Globalstar, Inc.
Form 10-Q
August 11, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

461 South Milpitas Blvd.
Milpitas, California 95035

(Address of principal executive offices and zip code)

(408) 933-4000

Registrant s telephone number, including area code

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 o

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of Common Stock, as of the latest practicable date. As of August 4, 2008, there were outstanding 113,351,878 shares of Common Stock, par value $0.0001 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GLOBALSTAR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenue:				
Service revenue	$ 16,673	$ 19,984	$ 32,683	$ 37,450
Subscriber equipment sales	6,326	5,853	12,450	11,541
Total revenue	22,999	25,837	45,133	48,991
Operating expenses:				
Cost of services (exclusive of depreciation and amortization shown separately below)	8,607	6,738	16,082	13,121
Cost of subscriber equipment sales:				
Cost of subscriber equipment sales	4,118	4,557	9,099	8,008
Cost of subscriber equipment sales Impairment of assets	349	17,255	413	17,255
Total cost of subscriber equipment sales	4,467	21,812	9,512	25,263
Marketing, general, and administrative	15,482	10,634	31,230	22,116
Depreciation and amortization	6,521	2,537	11,939	4,961
Total operating expenses	35,077	41,721	68,763	65,461
Operating loss	(12,078)	(15,884)	(23,630)	(16,470)
Other income (expense):				
Interest income	1,565	691	2,933	1,519
Interest expense	(472)	(385)	(1,469)	(696)
Interest rate derivative gain	3,743	1,910	204	1,546
Other	(77)	(187)	8,174	1,047
Total other income (expense)	4,759	2,029	9,842	3,416
Loss before income taxes	(7,319)	(13,855)	(13,788)	(13,054)
Income tax expense (benefit)	29	(1,168)	195	(811)
Net loss	$ (7,348)	$ (12,687)	$ (13,983)	$ (12,243)
Loss per common share:				
Basic	$ (0.09)	$ (0.17)	$ (0.17)	$ (0.16)
Diluted	(0.09)	(0.17)	(0.17)	(0.16)
Weighted-average shares outstanding:				
Basic	84,029	75,657	83,243	74,660
Diluted	84,029	75,657	83,243	74,660

See accompanying notes to unaudited interim consolidated financial statements.

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GLOBALSTAR, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)
(Unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,596	$ 37,554
Accounts receivable, net of allowance of $4,607 (2008) and $4,177 (2007)	11,461	12,399
Inventory	62,441	54,939
Advances for inventory	9,756	9,769
Deferred tax assets	1,238	1,257
Prepaid expenses and other current assets	8,339	3,262
Total current assets	118,831	119,180
Property and equipment:		
Spare satellites and related launch costs		47,848
Second-generation satellites, launch costs and ground segment	311,003	147,998
Globalstar System, net	129,044	84,939
Other property and equipment, net	11,764	9,318
	451,811	290,103
Other assets:		
Restricted cash	135,614	80,871
Deferred tax assets	20,534	20,303
Other assets, net	16,436	2,518
Total assets	$ 743,226	$ 512,975
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 12,900	$ 8,400
Accrued expenses	23,524	17,650
Payables to affiliates	1,269	1,487
Deferred revenue	16,612	19,396
Total current liabilities	54,305	46,933
Borrowings under revolving credit facility		50,000
Long term debt	100,000	
Long term convertible senior notes	150,000	
Employee benefit obligations, net of current portion	1,573	1,779
Other non-current liabilities	33,920	8,719
Total non-current liabilities	285,493	60,498
Ownership equity:		
Preferred Stock, $0.0001 par value; 100,000 shares authorized, issued and outstanding none		
Common Stock, $0.0001 par value; 800,000 shares authorized, 113,354 shares issued and outstanding at June 30, 2008 and 83,693 shares issued and outstanding at December 31, 2007	11	8
Additional paid-in capital	421,063	407,743
Accumulated other comprehensive income	1,955	3,411

Retained deficit		(19,601)		(5,618)
Total ownership equity		403,428		405,544
Total liabilities and shareholders equity	$	743,226	$	512,975

See accompanying notes to unaudited interim consolidated financial statements.

