

Globalstar, Inc.
Form 10-Q
May 12, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

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 March 31, 2008

OR

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

For the transition period from to

GLOBALSTAR, INC.

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(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

41-2116508

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

**461 South Milpitas Blvd.
Milpitas, California 95035**

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(Address of principal executive offices and zip code)

(408) 933-4000

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Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting 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 ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date. As of May 6, 2008, there were 112,134,523 shares of \$0.0001 par value Common Stock outstanding.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

GLOBALSTAR, INC.
CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended	
	March 31, 2008	March 31, 2007
Revenue:		
Service revenue	\$ 16,010	\$ 17,466
Subscriber equipment sales	6,124	5,688
Total revenue	22,134	23,154
Operating expenses:		
Cost of services (exclusive of depreciation and amortization shown separately below)	7,475	6,383
Cost of subscriber equipment sales	5,045	3,451
Marketing, general, and administrative	15,748	11,482
Depreciation and amortization	5,418	2,424
Total operating expenses	33,686	23,740
Operating (loss)	(11,552)	(586)
Other income (expense):		
Interest income	1,368	828
Interest expense	(997)	(311)
Interest rate derivative loss	(3,539)	(364)
Other	8,251	1,234
Total other income (expense)	5,083	1,387
Income (loss) before income taxes	(6,469)	801
Income tax expense	166	357
Net income (loss)	\$ (6,635)	\$ 444
Earnings (loss) per common share:		
Basic	\$ (0.08)	\$ 0.01
Diluted	\$ (0.08)	\$ 0.01
Weighted-average shares outstanding:		
Basic	82,448	73,652
Diluted	82,448	73,746

See accompanying notes to unaudited interim consolidated financial statements.

GLOBALSTAR, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)
(Unaudited)

	March 31,	December 31,
	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,466	\$ 37,554
Accounts receivable, net of allowance of \$4,855 (2008) and \$4,177 (2007)	13,070	12,399
Inventory	57,914	54,939
Advances for inventory	9,588	9,769
Deferred tax assets	1,230	1,257
Prepaid expenses and other current assets	7,813	3,262
Total current assets	104,081	119,180
Property and equipment:		
Spare satellites and launch costs	32,118	47,848
Second-generation satellites	242,332	147,998
Globalstar System, net	102,428	84,939
Other property and equipment, net	11,942	9,318
	388,820	290,103
Other assets:		
Restricted cash	135,718	80,871
Deferred tax assets	20,252	20,303
Other assets, net	7,808	2,518
Total assets	\$ 656,679	\$ 512,975
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 19,378	\$ 8,400
Accrued expenses	23,491	17,650
Payables to affiliates	1,286	1,487
Deferred revenue	18,987	19,396
Total current liabilities	63,142	46,933
Borrowings under revolving credit facility	50,000	50,000
Long term debt	100,000	
Employee benefit obligations, net of current portion	1,636	1,779
Other non-current liabilities	34,980	8,719
Total non-current liabilities	186,616	60,498
Ownership equity:		
Preferred Stock, \$0.0001 par value; 100,000 shares authorized, issued and outstanding	none	none
Common Stock, \$0.0001 par value; 800,000 shares authorized, 85,200 shares issued and outstanding at March 31, 2008 and 83,693 shares issued and outstanding at December 31, 2007	9	8
Additional paid-in capital	417,619	407,743
Accumulated other comprehensive income	1,546	3,411
Retained deficit	(12,253)	(5,618)
Total ownership equity	406,921	405,544
Total liabilities and shareholders' equity	\$ 656,679	\$ 512,975

See accompanying notes to unaudited interim consolidated financial statements.

GLOBALSTAR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Three Months Ended	
	March 31, 2008	March 31, 2007
Cash flows from operating activities:		
Net income (loss)	\$ (6,635)	\$ 444
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Deferred income taxes		387
Depreciation and amortization	5,418	2,424
Interest rate derivative loss	3,539	364
Stock-based compensation expense	3,681	245
Loss (gain) on disposal of fixed assets	80	(138)
Provision for bad debts	812	792
Interest income on restricted cash	(1,223)	(469)
Contribution of services	112	87
Amortization of deferred financing costs	4	111
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(1,429)	1,980
Inventory	(5,177)	(10,715)
Advances for inventory	(217)	1,958
Prepaid expenses and other current assets	588	64
Other assets	7	247
Accounts payable	(198)	(8,931)
Payables to affiliates	(336)	(2,955)
Accrued expenses and employee benefit obligations	(495)	(2,923)
Deferred revenue	(111)	(628)
Net cash from operating activities	(1,580)	(17,656)
Cash flows from investing activities:		
Spare and second-generation satellites and launch costs	(67,499)	(29,482)
Property and equipment additions	(2,660)	(786)
Proceeds from sale of property and equipment	146	263
Cash acquired on purchase of subsidiary	1,839	
Restricted Cash	(41,148)	
Net cash from investing activities	(109,322)	(30,005)
Cash flows from financing activities:		
Borrowings of long-term debt	100,000	
Proceeds from Thermo Funding under the irrevocable standby stock purchase agreement		24,255
Deferred financing cost payments		(500)
Payments related to derivative margin account	(4,000)	
Net cash from financing activities	96,000	23,755
Effect of exchange rate changes on cash	(8,186)	(373)
Net decrease in cash and cash equivalents	(23,088)	(24,279)
Cash and cash equivalents, beginning of period	37,554	43,698
Cash and cash equivalents, end of period	\$ 14,466	\$ 19,419
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 1,646	\$ 282
Income taxes	\$ 56	\$ 50
Supplemental disclosure of non-cash financing and investing activities:		
Conversion of redeemable Common Stock to Common Stock	\$	\$ 1,249

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Accrued launch costs and second-generation satellites costs	\$	28,687	\$	4,422
Capitalization of interest for spare and second-generation satellites and launch costs	\$	1,862	\$	
Fair value of assets acquired on purchase of subsidiary	\$	19,928	\$	
Fair value of liabilities assumed on purchase of subsidiary	\$	13,211	\$	

See accompanying notes to unaudited interim consolidated financial statements.

GLOBALSTAR, INC.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1: The Company and Summary of Significant Accounting Policies

Nature of Operations

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

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

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

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. These unaudited interim consolidated financial statements include the accounts of Globalstar and its majority owned or otherwise controlled subsidiaries. All significant intercompany transactions and balances have been eliminated in the consolidation. In the opinion of management, such information includes all adjustments, consisting of normal recurring adjustments, that are necessary for a fair presentation of the Company's consolidated financial position, results of operations, and cash flows for the periods presented. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the full year or any future period. Globalstar's results of operations are subject to seasonal usage changes. The months of April through October are typically peak months for service revenues and equipment sales. Government customers in North America tend to use Globalstar's services during summer months, often in support of relief activities after events such as hurricanes, forest fires and other natural disasters.

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

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

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

Other income (expense) includes foreign exchange transaction gains of \$8.2 million and \$1.2 million for the three months ended March 31, 2008 and 2007, respectively.

Recent Accounting Pronouncements

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

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

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

Note 2: Basic and Diluted Earnings Per Share

The Company applies the provisions of Statement of Financial Accounting Standard No. 128, "Earnings Per Share" (SFAS 128), which requires companies to present basic and diluted earnings per share. Basic earnings per share is computed based on the weighted-average number of shares of Common Stock outstanding during the period. Common Stock equivalents are included in the calculation of diluted earnings per share only when the effect of their inclusion would be dilutive.

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

Three Months Ended March 31, 2008

Three Months Ended March 31, 2007

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	Income (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per-Share Amount	Income (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per-Share Amount
Basic earnings (loss) per common share						
Net income						
(loss)	\$ (6,635)	82,448	\$ (0.08)	\$ 444	73,652	\$ 0.01
Effect of Dilutive Securities						
Stock Options to						
Director					93	
Unvested						
restricted stock					1	
Diluted earnings (loss) per common share	\$ (6,635)	82,448	\$ (0.08)	\$ 444	73,746	\$ 0.01

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For the three months ended March 31, 2008, diluted net loss per share of Common Stock is the same as basic net loss per share of Common Stock, because the effects of potentially dilutive securities are anti-dilutive.

Note 3: Acquisitions

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

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

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

Note 4: Property and Equipment

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

	March 31, 2008	December 31, 2007
Globalstar System:		
Space segment	\$ 100,868	\$ 85,142
Ground segment	27,801	21,530
Second-generation satellites	242,332	147,998
Spare satellites and launch costs	32,118	47,848
Furniture and office equipment	14,964	14,417
Land and buildings	3,082	2,478
Leasehold improvements	711	717
Construction in progress	3,182	1,132

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	425,058	321,262
Accumulated depreciation	(36,238)	(31,159)
	\$ 388,820	\$ 290,103

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

On November 30, 2006, the Company entered into a contract with Thales Alenia Space (formerly known as Alcatel Alenia Space France) to construct 48 low-earth orbit satellites. The total contract price, including subsequent additions is approximately 667.6 million (approximately \$1,006.5 million at a weighted average conversion rate of 1.00 = \$1.5076 at March 31, 2008) including approximately 146.3 million which will be paid by the Company in U.S. dollars at a fixed conversion rate of 1.00 = \$1.2940. The contract requires Thales Alenia Space to commence delivery of satellites in the third quarter of 2009, with deliveries continuing until 2013 unless Globalstar elects to accelerate delivery. At March 31, 2008,

\$126.0 million was held in escrow to secure the Company's payment obligations related to its contract for the construction of its second-generation satellite constellation. Funds that the Company deposits into the escrow account to support this contract will be used to make payments under this contract in the future. At the Company's request, Thales Alenia Space has presented a plan for accelerating delivery of the initial 24 satellites by up to four months. The expected cost of this acceleration will range from approximately \$6.7 million to \$13.4 million (\$10.6 million to \$21.2 million at 1.00 = \$1.5800). In 2007, the Company authorized the first two portions of the Thales four-part sequential plan with an additional cost of \$4.1 million (\$6.5 million at 1.00 = \$1.5800). The Company cannot provide assurances that any of the remaining acceleration will occur.

In March 2007, the Company and Thales Alenia Space entered into an agreement for the construction of the Satellite Operations Control Centers, Telemetry Command Units and In Orbit Test Equipment (collectively, the Control Network Facility) for the Company's second-generation satellite constellation. This agreement complements the second-generation satellite construction contract between Globalstar and Thales Alenia Space for the construction of 48 low-earth orbit satellites and allows Thales Alenia Space to coordinate all aspects of the second-generation satellite constellation project, including the transition of first-generation software and hardware to equipment for the second generation. The total contract price for the construction and associated services is \$9.0 million (approximately \$13.5 million at a weighted average conversion rate of 1.00 = \$1.4965) consisting of \$4.0 million for the Satellite Operations Control Centers, \$3.0 million for the Telemetry Command Units and \$2.0 million for the In Orbit Test Equipment, with payments to be made on a quarterly basis through completion of the Control Network Facility in late 2009. Globalstar has the option to terminate the contract if excusable delays affecting Thales Alenia Space's ability to perform the contract total six consecutive months or at its convenience. If Globalstar terminates the contract, it must pay Thales Alenia Space the lesser of its unpaid costs for work performed by Thales Alenia Space and its subcontractors or payments for the next two quarters following termination. If Thales Alenia Space has not completed the Control Network Facility acceptance review within 60 days of the due date, Globalstar will be entitled to certain liquidated damages. Failure to complete the Control Network Facility acceptance review on or before six months after the due date results in a default by Thales Alenia Space, entitling Globalstar to a refund of all payments, except for liquidated damage amounts previously paid or with respect to items where final delivery has occurred. The Control Network Facility, when accepted, will be covered by a limited one-year warranty. The contract contains customary arbitration and indemnification provisions.

On September 5, 2007, the Company and Arianespace entered into an agreement for the launch of the Company's second-generation satellites and certain pre and post-launch services. Pursuant to the agreement, Arianespace will make four launches of six satellites each, and the Company has the option to require Arianespace to make four additional launches of six satellites each. The total contract price for the first four launches is \$210.0 million. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Capital Expenditures for a schedule of the payments to Arianespace. The anticipated time period for the first four launches ranges from the third quarter of 2009 through the end of 2010 and the optional launches are available from spring 2010 through the end of 2014. Prolonged delays due to postponements by the Company or Arianespace may result in adjustments to the payment schedule.

To augment its existing satellite constellation, the Company successfully launched eight spare satellites in two separate launches of four satellites each on May 29, 2007 and October 21, 2007. The Company no longer has any spare satellites remaining to be launched. As of March 31, 2008, six of the eight spare satellites had been placed into service and were handling call traffic. The remaining two spare satellites are being placed into their desired orbital planes.

