Globalstar, Inc.
Form 10-Q
November 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018
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)
Registrant's Telephone Number, Including Area Code: (985) 335-1500

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 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 No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.

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

As of October 26, 2018, 1,266 million shares of voting common stock and no shares of nonvoting common stock were outstanding. Unless the context otherwise requires, references to common stock in this Report mean the Registrant's voting common stock.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

GLOBALSTAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue:				
Service revenue	$29,898	$ 26,069	$83,903	$ 71,851
Subscriber equipment sales	5,794	4,389	14,264	11,382
Total revenue	35,692	30,458	98,167	83,233
Operating expenses:				
Cost of services (exclusive of depreciation, amortization, and accretion shown separately below)	9,429	9,315	27,984	27,325
Cost of subscriber equipment sales	4,426	2,905	10,768	7,779
Marketing, general and administrative	15,061	9,545	42,280	28,436
Revision to contract termination charge	—	—	(20,478)	—
Depreciation, amortization and accretion	24,738	19,415	66,585	57,984
Total operating expenses	53,654	41,180	127,139	121,524
Operating loss	(17,962)	(10,722)	(28,972)	(38,291)
Other income (expense):				
Loss on extinguishment of debt	—	(6,306)	—	(6,306)
Gain on equity issuance	—	—	—	2,670
Interest income and expense, net of amounts capitalized	(13,358)	(8,954)	(31,016)	(26,632)
Derivative gain	39,059	78,840	145,944	4,933
Gain on legal settlement	—	—	6,779	—
Other	1,331	(385)	(2,682)	(2,654)
Total other income (expense)	27,032	63,195	119,025	(27,989)
Income (loss) before income taxes	9,070	52,473	90,053	(66,280)
Income tax expense	51	67	116	209
Net income (loss)	$9,019	$ 52,406	$89,937	$ (66,489)
Other Comprehensive income (loss):				
Foreign currency translation adjustments	500	(902)	2,800	(1,767)
Comprehensive income (loss)	$9,519	$ 51,504	$92,737	$ (68,256)
Net income (loss) per common share:				
Basic	$0.01	$ 0.04	$0.07	$ (0.06)
Diluted	0.01	0.04	0.07	(0.06)
Weighted-average shares outstanding:				
Basic	1,264,516	1,169,993	1,263,416	1,137,854
Diluted	1,427,800	1,345,905	1,448,920	1,137,854

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, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,462	$ 41,644
Restricted cash	52,934	63,635
Accounts receivable, net of allowance of $3,312 and $3,610, respectively	20,471	17,113
Inventory	13,067	7,273
Prepaid expenses and other current assets	8,800	6,745
Total current assets	115,734	136,410
Property and equipment, net	903,990	971,119
Intangible and other assets, net of accumulated amortization of $7,721 and $7,314, respectively	38,097	21,736
Total assets	$ 1,057,821	$ 1,129,265
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 87,732	$ 79,215
Accounts payable	9,525	6,048
Accrued contract termination charge	—	21,002
Accrued expenses	28,999	20,754
Derivative liabilities	617	1,326
Payables to affiliates	645	225
Deferred revenue	35,031	31,747
Total current liabilities	162,549	160,317
Long-term debt, less current portion	407,615	434,651
Employee benefit obligations	4,450	4,389
Derivative liabilities	81,424	226,659
Deferred revenue	5,758	6,052
Other non-current liabilities	3,925	5,973
Total non-current liabilities	503,172	677,724
Contingencies (Note 7)		
Stockholders' equity:		
Preferred Stock of $0.0001 par value; 100,000,000 shares authorized and none issued and outstanding at September 30, 2018 and December 31, 2017, respectively	—	—
Series A Preferred Convertible Stock of $0.0001 par value; one share authorized and none issued and outstanding at September 30, 2018 and December 31, 2017, respectively	—	—
Voting Common Stock of $0.0001 par value; 1,500,000,000 shares authorized; 1,265,622,288 and 1,261,949,123 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	127	126
Nonvoting Common Stock of $0.0001 par value; 400,000,000 shares authorized and none issued and outstanding at September 30, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	1,874,384	1,869,339
Accumulated other comprehensive loss	(4,139)	(6,939)

Retained deficit	(1,478,272)	(1,571,302)
Total stockholders’ equity	392,100	291,224
Total liabilities and stockholders’ equity	$ 1,057,821	$ 1,129,265

See accompanying notes to unaudited interim condensed consolidated financial statements.

GLOBALSTAR, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows provided by (used in) operating activities:		
Net income (loss)	$89,937	$ (66,489)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	66,585	57,984
Change in fair value of derivative assets and liabilities	(145,944)	(4,933)
Stock-based compensation expense	4,218	3,592
Amortization of deferred financing costs	6,349	6,147
Provision for bad debts	964	707
Noncash interest and accretion expense	10,275	8,497
Loss on extinguishment of debt	—	6,306
Change in fair value related to equity issuance	—	(2,670)
Revision to contract termination charge	(20,478)	—
Unrealized foreign currency loss	2,479	1,762
Other, net	979	680
Changes in operating assets and liabilities:		
Accounts receivable	(4,486)	(2,876)
Inventory	1,383	(282)
Prepaid expenses and other current assets	(4,326)	(1,501)
Other assets	(3,756)	(691)
Accounts payable and accrued expenses	12,350	3,993
Payables to affiliates	420	73
Other non-current liabilities	(1,027)	(26)
Deferred revenue	3,846	6,355
Net cash provided by operating activities	19,768	16,628
Cash flows used in investing activities:		
Second-generation network costs (including interest)	(5,887)	(6,862)
Property and equipment additions	(5,346)	(4,033)
Purchase of intangible assets	(1,948)	(2,674)
Net cash used in investing activities	(13,181)	(13,569)
Cash flows provided by (used in) financing activities:		
Principal payments of the Facility Agreement	(38,933)	(21,695)
Proceeds from Thermo Common Stock Purchase Agreement	—	33,000
Payment of debt restructuring fee	—	(20,795)
Payments for debt and equity issuance costs	—	(413)
Proceeds from issuance of stock to Terrapin	—	12,000
Proceeds from issuance of common stock and exercise of options and warrants	395	642
Net cash provided by (used in) financing activities	(38,538)	2,739
Effect of exchange rate changes on cash, cash equivalents and restricted cash	68	216
Net increase (decrease) in cash, cash equivalents and restricted cash	(31,883)	6,014
Cash, cash equivalents and restricted cash, beginning of period	105,279	48,213
Cash, cash equivalents and restricted cash, end of period	$73,396	$ 54,227

	As of:	
	September 30, 2018	December 31, 2017
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	$20,462	$ 41,644
Restricted cash (See Note 4 for further discussion on restrictions)	52,934	63,635
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$73,396	$ 105,279

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Supplemental disclosure of cash flow information:		
Cash paid for interest	$12,109	$ 11,697
Supplemental disclosure of non-cash financing and investing activities:		
Increase in capitalized accrued interest for second-generation network costs	$1,974	$ 3,134
Capitalized accretion of debt discount and amortization of prepaid financing costs	1,825	3,844
Issuance of common stock for legal settlement	—	453

See accompanying notes to unaudited interim condensed consolidated financial statements.

GLOBALSTAR, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Globalstar, Inc. (“Globalstar” or the “Company”) provides Mobile Satellite Services (“MSS”) including voice and data communications services through its global satellite network. Thermo Capital Partners LLC, through its affiliates (collectively, “Thermo”), is the principal owner and largest stockholder of Globalstar. The Company’s Executive Chairman of the Board of Directors controls Thermo. Two other members of the Company's Board of Directors are also directors, officers or minority equity owners of various Thermo entities.

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 (“U.S. 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 (the “SEC”); 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 the Globalstar Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on February 22, 2018 (the “2017 Annual Report”), and Management's Discussion and Analysis of Financial Condition and Results of Operations herein.

The preparation of condensed consolidated financial statements in conformity with U.S. 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. Actual results could differ from estimates. 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 and income taxes. The Company has made certain reclassifications to prior period condensed consolidated financial statements to conform to current period presentation.

These unaudited interim condensed consolidated financial statements include the accounts of Globalstar and all its subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidation. In the opinion of management, the information included herein 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. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the full year or any future period.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updates (“ASU”) No. 2016-02, Leases. The main difference between the provisions of ASU No. 2016-02 and previous U.S. GAAP is the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. ASU No. 2016-02 retains a distinction between finance leases and operating leases, and the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous U.S. GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize right-of-use assets and lease liabilities. The accounting applied by a lessor is largely unchanged from that applied under previous U.S. GAAP. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which provides for the election of transition methods between the modified retrospective method and the optional transition relief method. The modified retrospective method is applied to all prior reporting periods presented with a cumulative-effect adjustment recorded in the earliest comparative period while the optional transition relief method is applied beginning in the period of adoption with a cumulative-effect adjustment recorded in the first quarter of 2019. This ASU is effective for public business entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company will adopt this standard when it becomes effective, on January 1, 2019, and expects to elect the optional transition relief method. The Company has an internal project team that is currently evaluating the impact this standard will have on its financial statements, accounting systems and related disclosures; for operating leases in which the Company is the lessee, it will recognize a right-of-use asset and associated lease liability upon adoption.

In June 2016, the FASB issued ASU No. 2016-13, Credit Losses, Measurement of Credit Losses on Financial Instruments. ASU No. 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace today’s incurred loss approach with an expected loss model for instruments measured at amortized cost. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. This ASU is effective for public entities for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. The Company has not yet determined the impact this standard will have on its financial statements and related disclosures.

In March 2017, the FASB issued ASU No. 2017-08, Receivables—Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities. This ASU amends current US GAAP to shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date. This standard will replace today's yield-to-maturity approach, which generally requires amortization of premium over the life of the instrument. This ASU is effective for public entities for annual and interim periods beginning after December 15, 2018. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company does not expect it to have a material effect on the Company's financial statements and related disclosures.

In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This guidance allows companies to reclassify items in accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the H.R.1, “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018” (the “Tax Act”) (previously known as “The Tax Cuts and Jobs Act”). This ASU is effective for all entities for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. Companies may apply the guidance in the period of adoption or retrospectively to each period in which the income tax effects of the Tax Act related to items in accumulated other comprehensive income are recognized. The Company does not expect it to have a material effect on the Company's financial statements and related disclosures.

In June 2018, the FASB issued ASU No. 2018-07, Compensation - Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 aligns the accounting for share-based payment awards issued to employees and nonemployees. Measurement of equity-classified nonemployee awards will now be valued on the grant date and will no longer be remeasured through the performance completion date. This amendment also changes the accounting for nonemployee awards with performance conditions to recognize compensation cost when achievement of the performance condition is probable, rather than upon achievement of the performance condition, as well as eliminating the requirement to reassess the equity or liability classification for nonemployee awards upon vesting, except for certain award types. This ASU is effective for public entities for annual and interim periods beginning after December 15, 2018. Early adoption is permitted as of the beginning of any interim or annual reporting period. When adopted, the new guidance should be applied to all new grants and other transition provisions are included in the guidance to simplify this adoption for most companies. The Company does not expect it to have a material effect on the Company's financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. As part of the FASB's disclosure framework project, it has eliminated, amended and added disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy, the policy of timing of transfers between levels of the fair value hierarchy and the valuation processes for Level 3 fair value measurements. Public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. This ASU is effective for public entities for annual and interim periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of any interim or annual reporting period. This ASU will have an impact on the Company's disclosures.

In August 2018, the FASB issued ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. As part of the FASB's disclosure framework project, it has changed the disclosure requirements for defined pension and other post-retirement benefit plans. The FASB eliminated disclosure requirements related to the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, the amount and timing of plan assets expected to be returned to the employer, if any, information related to Japanese Welfare Pension Insurance Law, information about the amount of future annual benefits covered by insurance contracts and significant transactions between the employer or related parties and the plan, and the disclosure of the effects of a one-percentage-point change in the assumed health care cost trend rates on the (1) aggregate of the service and interest cost components of net periodic benefit costs and the (2) benefit obligation for postretirement health care benefits. Entities will be required to disclose the weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates as well as an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. This ASU is effective for public entities for annual periods beginning after

December 15, 2020. Early adoption is permitted as of the beginning of any annual reporting period. This ASU will have an impact on the Company's disclosures.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU requires companies to defer specified implementation costs in a cloud computing arrangement that are often expensed under current US GAAP and recognize these costs to expense over the noncancellable term of the arrangement. This ASU is effective for public entities for annual and interim periods beginning after December 15, 2019. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company does not expect it to have a material effect on the Company's financial statements and related disclosures.

Recently Issued Financial Reporting Rules

In August 2018, the SEC adopted the final rule under SEC Release 33-10532, Disclosure Update and Simplification, which amended its rules to eliminate, modify, or integrate into other SEC requirements certain disclosure rules. The amendments are part of the SEC’s ongoing disclosure effectiveness initiative. The amendments eliminate redundant and duplicative requirements including, but not limited to, the ratio of earnings to fixed charges, outdated regulatory disclosures, certain accounting policies about derivative instruments and specific SEC disclosures that are also required under current US GAAP. The amendments may expand current disclosures for certain companies, specifically the requirement to disclose the change in stockholders' equity for the current and comparative quarter and year-to-date interim periods. The amended rules will become effective November 5, 2018 and will be applied to any filings after that date. On September 25, 2018, the SEC released guidance advising it will not object to a registrant adopting the requirement to include changes in stockholders’ equity in the Form 10-Q for the first quarter beginning after the effective date of the rule. The Company does not expect these final rules to have a material impact on its disclosures and financial statements.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 became effective for annual reporting periods beginning after December 15, 2017. The Company adopted this standard on January 1, 2018. See Note 2: Revenue for further discussion, including the impact on the Company's condensed consolidated financial statements and required disclosures.