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GLOBALSTAR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months Ended	
	June 30, 2008	June 30, 2007
Cash flows from operating activities:		
Net loss	$ (13,983)	$ (12,243)
Adjustments to reconcile net loss to net cash from operating activities:		
Deferred income taxes	(269)	(952)
Depreciation and amortization	11,939	4,961
Interest rate derivative loss	(204)	(1,546)
Stock-based compensation expense	7,003	724
Loss (gain) on disposal of fixed assets	80	(138)
Provision for bad debts	672	885
Interest income on restricted cash	(2,474)	(986)
Contribution of services	225	174
Cost of subscriber equipment sales - impairment of assets	413	17,255
Amortization of deferred financing costs	262	221
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	239	2,901
Inventory	(10,025)	(17,879)
Advances for inventory	(270)	4,461
Prepaid expenses and other current assets	(186)	(246)
Other assets	(1,996)	303
Accounts payable	(2,281)	(8,497)
Payables to affiliates	(142)	(26)
Accrued expenses and employee benefit obligations	(2,734)	(3,661)
Other non-current liabilities	1,707	(623)
Deferred revenue	(2,429)	(1,559)
Net cash from operating activities	(14,453)	(16,471)
Cash flows from investing activities:		
Spare and second-generation satellites and launch costs	(132,581)	(72,867)
Second-generation ground	(5,074)	
Property and equipment additions	(2,827)	(1,756)
Proceeds from sale of property and equipment	146	268
Investment in businesses	(2,000)	
Cash acquired on purchase of subsidiary	1,839	
Restricted cash	(43,639)	
Net cash from investing activities	(184,136)	(74,355)
Cash flows from financing activities:		
Borrowings from long-term convertible senior notes	150,000	
Borowings from long term debt	100,000	
Repayment of revolving credit loan	(50,000)	
Proceeds from irrevocable standby stock purchase agreement		59,255
Deferred financing cost payments	(4,854)	(1,011)
Reduction in derivative margin account balance requirements	335	
Net cash from financing activities	195,481	58,244
Effect of exchange rate changes on cash	(8,850)	(1,042)
Net decrease in cash and cash equivalents	(11,958)	(33,624)
Cash and cash equivalents, beginning of period	37,554	43,698
Cash and cash equivalents, end of period	$ 25,596	$ 10,074

Supplemental disclosure of cash flow information:				
Cash paid for:				
Interest	$	4,613	$	2,119
Income taxes	$	157	$	18
Supplemental disclosure of non-cash financing and investing activities:				
Conversion of redeemable Common Stock to Common Stock	$		$	1,249
Accrued launch costs and second-generation satellites costs	$	8,308	$	5,709
Capitalization of interest for spare and second-generation satellites and launch costs	$	4,389	$	
Vendor financing of second-generation satellites	$	16,408		
Fair value of assets acquired on purchase of subsidiary	$	19,928	$	
Fair value of liabilities assumed on purchase of subsidiary	$	13,211	$	

See accompanying notes to unaudited interim consolidated financial statements.

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GLOBALSTAR, INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1: The Company and Summary of Significant Accounting Policies

Nature of Operations

Globalstar, Inc. (Globalstar or the Company) was formed as a Delaware limited liability company in November 2003, and was converted into a Delaware corporation on March 17, 2006.

Globalstar is a leading provider of mobile voice and data communications services via satellite. Globalstar s network, originally owned by Globalstar, L.P. (Old Globalstar), was designed, built and launched in the late 1990s by a technology partnership led by Loral Space and Communications (Loral) and QUALCOMM Incorporated (QUALCOMM). On February 15, 2002, Old Globalstar and three of its subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code. In 2004, Thermo Capital Partners L.L.C., together with its affiliates (Thermo), became Globalstar s principal owner, and Globalstar completed the acquisition of the business and assets of Old Globalstar. Thermo remains Globalstar s largest stockholder. Globalstar s Chairman and Chief Executive Officer controls Thermo and its affiliates. Two other members of Globalstar s Board of Directors are also directors, officers or minority equity owners of various Thermo entities.