As of March 31, 2008, capitalized interest recorded was \$3.9 million. Interest capitalized during the three months ended March 31, 2008 was \$2.9 million. There was no interest capitalized during the three months ended March 31, 2007. Depreciation expense for the three months ended March 31, 2008 and 2007 was \$5.4 million and \$2.4 million, respectively.

Note 5: Payables to Affiliates

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

	March 31, 2008		December 31, 2007	
QUALCOMM	\$	1,136	\$	1,286
Thermo Capital Partners		150		201
	\$	1,286	\$	1,487

Thermo incurs certain general and administrative expenses on behalf of the Company, which are charged to the Company. For the three months ended March 31, 2008 and 2007, total expenses were approximately \$29,000 and \$0,

respectively. For the three months ended March 31, 2008 and 2007, the Company also recorded approximately \$112,000 and \$87,000, respectively, of non-cash expenses related to services provided by two executive officers of Thermo and Globalstar who receive no compensation from Globalstar, which were accounted for as a contribution to capital. The Thermo expense charges are based on actual amounts incurred or upon allocated employee time. Management believes the allocations are reasonable.

Note 6: Other Related Party Transactions

Since 2005, Globalstar issued separate purchase orders for additional phone equipment and accessories under the terms of previously executed commercial agreements with QUALCOMM. Within the terms of the commercial agreements, the Company paid QUALCOMM approximately 7.5% to 25% of the total order as advances for inventory. As of March 31, 2008 and December 31, 2007, total advances to QUALCOMM for inventory were \$9.6 million and \$9.7 million, respectively. As of March 31, 2008 and December 31, 2007, the Company had outstanding commitment balances of approximately \$54.8 million and \$57.0 million, respectively.

As required by the lender under the Company's then-current credit agreement discussed below, the Company executed an agreement with Thermo Funding Company LLC, an affiliate of Thermo (Thermo Funding), to provide Globalstar up to an additional \$200.0 million of equity via an irrevocable standby stock purchase agreement. The irrevocable standby purchase agreement allowed the Company to put up to 12,371,136 shares of its Common Stock to Thermo Funding at a predetermined price of approximately \$16.17 per share when the Company required additional liquidity or upon the occurrence of certain other specified events. Thermo Funding also could elect to purchase the shares at any time. Minority stockholders of Globalstar as of June 15, 2006 who were accredited investors and who received at least thirty-six shares of Globalstar Common Stock as a result of the Old Globalstar bankruptcy will be provided an opportunity to acquire Common Stock on the same terms. By November 2007, Thermo Funding had purchased all the Common Stock subject to the agreement and fully satisfied its commitment.

On August 16, 2006, the Company entered into an amended and restated credit agreement with Wachovia Investment Holdings, LLC, as administrative agent and swingline lender, and Wachovia Bank, National Association, as issuing lender, which was subsequently amended on September 29 and October 26, 2006. On December 17, 2007, Thermo Funding was assigned all the rights (except indemnification rights) and assumed all the obligations of the administrative agent and the lenders under the amended and restated credit agreement and the credit agreement was again amended and restated. The credit agreement as currently in effect provides for a \$50.0 million revolving credit facility and a \$100.0 million delayed draw term loan facility. As of March 31, 2008, the Company has drawn an aggregate of \$50.0 million of the revolving credit facility and \$100.0 million of the delayed draw term loan facility. As of December 31, 2007, the Company had drawn \$50.0 million of the revolving credit facility.

All loans will mature on December 31, 2012. Revolving credit loans bear interest at LIBOR plus 4.25% to 4.75% or the greater of the prime rate or Federal Funds rate plus 3.25% to 3.75%. The delayed draw term loan bears interest at LIBOR plus 6.0% or the greater of the prime rate or Federal Funds rate plus 5.0% and the delayed draw term loan facility bears an annual commitment fee of 2.0% until drawn or terminated. Commitment fees related to the loans, incurred during the three months ended March 31, 2008 and 2007 were \$0.2 million and \$0.6 million, respectively. The revolving credit loan facility bears an annual commitment fee of 0.5% until drawn or terminated. Additional term loans will bear interest at rates to be negotiated. To hedge a portion of the interest rate risk with respect to the delayed draw term loan the Company entered into a five-year interest rate swap agreement. The loans may be prepaid without penalty at any time.

Purchases and other transactions with Affiliates

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

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		Three months ended March 31,			
2008				2007	
QUALCOMM	\$	2,881	\$	12,957	
Other affiliates		1,465		1,903	
Total	\$	4,346	\$	14,860	

Note 7: Income Taxes

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

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

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

Note 8: Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, establishes standards for reporting and displaying comprehensive income and its components in shareholders' equity. Comprehensive income (loss) includes all changes in equity during a period from non-owner sources. The change in accumulated other comprehensive income for all periods presented resulted from foreign currency translation adjustments and minimum pension liability adjustment.

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

		Three months ended March 31,	
	2008		2007
Net income (loss)	\$	(6,635)	\$ 444
Other comprehensive income:			
Foreign currency translation adjustments		(1,865)	(190)
Total comprehensive income (loss)	\$	(8,500)	\$ 254

Note 9: Equity Incentive Plan

The Company's 2006 Equity Incentive Plan (the "Equity Plan") is a broad based, long term retention program intended to attract and retain talented employees and align stockholder and employee interests. Approximately 765,000 restricted stock awards and restricted stock units (including grants to both employees and executives) were granted during the three months ended March 31, 2008. In January 2008, the Company's Board of Directors approved the inclusion of an additional 1,673,858 shares of the Company's Common Stock in the shares available for issuance under the Equity Plan.

Note 10: Litigation

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

On February 9, 2007, the first of three purported class action lawsuits was filed against the Company, its Chief Executive Officer ("CEO") and its Chief Financial Officer ("CFO") in the United States District Court for the Southern District of New York alleging that the Company's registration statement related to its initial public offering ("IPO") in November 2006 contained material misstatements and omissions. The Court consolidated the three cases as *Ladmen Partners, Inc. v. Globalstar, Inc., et al.*, Case No. 1:07-CV-0976 (LAP), and appointed Connecticut Laborers' Pension Fund as lead plaintiff. On August 15, 2007, the lead plaintiff filed its Securities Class Action Consolidated Amended Complaint reasserting claims against the Company and the Company's CEO and CFO, and adding as defendants the three co-lead underwriters of the IPO, Wachovia Capital Markets, LLC, JPMorgan Securities, Inc. and Jefferies & Company, Inc. On November 15, 2007, plaintiffs

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filed a Second Amended Complaint. That complaint, which is what is currently before the Court, cites a drop in the trading price of the Company's Common Stock that followed its filing, on February 5, 2007, of a Current Report on Form 8-K relating in part to changes in the condition of its satellite constellation. It seeks, on behalf of a class of purchasers of the Company's Common Stock who purchased shares in the IPO, recovery of damages under Sections 11 and 15 of the Securities Act of 1933, and rescission under Section 12(a)(2) of the Securities Act of 1933. On February 15, 2008, all of the Defendants filed motions to dismiss the Second Amended Complaint. The Plaintiff's response to these motions was filed on April 15, 2008, and Defendants' reply memorandum is due May 15, 2008. The Company intends to defend the matter vigorously.

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

On April 24, 2007, Mr. Jean-Pierre Barrette filed a motion for Authorization to Institute a Class Action in Quebec, Canada, Superior Court against Globalstar Canada. Mr. Barrette asserts claims based on Quebec law related to his alleged problems with Globalstar Canada's service. The Company moved to disqualify Mr. Barrette because of his association with the law firm representing plaintiffs and to transfer the case to the district of Montreal. The court recently granted the Company's motion for a change of venue, and plaintiff's counsel substituted a new designated representative of the purported class.

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

Note 11: Geographic Information

Revenue by geographic location, presented net of eliminations for intercompany sales, was as follows for the three months ended March 31, 2008 and 2007 (in thousands):

		Three months ended March 31,	
	2008		2007
Service:			
United States	\$	8,330	\$ 9,047
Canada		5,771	6,463
Europe		1,045	946
Central and South America		657	710
Others		207	300

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Total service revenue	16,010	17,466
Subscriber equipment:		
United States	2,545	3,149
Canada	2,328	1,444
Europe	831	842
Central and South America	385	216
Others	35	37
Total subscriber equipment revenue	6,124	5,688
Total revenue	\$ 22,134	\$ 23,154

Note 12: Interest Rate Derivative

In July 2006, in connection with entering into its credit agreement, which provides for interest at a variable rate (Note 6), the Company entered into a five-year interest rate swap agreement. The interest rate swap agreement reflected a \$100.0 million notional amount at a fixed interest rate of 5.64%. The fair value of the interest rate swap agreement as measured on a recurring basis as of March 31, 2008 and December 31, 2007 is presented in the table below.

(In Thousands)	December 31, 2007	Fair Value Measurements at March 31, 2008 using			Total Balance
		Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Other non-current liabilities:					
Interest rate derivative	\$ 5,949	\$	\$ 9,488	\$	\$ 9,488
Total non-current liabilities measured at fair value	\$ 5,949	\$	\$ 9,488	\$	\$ 9,488

The decline in fair value for the three months ended March 31, 2008 and 2007, of approximately \$3.5 million and \$0.4 million, respectively, was charged to Interest rate derivative loss in the accompanying Consolidated Statements of Income.

Note 13: Subsequent Events***Convertible Notes Offering***

On April 10, 2008, the Company entered into an Underwriting Agreement (the Convertible Notes Underwriting Agreement) with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Deutsche Bank Securities Inc. (together, the Convertible Notes Underwriters) relating to the sale by the Company of \$135.0 million aggregate principal amount of its 5.75% Convertible Senior Notes due 2028 (the Notes). Pursuant to the Convertible Notes Underwriting Agreement, the Company granted the Convertible Notes Underwriters a 30-day option to purchase up to an additional \$15.0 million aggregate principal amount of the Notes solely to cover over-allotments, if any.

The sale of the \$135.0 million aggregate principal amount of the Notes was completed on April 15, 2008. The Convertible Notes Underwriters subsequently executed their over-allotment option and purchased an additional \$15.0 million aggregate principal amount of the Notes on May 8, 2008. The sale of the Notes was registered under the Securities Act of 1933, as amended, pursuant to a Registration Statement on Form S-3 (File No. 333-149798), as supplemented by a prospectus supplement and a free-writing prospectus, both dated April 10, 2008.

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The Notes were issued under a Senior Indenture, entered into and dated as of April 15, 2008 (the "Base Indenture"), between the Company and U.S. Bank, National Association, as trustee (the "Trustee"), supplemented by a First Supplemental Indenture with respect to the Notes, entered into and dated as of April 15, 2008 (the "Supplemental Indenture"), between the Company and the Trustee (the Base Indenture and the Supplemental Indenture, collectively, the "Indenture"). Also, pursuant to the Indenture, the Company, the Trustee and U.S. Bank, National Association, as escrow agent (the "Escrow Agent"), entered into a Pledge and Escrow Agreement dated as of April 15, 2008 (the "Pledge Agreement").

In accordance with the Pledge Agreement, approximately \$25.5 million of the proceeds of the offering of the Notes were placed in an escrow account with the Escrow Agent. Funds in the escrow account will be invested in government securities and, if the Company does not elect to make the payments from its other funds, will be used to make the first six scheduled semi-annual interest payments on the Notes. Pursuant to the Pledge Agreement, the Company pledged its interest in this escrow account to the Trustee as security for these interest payments.

Except for the pledge of the escrow account under the Pledge Agreement, the Notes are senior unsecured debt obligations of the Company. There is no sinking fund for the Notes. The Notes mature on April 1, 2028 and bear interest at a

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rate of 5.75% per annum. Interest on the Notes is payable semi-annually in arrears on April 1 and October 1 of each year, commencing October 1, 2008, to holders of record on the preceding March 15 and September 15, respectively.

Subject to certain exceptions set forth in the Indenture, the Notes are subject to repurchase for cash at the option of the holders of all or any portion of the Notes (i) on each of April 1, 2013, April 1, 2018 and April 1, 2023 or (ii) upon a fundamental change, both at a purchase price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any. A fundamental change will occur upon certain changes in the ownership of the Company, or certain events relating to the trading of the Company's Common Stock, as further described in the Indenture.

