

Globalstar, Inc.  
Form 424B3  
August 16, 2013

**Filed Pursuant to Rule 424(b)(3)**

**Registration File No. 333- 186872**

**Supplement No. 2**

**GLOBALSTAR, INC.**

**PROSPECTUS**

Attached hereto and incorporated by reference herein is a Quarterly Report on Form 10-Q which we filed with the Securities and Exchange Commission on August 14, 2013. This Prospectus Supplement is not complete without, and may not be delivered or utilized except in connection with, the Prospectus dated August 5, 2013 with respect to the sale of 39,500,000 shares of our voting common stock, par value \$0.0001 per share (the "Common Stock"), by the selling stockholder set forth in the Prospectus, including any amendments or supplements thereto.

**An investment in our Common Stock involves a high degree of risk. You should consider carefully the risk factors beginning on page 4 of the Prospectus before purchasing any of the shares offered by this prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this Prospectus Supplement is August 16, 2013**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended June 30, 2013**

**OR**

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

**For the transition period from                      to**

**Commission file number 001-33117**

**GLOBALSTAR, INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

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

**300 Holiday Square Blvd.**

**Covington, Louisiana 70433**

(Address of principal executive offices and zip code)

Registrant's Telephone Number, Including Area Code: **(985) 335-1500**

Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

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

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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As of August 2, 2013, 407,946,332 shares of voting common stock and 256,875,000 shares of nonvoting common stock were outstanding. Unless the context otherwise requires, references to common stock in this Report mean Registrant's voting common stock.

**GLOBALSTAR, INC.**

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

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Revenue:				
Service revenues	\$ 15,409	\$ 14,150	\$ 30,799	\$ 26,777
Subscriber equipment sales	4,426	5,831	8,369	9,942
Total revenue	19,835	19,981	39,168	36,719
Operating expenses:				
Cost of services (exclusive of depreciation, amortization, and accretion shown separately below)	7,205	7,542	14,732	14,803
Cost of subscriber equipment sales	3,587	3,701	6,527	6,425
Cost of subscriber equipment sales - reduction in the value of inventory	-	49	-	298
Marketing, general, and administrative	6,577	7,018	13,501	13,637
Reduction in the value of long-lived assets	-	7,139	-	7,218
Contract termination charge	-	22,048	-	22,048
Depreciation, amortization, and accretion	22,067	15,888	42,399	30,623
Total operating expenses	39,436	63,385	77,159	95,052
Loss from operations	(19,601 )	(43,404 )	(37,991 )	(58,333 )
Other income (expense):				
Loss on extinguishment of debt	(47,240 )	-	(47,240 )	-
Loss on future equity issuance	(13,969 )	-	(13,969 )	-
Interest income and expense, net of amounts capitalized	(15,216 )	(3,781 )	(22,968 )	(6,831 )
Derivative gain (loss)	(29,903 )	20,432	(29,377 )	13,911
Other	(224 )	(632 )	417	(500 )
Total other income (expense)	(106,552)	16,019	(113,137)	6,580
Loss before income taxes	(126,153)	(27,385 )	(151,128)	(51,753 )
Income tax expense	119	148	222	305
Net loss	\$ (126,272)	\$ (27,533 )	\$ (151,350)	\$ (52,058 )
Loss per common share:				
Basic	\$ (0.25 )	\$ (0.07 )	\$ (0.31 )	\$ (0.14 )
Diluted	(0.25 )	(0.07 )	(0.31 )	(0.14 )
Weighted-average shares outstanding:				
Basic	496,169	379,433	484,244	368,482
Diluted	496,169	379,433	484,244	368,482

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Comprehensive loss	\$(126,353)	\$(27,443)	\$(152,000)	\$(51,509)
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See accompanying notes to unaudited interim condensed consolidated financial statements.