In February 2017, the FASB issued No. ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets: Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. ASU 2017-05 was issued to provide clarity on the scope and application for recognizing gains and losses from the sale or transfer of nonfinancial assets, and should be adopted concurrently with ASU 2014-09, Revenue from Contracts with Customers. This ASU became effective for public entities for annual and interim periods beginning after December 15, 2017. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

In March 2016, the FASB issued ASU No. 2016-04, Liabilities-Extinguishment of Liabilities: Recognition of Breakage for Certain Prepaid Stored Value Products. ASU No. 2016-04 contains specific guidance for the derecognition of prepaid stored-value product liabilities within the scope of this ASU. This ASU became effective for public entities for annual and interim periods beginning after December 15, 2017. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments. ASU No. 2016-15 is intended to reduce diversity and clarify the classification of how certain cash receipts and cash payments are presented in the statement of cash flows. This ASU became effective for public entities for annual and interim periods beginning after December 15, 2017. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory. ASU No. 2016-16 requires entities to account for the income tax effects of intercompany sales and transfers of assets other than inventory when the transfer occurs rather than current guidance which requires companies to defer the income tax effects of intercompany transfers of an asset until the asset has been sold to an outside party or otherwise recognized. This ASU became effective for public entities for annual and interim periods beginning after December 15, 2017. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows - Restricted Cash. ASU No. 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet is required. This ASU became effective for public entities for annual and interim periods beginning after December 15, 2017. Early adoption was permitted as of the beginning of any interim or annual reporting period. The Company adopted this standard effective with reporting periods beginning on January 1, 2017 and added required disclosures pursuant to ASC No. 2016-18 to its condensed consolidated statements of cash flows.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations: Clarifying the Definition of a Business. ASU No. 2017-01 most significantly revises guidance specific to the definition of a business related to accounting for acquisitions. Additionally, ASU No. 2017-01 also affects other areas of US GAAP, such as the definition of a business related to the consolidation of variable interest entities, the consolidation of a subsidiary or group of assets, components of an operating segment, and disposals of reporting units and the impact on goodwill. This ASU became effective for public entities for annual and interim periods beginning after December 15, 2017. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

In February 2017, the FASB issued ASU No. 2017-07, Compensation—Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. ASU 2017-07 requires sponsors of benefit plans to present the service cost component of net periodic benefit cost in the same income statement line or items as other employee costs and present the remaining components of net periodic benefit cost in one or more separate line items outside of income from operations. This ASU also limits the capitalization of benefit costs to only the service cost component. This ASU became effective for public entities for annual and interim periods beginning after December 15, 2017. The Company adopted this standard on January 1, 2018. As a result of the retrospective adoption of this standard, for the three and nine months ended September 30, 2017, the Company reclassified $0.1 million and $0.2 million, respectively, from marketing, general and administrative expense to other income (expense). The service cost component of periodic benefit cost is the only cost that remains in income from operations; all other periodic benefit costs, including interest cost, expected return on plan assets and amortization of amounts deferred from previous periods are now reflected outside of income from operations and reflected in the other income (expense) line item on the Company's condensed consolidated statements of operations. There were no other changes to the Company's condensed consolidated financial statements or disclosures.

In May 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation: Scope of Modification Accounting. This ASU clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under the new guidance, a company will apply modification accounting only if the fair value, vesting conditions or classification of the award change due to a modification in the terms or conditions of the share-based payment award. This ASU became effective for public entities for annual and interim periods beginning after December 15, 2017. The Company adopted this standard on January 1, 2018. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements or related disclosures.

In July 2017, the FASB issued ASU No. 2017-11, I. Accounting for Certain Financial Instruments With Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception. Part I of this ASU reduces the complexity associated with accounting for certain financial instruments with down round features. Part II of this ASU recharacterizes the indefinite deferral provisions described in Topic 480: Distinguishing

Liabilities from Equity. It does not have an accounting effect. This ASU is effective for public entities for annual and interim periods beginning after December 15, 2018. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company adopted this ASU on October 1, 2017. The Company evaluated its debt and related derivative instruments and determined that this standard did not have an impact on the Company's condensed consolidated financial statements or related disclosures.

2. REVENUE

Adoption of ASC Topic 606, “Revenue from Contracts with Customers”

In May 2014, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers,” which amended the FASB Accounting Standards Codification (“ASC”) and created a new ASC Topic 606, “Revenue from Contracts with Customers” (“ASC 606”). On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method and recognized the cumulative effect of initially applying the guidance as an adjustment to the opening balance of retained deficit. The Company applied the new revenue standard to new and existing contracts that were not complete as of the date of initial application. The Company has applied the transitional practical expedient related to contract modifications and it has not retrospectively restated contracts that were modified prior to January 1, 2018.

As a result of applying this standard using the modified retrospective method, the Company has presented financial results and applied its accounting policies for the period beginning January 1, 2018 under ASC 606, while prior period results and accounting policies have not been adjusted and are reflected under legacy GAAP pursuant to ASC 605.

As a result of adopting ASC 606, the Company recorded a net increase of $3.1 million to opening retained deficit as of January 1, 2018 as a cumulative catch-up adjustment for all open contracts as of the date of adoption. The most significant drivers of this adjustment included the Company’s change in accounting policy related to the deferral of costs to obtain a contract and the accrual of contract breakage to revenue based on historical usage patterns of existing contracts (see further discussion below).

Nature of Products and Services

Revenue consists primarily of satellite voice and data service revenue and revenue generated from the sale of fixed and mobile devices as well as other products and accessories. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. Each type of revenue is a separate performance obligation with distinct deliverables and is therefore accounted for discretely. Revenue is measured based on the consideration specified in a contract with a customer, adjusted for credits and discounts, as applicable, and is recognized when the Company satisfies a performance obligation by transferring control over a product or service to a customer.

Unless otherwise disclosed, service revenue is recognized over a period of time and revenue from the sale of subscriber equipment is recognized at a point in time. The recognition of revenue for service is over time as the customer simultaneously receives and consumes the benefits of the Company’s performance over the contract term. The recognition of revenue for subscriber equipment is at a point in time as the risks and rewards of ownership of the hardware transfer to the customer generally upon shipment, which is when legal title of the product transfers to the customer, among other things (as discussed further below).

The Company does not record sales taxes, telecommunication taxes or other governmental fees collected from customers in revenue. The Company excludes these taxes from the measurement of contract transaction prices.

The Company receives payment from customers in accordance with billing statements or invoices for customer contracts; these payments may be in advance or arrears of services provided to the customer by the Company. Customer payments received in advance of the corresponding service period are recorded as deferred revenue.

Upon activation of a Globalstar device, certain customers are charged an activation fee, which is recognized over the term of the expected customer life. Credits granted to customers are expensed or charged against revenue or accounts receivable over the remaining term of the contract. Estimates related to earned but unbilled service revenue are calculated using current subscriber data, including plan subscriptions and usage between the end of the billing cycle and the end of the period. The recognition of revenue related to amounts allocated to performance obligations that were satisfied (or partially satisfied) in a previous period is not routine or material to the Company's financial statements.

Provisions for estimated future warranty costs, returns and rebates are recorded as a cost of sale, or a reduction to revenue, as applicable. These costs are based on historical trends and the provision is reviewed regularly and periodically adjusted to reflect changes in estimates.

Certain contracts with customers may contain a financing component. Under ASC 606, an entity should adjust the promised amount of the consideration for the effects of time value of money if the timing of the payments agreed upon by the parties to the contract provides the customer or the entity with a significant benefit of financing for the transfer of goods or services to the customer. This type of transaction is infrequent and not considered significant to the Company. Additionally, the Company has applied the practical expedient related to the existence of a significant financing component as it expects at contract inception that the period between payment by the customer and transfer of the promised goods or services will be one year or less.

The following describes the principal activities from which the Company generates its revenue. The Company's only reportable segment is its MSS business.

Duplex Service Revenue. The Company recognizes revenue for monthly access fees in the period services are rendered. Access fees represent the minimum monthly charge for each line of service based on its associated rate plan. The Company also recognizes revenue for airtime minutes and data in excess of the monthly access fees in the period such minutes or data are used. The Company offers certain annual plans whereby a customer prepays for a predetermined amount of minutes and data. In these cases, revenue is recognized consistent with a customer's expected pattern of usage based on historical experience because the Company believes that this method most accurately depicts the satisfaction of the Company's obligation to the customer. This usage pattern is typically seasonal and highest in the second and third calendar quarters of the year. The Company offers other annual plans whereby the customer is charged an annual fee to access the Company's system with an unlimited amount of usage. Annual fees for unlimited plans are recognized on a straight-line basis over the term of the plans.

SPOT Service Revenue. The Company sells SPOT services as monthly, annual or multi-year plans and recognizes revenue on a straight-line basis over the service term, beginning when the service is activated by the customer.

Simplex Service Revenue. The Company sells Simplex services as monthly, annual or multi-year plans and recognizes revenue ratably over the service term or as service is used, beginning when the service is activated by the customer.

Independent Gateway Operator ("IGO") Service Revenue. The Company owns and operates its satellite constellation and earns a portion of its revenues through the sale of airtime minutes or data on a wholesale basis to IGOs. Revenue from services provided to IGOs is recognized based upon airtime minutes or data packages used by customers of the IGOs and in accordance with contractual fee arrangements.

Equipment Revenue. Subscriber equipment revenue represents the sale of fixed and mobile user terminals, SPOT and Simplex products, and accessories. The Company recognizes revenue upon shipment provided control has transferred to the customer. Indicators of transfer of control include, but are not limited to; 1) the Company's right to payment, 2) the customer has legal title of the equipment, 3) the Company has transferred physical possession of the equipment to the customer or carrier, and 4) the customer has significant risks and rewards of ownership of the equipment. The Company sells equipment designed to work on its network through various channels, including through dealers, retailers and resellers (including IGOs) as well as direct to consumers or other businesses by its global sales team and through its e-commerce website. The sales channel depends primarily on the type of equipment and geographic region. Promotional rebates are offered from time to time. A reduction to revenue is recorded to reflect the lower transaction price based on an estimate of the customer take rate at the time of the sale using primarily historical data. This estimate is adjusted periodically to reflect actual rebates given to the Company's customers. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenues.

Other Service Revenue. Other service revenue includes primarily revenue associated with engineering services provided to governmental customers. The Company provides certain engineering services to assist customers in developing new applications related to its system. The revenue associated with these engineering services is generally recorded over time as the services are rendered and the Company's obligation to the customer is satisfied.

Multiple-Element Arrangement Contracts. At times, the Company will sell subscriber equipment through multiple-element arrangement contracts with services. When the Company sells subscriber equipment and services in bundled arrangements and determines that it has separate performance obligations, the Company allocates the bundled contract price among the various performance obligations based on relative stand-alone selling prices at contract inception of the distinct goods or services underlying each performance obligation and recognizes revenue when, or as, each performance obligation is satisfied.

Impact on Financial Statements

The following tables summarize the impact of the adoption of ASC 606 on the Company’s condensed consolidated financial statements. As noted above, the change in accounting policy related to the deferral of costs to obtain a contract and the accrual of estimated contract breakage to revenue based on historical usage patterns of existing contracts resulted in the most significant change to the Company’s condensed consolidated financial statements. The impact on the Company's financial statements related to the change in accounting policy related to 1) deferred costs to obtain a contract are primarily reflected in the marketing, general and administrative as well as the intangible and other assets, net, lines in the tables below and 2) the accrual of estimated contract breakage to revenue is reflected primarily in the service revenue and deferred revenue lines in the tables below. Amounts presented in the tables below are in thousands.

Condensed Consolidated Statement of Operations and Comprehensive Income (Loss)
Three and Nine Months Ended September 30, 2018

	Impact on change in accounting policy					
	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	As reported	Impact of ASC 606	Legacy GAAP	As reported	Impact of ASC 606	Legacy GAAP
Service revenue	$29,898	$(1,243)	$28,655	$83,903	$(98)	$83,805
Subscriber equipment sales	5,794	(200)	5,594	14,264	(281)	13,983
Cost of subscriber equipment sales	4,426	(138)	4,288	10,768	(202)	10,566
Marketing, general and administrative	15,061	(26)	15,035	42,280	(176)	42,104
Other	1,331	14	1,345	(2,682)	(28)	(2,710)
Net income	9,019	(1,293)	7,726	89,937	27	89,964
Comprehensive income	9,519	(1,293)	8,226	92,737	27	92,764
Net income per common share:						
Basic	$0.01	$—	$0.01	$0.07	$—	$0.07
Diluted	0.01	—	0.01	0.07	—	0.07

Condensed Consolidated Balance Sheet
As of September 30, 2018

	Impact on change in accounting policy September 30, 2018		
	As reported	Impact of ASC 606	Legacy GAAP
Accounts receivable, net	$20,471	$(419)	$20,052
Prepaid expenses and other current assets	8,800	199	8,999
Intangible and other assets, net	38,097	(1,996)	36,101
Deferred revenue, current and long-term	40,789	770	41,559
Retained earnings (deficit)	(1,478,272)	3,066	(1,475,206)

Disaggregation of Revenue

The following table discloses revenue disaggregated by type of product and service (amounts in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017 [1]	September 30, 2018	September 30, 2017 [1]
Service revenue:				
Duplex	$12,213	$10,576	$31,130	$27,496
SPOT	12,957	11,248	39,787	32,838
Simplex	3,542	2,903	9,847	7,845
IGO	257	260	682	847
Other	929	1,082	2,457	2,825
Total service revenue	29,898	26,069	83,903	71,851
Subscriber equipment sales:				
Duplex	$432	$777	$1,613	$2,288
SPOT	2,871	1,410	6,212	4,461
Simplex	2,318	2,192	5,968	4,171
IGO	141	54	347	523
Other	32	(44)	124	(61)
Total subscriber equipment sales	5,794	4,389	14,264	11,382
Total revenue	$35,692	$30,458	$98,167	$83,233

[1] As noted above, prior periods have not been adjusted under the modified retrospective method of adoption.

The Company attributes equipment revenue to various countries based on the location where equipment is sold. Service revenue is generally attributed to the various countries based on the Globalstar entity that holds the customer contract. The following table discloses revenue disaggregated by geographical market (amounts in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017 [1]	September 30, 2018	September 30, 2017 [1]
Service revenue:				
United States	$21,096	$ 17,809	$59,581	$ 49,744
Canada	5,723	5,283	15,003	13,441
Europe	2,462	2,150	7,113	6,104
Central and South America	527	701	1,708	2,191
Others	90	126	498	371
Total service revenue	29,898	26,069	83,903	71,851
Subscriber equipment sales:				
United States	$3,414	$ 2,921	$8,469	$ 7,035
Canada	1,121	722	2,264	2,264
Europe	765	416	2,194	1,191

Central and South America	370	315	1,096	868
Others	124	15	241	24
Total subscriber equipment sales	5,794	4,389	14,264	11,382
Total revenue	$35,692	$ 30,458	$98,167	$ 83,233

(1) As noted above, prior periods have not been adjusted under the modified retrospective method of adoption.