Holders may convert their Notes at their option at any time prior to the close of business on the business day immediately preceding April 1, 2028. The Notes are convertible into shares of Common Stock, subject to the Company's option to deliver cash in lieu of all or a portion of the shares. The Notes are convertible at an initial conversion rate of 166.1820 shares of Common Stock per \$1,000 principal amount of Notes, subject to adjustment in the manner set forth in the Supplemental Indenture. The conversion rate may not exceed 240.9638 shares of Common Stock per \$1,000 principal amount of Notes, subject to adjustment. In addition to receiving the applicable amount of shares of Common Stock or cash in lieu of all or a portion of the shares, holders of Notes who convert their Notes prior to April 1, 2011 will receive the cash proceeds from the sale by the Escrow Agent of the portion of the government securities in the escrow account that are remaining with respect to any of the first six interest payments that have not been made on the Notes being converted.

Holders who convert their Notes in connection with certain events occurring on or prior to April 1, 2013 constituting a make whole fundamental change (as defined in the Indenture) will be entitled to an increase in the conversion rate as specified in the Indenture.

If the Company makes at least 10 scheduled semi-annual interest payments, the Notes are subject to redemption at the Company's option at any time on or after April 1, 2013, at a price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any.

The Indenture contains customary financial reporting requirements and also contains restrictions on mergers and asset sales. The Indenture also provides that upon certain events of default, including without limitation failure to pay principal or interest, failure to deliver a notice of fundamental change, failure to convert the Notes when required, acceleration of other material indebtedness and failure to pay material judgments, either the trustee or the holders of 25% in aggregate principal amount of the Notes may declare the principal of the Notes and any accrued and unpaid interest through the date of such declaration immediately due and payable. In the case of certain events of bankruptcy or insolvency relating to the Company or its significant subsidiaries, the principal amount of the Notes and accrued interest automatically becomes due and payable.

Common Stock Offering and Share Lending Agreement

Concurrently with the offering of the Notes, on April 10, 2008, the Company entered into a share lending agreement (the Share Lending Agreement) with Merrill Lynch International (the Borrower), through Merrill Lynch, Pierce, Fenner & Smith Incorporated, as agent for Borrower (in such capacity, the Borrowing Agent), pursuant to which the Company agreed to lend up to 36,144,570 shares of Common Stock to the Borrower, subject to certain adjustments set forth in the Share Lending Agreement, for a period ending on the earliest of (i) the date the Company notifies the Borrower in writing of its intention to terminate the Share Lending Agreement at any time after the entire principal amount of the Notes ceases to be outstanding and the Company has settled all payments or deliveries in respect of the Notes (as the settlement may be extended pursuant to market disruption events or otherwise pursuant to the Indenture), whether as a result of conversion, redemption,

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repurchase, cancellation, at maturity or otherwise, (ii) the written agreement of the Company and the Borrower to terminate, (iii) the occurrence of a Borrower default, at the option of Lender, and (iv) the occurrence of a Lender default, at the option of the Borrower.

On April 10, 2008, the Company entered into an underwriting agreement (the "Equity Underwriting Agreement") with the Borrower and the Borrowing Agent. Pursuant to and upon the terms of the Share Lending Agreement, the Company will issue and lend to the Borrower up to 36,144,570 shares of Common Stock (the "Borrowed Shares") as a share loan. The Borrowing Agent also is acting as an underwriter (the "Equity Underwriter") with respect to the Borrowed Shares, which are being offered to the public. The Borrowed Shares include 21,936,020 shares of Common Stock initially loaned by the Company to the Borrower pursuant to Section 2(a) of the Underwriting Agreement, 5,000,000 shares of Common Stock loaned by the Company to the Borrower pursuant to a Borrowing Notice dated as of April 15, 2008 delivered pursuant to the Share Lending Agreement and the Underwriting Agreement, and an additional 9,208,550 shares of Common Stock that, from time to time, may be borrowed from the Company by the Borrower pursuant to the Share Lending Agreement and the Underwriting Agreement and subsequently offered and sold at prevailing market prices at the time of sale or negotiated prices.

The Company will not receive any proceeds from the sale of the Borrowed Shares pursuant to the Share Lending Agreement but will receive a nominal lending fee of \$0.0001 per share for each share of Common Stock that it loans to the Borrower pursuant to the Share Lending Agreement. The Borrower will receive all of the proceeds from the sale of Borrowed Shares pursuant to the Share Lending Agreement.

The shares that the Company loaned to the Borrower will be issued and outstanding for corporate law purposes, and accordingly, the holders of the borrowed shares will have all of the rights of a holder of the Company's outstanding shares, including the right to vote the shares on all matters submitted to a vote of the Company's stockholders and the right to receive any dividends or other distributions that the Company may pay or makes on its outstanding shares of Common Stock. However, under the Share Lending Agreement, the Borrower has agreed:

- To pay, within one business day after the relevant payment date, to the Company an amount equal to any cash dividends that the Company pays on the borrowed shares; and
- To pay or deliver to the Company, upon termination of the loan of borrowed shares, any other distribution, in liquidation or otherwise, that the Company makes on the borrowed shares.

To the extent the borrowed shares the Company initially lent under the share lending agreement and offered in the Common Stock offering have not been sold or returned to it, the Borrower has agreed that it will not vote any such borrowed shares. The Borrower has also agreed under the share lending agreement that it will not transfer or dispose of any borrowed shares, other than to its affiliates, unless the transfer or disposition is pursuant to a registration statement that is effective under the Securities Act. However, investors that purchase the shares from the Borrower (and any subsequent transferees of such purchasers) will be entitled to the same voting rights with respect to those shares as any other holder of the Company's Common Stock.

In view of the contractual undertakings of the Borrower in the Share Lending Agreement, which have the effect of substantially eliminating the economic dilution that otherwise would result from the issuance of the borrowed shares, the Company believes that under generally accepted accounting principles in the United States currently in effect, the borrowed shares will not be considered outstanding for the purpose of computing and reporting the Company's earnings per share.

Ancillary Terrestrial Component (ATC)

On April 10, 2008, the United States Federal Communications Commission, or FCC, increased the Company's ATC grant to a total of 19.275 MHz in the Company's two bands. The FCC's order is still subject to petitions for reconsideration and judicial review.

Revolving Credit Facility

In April 2008, the Company used a portion of the proceeds of the sale of the Notes to repay the \$50.0 million outstanding under its revolving credit facility. The Company anticipates it will re-borrow these funds as needed.

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 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, should, will, would, will be, will continue, will likely result, and similar expressions, although not all forward-looking statements contain 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, 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, 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 capital spending (including for future satellite procurements and launches), 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, 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 incorporated by reference into this Report, including those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Although we believe that the forward-looking statements contained or incorporated by reference in this Report are based upon reasonable assumptions, the forward-looking events and circumstances discussed in this Report may not occur, and actual results could differ materially from those anticipated or implied in the forward-looking statements.

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 Annual Report on Form 10-K for the year ended December 31, 2007.

Overview

We are a provider of mobile voice and data communication services via satellite. Our communications platform extends telecommunications beyond the boundaries of terrestrial wireline and wireless telecommunications networks to serve our customer's desire for connectivity. Using in-orbit satellites and ground stations, which we call gateways, we offer voice and data communications services to government agencies, businesses and other customers in over 120 countries.

Material Trends and Uncertainties. Our satellite communications business, by providing critical mobile communications to our subscribers, serves principally the following markets: government, public safety and disaster relief; recreation and personal; oil and gas; maritime and fishing; natural resources, mining and forestry; construction; utilities; and transportation. Our industry has been growing as a result of:

- favorable market reaction to new pricing plans with lower service charges;
- awareness of the need for remote communication services;
- increased demand for communication services by disaster and relief agencies and emergency first responders;

- improved voice and data transmission quality; and
- a general reduction in prices of user equipment.

In addition, our industry as a whole has benefited from the improved financial condition of most industry participants following their financial reorganizations.

Nonetheless, we face a number of challenges and uncertainties, including:

- *Constellation life and health.* Our current satellite constellation is aging. We successfully launched our eight spare satellites in 2007. A number of our satellites launched prior to 2007 have experienced various anomalies over time, one of which is a degradation in the performance of the solid-state power amplifiers of the S-band communications antenna subsystem (our two-way communication issues). The S-band antenna provides the downlink from the satellite to a subscriber's phone or data terminal. Degraded performance of the S-band antenna amplifiers reduces the availability of two-way voice and data communication between the affected satellites and the subscriber and may reduce the duration of a call. If the S-band antenna on a satellite ceases to be commercially functional, two-way communication is impossible over that satellite, but not necessarily over the constellation as a whole. Subscriber service will continue to be available, but at certain times in any given location it may take longer to establish calls and the average duration of calls may be impacted adversely. There are periods of time each day during which no two-way voice and data service is available at any particular location. The root cause of our two-way communication issues is unknown, although we believe it may result

from irradiation of the satellites in orbit caused by the space environment at the altitude that our satellites operate.

The decline in the quality of two-way communication does not affect adversely our one-way Simplex data transmission services, including our new SPOT Satellite Messenger products and services, which utilize only the L-band uplink from a subscriber's Simplex terminal to the satellites.

To date, we have managed the two-way communication issue in various technical ways, including moving less impaired satellites to key orbital positions and launching eight spare satellites. Nonetheless, we have been unable to correct our two-way communication issues.

Although the rate of degradation of the S-band antennas has slowed in recent months, we continue to believe that the quality of two-way communication services will continue to decline, and by some time in 2008 substantially all of our satellites launched between 1998 and 2000, but not those satellites launched in 2007, will cease to be able to support two-way communications. Simplex data services, including our new SPOT products and services, will not be affected.

We continue to work on plans, including new products and services and pricing programs to mitigate the effects of reduced service availability upon our customers and operations. Among other things, we requested Thales Alenia Space to present a plan for accelerating delivery of the initial 24 satellites of our second-generation constellation by up to four months. In 2007, we accepted the first two portions of the Thales four-part sequential plan. See Part I, Item 1A. Risk Factors. Our satellites have a limited life and some have failed, which causes our network to be compromised and which materially and adversely affects our business, prospects and profitability in our Annual Report on Form 10-K for the year ended December 31, 2007.

- *Competition and pricing pressures.* We face increased competition from both the expansion of terrestrial-based cellular phone systems and from other mobile satellite service providers. For example, Inmarsat plans to commence offering satellite services to handheld devices in the United States around 2008, and several competitors, such as ICO Global Communications Company, are constructing geostationary satellites that may provide mobile satellite service. Increased numbers of competitors, and the introduction of new services and products by competitors, increases competition for subscribers and pressures all providers, including us, to reduce prices. Increased competition may result in loss of subscribers, decreased revenue, decreased gross margins, higher churn rates, and, ultimately, decreased profitability and cash.

- *Technological changes.* It is difficult for us to respond promptly to major technological innovations by our competitors because substantially modifying or replacing our basic technology, satellites or gateways is time-consuming and very expensive. Approximately 59% of our total assets at March 31, 2008 represented fixed assets. Although we plan to procure and deploy our second-generation satellite constellation and upgrade our gateways and other ground facilities, we may nevertheless become vulnerable to the successful introduction of superior technology by our competitors.

- *Capital expenditures.* We have incurred significant capital expenditures during 2006 and 2007 and we expect to incur additional significant expenditures through 2013 under the following commitments:

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We estimate that procuring and deploying our second-generation satellite constellation and upgrading our gateways and other ground facilities will cost approximately \$1.25 billion (exclusive of internal costs and capitalized interest), which we expect will be reflected in capital expenditures through 2013. The following obligations are included in this amount:

In November, 2006, we entered into a contract with Thales Alenia Space for the construction of our second-generation constellation. The total contract price, including subsequent additions, will be approximately 667.6 million (approximately \$1,006.5 million at a weighted average conversion rate of 1.00 = \$1.5076 at March 31, 2008, including approximately 146.3 million which will be paid by us in U.S. dollars at a fixed conversion rate of 1.00 = \$1.2940). We have made payments in the aggregate amount of approximately 141.4 million (approximately \$183.6 million) through March 31, 2008 under this contract. At our request, Thales Alenia Space has presented to us a plan for accelerating delivery of the initial 24 satellites by up to four months. The expected cost of this acceleration will range from approximately 6.7 million to 13.4 million (\$10.6 million to \$21.2 million at 1.00 = \$1.5800). In 2007, we accepted the first two portions of the Thales four-part

sequential acceleration plan with an additional cost of 4.1 million (\$6.5 million at 1.00 = \$1.5800). We cannot provide assurances that any of the remaining acceleration will occur.

In March 2007, we entered into a 9.0 million (approximately \$13.5 million at a weighted average conversion rate of 1.00 = \$1.4965) agreement with Thales Alenia Space for the construction of the Satellite Operations Control Centers, Telemetry Command Units and In Orbit Test Equipment (collectively, the Control Network Facility) for our second-generation satellite constellation. We have made payments under this contract in the aggregate amount of approximately 2.9 million (approximately \$3.9 million) through March 31, 2008.