**GLOBALSTAR, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except par value and share data)**

	(Unaudited) June 30, 2013	(Audited) December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,237	\$ 11,792
Restricted cash	38,152	46,777
Accounts receivable, net of allowance of \$6,195 and \$6,667, respectively	14,907	13,944
Inventory	38,109	42,181
Deferred financing costs	30,344	34,622
Prepaid expenses and other current assets	6,440	5,233
Total current assets	134,189	154,549
Property and equipment, net	1,207,810	1,215,156
Deferred financing costs	15,917	16,883
Advances for inventory	9,158	9,158
Intangible and other assets, net	7,630	8,029
Total assets	\$ 1,374,704	\$ 1,403,775
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 585,670	\$ 655,874
Accounts payable, including contractor payables of \$27,204 and \$27,747, respectively	34,845	35,685
Accrued contract termination charge	22,802	23,166
Accrued expenses	27,106	28,164
Payables to affiliates	316	230
Derivative liabilities	40,660	-
Deferred revenue	18,677	18,041
Total current liabilities	730,076	761,160
Long-term debt, less current portion	127,112	95,155
Employee benefit obligations	7,216	7,221
Derivative liabilities	69,855	25,175
Deferred revenue	4,433	4,640
Other non-current liabilities	14,756	15,880
Total non-current liabilities	223,372	148,071
Commitments and contingent liabilities (Notes 8 and 9)		
Stockholders' equity:		
Preferred Stock of \$0.0001 par value; 100,000,000 shares authorized and none issued and outstanding at June 30, 2013 and December 31, 2012:	-	-



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Series A Preferred Convertible Stock of \$0.0001 par value; one share authorized and none issued and outstanding at June 30, 2013 and December 31, 2012		
Voting Common Stock of \$0.0001 par value; 865,000,000 shares authorized; 413,956,753 and 354,085,753 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	41	35
Nonvoting Common Stock of \$0.0001 par value; 135,000,000 shares authorized; 135,000,000 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	14	14
Additional paid-in capital	889,912	864,175
Future equity issuance of common stock to related party	52,969	-
Accumulated other comprehensive loss	(2,408 )	(1,758 )
Retained deficit	(519,272 )	(367,922 )
Total stockholders' equity	421,256	494,544
Total liabilities and stockholders' equity	\$ 1,374,704	\$ 1,403,775

See accompanying notes to unaudited interim condensed consolidated financial statements.

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

	Six Months Ended	
	June 30, 2011	June 30, 2012
Cash flows provided by (used in) operating activities:		
Net loss	\$(151,350)	\$ (52,058 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion	42,399	30,623
Change in fair value of derivative assets and liabilities	28,472	(13,911 )
Stock-based compensation expense	793	394
Amortization of deferred financing costs	4,081	1,673
Loss on equity method investments	-	210
Noncash interest and accretion expense	12,083	2,884
Reduction in the value of long-lived assets and inventory	-	7,516
Provision for bad debts	794	281
Contract termination charge	-	22,048
Loss on extinguishment of debt	47,240	-
Loss on future equity issuance	13,969	-
Unrealized foreign currency loss	(1,176 )	323
Other, net	407	684
Changes in operating assets and liabilities:		
Accounts receivable	(1,851 )	202
Inventory	3,493	317
Prepaid expenses and other current assets	(1,349 )	891
Other assets	556	146
Accounts payable and accrued expenses	(106 )	(1,033 )
Payables to affiliates	86	(208 )
Other non-current liabilities	(837 )	(540 )
Deferred revenue	470	1,366
Net cash provided by (used in) operating activities	(1,826 )	1,808
Cash flows used in investing activities:		
Second-generation satellites, ground and related launch costs (including interest)	(27,666 )	(33,562 )
Property and equipment additions	(569 )	(195 )
Investment in businesses	(355 )	(200 )
Restricted cash	8,625	(700 )
Net cash used in investing activities	(19,965 )	(34,657 )
Cash flows provided by financing activities:		
Borrowings from Facility Agreement	-	5,008
Proceeds from contingent equity agreement	-	23,000

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Payments to reduce principal amount of exchanged 5.75% Notes	(13,544 )	
Payments for 5.75% Notes not exchanged	(6,250 )	
Payments to lenders and other fees associated with exchange	(2,482 )	
Proceeds for future equity issuance to related party	39,000	
Proceeds from issuance of common stock and exercise of warrants	1,206	100
Payment of deferred financing costs	(1,481 )	(250 )
Net cash provided by financing activities	16,449	27,858
Effect of exchange rate changes on cash	(213 )	(140 )
Net decrease in cash and cash equivalents	(5,555 )	(5,131 )
Cash and cash equivalents, beginning of period	11,792	9,951
Cash and cash equivalents, end of period	\$6,237	\$ 4,820
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$11,445	\$ 16,894
Income taxes	63	144
Supplemental disclosure of non-cash financing and investing activities:		
Reduction in accrued second-generation satellites and ground costs	743	5,039
Increase in non-cash capitalized interest for second-generation satellites and ground costs	2,910	2,473
Capitalization of the accretion of debt discount and amortization of debt issuance costs	3,901	6,334
Interest and other payments made in convertible notes and common stock	3,673	3,807
Conversion of debt into common stock	8,615	-
Reduction in debt discount and issuance costs related to note conversions	5,166	-
Extinguishment of principal amount of 5.75% Notes	(71,804 )	-
Issuance of principal amount of 8% Notes Issued in 2013	54,611	-
Issuance of common stock to exchanging note holders at fair value	12,127	-
Fair value adjustment due to warrant conversions	-	420
Conversion of contingent equity account derivative liability to equity	-	5,853
Value of warrants issued in connection with the contingent equity account loan fee	-	2,226

