

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 (I.R.S. Employer Identification No.)

Incorporation or Organization)

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

Smaller reporting company

(Do not check if a 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.

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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,	September 30,	September 30,	September 30,
	2018	2017	2018	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.

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)

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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.

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

	Nine Months Ended	
	September 30,	September 30,
	2018	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)
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)	23,066	(1,475,206)

Disaggregation of Revenue

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	September 30, 2017 (1)	September 30, 2017 (1)	September 30, 2017 (1)	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 September 30, 2018		Nine Months Ended September 30, 2018	
	September 30, 2017 (1)	September 30, 2017 (1)	September 30, 2017 (1)	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

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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 so 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.

Holdes 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):

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	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)

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).

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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		Total Balance
	(Level 1) (Level 2)	(Level 3)	
Compound embedded derivative with the 2013 8.00% Notes	—	Ø617	Ø617
Compound embedded derivative with the Loan Agreement with Thermo	—	Ø81,424	