Contract Balances

The following table discloses information about accounts receivable, costs to obtain a contract, and contract liabilities from contracts with customers (amounts in thousands):

	September 30, 2018	January 1, 2018
Accounts receivable	$ 20,471	$ 17,113
Capitalized costs to obtain a contract	2,070	2,265
Contract liabilities	40,789	37,799

Accounts Receivable

Receivables are recorded when the right to consideration from the customer becomes unconditional, which is generally upon billing or upon satisfaction of a performance obligation, whichever is earlier. Receivables are uncollateralized, without interest, and consist primarily of receivables from the sale of Globalstar services and equipment. For service customers, payment is generally due within thirty days of the invoice date and for equipment customers, payment is generally due within thirty to sixty days of the invoice date, or, for some customers, may be made in advance of shipment. Included in the accounts receivable balance in the table above are contract assets, which represent primarily unbilled amounts related to performance obligations satisfied by the Company, of $0.5 million and $0.1 million as of September 30, 2018 and January 1, 2018, respectively.

The Company has agreements with certain of its IGOs whereby the parties net settle outstanding payables and receivables between the respective entities on a periodic basis. As of September 30, 2018, $9.1 million related to these agreements were included in accounts receivable on the Company’s condensed consolidated balance sheet.

The Company performs ongoing credit evaluations of its customers and impairs receivable balances by recording specific allowances for bad debts based on factors such as current trends, the length of time the receivables are past due and historical collection experience. Accounts receivable are considered past due in accordance with the contractual terms of the arrangements. Accounts receivable balances that are determined likely to be uncollectible are included in the allowance for doubtful accounts. After attempts to collect a receivable have failed, the receivable is written off against the allowance. During the three and nine months ended September 30, 2018, impairment losses on receivables from contracts with customers were $0.4 million and $2.2 million, respectively, including both provisions for bad debt and the reversal of revenue for accounts where collectability is not reasonably assured.

Costs to Obtain a Contract

Capitalized costs to obtain a contract include certain deferred subscriber acquisition costs which are amortized consistently with the pattern of transfer of the good or delivery of the service to which the asset relates. The Company’s subscriber acquisition costs primarily include dealer and internal sales commissions and certain other costs, including but not limited to, promotional costs, cooperative marketing credits and shipping and fulfillment costs. The Company capitalizes incremental costs to obtain a contract to the extent it expects to recover them. These capitalized contract costs include only internal and external initial activation commissions because these costs are considered incremental and would not have been incurred if the contract had not been obtained. These capitalized costs are included in other assets on the Company’s condensed consolidated balance sheet and are amortized to marketing, general and administrative expenses on the Company’s condensed consolidated statement of operations on a straight-line basis over the estimated contract term of three years. For the three and nine months ended September 30, 2018, the amount of amortization related to previously capitalized costs to obtain a contract was $0.4 million and $1.2 million, respectively.

The Company applies the practicable expedient pursuant to the guidance in ASC 606 and recognizes the incremental costs of obtaining contracts as expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. These costs are included in marketing, general and administrative expenses in the period in which the cost is incurred.

When a contract terminates prior to the end of its expected life, the remaining deferred costs asset associated with it becomes impaired. An immediate recognition of expense for individual remaining costs to obtain a contract following deactivation is not practicable. Because early terminations are factored into the determination of the expected customer life and therefore affect the amortization period, the Company does not recognize early termination expense on individual assets because the incremental effect would be immaterial and doing do would be impractical.

Contract Liabilities

Contract liabilities, which are included in deferred revenue on the Company’s condensed consolidated balance sheet, represent the Company’s obligation to transfer service or equipment to a customer for which it has previously received consideration from a customer. As of September 30, 2018, the total transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations was $40.8 million. As discussed above, revenue is recognized when the Company satisfies a performance obligation by transferring control over a product or service to a customer. The amount of revenue recognized during the nine months ended September 30, 2018 from performance obligations included in the contract liability balance at the beginning of the period was $27.1 million.

In general, the duration of the Company’s contracts is one year or less; however, from time to time, the Company offers multi-year contracts. As of September 30, 2018, the Company expects to recognize $35.0 million, or approximately 86%, of its remaining performance obligations during the next twelve months and $2.9 million, or approximately 7%, between two to seven years from the balance sheet date. The remaining $2.9 million, or approximately 7%, is related to a single contract and will be recognized as work is performed by the Company, the timing of which is currently unknown. The Company has applied the practical expedient pursuant to ASC 606 allowing for limited disclosure of contract liabilities with a remaining duration of one year or less.

3. PROPERTY AND EQUIPMENT

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

	September 30, 2018	December 31, 2017
Globalstar System:		
Space component		
First and second-generation satellites in service	$ 1,195,291	$ 1,195,426
Second-generation satellite, on-ground spare	32,481	32,481
Ground component	257,865	48,710
Construction in progress:		
Ground component	16,498	227,167
Next-generation software upgrades	1,633	12,414
Other	2,307	2,575
Total Globalstar System	1,506,075	1,518,773
Internally developed and purchased software	25,902	16,132
Equipment	10,929	9,966
Land and buildings	3,141	3,322
Leasehold improvements	2,003	1,969
Total property and equipment	1,548,050	1,550,162
Accumulated depreciation	(644,060)	(579,043)
Total property and equipment, net	$ 903,990	$ 971,119

Amounts in the above table consist primarily of costs incurred related to the construction of the Company’s second-generation constellation and ground upgrades. In connection with the 2018 launch of Sat-Fi2™, the first device to operate on the Company's upgraded ground network, the Company placed into service the portion of the next-generation ground component (including associated developed technology and software upgrades), which represents the gateways currently capable of supporting commercial traffic. The remaining ground component of construction in progress represents costs (including capitalized interest) associated with the Company's contracts primarily with Hughes Network Systems, LLC (“Hughes”) and Ericsson Inc. (“Ericsson”) for the Company's ground infrastructure in certain regions around the world, of which the majority is expected to be placed into service in the coming months.

Amounts included in the Company's second-generation satellite, on-ground spare balance as of September 30, 2018 and December 31, 2017, consist primarily of costs related to a spare second-generation satellite that has not been placed in orbit, but is capable of being included in a future launch. As of September 30, 2018, this satellite has not been placed into service; therefore, the Company has not started to record depreciation expense.

4. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

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

	September 30, 2018			December 31, 2017		
	Principal Amount	Unamortized Discount and Deferred Financing Costs	Carrying Value	Principal Amount	Unamortized Discount and Deferred Financing Costs	Carrying Value
Facility Agreement	$428,323	$ 26,815	$401,508	$467,256	$ 34,459	$432,797
Loan Agreement with Thermo	116,105	23,629	92,476	106,054	26,333	79,721
8.00% Convertible Senior Notes Issued in 2013	1,363	—	1,363	1,348	—	1,348
Total Debt	545,791	50,444	495,347	574,658	60,792	513,866
Less: Current Portion	87,732	—	87,732	79,215	—	79,215
Long-Term Debt	$458,059	$ 50,444	$407,615	$495,443	$ 60,792	$434,651

The principal amounts shown above include payment of in-kind interest, as applicable. The carrying value is net of deferred financing costs and any discounts to the loan amounts at issuance, including accretion, as further described below. The current portion of long-term debt represents the scheduled principal repayments under the Facility Agreement due within one year of the balance sheet date and the total outstanding balance of the Company's 8.00% Convertible Senior Notes Issued in 2013 (the "2013 8.00% Notes") because it currently intends on redeeming such notes in the near future if the Company's stock price exceeds the conversion price of the notes. Accordingly, any such redemption is expected to result in the conversion of the notes by the holders in lieu of a cash payment by the Company at par value. The Company believes that the principal payments due in December 2018 and June 2019 under the Facility Agreement will be in excess of its available sources of cash in order to also maintain compliance with the required balance in the debt service reserve account. The Company intends to raise funds in sufficient amounts to meet its obligations; however, the source of funds has not yet been fully arranged.

Facility Agreement

In 2009, the Company entered into the Facility Agreement with a syndicate of bank lenders, including BNP Paribas, Société Générale, Natixis, Crédit Agricole Corporate and Investment Bank (formerly Calyon) and Crédit Industriel et Commercial, as arrangers, and BNP Paribas, as the security agent. The Facility Agreement was amended and restated in July 2013, August 2015 and June 2017.

The Facility Agreement is scheduled to mature in December 2022. As of September 30, 2018, the Facility Agreement was fully drawn. Semi-annual principal repayments began in December 2014. Indebtedness under the facility bears interest at a floating rate of LIBOR plus 3.75% through June 2019, increasing by an additional 0.5% each year thereafter to a maximum rate of LIBOR plus 5.75%. Interest on the Facility Agreement is payable semi-annually in arrears on June 30 and December 31 of each calendar year. Ninety-five percent of the Company’s obligations under the Facility Agreement are guaranteed by Bpifrance Assurance Export S.A.S. (“BPIFAE”) (formerly COFACE), the French export credit agency. The Company’s obligations under the Facility Agreement 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 non-financial covenants. The covenants in the Facility Agreement limit the Company's ability to, among other things, incur or guarantee additional indebtedness; make certain investments, acquisitions or capital expenditures above certain agreed levels; pay dividends or repurchase or redeem capital stock or subordinated indebtedness; grant liens on its assets; incur restrictions on the ability of its subsidiaries to pay dividends or to make other payments to the Company; enter into transactions with its affiliates; merge or consolidate with other entities or transfer all or substantially all of its assets; and transfer or sell assets.

In calculating compliance with the financial covenants of the Facility Agreement, the Company may include certain cash funds contributed to the Company from the issuance of the Company's common stock and/or subordinated indebtedness. These funds are referred to as “Equity Cure Contributions” and may be used to achieve compliance with financial covenants through December 2019. If the Company violates any covenants and is unable to obtain a sufficient Equity Cure Contribution or obtain a waiver, or is unable to make payments to satisfy its debt obligations under the Facility Agreement when due and is unable to obtain a waiver, it would be in default under the Facility Agreement and payment of the indebtedness could be accelerated. The acceleration of the Company's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-acceleration provisions. The Company anticipates that it will need an Equity Cure Contribution to maintain compliance with financial covenants under the Facility Agreement for the measurement period ended December 31, 2018. The source of funds for any needed Equity Cure Contribution has not yet been fully arranged. As of September 30, 2018, the Company was in compliance with respect to the covenants of the Facility Agreement.

The Facility Agreement also requires the Company to maintain a debt service reserve account, which is pledged to secure all of the Company's obligations under the Facility Agreement. The use of the debt service reserve account funds is restricted to making principal and interest payments under the Facility Agreement. The balance in the debt service reserve account must equal the total amount of principal and interest payable by the Company on the next payment date. As of September 30, 2018, the balance in the debt service reserve account was $52.9 million, which is classified as restricted cash on the Company's condensed consolidated balance sheet.

Thermo Loan Agreement

In connection with the amendment and restatement of the Facility Agreement in July 2013, the Company amended and restated its loan agreement with Thermo (the “Loan Agreement”). All obligations of the Company to Thermo under the Loan Agreement are subordinated to the Company’s obligations under the Facility Agreement.

The Loan Agreement 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 by the Facility Agreement. Principal and interest under the Loan Agreement become due and payable six months after the obligations under the Facility Agreement have been paid in full, or earlier if the Company has a change in control or if any acceleration of the maturity of the loans under the Facility Agreement occurs. As of September 30, 2018, $72.6 million of interest had accrued since 2009 with respect to the Loan Agreement; the Loan Agreement is included in long-term debt on the Company’s condensed consolidated balance sheets.

The Company evaluated the various embedded derivatives within the Loan Agreement (See Note 6: Fair Value Measurements for additional information about the embedded derivative in the Loan Agreement). The Company determined that the conversion option and the contingent put feature upon a fundamental change required bifurcation from the Loan Agreement. The conversion option and the contingent put feature were not deemed clearly and closely related to the Loan Agreement and were separately accounted for as a standalone derivative. The Company recorded this compound embedded derivative liability as a non-current liability on its condensed consolidated balance sheets with a corresponding debt discount, which is netted against the face value of the Loan Agreement.

The Company is accreting the debt discount associated with the compound embedded derivative liability to interest expense through the maturity of the Loan Agreement using an 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 determines the fair value of the compound embedded derivative using a Monte Carlo simulation model.

All of the transactions between the Company and Thermo and its affiliates were reviewed and approved on the Company's behalf by a Special Committee of its disinterested independent directors, who were represented by independent counsel.

8.00% Convertible Senior Notes Issued in 2013

The 2013 8.00% Notes are convertible into shares of common stock at a conversion price of $0.73 (as adjusted) per share of common stock. The conversion price of the 2013 8.00% Notes is adjusted in the event of certain stock splits or extraordinary share distributions, or as a reset of the base conversion and exercise price pursuant to the terms of the Fourth Supplemental Indenture between the Company and U.S. Bank National Association, as Trustee, dated May 20, 2013 (the "Indenture").

The 2013 8.00% Notes are senior unsecured debt obligations of the Company with no sinking fund. The 2013 8.00% Notes will mature on April 1, 2028, subject to various call and put features, and bear interest at a rate of 8.00% per annum. Interest on the 2013 8.00% Notes is payable semi-annually in arrears on April 1 and October 1 of each year. Interest is paid in cash at a rate of 5.75% per annum and in additional notes at a rate of 2.25% per annum. The Indenture for the 2013 8.00% Notes provides for customary events of default. As of September 30, 2018, the Company was in compliance with respect to the terms of the 2013 8.00% Notes and the Indenture.

Subject to certain conditions set forth in the Indenture, the Company may redeem the 2013 8.00% Notes, with the prior approval of the majority lenders under the Facility Agreement, in whole or in part, at any time on or after April 1, 2018, at a price equal to the principal amount of the 2013 8.00% Notes to be redeemed plus all accrued and unpaid interest thereon. As of September 30, 2018, the 2013 8.00% Notes have not been redeemed by the Company.

A holder of the 2013 8.00% Notes has the right, at the holder's option, to require the Company to purchase some or all of the 2013 8.00% Notes held by it on each of April 1, 2018 and April 1, 2023 at a price equal to the principal amount of the 2013 8.00% Notes to be purchased plus accrued and unpaid interest. The holders did not exercise this option on April 1, 2018.

Subject to the procedures for conversion and other terms and conditions of the Indenture, a holder may convert its 2013 8.00% Notes at its option at any time prior to the close of business on the business day immediately preceding April 1, 2028, into shares of common stock (or, at the option of the Company, cash in lieu of all or a portion thereof, provided that, under the Facility Agreement, the Company may pay cash only with the consent of the majority lenders).

As of September 30, 2018, holders had converted a total of $55.4 million principal amount of the 2013 8.00% Notes, resulting in the issuance of approximately 98.5 million shares of voting common stock. There were no conversions during the three and nine month periods ending September 30, 2018.

Holders who convert 2013 8.00% Notes may receive conversion shares over a 40-consecutive trading day settlement period. Accordingly, the portion of converted debt is extinguished on an incremental basis over the 40-day settlement period, reducing the Company's outstanding debt balance. As of September 30, 2018, no conversions had been initiated but not yet fully settled.