Globalstar offers satellite services to commercial and recreational users in more than 120 countries around the world. The Company s voice and data products include mobile and fixed satellite telephones, Simplex and duplex satellite data modems and flexible service packages. Many land based and maritime industries benefit from Globalstar with increased productivity from remote areas beyond cellular and landline service. Globalstar s customers include those in the following industries: oil and gas, government, mining, forestry, commercial fishing, utilities, military, transportation, heavy construction, emergency preparedness, and business continuity, as well as individual recreational users.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. These unaudited interim consolidated financial statements include the accounts of Globalstar and its majority owned or otherwise controlled subsidiaries. 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 consolidated financial position, results of operations, and cash flows for the periods presented. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the full year or any future period. Globalstar s results of operations are subject to seasonal usage changes. The months of April through October are typically peak months for service revenues and equipment sales. Government customers in North America tend to use Globalstar s services during summer months, often in support of relief activities after events such as hurricanes, forest fires and other natural disasters.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported 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 its estimates on an ongoing basis, including those related to revenue recognition, allowance for doubtful accounts, inventory valuation, deferred tax assets, property and equipment, warranty obligations and contingencies and litigation. Actual results could differ from these estimates.

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Certain reclassifications have been made to prior year consolidated financial statements to conform to current year presentation.

Globalstar operates in one segment, providing voice and data communication services via satellite. As a result, all segment-related financial information required by Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures About Segments of an Enterprise and Related Information, or SFAS 131, is included in the consolidated financial statements.

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Other income (expense) includes foreign exchange transaction gains (losses) of $(0.1) million and $8.1 million for the three and six months ended June 30, 2008, respectively, and $(0.2) million and $1.1 million for the three and six months ended June 30, 2007, respectively.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Standards No. 157, Fair Value Measurements (SFAS No. 157), which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 initially was to be effective for the Company on January 1, 2008. However, on February 12, 2008, the FASB approved FASB Staff Position (FSP) FAS 157-b, which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of Statement No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for items within the scope of this FSP. On January 1, 2008, the Company adopted the provisions of SFAS No. 157 that relate to establishing guidelines for measuring fair value of financial assets and liabilities and non-financial assets and non-financial liabilities that are recognized at fair value on a recurring basis. This adoption did not have a material impact on the Company s financial position, results of operations, or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 allows companies to measure many financial assets and liabilities at fair value. It also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On January 1, 2008, the Company adopted SFAS No. 159. The adoption of SFAS No. 159 did not have a material impact on the Company s financial position, results of operations, or cash flows.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires companies to provide enhanced disclosures regarding derivative instruments and hedging activities. It requires a company to convey better the purpose of derivative use in terms of the risks that it is intending to manage. Disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect a company s financial position, financial performance, and cash flows are required. SFAS No. 161 retains the same scope as SFAS No. 133 and is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing implementation plans and does not expect the adoption of SFAS No. 161 to have a material impact, if any, on the Company s financial position, results of operations, or cash flows.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP (the GAAP hierarchy). SFAS No. 162 supersedes the existing hierarchy contained in the U.S. auditing standards. The existing hierarchy was carried over to SFAS No. 162 essentially unchanged. The Statement becomes effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to the auditing literature. The new hierarchy is not expected to change current accounting practice in any area.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants*. Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company will adopt FSP APB 14-1 beginning in the first quarter of 2009, and this standard must be applied on a retrospective basis. The Company is evaluating the impact of the adoption of FSP APB 14-1 on its financial position, results of operations or cash flows.

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Note 2: Basic and Diluted Loss Per Share

The Company applies the provisions of Statement of Financial Accounting Standard No. 128, Earnings Per Share (SFAS 128), which requires companies to present basic and diluted earnings per share. Basic earnings per share is computed based on the weighted-average number of shares of Common Stock 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.

