.

*Transactions with Thermo*

Thermo incurs certain expenses on behalf of the Company. The table below summarizes the total expense for the periods indicated below (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| General and administrative expense | $ 30 | $ 10 | $ 230 | $ 119 |
| Non-cash expenses | 132 | 102 | 396 | 186 |
| Total | $ 162 | $ 112 | $ 626 | $ 305 |

General and administrative expenses are related to expenses incurred by Thermo on the Company's behalf which are charged to the Company. Non-cash expenses are related to services provided by executive officers of Thermo (who are also directors of the Company) who receive no cash compensation from the Company which are accounted for as a contribution to capital. The Thermo expense charges are based on actual amounts (with no mark-up) incurred or upon allocated employee time.

Since June 2009, Thermo and its affiliates have also deposited $60.0 million into a contingent equity account to fulfill a condition precedent for the initial borrowing under the Facility Agreement, purchased $20.0 million of the Company's 5.0% Notes, purchased $11.4 million of the Company's 8.00% Notes, provided a $2.3 million short-term loan to the Company (which was subsequently converted into nonvoting common stock), and loaned $37.5 million to the Company to fund the debt service reserve account required by the Facility Agreement.

**11. INCOME TAXES**

The Company follows authoritative guidance surrounding accounting for uncertainty in income taxes. It is the Company's policy to recognize interest and applicable penalties, if any, related to uncertain tax positions in income tax expense. For the periods ending September 30, 2012 and December 31, 2011, the net deferred tax assets were fully reserved.

A tax authority has previously notified the Company that the Company (formerly known as Globalstar LLC), one of its subsidiaries, and its predecessor, Globalstar L.P., were under audit for the taxable periods ending December 31, 2005, December 31, 2004, and June 29, 2004, respectively. During the taxable years at issue, the Company, its predecessor, and its subsidiary were treated as partnerships for U.S. income tax purposes. In December 2009, the Internal Revenue Service ("IRS") issued Notices of Final Partnership Administrative Adjustments related to each of the taxable years at issue. The Company disagreed with the proposed adjustments, and pursued the matter through applicable IRS and judicial procedures as appropriate.

In February 2012, a Closing Agreement was reached with respect to this matter. The position reached in the Closing Agreement had no impact on the cost basis of the assets of the Company or the Company’s net operating loss position. In addition, there is no impact for the Company on deductions in future years. In previous years, the potential outcome of this audit was considered and the gross deferred tax asset before valuation allowance adjusted to a tax position that was thought to be more likely than not to be sustained. The impact of this Closing Agreement was considered in the Company’s analysis at December 31, 2011, and the adjustment to the tax position in previous years was reversed.

In January 2012, the Company’s Canadian subsidiary was notified that its income tax returns for the years ended October 31, 2008 and 2009 had been selected for audit. The Company’s Canadian subsidiary is in the process of collecting the information required by the Canada Revenue Agency.

Except for the audits noted above, neither the Company nor any of its subsidiaries is currently under audit by the IRS or by any state jurisdiction in the United States. The Company's corporate U.S. tax returns for 2008 and subsequent years remain subject to examination by tax authorities. State income tax returns are generally subject to examination for a period of three to five years after filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states.

Through a prior foreign acquisition the Company acquired a tax liability for which the Company has been indemnified by the previous owners. As of September 30, 2012 and December 31, 2011, the Company had recorded a tax liability of $1.9 million to the foreign tax authorities with an offsetting tax receivable from the previous owners.

**12. ACCUMULATED OTHER COMPREHENSIVE LOSS**

Accumulated other comprehensive loss includes all changes in equity during a period from non-owner sources. The change in accumulated other comprehensive income for all periods presented resulted from foreign currency translation adjustments.

The components of accumulated other comprehensive loss were as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Accumulated other comprehensive loss, June 30, 2012 and 2011 and December 31, 2011 and 2010, respectively | $ (2,551 ) | $ (275 ) | $ (3,100 ) | $ (268 ) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | 1,119 | (134 ) | 1,668 | (141 ) |
| Accumulated other comprehensive loss, September 30, 2012 and 2011, respectively | $ (1,432 ) | $ (409 ) | $ (1,432 ) | $ (409 ) |

**13. STOCK COMPENSATION**

The Company's 2006 Equity Incentive Plan (the "Equity Plan") provides long-term incentives to the Company's key employees, including officers, directors, consultants and advisers ("Eligible Participants") and to align stockholder and employee interests. Under the Equity Plan, the Company may grant incentive stock options, restricted stock awards, restricted stock units, and other stock based awards or any combination thereof to Eligible Participants. The Compensation Committee of the Company's Board of Directors establishes the terms and conditions of any awards granted under the plans. In January 2012, 5,943,516 shares of the Company's common stock were added to the shares available for issuance under the Equity Plan.