See accompanying notes to unaudited interim condensed consolidated financial statements.

**GLOBALSTAR, INC.**

**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

The Company has prepared the accompanying unaudited interim condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information. Certain information and footnote disclosures normally in financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission; however, management believes the disclosures made are adequate to make the information presented not misleading. These financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in Globalstar, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2012 and Management’s Discussion and Analysis of Financial Condition and Results of Operations herein.

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

All significant intercompany transactions and balances have been eliminated in the consolidation. In the opinion of management, the information included herein includes all adjustments, consisting of normal recurring adjustments, that are necessary for a fair presentation of the Company’s condensed consolidated statements of operations, condensed consolidated balance sheets, and condensed consolidated statements of cash flows for the periods presented. These unaudited interim condensed consolidated financial statements include the accounts of Globalstar and its majority owned or otherwise controlled subsidiaries. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the full year or any future period.

*Recently Issued Accounting Pronouncements*

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-02, *Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This standard requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. ASU 2013-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. This adoption did not have an impact on the Company’s condensed consolidated financial statements.

## **2. MANAGEMENT’S PLANS REGARDING FUTURE OPERATIONS**

Current sources of liquidity include cash on hand, cash flows from operations, funds which Thermo Funding Company LLC (including its affiliates, “Thermo”) has agreed to invest or arrange to be invested in the Company pursuant to the Equity Commitment, Restructuring Support and Consent Agreement dated as of May 20, 2013 among the Company, Thermo, BNP Paribas, as agent, and the lenders under the Facility Agreement (as defined below) (the “Consent Agreement”) and the Global Deed of Amendment and Restatement (the “GARA”) described below and funds available from the Company’s equity line agreement with Terrapin Opportunity, L.P. (“Terrapin”).

On July 31, 2013, the Company entered into the GARA with Thermo, the Company’s domestic subsidiaries (the “Subsidiary Guarantors”), a syndicate of bank lenders, including BNP Paribas, Société Générale, Natixis, Credit Agricole Corporate and Investment Bank and Credit Industrial et Commercial as arrangers and BNP Paribas as the security agent and COFACE Agent, providing for the amendment and restatement of Globalstar’s existing \$586.3 million senior secured credit facility (the “Facility Agreement”) dated as of June 5, 2009 (as previously amended, the “Existing Credit Agreement”) and certain related credit documents. The GARA, when effective, will waive all of Globalstar’s existing defaults under the Existing Credit Agreement, extend the term of the facility by two and a half years (postponing an aggregate of \$235.3 million in principal payments through 2019), and restructure the financial covenants. The GARA provides that, upon the effective date of the transactions contemplated by the GARA, the Existing Credit Agreement and certain related credit documents will be amended and restated in the forms attached to the GARA.

As previously reported, the Company is required to meet certain conditions precedent to close the transactions contemplated by the GARA. The Company expects to fulfill these conditions precedent in the near future. However, the Company cannot guarantee if or when it will be able to satisfy these conditions. (See Notes 4 and 17 for further discussion.)

In order to continue as a going concern, the Company must fulfill the conditions precedent necessary for the effectiveness of the GARA, and execute its business plan, which assumes the modification of certain obligations and the funding of the financial arrangements with Thermo and Terrapin as discussed above. Substantial uncertainties remain related to the impact and timing of these events. If the resolution of these uncertainties materially and negatively impacts cash and liquidity, the Company's ability to continue to execute its business plan will be adversely affected. The Company's financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying financial statements do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might result from the uncertainty associated with the items discussed below, except as otherwise disclosed.