The following table sets forth the computations of basic and diluted loss per share (in thousands, except per share data):

	Three Months Ended June 30, 2008			Six Months Ended June 30, 2008		
	Income (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per-Share Amount	Income (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per-Share Amount
Basic and Dilutive loss per common share						
Net loss	$ (7,348)	84,029	$ (0.09)	$ (13,983)	83,243	$ (0.17)

	Three Months Ended June 30, 2007			Six Months Ended June 30, 2007		
	Income (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per-Share Amount	Income (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per-Share Amount
Basic and Dilutive loss per common share						
Net loss	$ (12,687)	75,657	$ (0.17)	$ (12,243)	74,660	$ (0.16)

For the three and six months ended June 30, 2008 and 2007, diluted net loss per share of Common Stock is the same as basic net loss per share of Common Stock, because the effects of potentially dilutive securities are anti-dilutive.

Shares issued under the Share Lending Agreement are excluded from the computation of earnings per share (Note 13).

Note 3: Acquisitions

On March 25, 2008, the Company completed its acquisition of an independent gateway operator that owns and operates three gateway ground stations in Brazil. Pursuant to the terms of the acquisition, the Company acquired all of the outstanding equity of the independent gateway operator for $6.5 million, including $6.0 million payable in Common Stock of the Company and $0.5 million in release of service fees owed to the Company by the independent gateway operator. The Company also incurred transaction costs of $0.2 million. Earlier in 2008, the Company received the necessary Agencia Nacional de Telecomunicacoes (ANATEL) regulatory approval. The acquisition allows the Company to expand its coverage in South America and engage in discussions with potential partners to provide ancillary terrestrial component or ATC-type services in Brazil.

The following table summarizes the Company s preliminary allocation of the estimated values of the assets acquired and liabilities assumed in the acquisition (in thousands):

		March 25, 2008
Current assets	$	7,695
Property and equipment		6,872
Long-term assets		5,361
Total assets acquired		19,928
Current liabilities		6,419
Long-term liabilities		6,792
Total liabilities assumed		13,211
Net assets acquired	$	6,717

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Note 4: Property and Equipment

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

	June 30, 2008	December 31, 2007
Globalstar System:		
Space segment	$ 133,012	$ 85,142
Ground segment	27,909	21,530
Second-generation satellites and related launch costs	305,945	147,998
Second-generation ground segment	5,074	
Spare satellites and related launch costs		47,848
Furniture and office equipment	16,021	14,417
Land and buildings	3,084	2,478
Leasehold improvements	714	717
Construction in progress	2,774	1,132
	494,533	321,262
Accumulated depreciation	(42,722)	(31,159)
	$ 451,811	$ 290,103

Property and equipment consists of an in-orbit satellite constellation, ground equipment, spare satellites and related launch costs, second-generation satellites and related launch costs, second-generation ground segment and support equipment located in various countries around the world.

On November 30, 2006, the Company entered into a contract with Thales Alenia Space (formerly known as Alcatel Alenia Space France) to construct 48 low-earth orbit satellites. The total contract price, including subsequent additions, is approximately 667.7 million (approximately $1.005.9 million at a weighted average conversion rate of 1.00 = $1.5065 at June 30, 2008) including approximately 146.8 million which will be paid by the Company in U.S. dollars at a fixed conversion rate of 1.00 = $1.2940. The contract requires Thales Alenia Space to commence delivery of satellites in the third quarter of 2009, with deliveries continuing until 2013 unless Globalstar elects to accelerate delivery. At June 30, 2008, $104.0 million was held in escrow to secure the Company s payment obligations related to its contract for the construction of its second-generation satellite constellation. Funds that the Company deposits into the escrow account to support this contract will be used to make payments under this contract in the future. At the Company s request, Thales Alenia Space has presented a plan for accelerating delivery of the initial 24 satellites by up to four months. The expected cost of this acceleration will range from approximately 6.7 million to 13.4 million ($10.6 million to $21.2 million at 1.00 = $1.5799). In 2007, the Company authorized the first two portions of the Thales four-part sequential plan with an additional cost of 4.1 million ($6.5 million at 1.00 = $1.5799). The Company cannot provide assurances that any of the remaining acceleration will occur.