In September, 2007, we entered into a contract with Arianespace (our Launch Provider) for the launch of our second-generation satellites and certain pre and post-launch services. Pursuant to the contract, our Launch Provider will make four launches of six satellites each, and we have the option to require our Launch Provider to make four additional launches of six satellites each. The total contract price for the first four launches is \$210.0 million. We have made payments under this contract in the aggregate amount of approximately \$18.4 million through March 31, 2008.

We have begun construction of a gateway in Singapore at a total cost of approximately \$4.0 million. This gateway is expected to be fully operational in the second half of 2008.

See Liquidity and Capital Resources for a discussion of our requirements for funding these capital expenditures.

- *Introduction of new products.* We work continuously with the manufacturers of the products we sell to offer our customers innovative and improved products. Virtually all engineering, research and development costs of these new products are paid by the manufacturers. However, to the extent the costs are reflected in increased inventory costs to us, and we are unable to raise our prices to our subscribers correspondingly, our margins and profitability would be reduced.

Simplex Products (Personal Tracking Services and Emergency Messaging). In early November 2007, we introduced the SPOT satellite messenger, aimed at attracting both the recreational and commercial markets that require personal tracking, emergency location and messaging solutions for users that require these services beyond the range of traditional terrestrial and wireless communications. Using the Globalstar Simplex network and web-based mapping software, this device provides consumers with the capability to trace or map the location of the user on Google Maps. The product enables users to transmit messages to specific preprogrammed email addresses, phone or data devices, and to request assistance in the event of an emergency. We are starting to work on second-generation SPOT-like applications.

- SPOT Satellite Messenger Addressable Market

We believe the addressable market for our SPOT satellite messenger products and services in North America alone is approximately 50 million units. Our objective is to capture 2-3% of that market by the end of 2010. The reach of our Simplex System, on which our SPOT satellite messenger products and services relies, covers approximately 50% of the world population. We intend to market our SPOT satellite messenger products and services aggressively in our overseas markets including South and Central America, Western Europe, and through independent gateway operators in their respective territories.

- SPOT Satellite Messenger Pricing

The pricing for SPOT satellite messenger products and services and equipment is intended to be extremely competitive. Annual service fees currently range from \$99.99 for our basic level plan to \$149.98 for additional tracking capability. We expect the equipment will be sold to end users at \$169.99 per unit.

- SPOT Satellite Messenger Distribution

We are distributing and selling our new SPOT satellite messenger through a variety of existing and new distribution channels. We have signed distribution agreements with a number of Big Box retailers and other similar distribution channels including Amazon.com, Bass Pro Shops, Best Buy Canada, Big 5 Sporting Goods, Big Rock Sports, Boater's World, Cabela's, Campmor, Joe's Sport, London Drug, Outdoor and More, Gander Mountain, REI, Sportsman's Warehouse, The Source by Circuit City dealers, Wal-Mart.com,

West Marine, DBL Distribution, D.H. Distributions, and CWR Electronics. Our objective is to sell SPOT satellite messenger products through approximately 5,000 distribution points by the end of the second quarter of 2008 and 10,000 in 2009. Currently, the SPOT satellite messenger is being sold in over 3,000 distribution points. We also intend to sell directly using our existing sales force into key vertical markets and through our direct e-commerce website (www.findmespot.com).

SPOT satellite messenger products and services have been introduced only recently and their commercial introduction and their commercial success cannot be assured.

- *Fluctuations in interest and currency rates.* Debt under our credit agreement bears interest at a floating rate. Therefore, increases in interest rates will increase our interest costs if debt is outstanding. A substantial portion of our revenue (43% for the three months ended March 31, 2008) is denominated in foreign currencies. In addition, a substantial majority of our obligations under the contracts for our second-generation constellation and related control network facility are denominated in Euros. Any decline in the relative value of the U.S. dollar may adversely affect our revenues and increase our capital expenditures. See Item 3. Quantitative and Qualitative Disclosures about Market Risk for additional information.

- *Ancillary Terrestrial Component (ATC).* ATC is the integration of a satellite-based service with a terrestrial wireless service resulting in a hybrid mobile satellite service. The ATC network would extend our services to urban areas and inside buildings in both urban and rural areas where satellite services currently are impractical. We believe we are at the forefront of ATC development and are actively working to be among the first market entrants. To that end, we are considering a range of options for rollout of our ATC services. We are exploring selective opportunities with a variety of media and communication companies to capture the full potential of our spectrum and United States ATC license.

On October 31, 2007, we entered into an agreement with Open Range Communications, Inc. that permits Open Range to deploy service in certain rural geographic markets in the United States under our ATC authority. Open Range will use our spectrum to offer dual mode mobile satellite based and terrestrial wireless WiMAX services to over 500 rural American communities. Commercial availability is expected to begin in selected markets in late 2008. The initial term of the agreement of up to 30 years is co-extensive with our ATC authority and is subject to renewal options exercisable by Open Range. Based on Open Range's business plan used in support of its \$267 million loan under a federally authorized loan program, the fixed and variable payments to be made by Open Range over the initial term of 30 years indicate a maximum value for this agreement between \$0.30 - \$0.40/MHz/POP. Upon the fulfillment of all contingencies, Open Range's down payment will be \$3.6 million and annual payments in the first six years of the agreement will range from approximately \$1.2 million to \$10.3 million, assuming Open Range has the ability to use all of the licensed spectrum covered by the agreement. The amount of the payments made to us will depend on a number of factors, including the eventual geographic coverage of and the number of customers on the Open Range system. We have also agreed to make a \$5.0 million preferred equity investment in Open Range, \$1.0 million of which was made on November 1, 2007. Under the agreement Open Range will have the right to use our spectrum within the United States in the 1.6 and 2.4 MHz bands to provide terrestrial wireless broadband services. Open Range will deploy portable broadband services via a WiMAX architecture within the targeted communities. In addition, Open Range has an option to expand this relationship over the next six years. The agreement is contingent on various conditions, including receiving authority from the FCC to use an expanded portion of our licensed spectrum for ATC services and such other FCC and other governmental approvals as may be required for the agreement, and Open Range's completion of its equity and debt financing. In March 2008, Open Range secured approval for a \$267 million broadband loan from the Department of Agriculture's Rural Utilities Program.

In addition to our agreement with Open Range Communications, Inc., we hope to exploit additional ATC opportunities in urban markets or in suburban areas that are not the subject of our agreement with Open Range. Our system is flexible enough to allow us to use different technologies and network architectures in different geographic areas.

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On April 10, 2008, the FCC increased our ATC grant to a total of 19.275 MHz in our two bands. The FCC's order is still subject to petitions for reconsideration and judicial review. This order was pursuant to a release from the FCC on November 9, 2007 of a Second Order on Reconsideration, Second Report and Order and Notice of Proposed Rulemaking dealing both with our June 2006 petition for rulemaking to expand its ATC-authorized spectrum to greater than 11 MHz and with the current L-band sharing arrangement between

us and Iridium. In the ATC Notice of Proposed Rulemaking (NPRM) portion of the decision, the FCC requested comment on whether we should be authorized to provide ATC over an aggregate 19.275 MHz of our licensed spectrum, including the portion of our S-band between 2483.5 and 2495 MHz and in the portion of the L-band that we do not share with Iridium. The FCC did not propose to allow ATC in the 2496-2500 MHz portion of the S-band which we share with the Broadband Radio Service (BRS) or the 2495-2496 MHz guard band between our spectrum and that of BRS.

Service and Subscriber Equipment Sales Revenues. The table below sets forth amounts and percentages of our revenue by type of service and equipment sales for the three months ended March 31, 2008 and 2007.

	Three Months ended March 31, 2008		Three Months ended March 31, 2007	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue
Service Revenue:				
Mobile	\$ 11,203	51%	\$ 14,017	60%
Fixed	951	4	1,564	7
Data	255	1	393	1
Simplex	879	4	430	2
IGO	860	4	916	4
Other(1)	1,862	8	146	1
Total Service Revenue	16,010	72	17,466	75
Subscriber Equipment Sales:				
Mobile	2,524	11	2,846	13
Fixed	469	2	983	4
Data	2,207	10	294	1
Accessories	924	5	1,565	7
Total Subscriber Equipment Sales	6,124	28	5,688	25
Total Revenue	\$ 22,134	100%	\$ 23,154	100%

(1) Includes engineering services and activation fees

Operating Income (Loss). We realized an operating loss of \$11.6 million for the three months ended March 31, 2008 compared to an operating loss of \$0.6 million for the same period in 2007. This decrease can be attributed primarily to lower service revenues and higher depreciation expense, non-cash compensation expense and advertising and marketing expense. Lower service revenue was a result of lower price service plans introduced to maintain our subscriber base despite two-way communication issues affecting our two-way service during the first three months of 2008. The higher depreciation expense resulted from placing six of our recently launched spare satellites into service. The higher advertising expense resulted from the launch of our SPOT satellite messenger product and services.

Independent Gateway Acquisition Strategy

Currently, 13 of the 25 gateways in our network are owned and operated by unaffiliated companies, which we call independent gateway operators, some of whom operate more than one gateway. We have no financial interest in these independent gateway operators other than arms length contracts for wholesale minutes of service. Some of these independent gateway operators have been unable to grow their businesses adequately due in part to limited resources. Old Globalstar initially developed the independent gateway operator acquisition strategy to establish operations in multiple territories with reduced demands on its capital. In addition, there are territories in which for political or other reasons, it is impractical for us to operate directly. We sell services to the independent gateway operators on a wholesale basis and they resell them to their

customers on a retail basis.

We have acquired, and intend to continue to pursue the acquisition of, independent gateway operators when we believe we can do so on favorable terms and the current independent operator has expressed a desire to sell its assets to us, subject to capital availability. We believe that these acquisitions can enhance our results of operations in three respects. First, we believe that, with our greater financial and technical resources, we can grow our subscriber base and revenue faster than some of the independent gateway operators. Second, we realize greater margin on retail sales to individual subscribers than we do on wholesale sales to independent gateway operators. Third, we believe expanding the territory we serve directly will better position us to market our services directly to multinational customers who require a global communications provider.

However, acquisitions of independent gateway operators do require us to commit capital for acquisition of their assets, as well as management resources and working capital to support the gateway operations, and therefore increase our risk in operating in these territories directly rather than through the independent gateway operators. In addition, operating the acquired gateways increases our marketing, general and administrative expenses. Our credit agreement limits to \$25.0 million the aggregate amount of cash we may invest in foreign acquisitions without the consent of our lender.

In March 2008, we acquired an independent gateway operator that owns three satellite gateway ground stations in Brazil for \$6.5 million. We also incurred transaction costs of \$0.2 million related to this acquisition. The purchase price was paid primarily in our Common Stock. We are unable to predict the timing or cost of further acquisitions because independent gateway operations vary in size and value.

Performance Indicators

Our management reviews and analyzes several key performance indicators in order to manage our business and assess the quality of 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;
- retail average monthly revenue per unit, or retail ARPU, which is an indicator of our pricing and ability to obtain effectively long-term, high-value customers. We define retail ARPU as ARPU generated from customers in territories where we own and operate our gateways;
- operating income, which is an indication of our performance;
- earnings before interest, taxes, depreciation and amortization, or EBITDA, which is an indicator of our financial performance; and
- capital expenditures, which are an indicator of future revenue growth potential and cash requirements.

Seasonality

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Our results of operations are subject to seasonal usage changes. April through October are typically our peak months for service revenues and equipment sales. Government customers in North America tend to use our services during summer months, often in support of relief activities after events such as hurricanes, forest fires and other natural disasters.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect our revenues and expenses for the periods reported and the reported amounts of our assets and liabilities, including contingent assets and liabilities, as of the date of the financial statements. We evaluate our estimates and judgments, including those related to revenue recognition, inventory, long-lived assets, income taxes, pension obligations, derivative instruments and stock-based compensation, on an on-going basis. We base our estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions. We believe the following accounting policies are most important to understanding our financial results and condition and require complex or subjective judgments and estimates.

Revenue Recognition

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Customer activation fees are deferred and recognized over four to five year periods, which approximates the estimated average life of the customer relationship. We periodically evaluate the estimated customer relationship life. Historically, changes in the estimated life have not been material to our financial statements.

Monthly access fees billed to retail customers and resellers, representing the minimum monthly charge for each line of service based on its associated rate plan, are billed on the first day of each monthly bill cycle. Airtime minute fees in excess of the monthly access fees are billed in arrears on the first day of each monthly billing cycle. To the extent that billing cycles fall during the course of a given month and a portion of the monthly services has not been delivered at month end, fees are prorated and fees associated with the undelivered portion of a given month are deferred. Under our annual plans, where customers prepay for minutes, revenue is deferred until the minutes are used or the prepaid time period expires. Unused minutes are accumulated until they expire, usually one year after activation. In addition, we offer an annual plan called the Emergency Plan under which the customer is charged an annual fee to access our system and for each minute used. The annual fee for an Emergency Plan is recognized as revenue on a straight-line basis over the term of the plan.