The Company has taken the following steps towards improving operations; completing and maintaining its second-generation constellation and next-generation ground infrastructure; and obtaining additional financing:

Reduced operating expenses by, among other things, streamlining its supply chain and other operations, consolidating its world-wide operations, including the completion of the relocation of its corporate headquarters to Covington, Louisiana, and simplifying its product offerings. The Company has continued to maintain a low cost operating structure, while strategically investing in sales and marketing and new product development.

Increased revenues by transitioning legacy Duplex customers to more profitable plans, commensurate with the Company's improved service coverage, and adding new subscribers to the network at growing rates.

- Successfully launched all of its second-generation satellites, excluding one on-ground spare.

Entered into other financing arrangements with Thermo under which Thermo has provided or agreed to provide or arrange \$85.0 million in equity or equity-linked financing.

- Entered into a \$30.0 million equity line agreement with Terrapin.
- Drew \$60.0 million from its contingent equity account.

- Settled disputes with Thales Alenia Space (“Thales”) regarding prior contractual issues.

Implemented sales and marketing programs designed to take advantage of the continued expansion of the Company’s Duplex coverage, including entering into new sales agreements and introducing new pricing plans commensurate with improved service levels.

Commenced a proceeding before the Federal Communications Commission (“FCC”) seeking authority to utilize the Company’s MSS spectrum to offer mobile broadband services separate and apart from, but coordinated with, its satellite-based communications.

Introduced the SPOT Global Phone, which is meant to leverage the Company’s retailer distribution channels and SPOT brand name.

Introduced the SPOT Gen3™, the next generation of the SPOT Satellite GPS Messenger™. SPOT Gen3™ offers enhanced functionality with more tracking features, improved battery performance and more power options including rechargeable and USB direct line power.

Issued in May 2013 \$54.6 million principal amount of new 8.00% Convertible Senior Notes (the “8.00% Notes Issued in 2013”), together with cash and shares of its common stock, in exchange for all of the Company’s \$71.8 million principal amount 5.75% Convertible Senior Unsecured Notes (the “5.75% Notes”), which were in default.

• Signed the GARA in July 2013 (as discussed above), which will, when effective, significantly adjust the principal repayment schedule and covenant levels required under the Agreement.

The Company believes that these actions, combined with additional actions included in its operating plan, will result in improved cash flows from operations, provided the significant uncertainties described in the first section of this footnote are successfully resolved. These additional actions include, among other things, the following:

• Completing second-generation ground infrastructure upgrades that will permit the Company to offer a new suite of consumer and enterprise products that leverage the Company's new, inexpensive chip architecture.

• Negotiating agreements with third parties to restart operations at certain existing Globalstar gateways to make coverage in additional areas commercially viable.

• Continuing to pursue numerous opportunities in the field of aviation; including next-generation "space-based" air traffic management services, in association with the Company's technology partner, ADS-B Technologies, LLC.

• Continuing to control operating expenses while redirecting available resources to the marketing and sale of product offerings.

- Improving its key business processes and leveraging its information technology platform.

• Introducing new and innovative Simplex, SPOT and Duplex products to the market that will further drive sales volume and revenue.

### 3. PROPERTY AND EQUIPMENT

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

	June 30, 2013	December 31, 2012
Globalstar System:		
Space component	\$ 1,166,358	\$ 934,900
Ground component	48,335	49,089
Construction in progress:		
Space component	79,317	280,729



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Ground component	106,457	102,903
Prepaid long-lead items and other	17,670	17,920
Total Globalstar System	1,418,137	1,385,541
Internally developed and purchased software	14,844	14,414
Equipment	12,727	12,800
Land and buildings	3,848	4,003
Leasehold improvements	1,499	1,512
	1,451,055	1,418,270
Accumulated depreciation and amortization	(243,245 )	(203,114 )
	\$1,207,810	\$1,215,156

Amounts in the table above consist primarily of costs incurred related to the construction of the Company's second-generation constellation, related launch services and ground upgrades. Amounts included in the Company's construction in progress - space component balance as of June 30, 2013 consist primarily of costs related to the remaining second-generation satellite launched in February 2013 that has not yet been placed into commercial service as well as a spare satellite that will be included in a future launch of satellites. When the launched satellite is placed into commercial service, the estimated cost per satellite will be transferred from construction in progress to the Globalstar System space component. See Note 8 for further discussion of the Company's contractual obligations.