In March 2007, the Company and Thales Alenia Space entered into an agreement for the construction of the Satellite Operations Control Centers, Telemetry Command Units and In Orbit Test Equipment (collectively, the Control Network Facility) for the Company s second-generation satellite constellation. This agreement complements the second-generation satellite construction contract between Globalstar and Thales Alenia Space for the construction of 48 low-earth orbit satellites and allows Thales Alenia Space to coordinate all aspects of the second-generation satellite constellation project, including the transition of first-generation software and hardware to equipment for the second generation. The total contract price for the construction and associated services is 9.1 million (approximately $13.4 million at a weighted average conversion rate of 1.00 = $1.4734) consisting of 4.0 million for the Satellite Operations Control Centers, 3.1 million for the Telemetry Command Units and 2.0 million for the In Orbit Test Equipment, with payments to be made on a quarterly basis through completion of the

Control Network Facility in late 2009. Globalstar has the option to terminate the contract if excusable delays affecting Thales Alenia Space s ability to perform the contract total six consecutive months or at its convenience. If Globalstar terminates the contract, it must pay Thales Alenia Space the lesser of its unpaid costs for work performed by Thales Alenia Space and its subcontractors or payments for the next two quarters following termination. If Thales Alenia Space has not completed the Control Network Facility acceptance review within 60 days of the due date, Globalstar will be entitled to certain liquidated damages. Failure to complete the Control Network Facility acceptance review on or before six months after the due date results in a default by Thales Alenia Space, entitling Globalstar to a refund of all payments, except for liquidated damage amounts previously paid or with respect to items where final delivery has occurred. The Control Network Facility, when accepted, will be covered by a limited one-year warranty. The contract contains customary arbitration and indemnification provisions.

On September 5, 2007, the Company and Arianespace (the Launch Provider) entered into an agreement for the launch of the Company s second-generation satellites and certain pre and post-launch services. Pursuant to the agreement, the Launch Provider will make four launches of six satellites each, and the Company has the option to require the Launch Provider to make four additional launches of six satellites each. The total contract price for the first four launches is approximately $210.1 million. See Item 2.

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Management s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Capital Expenditures for a schedule of the payments to the Launch Provider. The anticipated time period for the first four launches ranges from the third quarter of 2009 through the end of 2010 and the optional launches are available from spring 2010 through the end of 2014. Prolonged delays due to postponements by the Company or the Launch Provider may result in adjustments to the payment schedule.

To augment its existing satellite constellation, the Company successfully launched eight spare satellites in two separate launches of four satellites each on May 29, 2007 and October 21, 2007. The Company no longer has any spare satellites remaining to be launched. As of June 30, 2008, all of the eight spare satellites had been placed into service and were handling call traffic.

On May 14, 2008, the Company and Hughes Network Systems, LLC (Hughes) entered into an agreement under which Hughes will design, supply and implement 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 satellite interface chips to be a part of the User Terminal Subsystem (UTS) in various next-generation Globalstar devices. The total contract purchase price of approximately $100.8 million is payable in various increments over a period of 40 months. The Company has the option to purchase additional RANs and other software and hardware improvements at pre-negotiated prices. The RANs, when completed, will be covered by a limited one-year warranty, with an option for the Company to extend the warranty. The agreement contains customary arbitration and indemnification provisions.

As of June 30, 2008 and December 31, 2007, capitalized interest recorded was $9.4 million and $1.1 million, respectively. Interest capitalized during the three and six months ended June 30, 2008 was $5.5 million and $8.3 million, respectively. No interest was capitalized during the three and six months ended June 30, 2007. Depreciation expense for the three and six months ended June 30, 2008 was $6.5 million and $11.8 million, respectively, and $2.5 million and $4.9 million for the three and six months ended June 30, 2007, respectively.