Occasionally we have granted to customers credits which are expensed or charged against deferred revenue when granted.

Subscriber acquisition costs include items such as dealer commissions, internal sales commissions and equipment subsidies and are expensed at the time of the related sale.

We also provide certain engineering services to assist customers in developing new technologies related to our system. The revenues associated with these services are recorded when the services are rendered, and the expenses are recorded when incurred.

We own and operate our satellite constellation and earn a portion of our revenues through the sale of airtime minutes on a wholesale basis to independent gateway operators. Revenue from services provided to independent gateway operators is recognized based upon airtime minutes used by their customers and contractual fee arrangements. If collection is uncertain, revenue is recognized when cash payment is received.

We introduced annual plans (sometimes called Liberty Plans) in August 2004 and broadened their availability during the second quarter of 2005. These plans grew substantially in 2005 and 2006. These plans require users to pre-pay usage charges for the entire plan period, generally 12 months, which results in the deferral of certain of our revenues. Under our revenue recognition policy for annual plans, we defer revenue until the earlier of when the minutes are used or when these minutes expire. Any unused minutes are recognized as revenue at the expiration of a plan. Most of our customers have not used all the minutes that are available to them or have not used them at the pace anticipated, which has caused us to defer portion of our service revenue.

During the second quarter of 2007, we introduced an unlimited airtime usage service plan (called the Unlimited Loyalty Plan) which allows existing and new customers to use unlimited satellite voice minutes for anytime calls for a fixed monthly fee. The unlimited loyalty plan incorporates a declining monthly price schedule that reduces the fixed monthly fee at the completion of each calendar year through the duration of the customer agreement, which ends on June 30, 2010. Customers have an option to extend their customer agreement by one year at the fixed monthly price. We record revenue for this plan monthly based on a straight line average derived by computing the total fees charged over the term of the customer agreement and dividing it by the number of the months. If a customer cancels prior to the ending date of the customer agreement, the balance in deferred revenue is recognized as revenue. At March 31, 2008 and December 31, 2007, our deferred revenue aggregated approximately \$20.2 million (with \$1.2 million included in non-current liabilities) and \$20.4 million (with \$1.0 million included in non-current liabilities), respectively.

Subscriber equipment revenue represents the sale of fixed and mobile user terminals and accessories. Revenue is recognized upon shipment provided title and risk of loss have passed to the customer, persuasive evidence of an arrangement exists, the fee is fixed and determinable and collection is probable.

In December 2002, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. EITF Issue No. 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. In some arrangements, the different revenue-generating activities (deliveries) are sufficiently separable and there exists sufficient evidence of their fair values to account separately for some or all of the deliveries (that is, there are separate units of accounting). In other arrangements, some or all of the deliveries are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. EITF Issue No. 00-21 addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF Issue No. 00-21 does not change otherwise applicable revenue recognition criteria.

Inventory

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Inventory consists of purchased products, including fixed and mobile user terminals, accessories and gateway spare parts. Inventory is stated at the lower of cost or market. At the end of each quarter, product sales and returns from the previous twelve months are reviewed and any excess and obsolete inventory is written off. Cost is computed using the first-in, first-out (FIFO) method. Inventory allowances for inventories with a lower market value or that are slow moving are recorded in the period of determination.

Globalstar System, Property and Equipment

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Our Globalstar System assets include costs for the design, manufacture, test and launch of a constellation of low earth orbit satellites, including satellites previously held as ground spares which we launched in May and October 2007, which we refer to as the space segment, and primary and backup terrestrial control centers and gateways, which we refer to as the

ground segment. Loss from an in-orbit failure of a satellite is recognized as an expense in the period it is determined that the satellite is not recoverable.

The carrying value of the Globalstar System is reviewed for impairment whenever events or changes in circumstances indicate that the recorded value of the space segment and ground segment, taken as a whole, may not be recoverable. We look to current and future undiscounted cash flows, excluding financing costs, as primary indicators of recoverability. If an impairment is determined to exist, any related impairment loss is calculated based on fair value.

The satellites previously recorded as spare satellites and subsequently incorporated into the Globalstar System on the date the satellite is placed into service (the In-Service Date) will be depreciated over an estimated life of eight years beginning on the satellite's In-Service Date.

Property and equipment acquired by us on December 5, 2003 in the Old Globalstar bankruptcy proceedings was recorded based on our allocation of acquisition cost. Because the acquisition cost of these assets was substantially below their historic cost or replacement cost, current depreciation and amortization costs have been reduced substantially for GAAP purposes, thereby increasing net income or decreasing net loss. As we increase our capital expenditures, especially to procure and launch our second-generation satellite constellation, we expect GAAP depreciation to increase substantially. Depreciation is provided using the straight-line method over the estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the improvement or the term of the lease. We perform ongoing evaluations of the estimated useful lives of our property and equipment for depreciation purposes. The estimated useful lives are determined and continually evaluated based on the period over which services are expected to be rendered by the asset. Maintenance and repair items are expensed as incurred.

Income Taxes

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Until January 1, 2006, we were treated as a partnership for U.S. tax purposes. Generally, our taxable income or loss, deductions and credits were passed through to our members. We did have some corporate subsidiaries that required a tax provision or benefit using the asset and liability method of accounting for income taxes as prescribed by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS No. 109). Effective January 1, 2006, we elected to be taxed as a C corporation in the United States. When an enterprise changes its tax status from non-taxable to taxable, under SFAS No. 109 the effect of recognizing deferred tax assets and liabilities is included in income from continuing operations in the period of change. As a result, we recognized a gross deferred tax asset of \$204.2 million and a gross deferred tax liability of \$0.1 million on January 1, 2006. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. In evaluating the need for a valuation allowance, we take into account various factors including the expected level of future taxable income and available tax planning strategies. We determined that it was more likely than not that we would not recognize the entire deferred tax asset; therefore, we established a valuation allowance of \$182.7 million, resulting in recognition of a net deferred tax benefit of \$21.4 million. We monitor the situation to ensure that, if and when we are more likely than not to be able to utilize more of the deferred tax asset, we will be able to reduce the valuation allowance accordingly. On January 1, 2007, we adopted Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). See Note 7 to our unaudited interim consolidated financial statements for the impact of this adoption on our financial statements.

Spare Satellites, Launch Costs and Second-Generation Satellites

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Old Globalstar purchased eight additional satellites in 1998 for \$148.0 million (including performance incentives of up to \$16.0 million) to serve as on-ground spares. Costs of \$147.0 million (including a portion of the performance incentives) were previously recognized for these spare satellites. Prior to December 5, 2003, Old Globalstar recorded an impairment of these assets, and at December 5, 2003 they were carried at \$0.9 million. The eight spare satellites were launched successfully in two separate launches of four satellites each in May 2007 and October 2007. Depreciation of these assets begins when the satellites are placed in service and begin to handle call traffic. As of March 31, 2008, six of the eight satellites are in service. As of March 31, 2008 and December 31, 2007, the spare satellites not in service were recorded at \$32.1 million and \$47.8 million, respectively. The amount relating to spare satellites that were placed into service during the three months ended March 31, 2008 (approximately \$15.9 million), was classified within the Globalstar System as part of the space segment. These satellites are being depreciated over an estimated useful life of eight years.

In November 2006, we entered into a contract with Thales Alenia Space to construct 48 low-earth orbit satellites. We entered into an additional agreement with Thales Alenia Space in March 2007 for the construction of the Satellite Operations Control Centers, Telemetry Command Units and In Orbit Test Equipment (collectively, the Control Network Facility) for our second-generation satellite constellation.

In September 2007, we and our Launch Provider entered into an agreement for the launch of our second-generation satellites and certain pre and post-launch services. Pursuant to the agreement, our Launch Provider will make four launches of six satellites each, and we have the option to require our Launch Provider to make four additional launches of six satellites each. For further discussion, see Note 4 of the unaudited interim consolidated financial statements in Part I of this Report.

The depreciation on these assets will begin once the assets are completed and placed into service.

Pension Obligations

We have a company-sponsored retirement plan covering certain current and past U.S.-based employees. Until June 1, 2004, substantially all of Old Globalstar's and our employees and retirees who participated and/or met the vesting criteria for the plan were participants in the Retirement Plan of Space Systems/Loral, Inc. (the "Loral Plan"), a defined benefit pension plan. The accrual of benefits in the Old Globalstar segment of the Loral Plan was curtailed, or frozen, by the administrator of the Loral Plan as of October 23, 2003. Prior to October 23, 2003, benefits for the Loral Plan were generally based upon compensation, length of service with the company and age of the participant. On June 1, 2004, the assets and frozen pension obligations of the segment attributable to our employees were transferred into a new Globalstar Retirement Plan (the "Globalstar Plan"). The Globalstar Plan remains frozen and participants are not currently accruing benefits beyond those accrued as of October 23, 2003. Our funding policy is to fund the Globalstar Plan in accordance with the Internal Revenue Code and regulations.

We account for our defined benefit pension and life insurance benefit plans in accordance with SFAS No. 87, "Employers' Accounting for Pensions," (SFAS 87), SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other than Pensions," (SFAS 106) and SFAS No. 158, "Employers' Accounting Defined Benefit Pension and Other Postretirement Plans," (SFAS 158) which require that amounts recognized in financial statements be determined on an actuarial basis. We adopted the recognition and disclosure provisions of SFAS No. 158 on December 31, 2006 and this adoption did not have any impact on our results of operation. Pension benefits associated with these plans are generally based on each participant's years of service, compensation, and age at retirement or termination. Two critical assumptions, the discount rate and the expected return on plan assets, are important elements of expense and liability measurement.

We determine the discount rate used to measure plan liabilities as of the December 31 measurement date for the U.S. pension plan. The discount rate reflects the current rate at which the associated liabilities could be effectively settled at the end of the year. In estimating this rate, we look at rates of return on fixed-income investments of similar duration to the liabilities in the plan that receive high, investment grade ratings by recognized ratings agencies. Using these methodologies, we determined a discount rate of 6.00% to be appropriate as of December 31, 2007, which is an increase of 0.25 percentage points from the rate used as of December 31, 2006. An increase of 1.0% in the discount rate would have decreased our plan liabilities as of December 31, 2007 by \$1.4 million and a decrease of 1.0% could have increased our plan liabilities by \$1.7 million.

A significant element in determining our pension expense in accordance with SFAS No. 158 is the expected return on plan assets, which is based on historical results for similar allocations among asset classes. For the U.S. pension plan, our assumption for the expected return on plan assets was 7.5% for 2007.

The difference between the expected return and the actual return on plan assets is deferred and, under certain circumstances, amortized over future years of service. Therefore, the net deferral of past asset gains (losses) ultimately affects future pension expense. This is also true of changes to actuarial assumptions. As of December 31, 2007, we had net unrecognized pension actuarial losses of \$1.7 million. These amounts represent potential future pension and postretirement expenses that would be amortized over average future service periods.

Derivative Instrument

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We utilize a derivative instrument in the form of an interest rate swap agreement to minimize our risk from interest rate fluctuations related to our variable rate credit agreement and minimize our risk from fluctuations related to the foreign currency exchange rates, respectively. We use the interest rate swap agreement to manage risk and not for trading or other speculative purposes. At the end of each accounting period, we record the derivative instrument on our balance sheet as either an asset or a liability measured at fair value. The interest rate swap agreement does not qualify for hedge accounting treatment. Changes in the fair value of the interest rate swap agreement are recognized as Interest rate derivative gain (loss) over the life of the agreement. We provide collateral in the form of cash and securities equal to any negative value of the interest rate swap agreement.

Stock-Based Compensation

Effective January 1, 2006, as a result of our initial public offering, we adopted the provisions of Statement of Financial Accounting Standards 123(R), Share-Based Payment (SFAS 123(R)), and related interpretations, or SFAS 123(R), to account for stock-based compensation using the modified prospective transition method and therefore have not restated our prior period results. Among other things, SFAS 123(R) requires that compensation expense be recognized in the financial statements for both employee and non-employee share-based awards based on the grant date fair value of those awards. At January 1, 2006, the option of one board member to purchase up to 120,000 shares of Common Stock at \$2.67 per share was the only outstanding equity award. Compensation cost related to the remaining portion of this award for which the requisite service had not been rendered was insignificant. Therefore, the adoption of SFAS 123(R) did not have a significant impact on our financial position or results of operations.