Grants to Eligible Participants of incentive stock options, restricted stock awards, and restricted stock units during the period are indicated in the table below (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Grants of restricted stock awards and restricted stock units | 342 | 426 | 721 | 426 |
| Grants of options to purchase common stock | 31 | 56 | 414 | 1,421 |
| Total | 373 | 482 | 1,135 | 1,847 |

*Employee Stock Purchase Plan*

The Company's Employee Stock Purchase Plan (the "Plan") provides eligible employees of the Company and its subsidiaries with an opportunity to acquire shares of its common stock at a discount. The Plan permits eligible employees to purchase shares of common stock during two semi-annual offering periods beginning on June 15 and December 15, unless adjusted by the Board or one of its designated committees (the “Offering Periods”). Eligible employees may purchase shares in an amount of up to 15% of their total compensation per pay period, but may purchase no more than the lesser of $25,000 of the fair market value of common stock or 500,000 shares of common stock in any calendar year, as measured as of the first day of each applicable Offering Period. The price an employee pays is 85% of the fair market value of the common stock. Fair market value is equal to the lesser of the closing price of a share of common stock on either the first or last day of the Offering Period.

For the three and nine months ended September 30, 2012, the Company recorded expense for the fair value of the grant of approximately $0 and $0.1 million, respectively, which is reflected in marketing, general and administrative expenses. For the three and nine months ended September 30, 2011 the Company recorded expense for the fair value of the grant of approximately $0.1 million and $0.2 million, respectively. Through September 30, 2012 the Company issued 805,690 shares pursuant to this stock purchase plan.

**14. HEADQUARTERS RELOCATION**

During 2010 the Company announced the relocation of its corporate headquarters to Covington, Louisiana. In addition, the Company relocated its product development center, international customer care operations, call center and other global business functions including finance, accounting, sales, marketing and corporate communications. The Company completed the relocation in 2011.

In connection with its relocation, the Company entered into a Cooperative Endeavor Agreement with the Louisiana Department of Economic Development (“LED”) whereby the Company would be reimbursed for certain qualified relocation costs and lease expenses. In accordance with the terms of the agreement, these reimbursement costs, not to exceed $8.1 million, will be reimbursed to the Company as incurred provided the Company maintains required annual payroll levels in Louisiana through 2019.

Since announcing its relocation, the Company has incurred qualifying relocation expenses. Under the terms of the agreement, the Company was reimbursed a total of $3.9 million through December 31, 2011 by LED. The Company has not been reimbursed for any expenses in 2012. The Company accounted for these reimbursements as reductions to the relocation expenses incurred. Through December 31, 2011, the Company also incurred $1.3 million for facility improvements and replacement equipment in connection with the relocation. These costs were also reimbursed by LED. Reimbursements related to facility improvements and replacement equipment were recorded as deferred costs and are offset by depreciation expense as the related assets are used in service. LED will also reimburse the Company approximately $352,000 per year through 2019 for certain qualifying lease expenses, provided the Company meets the required payroll levels set forth in the agreement.

If the Company fails to meet the required payroll in any project year, the Company will reimburse LED for a portion of the shortfall not to exceed the total reimbursement received from LED. Due to a plan to improve its cost structure by reducing headcount, the Company projected that it would not meet the required payroll levels set forth in the agreement and recorded a liability of $1.7 million at September 30, 2012 for the estimated impact of the payroll shortfall in future years. This liability is included in current and non-current liabilities in the Company's condensed consolidated balance sheet.