Note 5: Payables to Affiliates

Payables to affiliates relate to normal purchase transactions, excluding interest, and are comprised of the following (in thousands):

	June 30, 2008	December 31, 2007
QUALCOMM	$ 1,037	$ 1,286
Thermo Capital Partners	232	201
	$ 1,269	$ 1,487

Thermo incurs certain general and administrative expenses on behalf of the Company, which are charged to the Company. For the three and six months ended June 30, 2008, total expenses were approximately $82,000 and $110,000, respectively, and $98,000 for each of the three and six months ended June 30, 2007.

For the three and six months ended June 30, 2008, the Company also recorded approximately $112,000 and $225,000, respectively, of non-cash expenses related to services provided by two executive officers of Thermo and the Company who receive no compensation from the Company, which were accounted for as a contribution to capital. For the three and six months ended June 30, 2007, the Company recorded $87,000 and $174,000, respectively, of expenses related to services provided by officers of Thermo, which were accounted for as a contribution to capital. The Thermo expense charges are based on actual amounts incurred or upon allocated employee time. Management believes the allocations are reasonable.

Note 6: Other Related Party Transactions

Since 2005, Globalstar has issued separate purchase orders for additional phone equipment and accessories under the terms of previously 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 as advances for inventory. As of June 30, 2008 and December 31, 2007, total advances to QUALCOMM for inventory were $9.4 million and $9.7 million, respectively. As of June 30, 2008 and December 31, 2007, the Company had outstanding commitment balances of approximately $52.7 million and $57.0 million, respectively.

As required by the lender under the Company s then-current credit agreement discussed below, the Company executed an agreement with Thermo Funding Company LLC, an affiliate of Thermo (Thermo Funding), to provide Globalstar up to an additional $200.0 million of equity via an irrevocable standby stock purchase agreement. The irrevocable standby purchase agreement allowed the Company to put up to 12,371,136 shares of its Common Stock to Thermo Funding at a predetermined price of approximately $16.17 per share when the Company required additional liquidity or upon the occurrence of certain other specified

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events. Thermo Funding also could elect to purchase the shares at any time. Minority stockholders of Globalstar as of June 15, 2006 who were accredited investors and who received at least thirty-six shares of Globalstar Common Stock as a result of the Old Globalstar bankruptcy will be provided an opportunity to acquire Common Stock on the same terms. By November 2007, Thermo Funding had purchased all the Common Stock subject to the agreement and fully satisfied its commitment.

On August 16, 2006, the Company entered into an amended and restated credit agreement with Wachovia Investment Holdings, LLC, as administrative agent and swingline lender, and Wachovia Bank, National Association, as issuing lender, which was subsequently amended on September 29 and October 26, 2006. On December 17, 2007, Thermo Funding was assigned all the rights (except indemnification rights) and assumed all the obligations of the administrative agent and the lenders under the amended and restated credit agreement and the credit agreement was again amended and restated. The credit agreement as currently in effect provides for a $50.0 million revolving credit facility and a $100.0 million delayed draw term loan facility. As of June 30, 2008, the Company did not have any outstanding drawings under the revolving credit facility, but all $100.0 million of the delayed draw term loan facility was outstanding. As of December 31, 2007, the Company had drawn $50.0 million of the revolving credit facility but none of the delayed draw term loan was outstanding.

All loans will mature on December 31, 2012. Revolving credit loans bear interest at LIBOR plus 4.25% to 4.75% or the greater of the prime rate or Federal Funds rate plus 3.25% to 3.75%. The delayed draw term loan bears interest at either 5% plus the greater of the prime rate and the Federal Funds rate plus 0.5%, or LIBOR plus 6%. The delayed draw term loan facility bore an annual commitment fee of 2.0% until drawn or terminated. Commitment fees related to the loans, incurred during the three and six months ended June 30, 2008 were $44,000 and $0.2 million, respectively. Commitment fees related to the loans, incurred during the three and six months ended June 30, 2007, were $0.5 million and $1.1 million, respectively. The revolving credit loan facility bears an annual commitment fee of 0.5% until drawn or terminated. Additional term loans will bear interest at rates to be negotiated. To hedge a portion of the interest rate risk with respect to the delayed draw term loan, the Company entered into a five-year interest rate swap agreement. The loans may be prepaid without penalty at any time.