The Company evaluated the various embedded derivatives within the Indenture for the 2013 8.00% Notes. The Company determined that the conversion option and the contingent put feature within the Indenture required bifurcation from the 2013 8.00% Notes. The Company did not deem the conversion option and the contingent put feature to be clearly and closely related to the 2013 8.00% Notes and separately accounted for them as a standalone derivative. The Company recorded this compound embedded derivative liability as a liability on its condensed consolidated balance sheets with a corresponding debt discount which is netted against the face value of the 2013 8.00% Notes.

The Company was accreting the debt discount associated with the compound embedded derivative liability to interest expense through the first put date of the 2013 8.00% Notes (April 1, 2018) using an effective interest rate method. Due to significant conversions since issuance, the entire debt discount has been recorded to interest expense resulting in no balance as of September 30, 2018. The Company is marking to market the fair value of the compound embedded derivative liability at the end of each reporting period, or more frequently as deemed necessary, and as of the date of a significant conversion, with any changes in value reported in the condensed consolidated statements of operations. The Company determines the fair value of the compound embedded derivative using a Monte Carlo simulation model.

5. DERIVATIVES

In connection with certain existing borrowing arrangements, the Company was required to record derivative instruments on its condensed consolidated balance sheets. None of these derivative instruments are designated as a hedge. The following table discloses the fair values of the derivative instruments on the Company's condensed consolidated balance sheets (in thousands):

	September 30, 2018			December 31, 2017		
Derivative liabilities:						
Compound embedded derivative with the 2013 8.00% Notes	$	(617	)	$	(1,326	)
Compound embedded derivative with the Loan Agreement with Thermo	(81,424		)	(226,659		)
Total derivative liabilities	$	(82,041	)	$	(227,985	)

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The following table discloses the changes in value recorded as derivative gain (loss) in the Company’s condensed consolidated statement of operations (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest rate cap	$—	$ —	$—	$ (3)
Compound embedded derivative with the 2013 8.00% Notes	322	2,949	709	(7,247)
Compound embedded derivative with the Loan Agreement with Thermo	38,737	75,891	145,235	12,183
Total derivative gain	$39,059	$ 78,840	$145,944	$ 4,933

Intangible and Other Assets

Interest Rate Cap

In June 2009, in connection with entering into the Facility Agreement, under which interest accrues 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 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 and 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 statements of operations. The value of the interest rate cap was approximately zero as of September 30, 2018 and December 31, 2017, respectively.

Derivative Liabilities

The Company has identified various embedded derivatives resulting from certain features in the Company’s debt instruments, including the conversion option and the contingent put feature within both the 2013 8.00% Notes and the Loan Agreement with Thermo. The fair value of each embedded derivative liability is marked-to-market at the end of each reporting period, or more frequently as deemed necessary, with any changes in value reported in its condensed consolidated statements of operations and its condensed consolidated statements of cash flows as an operating activity. The Company determined the fair value of its compound embedded derivative liabilities using a Monte Carlo simulation model. See Note 6: Fair Value Measurements for further discussion. Consistent with the classification of the 2013 8.00% Notes as current debt on the Company's condensed consolidated balance sheet, the Company has classified this derivative liability as current on its condensed consolidated balance sheet at September 30, 2018.

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 tables provide a summary of the financial liabilities measured at fair value on a recurring basis (in thousands):

	September 30, 2018			
	(Level 1)	(Level 2)	(Level 3)	Total Balance
Compound embedded derivative with the 2013 8.00% Notes	—	—	(617)	(617)
Compound embedded derivative with the Loan Agreement with Thermo	—	—	(81,424)	(81,424)
Total liabilities measured at fair value	$ —	$ —	$ (82,041)	$ (82,041)

	December 31, 2017			
	(Level 1)	(Level 2)	(Level 3)	Total Balance
Compound embedded derivative with the 2013 8.00% Notes	—	—	(1,326)	(1,326)
Compound embedded derivative with the Loan Agreement with Thermo	—	—	(226,659)	(226,659)
Total liabilities measured at fair value	$ —	$ —	$ (227,985)	$ (227,985)

Derivative Liabilities

The Company has two derivative liabilities classified as Level 3. The Company marks-to-market these liabilities at each reporting date, or more frequently as deemed necessary, with the changes in fair value recognized in the Company's condensed consolidated statements of operations. See Note 5: Derivatives for further discussion.

The significant quantitative Level 3 inputs utilized in the valuation models are shown in the tables below:

	September 30, 2018				
	Stock Price Volatility	Risk-Free Interest Rate	Note Conversion Price	Discount Rate	Market Price of Common Stock
Compound embedded derivative with the 2013 8.00% Notes	40% - 95%	2.9 %	$ 0.73	25 %	$ 0.51
Compound embedded derivative with the Loan Agreement with Thermo	40% - 95%	2.9 %	$ 0.73	25 %	$ 0.51

	December 31, 2017				
	Stock Price Volatility	Risk-Free Interest Rate	Note Conversion Price	Discount Rate	Market Price of Common Stock
Compound embedded derivative with the 2013 8.00% Notes	78 %	1.4 %	$ 0.73	27 %	$ 1.31
Compound embedded derivative with the Loan Agreement with Thermo	40% - 77%	2.2 %	$ 0.73	27 %	$ 1.31

Fluctuation in the Company's stock price is one of the primary drivers for the changes in the derivative valuations during each reporting period. As the stock price decreases, the value to the holder of the instrument generally decreases, thereby decreasing the liability on the Company's condensed consolidated balance sheets. Additionally, stock price volatility is a significant unobservable input used in the fair value measurement of each of the Company's derivative instruments. The simulated fair value of these liabilities is sensitive to changes in the expected volatility of the Company's stock price. Increases in expected volatility would generally result in a higher fair value measurement.

Probability of a change of control is another significant unobservable input used in the fair value measurement of the Company’s derivative instruments. Subject to certain restrictions in each indenture, the Company’s debt instruments contain certain provisions whereby holders may require the Company to purchase all or any portion of the convertible debt instrument upon a change of control. A change of control will occur upon certain changes in the ownership of the Company or certain events relating to the trading of the Company’s common stock. The simulated fair value of the derivative liabilities above is sensitive to changes in the assumed probabilities of a change of control. Increases in the assumed probability of a change of control in the short-term would generally result in a lower fair value measurement, while increases in the assumed probability of a change of control in the long-term would generally result in a higher fair value measurement.

In addition to the inputs described above, the valuation model used to calculate the fair value measurement of the compound embedded derivatives within the Company’s 2013 8.00% Notes and Loan Agreement with Thermo included the following inputs and features: payment-in-kind interest payments, make-whole premiums, a 40-day stock issuance settlement period upon conversion, estimated maturity date, and the principal balance of each loan at the balance sheet date. There are also certain put and call features within the 2013 8.00% Notes that impact the valuation model.

The following table presents a rollforward for all liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance at beginning of period	$(121,100)	$(355,075)	$(227,985)	$(281,171)
Derivative adjustment related to conversions	—	32,000	—	32,000
Unrealized gain, included in derivative gain	39,059	78,840	145,944	4,936
Balance at end of period	$(82,041)	$(244,235)	$(82,041)	$(244,235)

Fair Value of Debt Instruments

The Company believes it is not practicable to determine the fair value of the Facility Agreement without incurring significant additional costs. Unlike typical long-term debt, interest rates and other terms for the Facility Agreement are not readily available and generally involve a variety of factors, including due diligence by the debt holders. The following table sets forth the carrying values and estimated fair values of the Company's other debt instruments, which are classified as Level 3 financial instruments (in thousands):

	September 30, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loan Agreement with Thermo	$92,476	$70,929	$79,721	$54,936
2013 8.00% Notes	1,363	770	1,348	1,295

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7. CONTINGENCIES

Arbitration

On June 3, 2011, Globalstar filed a demand for arbitration against Thales before the American Arbitration Association to enforce certain rights to order additional satellites under the 2009 Contract. The Company did not include within its demand any claims that it had against Thales for work previously performed under the contract to design, manufacture and timely deliver the first 25 second-generation satellites. On May 10, 2012, the arbitration tribunal issued its award in which it determined that the Company had terminated the 2009 Contract "for convenience" and had materially breached the contract by failing to pay to Thales the €51.3 million in termination charges required under the contract. The tribunal additionally determined that absent further agreement between the parties, Thales had no further obligation to manufacture or deliver satellites under Phase 3 of the 2009 Contract. Based on these determinations, the tribunal directed the Company to pay Thales approximately €53 million in termination charges, plus interest by June 9, 2012. On May 23, 2012, Thales commenced an action in the United States District Court for the Southern District of New York by filing a petition to confirm the arbitration award (the "New York Proceeding"). Thales and the Company entered into tolling agreements under which Thales dismissed the New York Proceeding without prejudice. These tolling agreements have expired. Accordingly, as of May 10, 2018, Thales's right to enforce the arbitration award pursuant to the Federal Arbitration Act is now time-barred.

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, a Settlement Agreement and a Submission Agreement. Under the terms of the Release Agreement, Thales agreed unconditionally and irrevocably to release and forever discharge the Company from any and all claims and obligations (with the exception of those items payable under the Settlement Agreement or in connection with a new contract for the purchase of any additional second-generation satellites), including, without limitation, a full release from paying €35.6 million 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 any additional second-generation satellites. Under the terms of the Release Agreement, the Company agreed unconditionally and irrevocably to release and forever discharge Thales from any and all claims (with limited exceptions), including, without limitation, claims related to Thales's work under 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 any additional second-generation satellites. The releases became effective on December 31, 2012. In connection with the Release Agreement and the Settlement Agreement, the Company recorded a contract termination charge of approximately €17.5 million in its condensed consolidated balance sheet during the second quarter of 2012. As discussed above, the statute of limitations for Thales to enforce the arbitration award pursuant to the Federal Arbitration Act has expired. As such, the Company believes that payment of the contract termination charge is not probable and removed this liability from its condensed consolidated balance sheet during the second quarter of 2018. Nevertheless, there can be no assurance that Thales would not or could not seek some alternative means to pursue all or a portion of the €17.5 million contract termination charge, which would be defended vigorously by the Company.

Under the terms of the Settlement Agreement, the Company agreed to pay €17.5 million to Thales, representing one-third of the termination charges awarded to Thales in the arbitration, subject to certain conditions, on the later of the effective date of the new contract for the purchase of any additional second-generation satellites and the effective date of the financing for the purchase of these satellites. As of September 30, 2018, this condition had not been satisfied. Because the effective date of the new contract for the purchase of additional second-generation satellites did not occur on or prior to February 28, 2013, any party may terminate the Settlement Agreement. If any party terminates the Settlement Agreement, all parties' rights and obligations under the Settlement Agreement shall terminate. The Release Agreement is a separate and independent agreement from the Settlement Agreement and provides that it supersedes all prior understandings, commitments and representations between the parties with respect to the subject matter thereof; therefore, it would survive any termination of the Settlement Agreement. As of September 30, 2018, no party had terminated the Settlement Agreement.

Securities Claim

On September 25, 2018, a shareholder action was filed against the Company, members of the Board of Directors, Thermo Companies, Inc., and certain members of Globalstar management in the Court of Chancery of the State of Delaware, captioned Mudrick Capital Management, LP, et al. v. Monroe, et al., C.A. No. 2018-0699-TMR (the "Action"). In the Action, plaintiffs allege that individuals named as director defendants and Thermo Companies, Inc. violated their fiduciary duties in connection with certain outreach to third parties related to a possible monetization of the Company's spectrum, the Company's October 2017 offering, the Agreement and Plan of Merger with GBS Acquisitions, Inc., Thermo Acquisitions, Inc., and Thermo Development, Inc. dated April 24, 2018 (the "Merger Agreement"), which has since been terminated, and certain related transactions. Plaintiffs also allege that certain directors of the Company were unjustly enriched by certain restricted stock awards, that James Monroe III breached his fiduciary duties by purportedly trading while in possession of the Company's proprietary information, and that the non-director management defendants aided and abetted the directors’ alleged breaches of fiduciary duty. The Action seeks a declaratory judgment on the above allegations, damages, and an award of attorneys' fees and costs for bringing the Action and also in connection with a demand to inspect certain books and records of the Company, a now-adjudicated lawsuit seeking to enforce the demand in the Delaware Court of Chancery (the "Books and Records Matters"), and in connection with the termination of the Merger Agreement. The Company is identified as a defendant as to the direct claim for certain attorneys' fees and costs. All other claims are purported to be brought derivatively on behalf of the Company. The Company intends to vigorously defend against the litigation and expects the other defendants to do so as well.

In connection with the Action described above, the plaintiffs’ claims for damages from the Company are limited to the payment of certain attorneys' fees and costs. The Company evaluated the facts and circumstances under applicable accounting guidance and determined that, as a defendant in the Action and as an indemnitor to certain other defendants, a loss for such attorneys' fees and costs is reasonably possible; however, an estimate for potential losses or range of losses under the Action cannot be made at this time. As such, the Company has not recorded an accrual related to the Action described above for the period ended September 30, 2018. Additionally, as the Company is also a nominal plaintiff in the Action, the Company evaluated the facts and circumstances under applicable accounting guidance and determined that a gain resulting from certain claims described above may be possible; however, at this time, any such gain is not estimable nor realizable. As such, the Company has not recorded a gain related to the Action described above for the period ended September 30, 2018. The Company continues to review and evaluate its accounting conclusions in light of developments of this Action.

During the nine months ended September 30, 2018, the Company incurred approximately $2.4 million in legal and other adviser costs resulting from the Action and the Books and Records Matters, which are recorded in marketing, general and administrative expenses on the Company’s condensed consolidated statement of operations. The Company expects that these costs are at least partially covered by the Company’s directors and officers insurance policy, subject to the retention and limits provided in the policy. According to ASC 450, a recovery related to a contingent loss (e.g., insurance recovery) is a contingent gain. Recovery of a recorded contingent loss shall be recognized only when realization of the recovery is deemed probable and reasonably estimable. Costs incurred in connection with a books and records demand are subject to a $250,000 sublimit. Until additional coverage is confirmed by the Company’s insurance carrier, the Company has recorded a receivable of $250,000 as partial recovery of the costs incurred in connection with the Books and Records Matters with an offsetting reduction to marketing, general and administrative expenses during the quarter ended September 30, 2018 as the Company believes that collection of at least this amount is probable under the terms of its insurance policy.