Additionally, stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is generally commensurate with the vesting term.

Results of Operations

Comparison of Results of Operations for the Three Months Ended March 31, 2008 and 2007 (in thousands):

	Three months ended March 31,		
	2008	2007	% Change
Revenue:			
Service revenue	\$ 16,010	\$ 17,466	(8)%
Subscriber equipment sales	6,124	5,688	8
Total revenue	22,134	23,154	(4)

Operating expenses:

Detail about accumulated other comprehensive loss components	Amounts reclassified from accumulated other comprehensive loss	Affect line item in the statement where net income is presented
Funded status of benefit plans:		
Amortization of prior service credit ⁽¹⁾	\$ (7,789)	Selling, general & administrative costs
Amortization of actuarial loss ⁽¹⁾	27,444	Selling, general & administrative costs
Total reclassification, before tax ⁽²⁾	19,655	
Income tax expense	7,821	Income tax (benefit)/expense
Total reclassification, net of tax	\$ 11,834	

⁽¹⁾ These accumulated other comprehensive income components are included in the computation of net periodic benefit cost for pension and other retirement benefits. See Note 9 for additional information.

⁽²⁾ There were no reclassifications relating to noncontrolling interest for the quarter ended September 25, 2016.

NOTE 13. SEGMENT INFORMATION

We have one reportable segment that includes The New York Times, NYTimes.com and related businesses. Therefore, all required segment information can be found in the Condensed Consolidated Financial Statements. Our operating segment generated revenues principally from circulation and advertising. Other revenues consist primarily of revenues from news services/syndication, digital archives, rental income, our NYT Live business and e-commerce.

NOTE 14. CONTINGENT LIABILITIES**Restricted Cash**

We were required to maintain \$24.9 million of restricted cash as of September 25, 2016 and \$28.7 million as of December 27, 2015, the majority of which is set aside to collateralize workers' compensation obligations.

Newspaper and Mail Deliverers-Publishers' Pension Fund

In September 2013, the Newspaper and Mail Deliverers-Publishers' Pension Fund (the "NMDU Fund") assessed a partial withdrawal liability against the Company in the amount of approximately \$26 million for the plan years ending May 31, 2012 and 2013 (the "Initial Assessment"), an amount that was increased to approximately \$34 million in December

2014, when the NMDU Fund issued a revised partial withdrawal liability assessment for the plan year ending May 31, 2013 (the “Revised Assessment”). The NMDU Fund claimed that when City & Suburban Delivery Systems, Inc., a retail and newsstand distribution subsidiary of the Company and the largest contributor to the NMDU Fund, ceased operations in 2009, it triggered a decline of more than 70% in contribution base units in each of these two plan years. The Company disagreed with both the NMDU Fund’s determination that a partial withdrawal occurred and the methodology by which it calculated the withdrawal liability, and the parties engaged in arbitration proceedings to resolve the

THE NEW YORK TIMES COMPANY

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

matter. However, as required by the Employee Retirement Income Security Act of 1974, the Company continued to make the quarterly payments to the NMDU Fund set forth in the demand letters.

On June 14, 2016, the arbitrator issued an interim award and opinion that supported the NMDU Fund's determination that a partial withdrawal had occurred in each of the two plan years. The arbitrator agreed with the methodology by which the NMDU Fund calculated the Initial Assessment, but concluded that the NMDU Fund's calculation of the Revised Assessment was overstated by \$7.5 million. During the third quarter of 2016, the NMDU Fund returned \$5.0 million in principal and interest previously paid by the Company related to the Revised Assessment.

The Company expects to appeal the arbitrator's decision following the issuance of the final award and opinion. As a result of the interim decision, the Company had a liability of \$10.5 million as of the third quarter of 2016.

Management believes it is reasonably possible that the total loss in this matter could exceed the liability established by a range of zero to approximately \$10 million.

As of September 25, 2016, we have paid \$10.8 million since the receipt of the initial demand letter, including \$2.7 million in 2016 (net of the reimbursement discussed above). The Company will continue to make required payments during the pendency of the appeal.

Worcester Telegram & Gazette Corporation

The Company is involved in class action litigation brought on behalf of individuals who, from 2006 to 2011, delivered newspapers at the Worcester Telegram & Gazette Corporation ("Worcester"), a subsidiary of the Company. The plaintiffs are asserting several claims against Worcester, including a challenge to their classification as independent contractors, and seek unspecified damages. In April 2016, the parties engaged in an unsuccessful mediation process to resolve the litigation. The Company believes that the claims made by the plaintiffs are without merit and continues to vigorously defend its position. The Company is unable to estimate a loss or range of possible losses at this time.

Other

We are involved in various legal actions incidental to our business that are now pending against us. These actions are generally for amounts greatly in excess of the payments, if any, that may be required to be made. Although the Company cannot predict the outcome of these matters, it is possible that an unfavorable outcome in one or more matters could be material to the Company's consolidated results of operations or cash flows for an individual reporting period. However, based on currently available information, management does not believe that the ultimate resolution of these matters, individually or in the aggregate, is likely to have a material effect on the Company's financial position.

NOTE 15. SUBSEQUENT EVENTS

During the third quarter of 2016, the Company extended a voluntary offer to certain former employees who participated in certain qualified pension plans to receive immediate lump-sum payments. The election period for this voluntary offer closes on November 14, 2016.

On October 24, 2016, the Company acquired Submarine Leisure Club, Inc., which owns the product review and recommendation websites The Wirecutter and The Sweethome, in an all-cash transaction. We paid \$25.0 million, including a payment made for a non-compete agreement. In connection with the transaction, we also entered into a consulting agreement and retention agreements that will likely require payments over the three years following the acquisition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

EXECUTIVE OVERVIEW

We are a global media organization that includes newspapers, print and digital products and investments. We have one reportable segment with businesses that include our newspapers, websites, mobile applications and related businesses. We generate revenues principally from circulation and advertising. Other revenues primarily consist of revenues from news services/syndication, digital archives, rental income, our NYT Live business and e-commerce. Our main operating costs are employee-related costs.

In the accompanying analysis of financial information, we present certain information derived from consolidated financial information but not presented in our financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). We are presenting in this report supplemental non-GAAP financial performance measures that exclude depreciation, amortization, severance, non-operating retirement costs and certain identified special items, as applicable. These non-GAAP financial measures should not be considered in isolation from or as a substitute for the related GAAP measures, and should be read in conjunction with financial information presented on a GAAP basis. For further information and reconciliations of these non-GAAP measures to the most directly comparable GAAP measures, see "Results of Operations—Non-GAAP Financial Measures."

Financial Highlights

For the third quarter of 2016, diluted earnings per share from continuing operations was \$0.00, compared with diluted earnings per share of \$0.06 for the third quarter of 2015. Diluted earnings per share from continuing operations excluding severance, non-operating retirement costs and special items discussed below (or "adjusted diluted earnings per share," a non-GAAP measure) were \$0.06 and \$0.09 for the third quarters of 2016 and 2015, respectively.

The Company had an operating profit of \$9.0 million in the third quarter of 2016, compared with \$21.9 million for the third quarter of 2015. The decline was driven by severance costs incurred in connection with a voluntary buyout program as well as lower print advertising revenues and higher advertising and technology costs. Operating profit before depreciation, amortization, severance, non-operating retirement costs and special items discussed below (or "adjusted operating profit," a non-GAAP measure) was \$39.2 million and \$47.6 million for the third quarters of 2016 and 2015, respectively.

Total revenues decreased 1.0% to \$363.5 million in the third quarter of 2016 from \$367.4 million in the third quarter of 2015.

Circulation revenues increased 3.0% in the third quarter of 2016 compared with the third quarter of 2015, as digital subscription growth and a print home-delivery price increase for The New York Times newspaper more than offset a decline in the number of print copies sold. Circulation revenues from our digital-only subscriptions (which includes news product and Crossword product subscriptions), e-readers and replica editions increased 16.4% to \$58.6 million in the third quarter of 2016 compared with the third quarter of 2015. Circulation revenue from digital-only subscriptions to our news products increased 15.4% to \$56.1 million.

Paid digital-only subscriptions totaled approximately 1,557,000 as of the end of the third quarter of 2016, a 30% increase compared to the end of the third quarter of 2015. Paid digital-only subscriptions to our news products totaled approximately 1,332,000, a 28% increase compared to the end of the third quarter of 2015.

Advertising revenues remained under pressure during the third quarter of 2016. Total advertising revenues decreased 7.7% in the third quarter of 2016 compared with the third quarter of 2015, reflecting a 18.5% decrease in print advertising revenues and a 21.4% increase in digital advertising revenues. The decrease in print advertising revenues resulted primarily from a continued decline in display advertising. The increase in digital advertising revenues primarily reflected increases in revenue from our mobile platform, our programmatic buying channels and branded content, partially offset by a decrease in traditional website display advertising.

Compared with the third quarter of 2015, other revenues increased 1.0% in the third quarter of 2016, driven primarily by increased revenues from the Company's NYT Live business.

Operating costs increased in the third quarter of 2016 to \$356.6 million from \$345.5 million in the third quarter of 2015, largely due to higher severance, advertising and technology costs, partially offset by lower print production and distribution costs and lower non-operating retirement costs. Operating costs before depreciation, amortization, severance and non-operating retirement costs (or "adjusted operating costs," a non-GAAP measure) increased in the third quarter of 2016 to \$324.4 million from \$319.8 million in the third quarter of 2015.

Non-operating retirement costs decreased to \$3.8 million during the third quarter of 2016 from \$9.4 million in the third quarter of 2015, driven by a change in the methodology of calculating the discount rate applied to retirement costs.

RESULTS OF OPERATIONS

The following table presents our consolidated financial results:

(In thousands)	For the Quarters Ended				For the Nine Months Ended			
	September 2016	September 2015	September 27, % Change		September 2016	September 2015	September 27, % Change	
Revenues								
Circulation	\$217,099	\$ 210,705	3.0	%	\$654,573	\$ 636,626	2.8	%
Advertising	124,898	135,356	(7.7	)%	395,733	433,863	(8.8)%
Other	21,550	21,343	1.0	%	65,386	64,040	2.1	%
Total revenues	363,547	367,404	(1.0	)%	1,115,692	1,134,529	(1.7)%
Operating costs								
Production costs:								
Wages and benefits	91,041	88,999	2.3	%	274,142	268,667	2.0	%
Raw materials	18,228	18,400	(0.9	)%	53,115	57,025	(6.9)%
Other	47,347	44,632	6.1	%	139,938	135,748	3.1	%
Total production costs	156,616	152,031	3.0	%	467,195	461,440	1.2	%
Selling, general and administrative costs	184,596	178,071	3.7	%	534,911	533,120	0.3	%
Depreciation and amortization	15,384	15,369	0.1	%	46,003	46,023	—	%
Total operating costs	356,596	345,471	3.2	%	1,048,109	1,040,583	0.7	%
Restructuring charge	2,949	—	*		14,804	—	*	
Multiemployer pension plan withdrawal (income)/expense	(4,971	) —	*		6,730	4,697	43.3	%
Pension settlement charges	—	—	*		—	40,329	*	
Operating profit	8,973	21,933	(59.1	)%	46,049	48,920	(5.9)%
Income/(loss) from joint ventures	463	170	*		(41,845	) (758) *	
Interest expense, net	9,032	9,127	(1.0	)%	26,955	31,095	(13.3)%
Income/(loss) from continuing operations before income taxes	404	12,976	(96.9	)%	(22,751	) 17,067	*	
Income tax expense/(benefit)	121	3,611	(96.6	)%	(8,956	) 5,904	*	
Net income/(loss)	283	9,365	(97.0	)%	(13,795	) 11,163	*	
Net loss attributable to the noncontrolling interest	123	50	*		5,719	390	*	
Net income/(loss) attributable to The New York Times Company common stockholders	\$406	\$ 9,415	(95.7	)%	\$(8,076	) \$ 11,553	*	

* Represents a change equal to or in excess of 100% or not meaningful.