Purchases and other transactions with Affiliates

Total purchases and other transactions from affiliates, excluding interest, are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
QUALCOMM	$ 3,023	$ 9,735	$ 5,904	$ 22,692
Other affiliates	103	5,461	1,568	7,364
Total	$ 3,126	$ 15,196	$ 7,472	$ 30,056

Note 7: Income Taxes

On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues.

The application of FIN 48 resulted in a cumulative adjustment of $0.6 million which decreased retained earnings. This decrease was a result of an unrecognized tax benefit of approximately $73.7 million which was substantially offset by the application of a valuation allowance. The unrecognized tax benefit of $74.5 million at December 31, 2007 did not change significantly during the three and six months ended June 30, 2008. In addition, future changes in the unrecognized tax benefit may not have an impact on the effective tax rate due to the existence of the valuation allowances on most of the Company s deferred tax assets.

The Company has been notified that one of its subsidiaries and its predecessor, Globalstar L.P. are currently under audit for the 2004 and 2005 tax years. During the audit period, the Company and its subsidiaries were taxed as partnerships. Neither the Company nor any of its subsidiaries, except for the one noted above, are currently under audit by the Internal Revenue Service (IRS) or by any state jurisdiction in the United States. The Company s corporate U.S. tax returns for 2006 and 2007 and U.S. partnership tax returns filed for years before 2006 remain subject to examination by tax authorities. In the Company s international tax jurisdictions, numerous tax years remain subject to examination by tax authorities, including tax returns for 2001 and subsequent years in most of the Company s major international tax jurisdictions.

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Note 8: Comprehensive Income (Loss)

SFAS No. 130, Reporting Comprehensive Income, establishes standards for reporting and displaying comprehensive income and its components in shareholders equity. Comprehensive income (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 and minimum pension liability adjustment.

The following are the components of comprehensive income (loss) (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net loss	$ (7,348)	$ (12,687)	$ (13,983)	$ (12,243)
Other comprehensive income:				
Foreign currency translation adjustments	(409)	2,886	(1,456)	2,696
Minimum pension liability adjustment		(203)		(203)
Total comprehensive income (loss)	$ (7,757)	$ (10,004)	$ (15,439)	$ (9,750)

Note 9: Equity Incentive Plan

The Company s 2006 Equity Incentive Plan (the Equity Plan) is a broad based, long-term retention program intended to attract and retain talented employees and align stockholder and employee interests. Approximately 1.2 million and 1.9 million restricted stock awards and restricted stock units (including grants to both employees and executives) were granted during the three and six months ended June 30, 2008, respectively. In January 2008, the Company s Board of Directors approved the addition of approximately 1.7 million shares of the Company s Common Stock to the shares available for issuance under the Equity Plan. The Company s stockholders approved the Amended and Restated Equity Plan on May 13, 2008, which added an additional 3.0 million shares of the Company s Common Stock to the shares available for issuance under the Equity Plan.

Note 10: Litigation and Other Contingencies

The Company is involved in certain litigation matters as discussed below.