Business Economic Loss Claim

In May 2018, the Company concluded the settlement of a business economic loss claim in which it was an absent member in a tort class action lawsuit. The Company will receive proceeds of $7.4 million, net of legal fees, related to this settlement. The cash proceeds will be received in equal installments in January 2019 and January 2020, respectively. During the second quarter of 2018, the Company recorded the present value of the proceeds of $6.8 million and a discount of $0.6 million. The present value of the net proceeds of $6.8 million was recorded in other income on the Company's condensed consolidated statement of operations. The discount of $0.6 million was recorded on the Company's condensed consolidated balance sheet and is being accreted to interest income over the term of the receivable using the effective interest method.

Other 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, there is no pending litigation, dispute or claim, other than those described in this report, which could be expected to have a material adverse effect on the Company's financial condition, results of operations or liquidity.

8. RELATED PARTY TRANSACTIONS

Payables to Thermo and other affiliates related to normal purchase transactions were $0.6 million and $0.2 million as of September 30, 2018 and December 31, 2017, respectively. This increase is related to the timing of payment of expenses incurred by Thermo on behalf of the Company related to the Merger Agreement.

Transactions with Thermo

Certain general and administrative expenses are incurred by Thermo on behalf of the Company. These expenses, which include non-cash expenses that the Company accounts for as a contribution to capital, relate to services provided by certain executive officers of Thermo. The expenses charged are based on actual amounts (with no mark-up) incurred by Thermo or upon allocated employee time. The expenses charged to the Company were $0.2 million during each of the three months ended September 30, 2018 and 2017 and $0.6 million during each of the nine months ended September 30, 2018 and 2017, respectively.

As of September 30, 2018, the principal amount outstanding under the Loan Agreement with Thermo was $116.1 million, and the fair value of the compound embedded derivative liability associated with the Loan Agreement was $81.4 million. During the three months ended September 30, 2018 and 2017, interest accrued on the Loan Agreement was approximately $3.5 million and $3.1 million, respectively. During the nine months ended September 30, 2018 and 2017, interest accrued on the Loan Agreement was approximately $10.0 million and $8.9 million, respectively.

On April 24, 2018, Globalstar entered into the Merger Agreement with GBS Acquisitions, Inc., a Delaware corporation and wholly owned subsidiary of Globalstar (“Merger Sub”), Thermo Acquisitions, Inc., a Delaware corporation (“Thermo Acquisitions”), the stockholders of Thermo Acquisitions (collectively, the “Thermo Stockholders,” and each, individually, a “Thermo Stockholder”), and Thermo Development, Inc., in its capacity as the representative of the Thermo Stockholders as set forth therein (the “Stockholders’ Representative”). Thermo Acquisitions is controlled by James Monroe III, Executive Chairman of the Board of Directors of Globalstar and former Chief Executive Officer of Globalstar. Pursuant to the terms of the Merger Agreement, Merger Sub would merge with and into Thermo Acquisitions with Thermo Acquisitions continuing as the surviving corporation and a wholly owned subsidiary of Globalstar (the “Merger”). The transaction was unanimously recommended by the Special Committee of the Board of Directors of Globalstar, consisting entirely of disinterested independent directors, and unanimously approved by the full Board of Directors. On July 31, 2018, Globalstar, following the unanimous recommendation of its Special Committee of independent directors, and the Stockholders’ Representative, terminated the Merger Agreement by mutual written agreement by entering into a Termination of Agreement and Plan of Merger, between Globalstar and the Stockholders’ Representative. In addition, on July 31, 2018, the Voting Agreement between Globalstar and certain of its stockholders terminated in accordance with its terms as a result of the termination of the Merger Agreement. No termination fees are payable in connection with the termination of the Merger Agreement.

In addition, the Company's Board of Directors maintains a special committee consisting solely of disinterested independent directors of the Company, represented by independent legal counsel. This special committee serves as an independent board to review and approve certain transactions between the Company and Thermo.

See Note 4: Long-Term Debt and Other Financing Arrangements for further discussion of the Company's debt and financing transactions with Thermo.

9. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share are 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 calculation of basic and diluted earnings (loss) per share and reconciles basic weighted average shares to diluted weighted average shares of common stock outstanding for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$9,019	$ 52,406	$89,937	$(66,489)
Effect of dilutive securities:				
2013 8.00% Notes	28	388	66	—
Loan Agreement with Thermo	4,387	2,520	10,256	—
Income (loss) to common stockholders plus assumed conversions	$13,434	$ 55,314	$100,259	$(66,489)
Weighted average common shares outstanding:				
Basic shares outstanding	1,264,516	1,169,993	1,263,416	1,137,854
Incremental shares from assumed exercises, conversions and other issuance of:				
Stock options, restricted stock, restricted stock units and ESPP	2,370	7,364	5,661	—
2013 8.00% Notes	1,867	2,157	2,087	—
Loan Agreement with Thermo	159,047	166,391	177,756	—
Diluted shares outstanding	1,427,800	1,345,905	1,448,920	1,137,854
Net income (loss) per share:				
Basic	$0.01	$ 0.04	$0.07	$(0.06)
Diluted	0.01	0.04	0.07	(0.06)

For the nine months ended September 30, 2017, 171.5 million shares of potential common stock were excluded from diluted shares outstanding because the effects of assuming issuance of these potentially dilutive securities would be anti-dilutive.

10. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

In connection with the Company's issuance of the 2013 8.00% Notes, certain of the Company's 100% owned domestic subsidiaries (the "Guarantor Subsidiaries"), fully, unconditionally, jointly, and severally guaranteed the payment obligations under the 2013 8.00% Notes. The following financial information sets forth, on a consolidating basis, the balance sheets, statements of operations and statements of cash flows for Globalstar, Inc. (the "Parent Company"), for the Guarantor Subsidiaries and for the Parent Company's other subsidiaries (the "Non-Guarantor Subsidiaries"). The 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.
Condensed Consolidating Statement of Operations
Three Months Ended September 30, 2018
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenue:					
Service revenue	$22,750	$ 11,627	$ 16,915	$ (21,394)	$ 29,898
Subscriber equipment sales	260	5,144	1,695	(1,305)	5,794
Total revenue	23,010	16,771	18,610	(22,699)	35,692
Operating expenses:					
Cost of services (exclusive of depreciation, amortization, and accretion shown separately below)	6,825	1,556	2,429	(1,381)	9,429
Cost of subscriber equipment sales	176	4,259	1,297	(1,306)	4,426
Marketing, general and administrative	10,706	1,468	22,911	(20,024)	15,061
Depreciation, amortization and accretion	25,041	52	(355)	—	24,738
Total operating expenses	42,748	7,335	26,282	(22,711)	53,654
Income (loss) from operations	(19,738)	9,436	(7,672)	12	(17,962)
Other income (expense):					
Interest income and expense, net of amounts capitalized	(13,360)	(5)	7	—	(13,358)
Derivative gain	39,059	—	—	—	39,059
Equity in subsidiary earnings (loss)	3,170	(2,571)	—	(599)	—
Other	(112)	23	1,431	(11)	1,331
Total other income (expense)	28,757	(2,553)	1,438	(610)	27,032
Income (loss) before income taxes	9,019	6,883	(6,234)	(598)	9,070
Income tax expense	—	5	46	—	51
Net income (loss)	$9,019	$ 6,878	$ (6,280)	$ (598)	$ 9,019
Comprehensive income (loss)	$9,019	$ 6,878	$ (5,906)	$ (472)	$ 9,519

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Globalstar, Inc.
Condensed Consolidating Statement of Operations
Three Months Ended September 30, 2017
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenue:					
Service revenue	$20,018	$ 10,163	$ 14,678	$ (18,790)	$ 26,069
Subscriber equipment sales	55	3,524	1,762	(952)	4,389
Total revenue	20,073	13,687	16,440	(19,742)	30,458
Operating expenses:					
Cost of services (exclusive of depreciation, amortization, and accretion shown separately below)	6,460	1,523	2,819	(1,487)	9,315
Cost of subscriber equipment sales	8	2,494	1,354	(951)	2,905
Marketing, general and administrative	5,685	1,268	19,911	(17,319)	9,545
Depreciation, amortization and accretion	19,250	116	49	—	19,415
Total operating expenses	31,403	5,401	24,133	(19,757)	41,180
Income (loss) from operations	(11,330)	8,286	(7,693)	15	(10,722)
Other income (expense):					
Loss on extinguishment of debt	(6,306)	—	—	—	(6,306)
Interest income and expense, net of amounts capitalized	(8,895)	(5)	(51)	(3)	(8,954)
Derivative gain	78,840	—	—	—	78,840
Equity in subsidiary earnings (loss)	754	(3,202)	—	2,448	—
Other	(657)	(182)	471	(17)	(385)
Total other income (expense)	63,736	(3,389)	420	2,428	63,195
Income (loss) before income taxes	52,406	4,897	(7,273)	2,443	52,473
Income tax expense	—	5	62	—	67
Net income (loss)	$52,406	$ 4,892	$ (7,335)	$ 2,443	$ 52,406
Comprehensive income (loss)	$52,406	$ 4,892	$ (8,243)	$ 2,449	$ 51,504

Globalstar, Inc.
Condensed Consolidating Statement of Operations
Nine Months Ended September 30, 2018
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenue:					
Service revenue	$66,554	$ 30,993	$ 48,929	$ (62,573)	$ 83,903
Subscriber equipment sales	511	12,541	4,266	(3,054)	14,264
Total revenue	67,065	43,534	53,195	(65,627)	98,167
Operating expenses:					
Cost of services (exclusive of depreciation, amortization, and accretion shown separately below)	19,827	4,444	7,591	(3,878)	27,984
Cost of subscriber equipment sales	382	10,350	3,091	(3,055)	10,768
Marketing, general and administrative	29,173	3,989	67,852	(58,734)	42,280
Revision to contract termination charge	(20,478)	—	—	—	(20,478)
Depreciation, amortization and accretion	65,434	216	935	—	66,585
Total operating expenses	94,338	18,999	79,469	(65,667)	127,139
Income (loss) from operations	(27,273)	24,535	(26,274)	40	(28,972)
Other income (expense):					
Interest income and expense, net of amounts capitalized	(31,081)	(9)	24	50	(31,016)
Derivative gain	145,944	—	—	—	145,944
Gain on legal settlement	6,779	—	—	—	6,779
Equity in subsidiary earnings (loss)	(3,950)	(12,199)	—	16,149	—
Other	(482)	140	(2,302)	(38)	(2,682)
Total other income (expense)	117,210	(12,068)	(2,278)	16,161	119,025
Income (loss) before income taxes	89,937	12,467	(28,552)	16,201	90,053
Income tax expense	—	21	95	—	116
Net income (loss)	$89,937	$ 12,446	$ (28,647)	$ 16,201	$ 89,937
Comprehensive income (loss)	$89,937	$ 12,446	$ (25,945)	$ 16,299	$ 92,737

Globalstar, Inc.
Condensed Consolidating Statement of Operations
Nine Months Ended September 30, 2017
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenue:					
Service revenue	$56,315	$ 29,365	$ 38,775	$ (52,604)	$ 71,851
Subscriber equipment sales	182	9,517	4,603	(2,920)	11,382
Total revenue	56,497	38,882	43,378	(55,524)	83,233
Operating expenses:					
Cost of services (exclusive of depreciation, amortization, and accretion shown separately below)	19,003	4,351	7,966	(3,995)	27,325
Cost of subscriber equipment sales	74	7,317	3,306	(2,918)	7,779
Marketing, general and administrative	16,513	3,384	57,176	(48,637)	28,436
Depreciation, amortization and accretion	57,302	518	164	—	57,984
Total operating expenses	92,892	15,570	68,612	(55,550)	121,524
Income (loss) from operations	(36,395)	23,312	(25,234)	26	(38,291)
Other income (expense):					
Loss on extinguishment of debt	(6,306)	—	—	—	(6,306)
Gain (loss) on equity issuance	2,705	—	(35)	—	2,670
Interest income and expense, net of amounts capitalized	(26,479)	(6)	(152)	5	(26,632)
Derivative gain	4,933	—	—	—	4,933
Equity in subsidiary earnings (loss)	(2,461)	(10,712)	—	13,173	—
Other	(2,486)	(619)	475	(24)	(2,654)
Total other income (expense)	(30,094)	(11,337)	288	13,154	(27,989)
Income (loss) before income taxes	(66,489)	11,975	(24,946)	13,180	(66,280)
Income tax expense	—	14	195	—	209
Net income (loss)	$(66,489)	$ 11,961	$ (25,141)	$ 13,180	$ (66,489)
Comprehensive income (loss)	$(66,489)	$ 11,961	$ (26,905)	$ 13,177	$ (68,256)

Globalstar, Inc.
Condensed Consolidating Balance Sheet
As of September 30, 2018
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$5,812	$ 11,454	$ 3,196	$—	$ 20,462
Restricted cash	52,934	—	—	—	52,934
Accounts receivable, net of allowance	6,883	9,245	4,343	—	20,471
Intercompany receivables	1,029,012	803,742	95,461	(1,928,215)	—
Inventory	6,507	5,231	1,329	—	13,067
Prepaid expenses and other current assets	6,174	532	2,094	—	8,800
Total current assets	1,107,322	830,204	106,423	(1,928,215)	115,734
Property and equipment, net	871,946	996	31,043	5	903,990
Intercompany notes receivable	5,600	—	6,436	(12,036)	—
Investment in subsidiaries	(253,026)	40,156	49,034	163,836	—
Intangible and other assets, net	34,830	366	2,913	(12)	38,097
Total assets	$1,766,672	$ 871,722	$ 195,849	$(1,776,422)	$ 1,057,821
LIABILITIES AND STOCKHOLDERS’ EQUITY					
Current liabilities:					
Current portion of long-term debt	$87,732	$ —	$ —	$—	$ 87,732
Accounts payable	4,788	3,869	868	—	9,525
Accrued expenses	16,512	7,318	5,169	—	28,999
Intercompany payables	756,701	822,739	348,736	(1,928,176)	—
Payables to affiliates	645	—	—	—	645
Derivative liabilities	617	—	—	—	617
Deferred revenue	1,711	26,179	7,141	—	35,031
Total current liabilities	868,706	860,105	361,914	(1,928,176)	162,549
Long-term debt, less current portion	407,615	—	—	—	407,615
Employee benefit obligations	4,450	—	—	—	4,450
Intercompany notes payable	6,436	—	5,600	(12,036)	—
Derivative liabilities	81,424	—	—	—	81,424
Deferred revenue	5,392	348	18	—	5,758
Other non-current liabilities	549	324	3,052	—	3,925
Total non-current liabilities	505,866	672	8,670	(12,036)	503,172
Stockholders’ equity (deficit)	392,100	10,945	(174,735)	163,790	392,100
Total liabilities and stockholders’ equity	$1,766,672	$ 871,722	$ 195,849	$(1,776,422)	$ 1,057,821