## 15. GEOGRAPHIC INFORMATION

The Company attributes equipment revenue to various countries based on the location equipment is sold. Service revenue is attributed to the various countries based on where the service is processed. Long-lived assets consist primarily of property and equipment and are attributed to various countries based on the physical location of the asset at a given fiscal year-end, except for the satellites which are included in the long-lived assets of the United States. The Company's information by geographic area is as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | |
| Service: | | | | |
| United States | $ 11,051 | $ 9,291 | $ 29,926 | $ 27,282 |
| Canada | 2,836 | 2,813 | 7,827 | 8,217 |
| Europe | 732 | 1,186 | 2,223 | 3,238 |
| Central and South America | 640 | 828 | 1,897 | 2,780 |
| Others | 109 | 80 | 273 | 257 |
| Total service revenue | $ 15,368 | $ 14,198 | $ 42,146 | $ 41,774 |
| Subscriber equipment: | | | | |
| United States | 3,633 | 2,633 | 10,724 | 8,695 |
| Canada | 887 | 924 | 2,555 | 2,657 |
| Europe | 287 | 220 | 939 | 1,137 |
| Central and South America | 220 | 200 | 701 | 937 |
| Others | 142 | 12 | 191 | 240 |
| Total subscriber equipment revenue | $ 5,169 | $ 3,989 | $ 15,110 | $ 13,666 |
| Total revenue | $ 20,537 | $ 18,187 | $ 57,256 | $ 55,440 |

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Long-lived assets: | | |
| United States | $ 1,220,600 | $ 1,211,795 |
| Canada | 292 | 324 |
| Europe | 315 | 155 |

| | | |
|---|---|---|
| Central and South America | 3,461 | 3,638 |
| Others | 1,646 | 1,806 |
| Total long-lived assets | $ 1,226,314 | $ 1,217,718 |

**16. LOSS PER SHARE**

The Company is required to present basic and diluted earnings per share. Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. Common stock equivalents are included in the calculation of diluted earnings per share only when the effect of their inclusion would be dilutive.

For the three and nine months ended September 30, 2012 and 2011, diluted net loss per share of common stock were the same as basic net loss per share of common stock, because the effects of potentially dilutive securities are anti-dilutive.

As of September 30, 2012 and 2011, 17.3 million Borrowed Shares related to the Company's Share Lending Agreement remained outstanding. The Company does not consider the Borrowed Shares to be outstanding for the purposes of computing and reporting its earnings per share.

**17. SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION**

In connection with the Company's issuance of the 5.0% Notes and 5.0% Warrants, certain of the Company's domestic subsidiaries (the "Guarantor Subsidiaries"), fully, unconditionally, jointly, and severally guaranteed the payment obligations under the 5.0% Notes. The following supplemental financial information sets forth, on a consolidating basis, the balance sheets, statements of operations and statements of cash flows for Globalstar, Inc. ("Parent Company"), for the Guarantor Subsidiaries and for the Parent Company's other subsidiaries (the "Non-Guarantor Subsidiaries").

The supplemental condensed consolidating financial information has been prepared pursuant to the rules and regulations for condensed financial information and does not include disclosures included in annual financial statements. The principal eliminating entries eliminate investments in subsidiaries, intercompany balances and intercompany revenues and expenses.

**Globalstar, Inc.**

**Supplemental Condensed Consolidating Statement of Operations**

**Three Months Ended September 30, 2012**

**(Unaudited)**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Revenue: | | | | | |
| Service revenues | $14,296 | $ 10,832 | $ 4,002 | $ (13,762) | $ 15,368 |
| Subscriber equipment sales | 255 | 4,138 | 2,941 | (2,165) | 5,169 |
| Total revenue | 14,551 | 14,970 | 6,943 | (15,927) | 20,537 |
| Operating expenses: | | | | | |
| Cost of services (exclusive of depreciation, amortization, and accretion shown separately below) | 1,784 | 3,585 | 1,983 | (1,794) | 5,558 |
| Cost of subscriber equipment sales | 134 | 4,742 | 3,780 | (4,616) | 4,040 |
| Cost of subscriber equipment sales – reduction in the value of inventory | — | 658 | 2 | — | 660 |
| Marketing, general and administrative | 5,236 | 1,944 | 3,379 | (1,279) | 9,280 |
| Reduction in the value of long-lived assets | — | — | — | — | — |
| Contract termination charge | — | — | — | — | — |
| Depreciation, amortization, and accretion | 13,313 | 13,782 | 4,338 | (12,779) | 18,654 |