Revenues

Circulation Revenues

Total circulation revenues consist of revenues from our print and digital products, including our digital-only subscription packages, e-readers and replica editions. These revenues are based on the number of copies of the printed newspaper sold (through home-delivery subscriptions and single-copy and bulk sales) and digital-only subscriptions and the rates charged to the respective customers. All print home-delivery subscribers receive unlimited digital access. In the first quarter of 2016, the Company reclassified the subscription revenue from its Crossword product, including prior period information, into circulation revenues from other revenues. The following tables summarize 2016 and 2015 digital-only subscription revenues reflecting this reclassification:

	For the Quarter Ended		For the Nine Months Ended	
(In thousands)	September 2016	% Change vs. 2015	September 2016	% Change vs. 2015

Digital-only subscription revenues:

Digital-only news product subscription revenues	\$56,144	15.4 %	\$162,344	14.1 %
Digital Crossword product subscription revenues	2,408	47.7 %	6,778	53.2 %
Total digital-only subscription revenues	\$58,552	16.4 %	\$169,122	15.3 %

	For the Quarters Ended				For the Year Ended
(In thousands)	March 29, 2015	June 28, 2015	September 27, 2015	December 27, 2015	December 27, 2015

Digital-only subscription revenues:

Digital-only news product subscription revenues	\$46,127	\$47,465	\$48,656	\$50,409	\$192,657
Digital Crossword product subscription revenues	1,323	1,470	1,630	1,863	6,286
Total digital-only subscription revenues	\$47,450	\$48,935	\$50,286	\$52,272	\$198,943

Consistent with this reclassification, the Company also adjusted the number of digital-only subscriptions to include Crossword product subscriptions. The following tables summarize 2016 and 2015 digital-only subscriptions:

	2016	
(In thousands)	September 2016	% Change vs. 2015

Digital-only subscriptions:

Digital-only news product subscriptions	1,332	28.0 %
Digital Crossword product subscriptions	225	41.5 %
Total digital-only subscriptions	1,557	29.8 %

	2015			
(In thousands)	March 29, 2015	June 28, 2015	September 27, 2015	December 27, 2015

Digital-only subscriptions:

Digital-only news product subscriptions	957	990	1,041	1,094
Digital Crossword product subscriptions	142	145	159	176
Total digital-only subscriptions	1,099	1,135	1,200	1,270

Circulation revenues increased 3.0% in the third quarter and 2.8% in the first nine months of 2016 compared with the same prior-year periods, primarily due to growth in our digital subscription base and an increase in print home-delivery prices

for The New York Times newspaper, offset by a reduction in the number of print copies sold. Revenues from our digital-only subscriptions (including e-readers and replica editions) were \$58.6 million in the third quarter of 2016 and \$169.1 million in the first nine months of 2016, an increase of 16.4% and 15.3% from the third quarter and first nine months of 2015, respectively.

Advertising Revenues

Advertising revenues are derived from the sale of our advertising products and services on our print, web and mobile platforms. These revenues are primarily determined by the volume, rate and mix of advertisements. Display advertising revenue is principally from advertisers promoting products, services or brands in print in the form of column-inch ads, and on our web and mobile platforms in the form of banners, video, rich media and other interactive ads. Classified advertising revenue includes line-ads sold in the major categories of real estate, help wanted, automotive and other. Other advertising revenue primarily includes creative services fees associated with, among other things, our branded content studio; revenue from preprinted advertising, also known as free-standing inserts and revenue generated from branded bags in which our newspapers are delivered.

Advertising revenues (print and digital) by category were as follows:

(In thousands)	For the Quarters Ended		% Change	
	September 25, 2016	September 27, 2015		
Display	\$110,889	\$121,933	(9.1))%
Classified	6,941	8,435	(17.7))%
Other	7,068	4,988	41.7	%
Total	\$124,898	\$135,356	(7.7))%
(In thousands)	For the Nine Months Ended		% Change	
	September 25, 2016	September 27, 2015		
Display	\$353,356	\$393,871	(10.3))%
Classified	22,892	26,055	(12.1))%
Other	19,485	13,937	39.8	%
Total	\$395,733	\$433,863	(8.8))%

Below is a percentage breakdown of advertising revenues (print and digital) for the first nine months of 2016 and 2015:

	Display	Classified	Other	Total
2016	89 %	6 %	5 %	100 %
2015	91 %	6 %	3 %	100 %

Print advertising revenues, which represented 64.5% of total advertising revenues for the third quarter of 2016 and 66.9% of total advertising revenues for the first nine months of 2016, declined 18.5% and 13.7% in the third quarter and first nine months of 2016, respectively, compared with the same prior-year periods. The decline in both periods was primarily due to a continued decline in display advertising, primarily in the luxury goods, entertainment and technology categories.

Digital advertising revenues, which represented 35.5% of total advertising revenues for the third quarter of 2016 and 33.1% of total advertising revenues for the first nine months of 2016, increased 21.4% and 3.1% in the third quarter and first nine months of 2016, respectively, compared with the same prior-year periods. The increase in both periods was primarily due to increases in revenue from our mobile platform, our programmatic buying channels and branded content, partially offset by declines in traditional website display advertising.

Other Revenues

Other revenues increased 1.0% in the third quarter of 2016 and 2.1% in the first nine months of 2016, compared with the same prior-year periods, primarily due to growth in revenues from our NYT Live business.

Operating Costs

Operating costs were as follows:

(In thousands)	For the Quarters Ended				For the Nine Months Ended			
	September 2016	September 27, 2015	% Change		September 2016	September 27, 2015	% Change	
Production costs:								
Wages and benefits	\$91,041	\$88,999	2.3	%	\$274,142	\$268,667	2.0	%
Raw materials	18,228	18,400	(0.9)	)%	53,115	57,025	(6.9))%
Other	47,347	44,632	6.1	%	139,938	135,748	3.1	%
Total production costs	156,616	152,031	3.0	%	467,195	461,440	1.2	%
Selling, general and administrative costs	184,596	178,071	3.7	%	534,911	533,120	0.3	%
Depreciation and amortization	15,384	15,369	0.1	%	46,003	46,023	—	%
Total operating costs	\$356,596	\$345,471	3.2	%	\$1,048,109	\$1,040,583	0.7	%

Production Costs

Total production costs increased in the third quarter of 2016 compared with the third quarter of 2015, driven by an increase in other expense (\$2.7 million) and wages and benefits (\$2.0 million), offset by a decrease in raw materials expense (\$0.2 million). Other expenses increased primarily as a result of higher outside services costs. Wages and benefits increased as a result of increased headcount to support our growth initiatives. Raw materials expense decreased as a result of a 0.3% decline in newsprint expense in the third quarter of 2016 compared with the third quarter of 2015, with 5.4% from lower consumption, offset by 5.1% from higher pricing. The decline was also impacted by a 7.6% decrease in magazine paper expense in the third quarter of 2016 compared with the third quarter of 2015, with 4.5% from lower consumption and 3.1% from lower pricing.

Total production costs increased in the first nine months of 2016 compared with the first nine months of 2015, primarily due to an increase in wages and benefits expenses (\$5.5 million) and other expenses (\$4.2 million), partially offset by a decrease in raw materials expense (\$4.0 million). Wages and benefits expenses increased as a result of increased headcount to support our growth initiatives. Other expenses increased primarily as a result of higher outside service costs. Raw materials expense decreased as a result of a 9.0% decline in newsprint expense in the first nine months of 2016 compared with the first nine months of 2015, with 5.2% from lower consumption and 3.8% from lower pricing. The decline was also impacted by a 3.1% decrease in magazine paper expense in the first nine months of 2016 compared with the first nine months of 2015, with 2.0% from lower consumption and 1.1% from lower pricing.

Selling, General and Administrative Costs

Selling, general and administrative costs increased in the third quarter of 2016 compared with the third quarter of 2015, primarily due to an increase in severance costs (\$12.0 million), offset by a decrease in non-operating retirement costs (\$5.5 million). Severance costs increased due to a voluntary buyout program offer to certain employees in the third quarter of 2016.

Selling, general and administrative costs increased in the first nine months of 2016 compared with the first nine months of 2015 primarily due to an increase in severance costs (\$13.9 million) and compensation costs (\$8.5 million), offset by decreases in non-operating retirement costs (\$13.6 million) and distribution costs (\$4.2 million), outside service costs (\$1.0 million) and other expenses (\$2.3 million). Severance costs increased due to a voluntary buyout program offer to certain employees in the third quarter of 2016. Compensation costs increased primarily as a result of increased hiring to support growth initiatives. Distribution costs decreased primarily as a result of fewer print copies produced and transportation efficiencies.

Depreciation and Amortization

Depreciation and amortization costs were flat in the third quarter of 2016 and first nine months of 2016 compared with the same prior year periods.

Other Items

See Note 7 of the Notes to the Condensed Consolidated Financial Statements for additional information regarding other items.

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NON-OPERATING ITEMS

Joint Ventures

See Note 5 of the Notes to the Condensed Consolidated Financial Statements for information regarding our joint venture investments.

Interest Expense, Net

See Note 6 of the Notes to the Condensed Consolidated Financial Statements for information regarding interest expense.

Income Taxes

See Note 10 of the Notes to the Condensed Consolidated Financial Statements for information regarding income taxes.

Non-GAAP Financial Measures

We have included in this report certain supplemental financial information derived from consolidated financial information but not presented in our financial statements prepared in accordance with GAAP. Specifically, we have referred to the following non-GAAP financial measures in this report:

- diluted earnings per share from continuing operations excluding severance, non-operating retirement costs and the impact of special items (or adjusted diluted earnings per share from continuing operations);
- operating profit before depreciation, amortization, severance, non-operating retirement costs and special items (or adjusted operating profit); and
- operating costs before depreciation, amortization, severance and non-operating retirement costs (or adjusted operating costs).

The special items in 2016 consisted of:

- a \$2.9 million (\$1.8 million after tax or \$.01 per share) charge and an \$11.9 million (\$7.1 million after tax or \$.04 per share) charge in connection with the streamlining of the Company's international print operations (primarily consisting of severance costs) in the third and second quarters, respectively;
- an \$11.7 million (\$7.0 million after tax or \$.04 per share) charge for a partial withdrawal obligation under a multiemployer pension plan in the second quarter, \$5.0 million (\$3.0 million after tax or \$.02 per share) of which was reimbursed to the Company in the third quarter; and
- a \$41.4 million (\$20.1 million after tax and net of the noncontrolling interest or \$.13 per share) loss from joint ventures in the first quarter related to the announced closure of a paper mill operated by Madison Paper Industries, in which the Company has an investment through a subsidiary.

The special items in 2015 consisted of:

- a \$40.3 million (\$24.0 million after tax or \$.15 per share) pension settlement charge in the first quarter in connection with a lump-sum payment offer made to certain former employees who participated in certain qualified pension plans; and
- a \$4.7 million (\$2.8 million after tax or \$.02 per share) charge in the first quarter for a partial withdrawal obligation under a multiemployer pension plan.

We have included these non-GAAP financial measures because management reviews them on a regular basis and uses them to evaluate and manage the performance of our operations. We believe that, for the reasons outlined below, these non-GAAP financial measures provide useful information to investors as a supplement to reported diluted earnings/(loss) per share from continuing operations, operating profit/(loss) and operating costs. However, these measures should be evaluated only in conjunction with the comparable GAAP financial measures and should not be viewed as alternative or superior measures of GAAP results.

Adjusted diluted earnings per share provides useful information in evaluating our period-to-period performance because it eliminates items that we do not consider to be indicative of earnings from ongoing operating activities.

Adjusted operating profit is useful in evaluating the ongoing performance of our businesses as it excludes the significant non-cash impact of depreciation and amortization as well as items not indicative of ongoing operating activities. Total operating costs include depreciation, amortization, severance and non-operating retirement costs.

Adjusted operating costs, which exclude these items, provide investors with helpful supplemental information on our underlying operating costs that is used by management in its financial and operational decision-making.

Management considers special items, which may include impairment charges, pension settlement charges and other items that arise from time to time, to be outside the ordinary course of our operations. Management believes that excluding these items provides a better understanding of the underlying trends in the Company's operating performance and allows more accurate comparisons of the Company's operating results to historical performance. In addition, management excludes severance costs, which may fluctuate significantly from quarter to quarter, because it believes these costs do not necessarily reflect expected future operating costs and do not contribute to a meaningful comparison of the Company's operating results to historical performance.

Non-operating retirement costs include:

- interest cost, expected return on plan assets and amortization of actuarial gain and loss components of pension expense;
- interest cost and amortization of actuarial gain and loss components of retiree medical expense; and
- all expenses associated with multiemployer pension plan withdrawal obligations, not otherwise included as special items.

These non-operating retirement costs are primarily tied to financial market performance and changes in market interest rates and investment performance. Non-operating retirement costs do not include service costs and amortization of prior service costs for pension and retiree medical benefits, which we believe reflect the ongoing operating costs of providing pension and retiree medical benefits to our employees. We consider non-operating retirement costs to be outside the performance of our ongoing core business operations and believe that presenting operating results excluding non-operating retirement costs, in addition to our GAAP operating results, will provide increased transparency and a better understanding of the underlying trends in our operating business performance. Reconciliations of non-GAAP financial measures from, respectively, diluted earnings per share from continuing operations, operating profit and operating costs, the most directly comparable GAAP items, as well as details on the components of non-operating retirement costs, are set out in the tables below.