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Globalstar, Inc.
Condensed Consolidating Balance Sheet
As of December 31, 2017
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$32,864	$ 4,942	$ 3,838	$—	$ 41,644
Restricted cash	63,635	—	—	—	63,635
Accounts receivable, net of allowance	7,129	6,524	3,460	—	17,113
Intercompany receivables	979,942	755,847	64,477	(1,800,266)	—
Inventory	1,182	4,610	1,481	—	7,273
Prepaid expenses and other current assets	3,149	2,414	1,182	—	6,745
Total current assets	1,087,901	774,337	74,438	(1,800,266)	136,410
Property and equipment, net	962,756	3,855	4,503	5	971,119
Intercompany notes receivable	5,600	—	6,436	(12,036)	—
Investment in subsidiaries	(280,745)	84,244	38,637	157,864	—
Intangible and other assets, net	18,353	47	3,348	(12)	21,736
Total assets	$1,793,865	$ 862,483	$ 127,362	$(1,654,445)	$ 1,129,265
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current portion of long-term debt	$79,215	$ —	$ —	$—	$ 79,215
Accounts payable	2,257	2,736	1,055	—	6,048
Accrued contract termination charge	21,002	—	—	—	21,002
Accrued expenses	7,627	6,331	6,796	—	20,754
Intercompany payables	711,159	799,565	289,503	(1,800,227)	—
Payables to affiliates	225	—	—	—	225
Derivative liabilities	1,326	—	—	—	1,326
Deferred revenue	1,164	23,282	7,301	—	31,747
Total current liabilities	823,975	831,914	304,655	(1,800,227)	160,317
Long-term debt, less current portion	434,651	—	—	—	434,651
Employee benefit obligations	4,389	—	—	—	4,389
Intercompany notes payable	6,436	—	5,600	(12,036)	—
Derivative liabilities	226,659	—	—	—	226,659
Deferred revenue	5,625	410	17	—	6,052
Other non-current liabilities	906	325	4,742	—	5,973
Total non-current liabilities	678,666	735	10,359	(12,036)	677,724
Stockholders' equity (deficit)	291,224	29,834	(187,652)	157,818	291,224
Total liabilities and stockholders' equity	$1,793,865	$ 862,483	$ 127,362	$(1,654,445)	$ 1,129,265

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Globalstar, Inc.
Condensed Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2018
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash flows provided by (used in) operating activities	$ 11,458	$ 7,412	$ 898	$ —	$ 19,768
Cash flows used in investing activities:					
Second-generation network costs (including interest)	(4,629)	—	(1,258)	—	(5,887)
Property and equipment additions	(4,140)	(900)	(306)	—	(5,346)
Purchase of intangible assets	(1,904)	—	(44)	—	(1,948)
Net cash used in investing activities	(10,673)	(900)	(1,608)	—	(13,181)
Cash flows provided by (used in) financing activities:					
Principal payments of the Facility Agreement	(38,933)	—	—	—	(38,933)
Proceeds from issuance of common stock and exercise of options and warrants	395	—	—	—	395
Net cash used in financing activities	(38,538)	—	—	—	(38,538)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—	68	—	68
Net increase (decrease) in cash, cash equivalents and restricted cash	(37,753)	6,512	(642)	—	(31,883)
Cash, cash equivalents and restricted cash, beginning of period	96,499	4,942	3,838	—	105,279
Cash, cash equivalents and restricted cash, end of period	$ 58,746	$ 11,454	$ 3,196	$ —	$ 73,396

Globalstar, Inc.
Condensed Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2017
(Unaudited)

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash flows provided by operating activities	$7,884	$ 6,721	$ 2,023	$ —	$ 16,628
Cash flows used in investing activities:					
Second-generation network costs (including interest)	(6,812)	—	(50)	—	(6,862)
Property and equipment additions	(3,395)	(563)	(75)	—	(4,033)
Purchase of intangible assets	(2,099)	—	(575)	—	(2,674)
Net cash used in investing activities	(12,306)	(563)	(700)	—	(13,569)
Cash flows provided by (used in) financing activities:					
Principal payments of the Facility Agreement	(21,695)	—	—	—	(21,695)
Proceeds from Thermo Common Stock Purchase Agreement	33,000	—	—	—	33,000
Payment of debt restructuring fee	(20,795)	—	—	—	(20,795)
Payments for debt and equity issuance costs	(413)	—	—	—	(413)
Proceeds from issuance of stock to Terrapin	12,000	—	—	—	12,000
Proceeds from issuance of common stock and exercise of options and warrants	642	—	—	—	642
Net cash provided by financing activities	2,739	—	—	—	2,739
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	—	216	—	216
Net increase (decrease) in cash, cash equivalents and restricted cash	(1,683)	6,158	1,539	—	6,014
Cash, cash equivalents and restricted cash, beginning of period	45,242	1,327	1,644	—	48,213
Cash, cash equivalents and restricted cash, end of period	$43,559	$ 7,485	$ 3,183	$ —	$ 54,227

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements.

Certain statements contained in or incorporated by reference into this Quarterly Report on Form 10-Q (the "Report"), other than purely historical information, including, but not limited to, estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions, although not all forward-looking statements contain these identifying words. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Forward-looking statements, such as the statements regarding our ability to develop and expand our business (including our ability to monetize our spectrum rights), our anticipated capital spending, our ability to manage costs, our ability to exploit and respond to technological innovation, the effects of laws and regulations (including tax laws and regulations) and legal and regulatory changes (including regulation related to the use of our spectrum), the opportunities for strategic business combinations and the effects of consolidation in our industry on us and our competitors, our anticipated future revenues, our anticipated financial resources, our expectations about the future operational performance of our satellites (including their projected operational lives), the expected strength of and growth prospects for our existing customers and the markets that we serve, commercial acceptance of new products, problems relating to the ground-based facilities operated by us or by independent gateway operators, worldwide economic, geopolitical and business conditions and risks associated with doing business on a global basis and other statements contained in this Report regarding matters that are not historical facts, involve predictions. Risks and uncertainties that could cause or contribute to such differences include, without limitation, those in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission (the "SEC") on February 22, 2018 (the "2017 Annual Report"). We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this Report to reflect actual results or future events or circumstances.

New risk factors emerge from time to time, and it is not possible for us to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements. You should not rely upon forward-looking statements as predictions of future events or performance. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

This "Management's Discussion and Analysis of Financial Condition" should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition" and information included in our 2017 Annual Report.

Overview

Mobile Satellite Services Business

Globalstar, Inc. ("we", "us" or the "Company") provides Mobile Satellite Services (“MSS”) including voice and data communications services globally via satellite. By providing wireless communications services in areas not served or underserved by terrestrial wireless and wireline networks and in circumstances where terrestrial networks are not operational due to natural or man-made disasters, we seek to meet our customers' increasing desire for connectivity.

We offer voice and data communication services over our network of in-orbit satellites and our active ground stations ("gateways"), which we refer to collectively as the Globalstar System.

We currently provide the following communications services via satellite. These services are available only with equipment designed to work on our network:

- two-way voice communication and data transmissions using mobile or fixed devices, including our GSP-1700 phone, our Globalstar 9600™ hotspot, two generations of our Sat-Fi, and other fixed and data-only devices ("Duplex");
- one-way or two-way communication and data transmissions using mobile devices, including our SPOT family of products, such as SPOT X™, SPOT Gen3 and Trace, that transmit messages and the location of the device ("SPOT"); and
- one-way data transmissions using a mobile or fixed device that transmits its location and other information to a central monitoring station, including our commercial Simplex products, such as our battery- and solar-powered SmartOne, STX-3 and STINGR ("Simplex").

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Our constellation of Low Earth Orbit ("LEO") satellites includes second-generation satellites, which were launched and placed into service during the years 2010 through 2013 after a $1.1 billion investment, and certain first-generation satellites. We designed our second-generation satellites to last twice as long in space, have 40% greater capacity and be built at a significantly lower cost compared to our first-generation satellites. We achieved this longer life by increasing the solar array and battery capacity, using a larger fuel tank, adding redundancy for key satellite equipment, and improving radiation specifications and additional lot level testing for all susceptible electronic components, in order to account for the accumulated dosage of radiation encountered during a 15-year mission at the operational altitude of the satellites. The second-generation satellites use passive S-band antennas on the body of the spacecraft providing additional shielding for the active amplifiers which are located inside the spacecraft, unlike the first-generation amplifiers that were located on the outside as part of the active antenna array. Each satellite has a high degree of on-board subsystem redundancy, an on-board fault detection system and isolation and recovery for safe and quick risk mitigation.

Due to the specific design of the Globalstar System (and based on customer input), we believe that our voice quality is the best among our peer group. We define a successful level of service for our customers by their ability to make uninterrupted calls of average duration for a system-wide average number of minutes per month. Our goal is to provide service levels and call success rates equal to or better than our MSS competitors so our products and services are attractive to potential customers. We define voice quality as the ability to easily hear, recognize and understand callers with imperceptible delay in the transmission. By this measure, we believe that our system outperforms geostationary (“GEO”) satellites used by some of our competitors. Due to the difference in signal travel distance, GEO satellite signals must travel approximately 42,000 additional nautical miles, which introduces considerable delay and signal degradation to GEO calls. For our competitors using cross-linked satellite architectures, which require multiple inter-satellite connections to complete a call, signal degradation and delay can result in compromised call quality as compared to that experienced over the Globalstar System.

We designed our second-generation ground network, when combined with our next-generation products, to provide our customers with enhanced future services featuring initial services up to 72 kbps as well as increased capacity. The second-generation ground network is an Internet protocol multimedia subsystem ("IMS") based solution providing such industry standard services as voice, Internet, email and short message services ("SMS"). As technological advancements are made, we explore opportunities to provide new services over our network to meet the needs of our existing and prospective customers.

We compete aggressively on price. We offer a range of price-competitive products to the industrial, governmental and consumer markets. We expect to retain our position as a cost-effective, high quality leader in the MSS industry. Our next-generation products recently released include Duplex, SPOT and Simplex products, which are described below:

• Sat-Fi2™

We launched Sat-Fi2™ to our customers in April 2018. Like the original Sat-Fi, the next-generation Sat-Fi is designed to allow customers with Wi-Fi enabled smartphones, laptops and tablets to send and receive voice and data communications via the Globalstar network when traveling beyond cellular service, and is the first product to operate using our second-generation ground infrastructure, resulting in higher data speeds, enhanced capacity and improved performance.

• SPOT X™

In May 2018, we launched our newest SPOT device, SPOT X™, which has a new keyboard functionality to allow subscribers to send and receive SMS messages along with improved tracking and SOS functions that will continue to appeal to consumers.

•SmartOne Solar™

We are working with third party technology providers to develop IoT-focused Simplex products to connect into existing and new users and accelerate deployment of a Globalstar IoT product suite. Launched in March 2018, our SmartOne Solar™ device is the first of these IoT-focused products. It is solar-powered and supports larger and more frequent data transmission capabilities to enable a longer field life than existing devices. Solar-powered devices are expected to take advantage of our network's ability to support over 10 billion transmissions daily assuming an average message size of 90 characters. We expect to also develop machine-to-machine ("M2M") products that support two-way communications allowing for both tracking and control of assets in our coverage footprint.

Our satellite communications business, by providing critical mobile communications to our subscribers, serves principally the following markets: recreation and personal; government; public safety and disaster relief; oil and gas; maritime and fishing; natural resources, mining and forestry; construction; utilities; and transportation.

Our products and services are sold through a variety of independent agents, dealers and resellers, and independent gateway operators ("IGOs"). We also have distribution relationships with a number of "Big Box" and other distribution channels.

Licensed Spectrum Overview

We have access to a world-wide allocation of radio frequency spectrum through the international radio frequency tables administered by the International Telecommunications Union ("ITU"). We believe access to this global spectrum enables us to design satellites, networks and terrestrial infrastructure enhancements more cost effectively because the products and services can be deployed and sold worldwide. In addition, this broad spectrum assignment enhances our ability to capitalize on existing and emerging wireless and broadband applications.

In the United States, the Federal Communications Commission ("FCC") has authorized us to operate our first-generation satellites in 25.225 MHz of radio spectrum comprising two blocks of non-contiguous radio frequencies in the 1.6/2.4 GHz band commonly referred to as the "Big LEO" Spectrum Band. We licensed and registered our second-generation satellites in France. We also obtained all authorizations necessary from the FCC to operate our domestic gateways with our second-generation satellites.

Terrestrial Authority for Globalstar's Licensed 2.4GHz Spectrum

In December 2016, the FCC unanimously adopted a Report and Order permitting us to provide terrestrial broadband services over 11.5 MHz of our licensed Mobile Satellite Services spectrum at 2483.5 to 2495 MHz, throughout the United States of America and its Territories. This authorization covers population ("POPs") of approximately 320 million people, representing 3.7 billion MHz POPs. As provided in that Report and Order, we filed applications to modify our existing MSS licenses in April 2017 in order to obtain the terrestrial authorization permitted in the Report and Order. The FCC placed our applications on public notice in May with a comment cycle that ended in July 2017. In August 2017, the FCC granted Globalstar's MSS license modification application and granted Globalstar authority to provide terrestrial broadband services over its satellite spectrum. The FCC modified Globalstar's space station authorization to include a terrestrial low-power network using authorized Big LEO mobile-satellite service spectrum. We will need to comply with certain conditions in order to provide terrestrial broadband service under our MSS licenses, including obtaining FCC certifications for our equipment that will utilize this spectrum authority. We believe our MSS spectrum position provides potential for harmonized terrestrial authority across many international regulatory domains. We are seeking similar approvals in various additional international jurisdictions. We expect this global effort to continue for the foreseeable future while we seek the international harmonization of this 16.5 MHz band for terrestrial mobile broadband services.

We expect our terrestrial authority will allow future partners to develop high-density dedicated small cell networks using the TD-LTE protocol, eliminating the need for paired spectrum. We believe that our dedicated small cell offering has competitive advantages over other conventional commercial spectrum allocations. Such other allocations must meet minimum population coverage requirements, which effectively prohibit the exclusive use of most carrier spectrum for dedicated small cell deployment, while attempting to use such spectrum simultaneously for macro and small cell deployments is substantially less efficient. In addition, low frequency carrier spectrum is not physically well suited to high-density small cell topologies, and mmWave spectrum is sub-optimal given range and attenuation limitations. We believe that our licensed 2.4 GHz band holds physical, regulatory, and ecosystem qualities that distinguish it from other current and anticipated allocations, and that it is well positioned to balance favorable range, capacity and attenuation characteristics.