| | | | | | |
|---|---|---|---|---|---|
| Total operating expenses | 20,467 | 24,711 | 13,482 | (20,468 ) | 38,192 |
| Loss from operations | (5,916 ) | (9,741 ) | (6,539 ) | 4,541 | (17,655 ) |
| Other income (expense): | | | | | |
| Interest income and expense, net of amounts capitalized | (6,172 ) | (1 ) | (394 ) | 2 | (6,565 ) |
| Derivative loss | (16,473) | — | — | — | (16,473 ) |
| Equity in subsidiary earnings | (12,120) | 2,205 | — | 9,915 | — |
| Other | (456 ) | (117 ) | 218 | (84 ) | (439 ) |
| Total other income (expense) | (35,221) | 2,087 | (176 ) | 9,833 | (23,477 ) |
| Loss before income taxes | (41,137) | (7,654 ) | (6,715 ) | 14,374 | (41,132 ) |
| Income tax (benefit) expense | 51 | (18 ) | 23 | — | 56 |
| Net loss | $(41,188) | $ (7,636 ) | $ (6,738 ) | $ 14,374 | $ (41,188 ) |
| Comprehensive loss | $(41,188) | $ (7,636 ) | $ (5,619 ) | $ 14,374 | $ (40,069 ) |

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**Globalstar, Inc.**

**Supplemental Condensed Consolidating Statement of Operations**

**Three Months Ended September 30, 2011**

**(Unaudited)**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Revenue: | | | | | |
| Service revenues | $ 8,120 | $ 9,992 | $ 5,049 | $ (8,963) | $ 14,198 |
| Subscriber equipment sales | 301 | 2,905 | 229 | 554 | 3,989 |
| Total revenue | 8,421 | 12,897 | 5,278 | (8,409) | 18,187 |
| Operating expenses: | | | | | |
| Cost of services (exclusive of depreciation, amortization, and accretion shown separately below) | 4,595 | 1,421 | 3,498 | (1,182) | 8,332 |
| Cost of subscriber equipment sales | — | 2,661 | 2,187 | (1,977) | 2,871 |
| Cost of subscriber equipment sales – reduction in the value of inventory | — | 312 | 667 | — | 979 |
| Marketing, general and administrative | 3,839 | 5,980 | 2,430 | — | 12,249 |
| Reduction in the value of long-lived assets | 788 | 2,195 | 55 | — | 3,038 |
| Contract termination charge | — | — | — | — | — |
| Depreciation, amortization, and accretion | 6,187 | 9,171 | 3,836 | (7,088) | 12,106 |
| Total operating expenses | 15,409 | 21,740 | 12,673 | (10,247) | 39,575 |
| (Loss) gain from operations | (6,988) | (8,843) | (7,395) | 1,838 | (21,388) |
| Other income (expense): | | | | | |
| Interest income and expense, net of amounts capitalized | (641) | | (582) | (9) | (1,232) |
| Derivative gain | 23,793 | — | — | — | 23,793 |
| Equity in subsidiary earnings | (16,544) | (3,349) | — | 19,893 | — |
| Other | (302) | 247 | (1,924) | 103 | (1,876) |
| Total other income (expense) | 6,306 | (3,102) | (2,506) | 19,987 | 20,685 |
| Loss before income taxes | (682) | (11,945) | (9,901) | 21,825 | (703) |
| Income tax expense | (1) | (23) | 2 | — | (22) |
| Net (loss) gain | $ (681) | $ (11,922) | $ (9,903) | $ 21,825 | $ (681) |
| Comprehensive loss | $ (681) | $ (11,922) | $ (10,034) | $ 21,822 | $ (815) |

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**Globalstar, Inc.**

**Supplemental Condensed Consolidating Statement of Operations**

**Nine Months Ended September 30, 2012**

**(Unaudited)**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Revenue: | | | | | |
| Service revenues | $35,609 | $ 30,528 | $ 11,609 | $ (35,600 ) | $ 42,146 |
| Subscriber equipment sales | 809 | 12,328 | 5,676 | (3,703 ) | 15,110 |
| Total revenue | 36,418 | 42,856 | 17,285 | (39,303 ) | 57,256 |
| Operating expenses: | | | | | |
| Cost of services (exclusive of depreciation, amortization, and accretion shown separately below) | 5,678 | 6,231 | 5,888 | (1,082 ) | 16,715 |
| Cost of subscriber equipment sales | 284 | 9,420 | 5,377 | (4,616 ) | 10,465 |
| Cost of subscriber equipment sales – reduction in the value of inventory | 2 | 904 | 51 | — | 957 |
| Marketing, general and administrative | 15,493 | 4,997 | 9,426 | (3,351 ) | 26,565 |
| Reduction in the value of long-lived assets | 79 | 7,139 | — | — | 7,218 |
| Contract termination charge | 22,048 | — | — | — | 22,048 |
| Depreciation, amortization, and accretion | 32,789 | 36,817 | 12,343 | (32,672 ) | 49,277 |
| Total operating expenses | 76,373 | 65,508 | 33,085 | (41,721 ) | 133,245 |
| Loss from operations | (39,955) | (22,652 ) | (15,800 ) | 2,418 | (75,989 ) |
| Other income (expense): | | | | | |
| Interest income and expense, net of amounts capitalized | (12,126) | (7 ) | (1,261 ) | (2 ) | (13,396 ) |
| Derivative loss | (2,562 ) | — | — | — | (2,562 ) |
| Equity in subsidiary earnings | (37,737) | 6,703 | — | 31,034 | — |
| Other | (687 ) | (12 ) | (163 ) | (76 ) | (938 ) |
| Total other income (expense) | (53,112) | 6,684 | (1,424 ) | 30,956 | (16,896 ) |
| Loss before income taxes | (93,067) | (15,968 ) | (17,224 ) | 33,374 | (92,885 ) |
| Income tax expense | 179 | 30 | 152 | — | 361 |
| Net loss | $(93,246) | $ (15,998 ) | $ (17,376 ) | $ 33,374 | $ (93,246 ) |
| Comprehensive loss | $(93,246) | $ (15,998 ) | $ (15,708 ) | $ 33,374 | $ (91,578 ) |