On February 9, 2007, the first of three purported class action lawsuits was filed against the Company, its Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) in the United States District Court for the Southern District of New York alleging that the Company s registration statement related to its initial public offering (IPO) in November 2006 contained material misstatements and omissions. The Court consolidated the three cases as Ladmen Partners, Inc. v. Globalstar, Inc., et al., Case No. 1:07-CV-0976 (LAP), and appointed Connecticut Laborers Pension Fund as lead plaintiff. On August 15, 2007, the lead plaintiff filed its Securities Class Action Consolidated Amended Complaint reasserting claims against the Company and the Company s CEO and CFO, and adding as defendants the three co-lead underwriters of the IPO, Wachovia Capital Markets, LLC, JPMorgan Securities, Inc. and Jefferies & Company, Inc. On November 15, 2007, plaintiffs filed a Second Amended Complaint. That complaint, which is what is currently before the Court, cites a drop in the trading price of the Company s Common Stock that followed its filing, on February 5, 2007, of a Current Report on Form 8-K relating in part to changes in the condition of its satellite constellation. It seeks, on behalf of a class of purchasers of the Company s Common Stock who purchased shares in the IPO, recovery of damages under Sections 11 and 15 of the Securities Act of 1933, and rescission under Section 12(a)(2) of the Securities Act of 1933. On February 15, 2008, all of the Defendants filed motions to dismiss the Second Amended Complaint. The Plaintiff s response to these motions was filed on April 15, 2008, and Defendants reply memorandum was filed May 15, 2008. The Company intends to continue to defend the matter vigorously.

On April 7, 2007, Kenneth Stickrath and Sharan Stickrath filed a purported class action complaint against the Company in the U.S. District Court for the Northern District of California (Case No: 07-CV-01941 THE). The complaint is based on alleged violations of California Business & Professions Code § 17200 and California Civil Code § 1750, et seq., the Consumers Legal Remedies Act. Plaintiffs allege that members of the proposed class suffered damages from March 2003 to the present because Globalstar did not perform according to its representations with respect to coverage and reliability. Plaintiffs claim that the amount in controversy exceeds $5.0 million but do not allege any particular actual damages incurred. Plaintiffs amended their complaint on June 29, 2007, and the Company filed a motion to dismiss the complaint on July 6, 2007. On September 25, 2007, the court issued an order granting in part and denying in part the Company s motion. Subsequently, on October 17, 2007, the plaintiffs filed their Second Amended Complaint, and Globalstar filed a reply and second motion to dismiss. On February 6, 2008, the judge granted Globalstar s motion in part and denied it in part, thereby narrowing the scope of the case. A mandatory mediation session was held March 10, 2008 and

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discovery related solely to the issue of certification of the class was completed in April 2008. A hearing on Plaintiffs motion for class certification and Globalstar s motion for summary judgment is scheduled for November 3, 2008.

On April 24, 2007, Mr. Jean-Pierre Barrette filed a motion for Authorization to Institute a Class Action in Quebec, Canada, Superior Court against Globalstar Canada. Mr. Barrette asserted claims based on Quebec law related to his alleged problems with Globalstar Canada s service. In June 2008 Globalstar Canada and the plaintiff settled the case for an immaterial amount. The settlement was approved by the court on June 25, 2008 and class members had until July 28, 2008 to exclude themselves from the class.

The Company is under a sales and use tax examination by the California Board of Equalization for tax years ended 2005, 2006 and 2007. The Company believes that the amount accrued on its books related to sales and use tax contingency is adequate.

From time to time, the Company is involved in various other litigation matters involving ordinary and routine claims incidental to its business. Management currently believes that the outcome of these proceedings, either individually or in the aggregate, will not have a material adverse effect on the Company s business, results of operations or financial condition.

Note 11: Geographic Information

Revenue by geographic location, presented net of eliminations for intercompany sales, was as follows for the three and six months ended June 30, 2008 and 2007 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Service:				
United States	$ 8,345	$ 11,206	$ 16,675	$ 20,253
Canada	5,351	6,881	11,122	13,344
Europe	1,027	1,121	2,072	2,067
Central and South America	1,761	519	2,418	1,229
Others	189	257	396	557
Total service revenue	16,673	19,984	32,683	37,450
Subscriber equipment:				
United States	3,443	1,904	5,988	5,053
Canada	1,684	1,293	4,012	2,737
Europe	588	2,061	1,419	2,903
Central and South America	607	243	992	459
Others	4	352	39	389
Total subscriber equipment revenue	6,326	5,853	12,450	11,541