Performance Indicators

Our management reviews and analyzes several key performance indicators in order to manage our business and assess the quality and potential variability of our earnings and cash flows. These key performance indicators include:

- total revenue, which is an indicator of our overall business growth;
- subscriber growth and churn rate, which are both indicators of the satisfaction of our customers;
- average monthly revenue per user, or ARPU, which is an indicator of our pricing and ability to obtain effectively long-term, high-value customers. We calculate ARPU separately for each type of our Duplex, Simplex, SPOT and IGO revenue;
- operating income and adjusted EBITDA, both of which are indicators of our financial performance; and
- capital expenditures, which are an indicator of future revenue growth potential and cash requirements.

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Comparison of the Results of Operations for the three and nine months ended September 30, 2018 and 2017

Revenue

Total revenue increased by $5.2 million, or approximately 17%, to $35.7 million for the three months ended September 30, 2018 from $30.5 million for the same period in 2017. Total revenue increased by $14.9 million, or approximately 18%, to $98.2 million for the nine months ended September 30, 2018 from $83.3 million for the same period in 2017.

For the three and nine months ended September 30, 2018, the total revenue increase was driven by a $3.8 million and $12.0 million increase in service revenue, respectively, due primarily to increases in ARPU across all of our core product categories. Also contributing to the total revenue increase for both periods was an increase of $1.4 million and $2.9 million, respectively, in revenue from subscriber equipment sales resulting primarily from Simplex and SPOT products.

Effective January 1, 2018, we adopted Accounting Standards Codification ("ASC") Topic 606, “Revenue from Contracts with Customers” (“ASC 606”). We adopted this standard using the modified retrospective method and, as such, prior period amounts reflected in the tables and discussion below have not been adjusted.

The following table sets forth amounts and percentages of our revenue by type of service (dollars in thousands).

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017			Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Revenue	% of Total Revenue		Revenue	% of Total Revenue		Revenue	% of Total Revenue		Revenue	% of Total Revenue	
Service revenue:												
Duplex	$12,213	34	%	$10,576	35	%	$31,130	32	%	$27,496	33	%
SPOT	12,957	36		11,248	37		39,787	41		32,838	40	
Simplex	3,542	10		2,903	10		9,847	10		7,845	9	
IGO	257	1		260	1		682	1		847	1	
Other	929	3		1,082	3		2,457	3		2,825	3	
Total	$29,898	84	%	$26,069	86	%	$83,903	87	%	$71,851	86	%

The following table sets forth amounts and percentages of our revenue generated from equipment sales (dollars in thousands).

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017			Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Revenue	% of Total Revenue		Revenue	% of Total Revenue		Revenue	% of Total Revenue		Revenue	% of Total Revenue	
Subscriber equipment sales:												
Duplex	$432	1	%	$777	3	%	$1,613	1	%	$2,288	3	%
SPOT	2,871	8		1,410	5		6,212	6		4,461	5	
Simplex	2,318	7		2,192	6		5,968	6		4,171	5	

IGO	141	—		54	—		347	—		523	1	
Other	32	—		(44)	—		124	—		(61)	—	
Total	$5,794	16	%	$4,389	14	%	$14,264	13	%	$11,382	14	%

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The following table sets forth our average number of subscribers and ARPU by type of revenue.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Average number of subscribers for the period:				
Duplex	66,004	72,468	67,581	73,621
SPOT	292,521	289,265	292,424	285,229
Simplex	361,472	314,601	348,535	309,718
IGO	26,196	36,894	31,408	37,499
Other	1,007	1,432	1,149	1,531
Total	747,200	714,660	741,097	707,598
ARPU (monthly):				
Duplex	$61.68	$48.64	$51.18	$41.50
SPOT	14.76	12.96	15.12	12.79
Simplex	3.27	3.08	3.14	2.81
IGO	3.27	2.35	2.41	2.51

The numbers reported in the above table are subject to immaterial rounding inherent in calculating averages.

We count "subscribers" based on the number of devices that are subject to agreements that entitle them to use our voice or data communications services rather than the number of persons or entities who own or lease those devices.

Other service revenue includes revenue generated primarily from sources which are not subscriber driven, such as engineering services. Accordingly, we do not present ARPU for other service revenue in the table above.

Service Revenue

Duplex service revenue increased 15% and 13%, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in 2017 due primarily to an increase in ARPU. ARPU increased 27% and 23% for the three and nine months ended September 30, 2018 compared to the same periods in 2017, contributing $2.6 million and $5.9 million, respectively, to the total Duplex service revenue increases. The increase in ARPU was driven primarily by price increases for certain of our legacy rate plans to align our rate plans with our service levels. The ARPU increase was also impacted by the adoption of ASC 606, which requires the accrual of contract breakage to revenue over the customer’s contract term based on historical usage patterns. This methodology results in a change in the timing of when revenue is recognized when compared to the prior year’s financial statements, which was reported under ASC 605. During the third quarter of 2018, more expiration revenue was recognized than would have been recorded under legacy GAAP. On a year-to-date basis, there is minimal impact on ARPU from this new accounting treatment. See Note 2: Revenue to our condensed consolidated financial statements for further discussion. A decrease in average subscribers of 9% and 8% for the three and nine months ended September 30, 2018 compared to the same periods in 2017, respectively, offset partially the increase in ARPU. This decrease was due to lower gross activations resulting from fewer equipment sales over the last twelve months. The decline in the average subscriber base negatively impacted Duplex service revenue by $1.0 million and $2.3 million, respectively, during the three and nine months ended September 30, 2018.

SPOT service revenue increased 15% and 21%, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in 2017 due to increases in both ARPU and the average subscriber base. ARPU increased 14% and 18% for the three and nine month periods ended September 30, 2018 compared to the same periods in 2017. This ARPU increase resulted in higher SPOT service revenue of $1.6 million and $6.1 million, respectively, during the three and nine months ended September 30, 2018. Higher ARPU was driven primarily by rate plan increases. The blend of subscribers in the SPOT base also impacts ARPU. For instance, rate plans for new subscribers activating our SPOT Gen3 and SPOT X™ devices are higher than our current blended ARPU, whereas SPOT Trace subscribers activate on rate plans lower than current ARPU levels. The average number of SPOT subscribers increased 1% and 3%, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in 2017 driven by sustained levels of gross subscriber activations and lower churn. The increase in our average SPOT subscriber base contributed $0.1 million and $0.8 million, respectively, for the three and nine months ended September 30, 2018, to the total SPOT service revenue increase.

Simplex service revenue increased 22% and 26% for the three and nine months ended September 30, 2018 compared to the same periods in 2017 due to increases in both ARPU and average subscribers in the respective periods. The increase in ARPU contributed $0.2 million and $1.0 million, respectively, and the increase in average subscribers contributed $0.4 million and $1.0 million, respectively, to higher Simplex service revenue during the three and nine months ended September 30, 2018. Expansion into new markets, increased usage and price increases drove the increase in Simplex service revenue.

Other service revenue decreased $0.2 million and $0.4 million, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in 2017. These decreases were driven primarily by the timing and amount of revenue we recognized related to government contracts.

Subscriber Equipment Sales

Revenue from Duplex equipment sales decreased $0.3 million and $0.7 million, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in 2017. The decrease during both periods was due to a decline in the volume and pricing of our GSP-1700 phones and related accessories sold as we continue to deplete our remaining inventory. The decrease in revenue from GSP-1700 devices was offset partially by sales of Sat-Fi2™, our new second-generation Duplex device, which launched in April 2018. Sales of this device were slower than expected as we focus on improving usability and solving mass production issues.

Revenue from SPOT equipment sales increased $1.5 million and $1.8 million, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in 2017. These increases were driven primarily by sales of our new SPOT X™ product, which launched in May 2018, as well as changes in sales promotions, which impacted the selling prices and volume of our Gen3 and Trace devices. Sales of SPOT X™ were negatively impacted by certain production issues that we expect to resolve in the near future.

Revenue from Simplex equipment sales increased $0.1 million and $1.8 million, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in 2017. In connection with the launch of our new SmartOne Solar™ device in March 2018, we recognized $1.2 million and $3.3 million of revenue during the three and nine months ended September 30, 2018, respectively. During the third quarter of 2017, we sold $1.3 million of our SmartOne tracking devices to support disaster recovery efforts related to hurricane activity last year. This activity did not recur in 2018.

Operating Expenses

Total operating expenses increased $12.5 million, or 30%, to $53.7 million for the three months ended September 30, 2018 from $41.2 million for the same period in 2017. Total operating expenses increased $5.6 million, or 5%, to $127.1 million for the nine months ended September 30, 2018 from $121.5 million for the same period in 2017. The increase in total operating expenses for both periods was driven primarily by an increase in depreciation, amortization and accretion expense as well as legal and advisor costs incurred related to the Merger Agreement and associated litigation. Offsetting the increase in operating expenses for the nine month period was a $20.5 million revision to our contract termination charge with Thales (see further discussion below).

Cost of Services

Cost of services increased $0.1 million and $0.7 million, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in 2017.

For the three and nine months ended September 30, 2018, the increase in cost of services was driven by higher personnel and contractor costs of $0.2 million for both periods due to the timing of capital projects and an increase in maintenance, support costs and related technology amortization related to our ground network of $0.2 million and $1.4 million, respectively; these increases were offset by lower research and development costs of $0.4 million and $1.0 million, respectively, due to the release of new products in 2018 in all of our core equipment categories. Other smaller items contributed to the remaining change for both periods.

Cost of Subscriber Equipment Sales

Cost of subscriber equipment sales increased $1.5 million and $3.0 million, respectively, for the three and nine months ended September 30, 2018 from the same periods in 2017. These increases are generally consistent with the increases in revenue generated from subscriber equipment sales. Contributing to nearly all of the increase are costs related to sales of two new products launched earlier this year, our SPOT X™ and SmartOne Solar™.

Marketing, General and Administrative

Marketing, general and administrative expenses increased $5.5 million and $13.8 million, respectively, for three and nine months ended September 30, 2018 compared to the same periods in 2017. The increase in both periods was driven by costs incurred for consultants and other advisors related to strategic opportunities, including the proposed merger (and related litigation) discussed in Note 8: Related Party Transactions and Note 7: Contingencies, the monetization of our spectrum and other business development efforts. In total, for the three and nine months ended September 30, 2018, these items increased $4.2 million and $11.1 million, respectively, of which the majority was directly associated with the proposed merger and subsequent litigation. Increases in subscriber acquisition costs of $0.4 million and $1.2 million, respectively, also contributed to the increase in marketing, general and administrative expenses for the three and nine month periods due to the timing of certain promotions and event sponsorships as we continue to expand our global consumer footprint. Finally, we also had an increase in personnel costs and stock based compensation for the three and nine months of $0.5 million and $1.2 million, respectively, resulting from increased headcount particularly at the senior management level, as well as an increase bad debt expense of $0.3 million for both periods. Other smaller items contributed to the remaining change.

Revision to contract termination charge

In May 2018, the statute of limitations for Thales to enforce the arbitration award pursuant to the Federal Arbitration Act expired. Accordingly, we believe that payment of the contract termination charge is not probable, and we removed this liability from our condensed consolidated balance sheet during the second quarter of 2018, resulting in a reduction in operating expenses of €17.5 million, or $20.5 million. See Note 7: Contingencies for further discussion.

Depreciation, Amortization and Accretion

Depreciation, amortization and accretion expense increased $5.3 million and $8.6 million, respectively, for the three and nine months ended September 30, 2018 from the same periods in 2017.

During 2018, we placed into service approximately $220.9 million of construction in progress (including capitalized interest) associated with our next-generation upgrades to our ground infrastructure. The costs placed into service represent primarily the gateways capable of supporting commercial traffic from the recently launched Sat-Fi2™, the first device to work on our upgraded network. We expect depreciation expense for these assets to be approximately $4.4 million per quarter for an estimated life of fifteen years.

As of September 30, 2018, we had $16.5 million in construction in progress related to the remaining costs (including capitalized interest) associated with our next-generation upgrades to our ground infrastructure in certain regions around the world. We will place these assets into service when they are deployed.

Other Income (Expense)

Loss on Extinguishment of Debt

We recorded a non-cash loss on extinguishment of debt of $6.3 million during 2017 due to the conversion of a significant portion of our 2013 8.00% Notes. During the third quarter of 2017, holders of $16.0 million principal amount of 2013 8.00% Notes converted their notes, resulting in the issuance of 26.4 million shares of our common stock. The fair value of these shares exceeded the derivative liability and principal amount written off due to the conversions, resulting in a loss on extinguishment of debt. See Note 3: Long-Term Debt and Other Financing Arrangements, Note 4: Derivatives and Note 5: Fair Value Measurements in our 2017 Annual Report for further discussion. Similar transactions did not occur in 2018.

Gain on Equity Issuance

Gain on equity issuance was $2.7 million during 2017. There was no gain or loss on equity issuance for the three and nine months ended September 30, 2018. Gains and losses on equity issuance are driven primarily by downside protection features included in certain of our contracts relating to payment of consideration with our common stock in lieu of cash.

As discussed in Note 6: Commitments in our 2017 Annual Report, we had an agreement with Hughes whereby it exercised its right to receive a pre-payment of certain payment milestones in shares of our common stock at a 7% discount to the market value in lieu of cash. In connection with this agreement, we provided Hughes downside protection through June 30, 2017. In April 2017, Hughes sold all remaining shares of our common stock recognizing the required proceeds under the agreement. As a result of changes in the estimated value of this option between initial issuance and settlement in April 2017, we recorded non-cash gains and losses during each reporting period. This liability is no longer outstanding.

Interest Income and Expense

Interest income and expense, net, increased $4.4 million during each of the three and nine months ended September 30, 2018, compared to the same periods in 2017.

For the three months ended September 30, 2018, the increase in interest expense, net, was driven by a reduction in capitalized interest of $4.6 million due primarily to a reduction in our construction in progress balance related to our ground network, which results in lower interest eligible to be capitalized. As discussed above, we placed approximately $220.9 million of assets into service during 2018, which decreased our construction in progress balance. Gross interest costs increased $0.1 million due to an increase in interest expense on our Facility Agreement from a higher LIBOR-based interest rate and a higher principal balance outstanding on our Loan Agreement with Thermo offset by lower interest related to our 2013 8.00% Notes as the principal balance decreased significantly due to conversions in 2017. This increase in interest expense was offset by an increase in interest income of $0.3 million, resulting primarily from a higher balance in our restricted cash account.

For the nine months ended September 30, 2018, the increase in interest expense, net, was driven by a reduction in capitalized interest of $5.6 million offset by a decrease in gross interest costs of $0.4 million and an increase in interest income of $0.8 million. Both interest expense and income were affected by the items discussed above.