**Globalstar, Inc.**

**Supplemental Condensed Consolidating Statement of Operations**

**Nine Months Ended September 30, 2011**

**(Unaudited)**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | **(In thousands)** | | | | |
| Revenue: | | | | | |
| Service revenues | $21,693 | $ 29,624 | $ 13,179 | $ (22,722 ) | $ 41,774 |
| Subscriber equipment sales | 710 | 10,567 | 3,871 | (1,482 ) | 13,666 |
| Total revenue | 22,403 | 40,191 | 17,050 | (24,204 ) | 55,440 |
| Operating expenses: | | | | | |
| Cost of services (exclusive of depreciation, amortization, and accretion shown separately below) | 9,602 | 6,262 | 9,996 | (3,176 ) | 22,684 |
| Cost of subscriber equipment sales | 529 | 7,998 | 3,472 | (2,678 ) | 9,321 |
| Cost of subscriber equipment sales – reduction in the value of inventory | — | 735 | 666 | — | 1,401 |
| Marketing, general and administrative | 8,702 | 17,470 | 7,832 | — | 34,004 |
| Reduction in the value of long-lived assets | 1,073 | 2,356 | 55 | — | 3,484 |
| Contract termination charge | — | — | — | — | — |
| Depreciation, amortization, and accretion | 16,208 | 27,396 | 10,901 | (18,993 ) | 35,512 |
| Total operating expenses | 36,114 | 62,217 | 32,922 | (24,847 ) | 106,406 |
| (Loss) gain from operations | (13,711) | (22,026 ) | (15,872 ) | 643 | (50,966 ) |
| Other income (expense): | | | | | |
| Interest income and expense, net of amounts capitalized | (2,046 ) | — | (1,552 ) | (1 ) | (3,599 ) |
| Derivative gain | 34,090 | — | — | — | 34,090 |
| Equity in subsidiary earnings | (39,816) | (7,193 ) | — | 47,009 | — |
| Other | 295 | (117 ) | (695 ) | (56 ) | (573 ) |
| Total other income (expense) | (7,477 ) | (7,310 ) | (2,247 ) | 46,952 | 29,918 |
| Loss before income taxes | (21,188) | (29,336 ) | (18,119 ) | 47,595 | (21,048 ) |
| Income tax expense | 27 | — | 140 | — | 167 |
| Net (loss) gain | $(21,215) | $ (29,336 ) | $ (18,259 ) | $ 47,595 | $ (21,215 ) |
| Comprehensive loss | $(21,215) | $ (29,336 ) | $ (18,397 ) | $ 47,592 | $ (21,356 ) |

**Globalstar, Inc.**

**Supplemental Condensed Consolidating Balance Sheet**

**As of September 30, 2012**

**(Unaudited)**

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $451 | $ 225 | $ 543 | $— | $ 1,219 |
| Restricted cash | 50,426 | — | — | — | 50,426 |
| Accounts receivable | 3,725 | 4,936 | 4,940 | — | 13,601 |
| Intercompany receivables | 593,317 | 398,411 | 23,788 | (1,015,516 ) | — |
| Inventory | 545 | 6,598 | 35,902 | — | 43,045 |
| Deferred financing costs, current | 36,911 | — | — | — | 36,911 |
| Prepaid expenses and other current assets | 3,019 | | | | |