

Globalstar, Inc.
Form 10-Q
August 09, 2012

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 June 30, 2012

OR

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

For the transition period from to

Commission file number 001-33117

GLOBALSTAR, INC.

(Exact Name of Registrant as Specified in Its Charter)

(Do not check if a smaller reporting company)

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

As of July 27, 2012, 301,610,812 shares of voting common stock and 106,767,684 shares of nonvoting common stock were outstanding. Unless the context otherwise requires, references to common stock in this Report mean Registrant's voting common stock.

GLOBALSTAR, INC.

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GLOBALSTAR, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue:				
Service revenues	\$ 14,150	\$ 13,377	\$ 26,777	\$ 27,576
Subscriber equipment sales	5,831	5,622	9,942	9,677
Total revenue	19,981	18,999	36,719	37,253
Operating expenses:				
Cost of services (exclusive of depreciation, amortization, and accretion shown separately below)	5,797	7,291	11,156	14,353
Cost of subscriber equipment sales	3,701	3,667	6,425	6,450
Cost of subscriber equipment sales – reduction in the value of inventory	49	331	298	422
Marketing, general, and administrative	8,763	11,572	17,284	21,754
Reduction in the value of long-lived assets	7,139	161	7,218	446
Contract termination charge	22,048	—	22,048	—
Depreciation, amortization, and accretion	15,888	12,795	30,623	23,406
Total operating expenses	63,385	35,817	95,052	66,831
Loss from operations	(43,404)	(16,818)	(58,333)	(29,578)
Other income (expense):				
Interest income and expense, net of amounts capitalized	(3,781)	(1,155)	(6,831)	(2,367)
Derivative gain	20,432	3,861	13,911	10,296
Other	(632)	125	(500)	1,304
Total other income	16,019	2,831	6,580	9,233
Loss before income taxes	(27,385)	(13,987)	(51,753)	(20,345)
Income tax expense	148	81	305	189
Net loss	\$(27,533)	\$(14,068)	\$(52,058)	\$(20,534)
Loss per common share:				
Basic	\$(0.07)	\$(0.05)	\$(0.14)	\$(0.07)
Diluted	(0.07)	(0.05)	(0.14)	(0.07)
Weighted-average shares outstanding:				
Basic	379,433	294,963	368,482	294,013
Diluted	379,433	294,963	368,482	294,013
Comprehensive loss	\$(27,443)	\$(14,321)	\$(51,509)	\$(20,541)

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) June 30, 2012	(Audited) December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$4,820	\$ 9,951
Restricted cash	700	—
Accounts receivable, net of allowance of \$6,788 and \$7,296, respectively	11,781	12,393
Inventory	41,154	41,848
Prepaid expenses and other current assets	12,972	5,281
Total current assets	71,427	69,473
Property and equipment, net	1,231,391	1,217,718
Restricted cash	46,776	46,776
Deferred financing costs	50,789	53,482
Advances for inventory	9,158	9,158
Intangible and other assets, net	7,543	23,798
Total assets	\$ 1,417,084	\$ 1,420,405
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 83,755	\$ —
Accounts payable, including contractor payables of \$23,750 and \$32,275, respectively	31,983	47,808
Accrued contract termination charge	22,048	—
Accrued expenses	37,297	28,806
Payables to affiliates	170	378
Deferred revenue	15,019	14,588
Total current liabilities	190,272	91,580
Long-term debt, less current maturities	655,208	723,888
Employee benefit obligations	7,375	7,407
Derivative liabilities	18,689	38,996
Deferred revenue	7,797	7,295
Other non-current liabilities	16,039	17,444
Total non-current liabilities	705,108	795,030

Commitments and contingences (Notes 8 and 9)

Stockholders' equity:

Preferred Stock of \$0.0001 par value; 100,000,000 shares authorized and none issued and outstanding at June 30, 2012 and December 31, 2011:

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Series A Preferred Convertible Stock of \$0.0001 par value, one share authorized and none issued and outstanding at June 30, 2012 and December 31, 2011	—	—
Voting Common Stock of \$0.0001 par value; 865,000,000 shares authorized; 301,610,812 and 297,175,777 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	30	30
Nonvoting Common Stock of \$0.0001 par value. 135,000,000 shares authorized; 106,767,684 and 55,881,512 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	11	5
Additional paid-in capital	831,996	792,584
Accumulated other comprehensive loss	(2,551)	(3,100)
Retained deficit	(307,782)	(255,724)
Total stockholders' equity	521,704	533,795
Total liabilities and stockholders' equity	\$ 1,417,084	\$ 1,420,405

See accompanying notes to unaudited interim condensed consolidated financial statements.

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

	Six Months Ended	
	June 30, 2012	June 30, 2011
Cash flows provided by (used in) operating activities:		
Net loss	\$(52,058)	\$(20,534)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation, amortization, and accretion	30,623	23,406
Change in fair value of derivative assets and liabilities	(13,911)	(10,296)
Stock-based compensation expense	394	1,554
Amortization of deferred financing costs	1,673	1,798
Loss on equity method investment	210	210
Noncash interest expense	2,884	—
Impairment of long-lived assets	7,218	—
Contract termination charge	22,048	—
Foreign currency and other, net	1,586	1,156
Changes in operating assets and liabilities:		
Accounts receivable	202	(2,920)
Inventory	317	964
Prepaid expenses and other current assets	891	159
Other assets	146	(996)
Accounts payable and accrued expenses	(933)	(412)
Payables to affiliates	(208)	(530)
Other non-current liabilities	(540)	858
Deferred revenue	1,366	98
Net cash provided by (used in) operating activities	1,808	(5,485)
Cash flows used in investing activities:		
Second-generation satellites, ground and related launch costs	(33,562)	(57,907)
Property and equipment additions	(195)	(1,242)
Investment in businesses	(200)	(500)
Restricted cash	(700)	(5,579)
Net cash used in investing activities	(34,657)	(65,228)
Cash flows from financing activities:		
Borrowings from Facility Agreement	5,008	16,330
Proceeds from contingent equity agreement	23,000	—
Proceeds from issuance of common stock and exercise of warrants	100	525

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Proceeds from the issuance of 5.0% convertible notes	—	38,000
Proceeds from the contribution to the debt service reserve account	—	7,643
Payment of deferred financing costs	(250)	(1,044)
Net cash from financing activities	27,858	61,454
Effect of exchange rate changes on cash	(140)	330
Net (decrease) increase in cash and cash equivalents	(5,131)	(8,929)
Cash and cash equivalents, beginning of period	9,951	33,017
Cash and cash equivalents, end of period	\$4,820	\$24,088
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$16,894	\$17,033
Income taxes	144	65
Supplemental disclosure of non-cash financing and investing activities:		
Reduction in accrued second-generation satellites and ground costs	5,039	8,788
Reduction in capitalized accrued interest for second-generation satellites and ground costs	2,473	4,872
Capitalization of the accretion of debt discount and amortization of prepaid finance costs	6,334	11,809
Payments made in Common Stock	933	774
Reduction in assets and liabilities due to note conversions	—	1,974
Fair value adjustment due to warrant conversions	420	564
Conversion of contingent equity account derivative liability to equity	5,853	5,955
Value of warrants issued in connection with the contingent equity account loan fee	2,226	8,318
Recognition of a beneficial conversion feature on long-term debt	—	17,100
Value of warrants issued in connection with raising capital and debt	—	8,081
Capitalized interest paid in common stock on the 5% and 8% Notes	2,874	1,799

See accompanying notes to unaudited interim condensed consolidated financial statements.

GLOBALSTAR, INC.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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

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

All significant intercompany transactions and balances have been eliminated in the consolidation. In the opinion of management, such information includes all adjustments, consisting of normal recurring adjustments, that are necessary for a fair presentation of the Company’s condensed consolid