Derivative Gain

Derivative gain was $39.1 million for the three months ended September 30, 2018, compared to a $78.8 million for the same period in 2017 and was $145.9 million for the nine months ended September 30, 2018, compared to $4.9 million for the same period in 2017.

We recognize gains or losses due to the change in the value of certain embedded features within our debt instruments that require standalone derivative accounting. Although fluctuation in our stock price is the most significant cause for the change in value of these derivative instruments, other inputs impact the value including stock price volatility, discount rate, maturity date and changes in the principal amount of notes outstanding. See Note 6: Fair Value Measurements to our condensed consolidated financial statements for further discussion of the computation of the fair value of our derivatives.

Gain on Legal Settlement

In May 2018, we concluded the settlement of a business economic loss claim in which we will receive proceeds of $7.4 million, net of legal fees. The cash proceeds will be received in equal installments in January 2019 and January 2020. During the second quarter of 2018, we recorded $6.8 million, the present value of such proceeds, as other income in our condensed consolidated statement of operations. See Note 7: Contingencies for further discussion.

Other

Other income (loss) fluctuated by $1.7 million to income of $1.3 million for the three months ended September 30, 2018 from a loss of $0.4 million for the same period in 2017 and remained flat at a loss of $2.7 million for both the nine months ended September 30, 2018 and 2017. Changes in other income (loss) are due primarily to foreign currency gains and losses recognized during the respective periods given the significant financial statement items we have denominated in foreign currencies, including primarily the Brazilian real, euro and Canadian dollar. We also record the non-operating components of net periodic benefit cost to other income (loss), which did not fluctuate significantly during the respective periods.

Liquidity and Capital Resources

Overview

Our principal liquidity requirements include paying our debt service obligations and funding our operating costs. Our principal sources of liquidity include cash on hand and cash flows from operations. We expect sources of liquidity to include funds from other debt or equity financings that have not yet been arranged. See below for further discussion. See Part I, Item 1A. Risk Factors in our 2017 Annual Report for a description of risks, some of which are beyond our control, affecting our ability to fulfill our liquidity requirements.

As of September 30, 2018, we held cash and cash equivalents of $20.5 million and restricted cash of $52.9 million, consisting of the balance in our debt service reserve account under the Facility Agreement. The Facility Agreement restricts the use of these funds to making principal and interest payments under the Facility Agreement. We also expect a certain undetermined amount of cash to be required to be held as collateral to address any liability arising from potential charge-backs to our credit card processor given the growth in both volume and amount of our annual service subscriptions, among other factors. We are evaluating our options for amount and timing of collateral and alternative credit card processing vendors. If such collateral is required, we would need to obtain a waiver under the Facility Agreement.

As of December 31, 2017, we held cash and cash equivalents of $41.6 million and had $63.6 million in restricted cash.

The carrying amount of our current and long-term debt outstanding was $87.7 million and $407.6 million, respectively, at September 30, 2018, compared to $79.2 million and $434.7 million, respectively, at December 31, 2017. The current portion of our debt outstanding at these dates represents primarily principal payments under our Facility Agreement scheduled to occur within 12 months. At September 30, 2018, this current debt balance also included the total outstanding amount of our 2013 8.00% Notes because we currently intend on redeeming such notes in the near future if our stock price exceeds the conversion price of the notes. Accordingly, any such redemption is expected to result in the conversion of the notes by the holders in lieu of a cash payment by us at par value. The decrease in our total debt balance was due primarily to a principal payment of $38.9 million made under the Facility Agreement in June 2018. This was offset partially by a higher carrying value of the Loan Agreement with Thermo due to interest accruing on that debt and a higher carrying value of the Facility Agreement due to accretion of the debt discounts and debt financing costs.

Indebtedness and Available Credit

Facility Agreement

We entered into the Facility Agreement in 2009, which was amended and restated in July 2013, August 2015 and June 2017. The Facility Agreement is scheduled to mature in December 2022.

The Facility Agreement contains customary events of default and requires that we satisfy various financial and non-financial covenants. The compliance calculations of the financial covenants of the Facility Agreement permit us to include certain cash funds we receive from the issuance of our common stock and/or subordinated indebtedness before or immediately after the calculation date. We refer to these funds as "Equity Cure Contributions" and we may include them in calculating compliance with financial covenants through December 2019, subject to the conditions set forth in the Facility Agreement. If we violate any covenants and are unable to obtain a sufficient Equity Cure Contribution or a waiver, or are unable to make payments to satisfy our debt obligations under the Facility Agreement and are unable to obtain a waiver, we would be in default under the Facility Agreement, and the lenders could accelerate payment of the indebtedness. The acceleration of our indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-acceleration provisions. We anticipate that we will need an Equity Cure Contribution to maintain compliance with financial covenants under the Facility Agreement for the measurement period ending December 31, 2018. The source of funds for any needed Equity Cure Contribution has not yet been fully arranged. As of September 30, 2018, we were in compliance with the covenants of the Facility Agreement.

The Facility Agreement also requires that we maintain a debt service reserve account that is pledged to secure all of our obligations under the Facility Agreement. We may use the debt service reserve account funds only to make principal and interest payments under the Facility Agreement. The balance in the debt service reserve account must equal the total amount of principal and interest payable on the next payment date. As of September 30, 2018, the balance in the debt service reserve account was $52.9 million and classified as restricted cash on our condensed consolidated balance sheets.

Our indebtedness under the Facility Agreement bears interest at a floating rate of LIBOR plus 3.75% through June 2019, increasing by an additional 0.5% each year thereafter to a maximum rate of LIBOR plus 5.75%. Interest on the Facility Agreement is payable semi-annual in arrears in June and December of each calendar year. Ninety-five percent of our obligations under the Facility Agreement are guaranteed by Bpifrance Assurance Export S.A.S. ("BPIFAE") (formerly COFACE). Our obligations under the Facility Agreement are guaranteed on a senior secured basis by all of our domestic subsidiaries and are secured by a first priority lien on substantially all of our assets and our domestic subsidiaries (other than their FCC licenses), including patents and trademarks, 100% of the equity of our domestic subsidiaries and 65% of the equity of certain foreign subsidiaries.

See Note 4: Long-Term Debt and Other Financing Arrangements to our condensed consolidated financial statements for further discussion of the Facility Agreement.

Thermo Agreements

We have an amended and restated loan agreement with Thermo (the “Loan Agreement”). Our obligations to Thermo under the Loan Agreement are subordinated to all of our obligations under the Facility Agreement. Amounts outstanding under the Loan Agreement accrue interest at 12% per annum, which we capitalize and add to the outstanding principal in lieu of cash payments. We will make payments to Thermo only when permitted by the Facility Agreement. Principal and interest under the Loan Agreement become due and payable six months after the obligations under the Facility Agreement have been paid in full, or earlier if there is a change in control or any acceleration of the maturity of the loans under the Facility Agreement occurs. As of September 30, 2018, the principal amount outstanding was $116.1 million, including $72.6 million of interest that had accrued since 2009 under to the Loan Agreement.

See Note 4: Long-Term Debt and Other Financing Arrangements to our condensed consolidated financial statements for further discussion of the Thermo Agreements.

8.00% Convertible Senior Notes Issued in 2013

Our 2013 8.00% Notes are convertible into shares of our common stock at a conversion price of $0.73 (as adjusted) per share of common stock. As of September 30, 2018, the principal amount outstanding of the 2013 8.00% Notes was $1.4 million. The 2013 8.00% Notes will mature on April 1, 2028, subject to various call and put features, as discussed further below. Interest on the 2013 8.00% Notes is payable semi-annually in arrears on April 1 and October 1 of each year. We pay interest in cash at a rate of 5.75% per annum and by issuing additional 2013 8.00% Notes at a rate of 2.25% per annum.

A holder of 2013 8.00% Notes has the right, at the holder’s option, to require us to purchase some or all of the 2013 8.00% Notes on each of April 1, 2018 and April 1, 2023 at a price equal to the principal amount of the 2013 8.00% Notes to be purchased plus accrued and unpaid interest. The holders did not exercise this option on April 1, 2018.

The indenture governing the 2013 8.00% Notes provides for customary events of default. If there is an event of default, the Trustee may, at the direction of the holders of 25% or more in aggregate principal amount of the 2013 8.00% Notes, accelerate the maturity of the 2013 8.00% Notes. As of September 30, 2018, we were in compliance under the terms of the 2013 8.00% Notes and the Indenture.

See Note 4: Long-Term Debt and Other Financing Arrangements to our condensed consolidated financial statements for further discussion of the 2013 8.00% Notes.

Cash Flows for the nine months ended September 30, 2018 and 2017

The following table shows our cash flows from operating, investing and financing activities (in thousands):

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Net cash provided by operating activities	$19,768	$ 16,628
Net cash used in investing activities	(13,181)	(13,569)
Net cash provided by (used in) financing activities	(38,538)	2,739
Effect of exchange rate changes on cash, cash equivalents and restricted cash	68	216
Net increase (decrease) in cash, cash equivalents and restricted cash	$(31,883)	$ 6,014

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Cash Flows Provided by Operating Activities

Cash provided by operations includes primarily cash receipts from subscribers related to the purchase of equipment and satellite voice and data services. We use cash in operating activities primarily for personnel costs, inventory purchases and other general corporate expenditures. Net cash provided by operating activities during the nine months ended September 30, 2018 was $19.8 million compared to $16.6 million during the same period in 2017. This increase was due to higher net income, after adjusting for non-cash items, offset partially by unfavorable changes in certain operating assets and liabilities.

Cash Flows Used in Investing Activities

Cash used in investing activities was $13.2 million for the nine months ended September 30, 2018 compared to $13.6 million for the same period in 2017. This decrease was driven primarily by lower second-generation network additions in 2018 as we placed into service the portion of the next-generation ground component (including associated developed technology and software upgrades) currently capable of supporting commercial traffic. This decrease was offset partially by higher miscellaneous property and equipment additions during 2018 as we incurred costs to bring our newly developed products into production, including software and other back office efforts.

Cash Flows Provided by (Used in) Financing Activities

Cash used in financing activities was $38.5 million for the nine months ended September 30, 2018 compared to cash provided by financing activities of $2.7 million for the same period in 2017. The change in financing activities was driven primarily by proceeds from sales of common stock in 2017 that did not recur in 2018; offset slightly by lower debt service payments year over year.

Contractual Obligations and Commitments

There have been no significant changes to our contractual obligations and commitments since December 31, 2017.

Off-Balance Sheet Transactions

We have no material off-balance sheet transactions.

Recently Issued Accounting Pronouncements

For a discussion of recently issued accounting guidance and the expected impact that the guidance could have on our condensed consolidated financial statements, see Recently Issued Accounting Pronouncements in Note 1: Basis of Presentation to our condensed consolidated financial statements in Part 1, Item 1 of this Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our services and products are sold, distributed or available in over 120 countries. Our international sales are denominated primarily in Canadian dollars, Brazilian reais and euros. In some cases, insufficient supplies of U.S. currency may require us to accept payment in other foreign currencies. We reduce our currency exchange risk from revenues in currencies other than the U.S. dollar by requiring payment in U.S. dollars whenever possible and purchasing foreign currencies on the spot market when rates are favorable. We currently do not purchase hedging instruments to hedge foreign currencies. We are obligated to enter into currency hedges with the lenders to the Facility Agreement no later than 90 days after any fiscal quarter during which more than 25% of revenues is denominated in a single currency other than U.S. or Canadian dollars. Otherwise, we cannot enter into hedging agreements other than interest rate cap agreements or other hedges described above without the consent of the agent for the Facility Agreement, and with that consent the counterparties may only be the lenders to the Facility Agreement.

We also have operations in Venezuela. Since 2010, the Venezuelan government's frequent modifications to its currency laws have caused the bolivar to devalue significantly and resulted in Venezuela being considered a highly inflationary economy. We continue to monitor the significant uncertainty surrounding current Venezuela exchange mechanisms.

Our interest rate risk arises from our variable rate debt under our Facility Agreement, under which loans bear interest at a floating rate based on the LIBOR. In order to reduce the interest rate risk, we completed an arrangement with the lenders under the Facility Agreement to limit the interest to which we are exposed. The interest rate cap provides limits on the 6-month LIBOR rate (Base Rate) used to calculate the coupon interest on outstanding amounts on the Facility Agreement to be capped at 5.50% should the Base Rate not exceed 6.5%. Should the Base Rate exceed 6.5%, our Base Rate will be 1% less than the then 6-month

LIBOR rate. We have $428.3 million in principal outstanding under the Facility Agreement. A 1.0% change in interest rates would result in a change to interest expense of approximately $4.3 million annually.

See Note 6: Fair Value Measurements in our condensed consolidated financial statements for discussion of our financial assets and liabilities measured at fair market value and the market factors affecting changes in fair market value of each.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 as of September 30, 2018, the end of the period covered by this Report. This evaluation was based on the guidelines established in Internal Control - Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that as of September 30, 2018 our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We believe that the condensed consolidated financial statements included in this Report fairly present, in all material respects, our condensed consolidated financial position and results of operations for the nine months ended September 30, 2018.

(b) Changes in internal control over financial reporting.

As of September 30, 2018, our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated our internal control over financial reporting. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that no changes in our internal control over financial reporting occurred during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

For a description of our material pending legal and regulatory proceedings and settlements, see Note 7: Contingencies in our Condensed Consolidated Financial Statements in Part I, Item 1 of this Report.

Item 1A. Risk Factors.

You should carefully consider the risks described in this Report and all of the other reports that we file from time to time with the SEC, in evaluating and understanding us and our business. Additional risks not presently known or that we currently deem immaterial may also impact our business operations and the risks identified in this Report may adversely affect our business in ways we do not currently anticipate. Our financial condition or results of operations also could be materially adversely affected by any of these risks. There have been no material changes to our risk factors disclosed in Part I. Item 1A. "Risk Factors" of our 2017 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not Applicable

Item 3. Defaults upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not Applicable

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
10.1*	Termination of Agreement and Plan of Merger (Exhibit 10.1 to Form 8-K filed August 1, 2018)
31.1	Section 302 Certification of the Principal Executive Officer
31.2	Section 302 Certification of the Principal Financial Officer
32.1	Section 906 Certification of the Principal Executive Officer
32.2	Section 906 Certification of the Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

* means incorporated by reference from Exhibit to Form 8-K filed August 1, 2018.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			GLOBALSTAR, INC.
Date:	November 1, 2018	By:	/s/ David B. Kagan
			David B. Kagan
			Chief Executive Officer (Principal Executive Officer)
			/s/ Rebecca S. Clary
			Rebecca S. Clary
			Chief Financial Officer (Principal Financial Officer)