Reconciliation of diluted earnings per share from continuing operations excluding severance, non-operating retirement costs and special items (or adjusted diluted earnings per share from continuing operations)

	For the Quarters Ended			For the Nine Months Ended		
	September 2016	September 2015	27% Change	September 2016	September 2015	27% Change
Diluted earnings/(loss) per share from continuing operations	\$0.00	\$ 0.06	*	\$(0.05)	\$ 0.07	*
Add:						
Severance	0.08	0.01	*	0.11	0.03	*
Non-operating retirement costs	0.02	0.06	(66.7)%	0.08	0.16	(50.0)%
Special items:						
Restructuring charge	0.02	—	*	0.09	—	*
Multiemployer pension plan withdrawal (income)/expense	(0.03)	—	*	0.04	0.03	33.3 %
Loss from joint ventures, net of tax and noncontrolling interest	—	—	*	0.21	—	*
Pension settlement charge	—	—	*	—	0.24	*
Income tax expense of special items	(0.04)	(0.02)	*	(0.21)	(0.18)	16.7 %
Adjusted diluted earnings per share from continuing operations ⁽¹⁾	\$0.06	\$ 0.09	(33.3)%	\$0.27	\$ 0.34	(20.6)%

⁽¹⁾ Amounts may not add due to rounding.

* Represents a change equal to or in excess of 100% or not meaningful

Reconciliation of operating profit before depreciation & amortization, severance, non-operating retirement costs and special items (or adjusted operating profit)

(In thousands)	For the Quarters Ended				For the Nine Months Ended			
	September 25, 2016	September 27, 2015	% Change		September 25, 2016	September 27, 2015	% Change	
Operating profit	\$8,973	\$ 21,933	(59.1)	%	\$46,049	\$48,920	(5.9)	%
Add:								
Depreciation & amortization	15,384	15,369	0.1	%	46,003	46,023	—	%
Severance	13,006	959	*		18,262	4,350	*	
Non-operating retirement costs	3,845	9,380	(59.0)	%	13,349	26,929	(50.4)	%
Special items:								
Restructuring charge	2,949	—	*		14,804	—	*	
Multiemployer pension plan withdrawal (income)/expense	(4,971)	—	*		6,730	4,697	43.3	%
Pension settlement charges	—	—	*		—	40,329	*	
Adjusted operating profit	\$39,186	\$ 47,641	(17.7)	%	\$145,197	\$171,248	(15.2)	%

* Represents a change equal to or in excess of 100% or not meaningful.

Reconciliation of operating costs before depreciation & amortization, severance and non-operating retirement costs (or adjusted operating costs)

(In thousands)	For the Quarters Ended				For the Nine Months Ended			
	September 25, 2016	September 27, 2015	% Change		September 25, 2016	September 27, 2015	% Change	
Operating costs	\$356,596	\$ 345,471	3.2	%	\$1,048,109	\$ 1,040,583	0.7	%
Less:								
Depreciation & amortization	15,384	15,369	0.1	%	46,003	46,023	—	%
Severance	13,006	959	*		18,262	4,350	*	
Non-operating retirement costs	3,845	9,380	(59.0)	%	13,349	26,929	(50.4)	%
Adjusted operating costs	\$324,361	\$ 319,763	1.4	%	\$970,495	\$ 963,281	0.7	%

Components of non-operating retirement costs⁽¹⁾

(In thousands)	For the Quarters Ended			For the Nine Months Ended		
	September 2016	September 2015	Change %	September 2016	September 2015	Change %
Pension:						
Interest cost	\$18,607	\$ 21,016	(11.5)%	\$55,822	\$ 63,472	(12.1)%
Expected return on plan assets	(27,790)	(28,832)	(3.6)%	(83,369)	(86,439)	(3.6)%
Amortization and other costs	8,123	10,749	(24.4)%	24,366	32,165	(24.2)%
Non-operating pension costs	(1,060)	2,933	*	(3,181)	9,198	*
Other postretirement benefits:						
Interest cost	495	688	(28.1)%	1,485	2,065	(28.1)%
Amortization and other costs	1,026	1,303	(21.3)%	3,078	3,909	(21.3)%
Non-operating other postretirement benefits costs	1,521	1,991	(23.6)%	4,563	5,974	(23.6)%
Expenses associated with multiemployer pension plan withdrawal obligations	3,384	4,456	(24.1)%	11,967	11,757	1.8 %
Total non-operating retirement costs	\$3,845	\$ 9,380	(59.0)%	\$13,349	\$ 26,929	(50.4)%

⁽¹⁾Components of non-operating retirement costs do not include special items.

LIQUIDITY AND CAPITAL RESOURCES

We believe our cash balance and cash provided by operations, in combination with other sources of cash, will be sufficient to meet our financing needs over the next twelve months. As of September 25, 2016, we had cash, cash equivalents and short- and long-term marketable securities of \$944.9 million and total debt and capital lease obligations of \$434.9 million. Accordingly, our cash, cash equivalents and marketable securities exceeded total debt and capital lease obligations by \$510.0 million. Our cash and investment balances have increased since the end of 2015, in advance of our repayment, which we will make at maturity, of our 6.625% senior notes due December 15, 2016. Additionally, during 2016, we received a \$38.0 million cash distribution from the liquidation of certain investments related to our corporate-owned life insurance, and \$5.0 million in connection with an ongoing arbitration matter related to a multiemployer pension plan.

In January 2009, pursuant to a securities purchase agreement, we issued warrants to affiliates of Carlos Slim Helú, then the beneficial owner of approximately 8% of our Class A Common Stock (excluding the warrants), to purchase 15.9 million shares of our Class A Common Stock at a price of \$6.3572 per share. On January 14, 2015, the warrant holders exercised these warrants in full and the Company received cash proceeds of \$101.1 million from this exercise. On January 13, 2015, the Board of Directors terminated an existing authorization to repurchase shares of the Company's Class A Common Stock and approved a new repurchase authorization of \$101.1 million, equal to the cash proceeds received by the Company from the exercise. As of September 25, 2016, the Company had repurchased 6,690,905 Class A shares under this authorization for a cost of \$84.9 million (excluding commissions) and \$16.2 million remained. Our Board of Directors has authorized us to purchase shares under this authorization from time to time, subject to market conditions and other factors. There is no expiration date with respect to this authorization.

Capital Resources

Sources and Uses of Cash

Cash flows provided by/(used in) by category were as follows:

	For the Nine Months Ended			
(In thousands)	September 25, 2016	September 27, 2015		% Change
Operating activities	\$76,071	\$ 108,034	(29.6)%
Investing activities	\$ 10,212	\$ 45,382	(77.5)%
Financing activities	\$(35,287)	\$(184,464	) (80.9)%

Operating Activities

Cash from operating activities is generated by cash receipts from circulation, advertising sales and other revenue transactions. Operating cash outflows include payments for employee compensation, pension and other benefits, raw materials, interest and income taxes.

Net cash provided by operating activities decreased in the first nine months of 2016 compared with the same prior-year period due to higher income tax payments, higher employee compensation payments and an overall decline in revenues.

Investing Activities

Cash from investing activities generally includes proceeds from marketable securities that have matured and the sale of assets, investments or a business. Cash used in investing activities generally includes purchases of marketable securities, payments for capital projects, restricted cash, acquisitions of new businesses and investments.

Net cash provided by investing activities in the first nine months of 2016 was primarily related to maturities of marketable securities and a cash distribution from the liquidation of certain investments related to our corporate-owned life insurance, offset by net purchases of marketable securities, capital expenditures and the purchases of two digital marketing agencies.

Financing Activities

Cash from financing activities generally includes borrowings under third-party financing arrangements, the issuance of long-term debt and funds from stock option exercises. Cash used in financing activities generally includes the repayment of amounts outstanding under third-party financing arrangements, the payment of dividends and the payment of long-term debt and capital lease obligations.

Net cash used in financing activities in the first nine months of 2016 was primarily related to dividend payments of \$19.4 million and share repurchases of \$15.7 million.

Restricted Cash

We were required to maintain \$24.9 million of restricted cash as of September 25, 2016 and \$28.7 million as of December 27, 2015, the majority of which is set aside to collateralize workers' compensation obligations.

Third-Party Financing

As of September 25, 2016, our current indebtedness included senior notes and the repurchase option related to a sale-leaseback of a portion of our New York headquarters. See Note 6 for information regarding our total debt and capital lease obligations. See Note 8 for information regarding the fair value of our long-term debt.

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are detailed in our Annual Report on Form 10-K for the year ended December 27, 2015. As of September 25, 2016, our critical accounting policies have not changed from December 27, 2015.

CONTRACTUAL OBLIGATIONS & OFF-BALANCE SHEET ARRANGEMENTS

Our contractual obligations and off-balance sheet arrangements are detailed in our Annual Report on Form 10-K for the year ended December 27, 2015. As of September 25, 2016, our contractual obligations and off-balance sheet arrangements have not changed materially from December 27, 2015.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements that relate to future events or our future financial performance. We may also make written and oral forward-looking statements in our Securities and Exchange Commission ("SEC") filings and otherwise. We have tried, where possible, to identify such statements by using words such as "believe," "expect," "intend," "estimate," "anticipate," "will," "could," "project," "plan" and similar expressions in connection with any discussion of future operating or financial performance. Any forward-looking statements are and will be based upon our then-current expectations, estimates and assumptions regarding future events and are applicable only as of the dates of such statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

By their nature, forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated in any such statements. You should bear this in mind as you consider forward-looking statements. Factors that we think could, individually or in the aggregate, cause our actual results to differ materially from expected and historical results include those described in our Annual Report on Form 10-K for the year ended December 27, 2015, as well as other risks and factors identified from time to time in our SEC filings.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our Annual Report on Form 10-K for the year ended December 27, 2015, details our disclosures about market risk. As of September 25, 2016, there were no material changes in our market risks from December 27, 2015.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of September 25, 2016. Based upon such evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and 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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

On July 5, 2016, we implemented a new human resources and payroll management system across the Company. We have taken steps to implement appropriate internal controls with respect to this new system and will continue to evaluate the design and operating effectiveness of our internal control over financial reporting.

There were no other changes in our internal control over financial reporting during the quarter ended September 25, 2016, 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

We are involved in various legal actions incidental to our business that are now pending against us. These actions are generally for amounts greatly in excess of the payments, if any, that may be required to be made. See Note 14 of the Notes to the Consolidated Financial Statements for a description of certain matters, which is incorporated herein by reference. Although the Company cannot predict the outcome of these matters, it is possible that an unfavorable outcome in one or more matters could be material to the Company's consolidated results of operations or cash flows for an individual reporting period. However, based on currently available information, management does not believe that the ultimate resolution of these matters, individually or in the aggregate, is likely to have a material effect on the Company's financial position.

Item 1A. Risk Factors

There have been no material changes to our risk factors as set forth in "Item 1A—Risk Factors" in our Annual Report on Form 10-K for the year ended December 27, 2015.

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

(c) Issuer Purchases of Equity Securities⁽¹⁾

Total number of shares of Class A Common Stock purchased (a)	Average price paid per share of Class A Common Stock (b)	Total number of shares of Class A Common Stock purchased as part of publicly announced plans or programs (c)	Maximum number (or approximate dollar value) of shares of Class A Common Stock that may yet be purchased under the plans or programs (d)
June 27, 2016 —	—	—	\$ 16,235,000
July 31, 2016 August 1, 2016 —	—	—	\$ 16,235,000
August 28, 2016 August 29, 2016 —	—	—	\$ 16,235,000
September 25, 2016 —	—	—	\$ 16,235,000

Total
for
the
third
quarter
of
2016

(1) On January 13, 2015, the Board of Directors terminated an existing authorization to repurchase shares of the Company's Class A Common Stock and approved a new repurchase authorization of \$101.1 million, equal to the cash proceeds received by the Company from an exercise of warrants. The Company did not repurchase any additional shares during the third quarter of 2016. Our Board of Directors has authorized us to purchase shares under this authorization from time to time, subject to market conditions and other factors. There is no expiration date with respect to this authorization.

Item 6. Exhibits

An exhibit index has been filed as part of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

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.

THE NEW YORK TIMES COMPANY
(Registrant)

Date: November 3, 2016 /s/ JAMES M. FOLLO
James M. Follo
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Exhibit Index to Quarterly Report on Form 10-Q
For the Quarter Ended September 25, 2016

Exhibit No.

12	Ratio of Earnings to Fixed Charges.
31.1	Rule 13a-14(a)/15d-14(a) Certification.
31.2	Rule 13a-14(a)/15d-14(a) Certification.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.