**Capitalized Interest and Depreciation Expense**

The following tables summarize capitalized interest for the periods indicated below (in thousands):

	As of	
	June 30, 2013	December 31, 2012
Total interest capitalized	\$228,058	\$ 216,477

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Interest cost eligible to be capitalized	\$ 11,927	\$ 14,783	25,732	\$ 29,634
Interest cost recorded in interest expense, net	(7,484 )	(2,756 )	(14,151)	(4,696 )
Net interest capitalized	4,443	12,027	11,581	24,938

The following table summarizes depreciation expense for the periods indicated below (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Depreciation expense	\$ 21,817	\$ 15,111	\$41,690	\$ 29,578

**4. LONG-TERM DEBT**

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

	June 30, 2013		December 31, 2012	
	Principal Amount	Carrying Value	Principal Amount	Carrying Value
Facility Agreement	\$585,670	\$585,670	\$585,670	\$585,670
Subordinated Loan	56,809	53,358	53,499	49,822
5.75% Convertible Senior Unsecured Notes	-	-	71,804	70,204
8.00% Convertible Senior Notes Issued in 2013	54,611	28,086	-	-
5.0% Convertible Senior Unsecured Notes	33,114	14,757	40,920	16,701
8.00% Convertible Senior Unsecured Notes Issued in 2009	49,665	30,911	48,228	28,632
Total Debt	779,869	712,782	800,121	751,029

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Less: Current Portion	585,670	585,670	657,474	655,874
Long-Term Debt	\$194,199	\$127,112	\$142,647	\$95,155

The table above represents the principal amount and carrying value of long-term debt at June 30, 2013 and December 31, 2012. The principal amounts shown above include payment of in kind interest, if any. The carrying value is net of any discounts to the loan amounts at issuance, as further described below, including accretion.

***Facility Agreement***

The Company has \$586.3 million principal amount of indebtedness under the Existing Facility Agreement that is scheduled to mature 84 months after the first principal repayment date. Semi-annual principal repayments are scheduled to begin in June 2013. The facility bears interest at a floating LIBOR rate, plus a margin of 2.25% through December 2017, increasing to 2.40% thereafter. Ninety-five percent of the Company's obligations under the Existing Facility Agreement are guaranteed by COFACE, the French export credit agency. The Company's obligations under the Existing Facility Agreement are guaranteed on a senior secured basis by all of its domestic subsidiaries and are secured by a first priority lien on substantially all of the assets of the Company and its domestic subsidiaries (other than their FCC licenses), including patents and trademarks, 100% of the equity of the Company's domestic subsidiaries and 65% of the equity of certain foreign subsidiaries. The Existing Facility Agreement contains customary events of default and requires that the Company satisfy various financial and nonfinancial covenants.

The Existing Facility Agreement requires the Company to fund a total of \$46.8 million to the debt service reserve account. The use of the funds in this account is restricted to making principal and interest payments under the Existing Facility Agreement. The minimum required balance, not to exceed \$46.8 million, fluctuates over time based on the timing of principal and interest payment dates. In December 2012, the amount required to be funded into the debt service reserve account was reduced by approximately \$8.9 million due to the timing of the first principal repayment date scheduled for June 2013. In January 2013, the agent for the Existing Facility Agreement permitted the Company to withdraw from the debt service reserve account \$8.9 million that was in excess of the required balance to enable the Company to pay capital expenditure costs for the fourth launch of its second-generation satellites. As of June 30, 2013, the Company drew \$8.7 million of the permitted \$8.9 million to pay certain capital expenditures from the fourth launch and the Company classified approximately \$38.1 million in the debt service reserve account as restricted cash.

As a result of the Thales arbitration ruling and the subsequent settlement agreements reached with Thales related to the arbitration ruling in 2012, the lenders concluded that events of default had occurred under the Existing Facility Agreement. The Company is also in default of certain other financial and nonfinancial covenants, including, but not limited to, lack of payment of principal in June 2013 in accordance with the terms of the Existing Facility Agreement, minimum required funding for the Company's debt service account, and in-orbit acceptance of all of its second-generation satellites by April 2013. As of June 30, 2013, the borrowings were shown as current on the Company's condensed consolidated balance sheet in accordance with applicable accounting rules.

Due to the launch delays, the Company expects that it may not be in compliance with certain financial and nonfinancial covenants specified in the Existing Facility Agreement during the next 12 months. If the Company cannot obtain either a waiver or an amendment, the failure to comply with these covenants would represent additional events of default. An event of default under the Existing Facility Agreement could permit the lenders to accelerate the indebtedness under the Existing Facility Agreement. That acceleration could permit acceleration of the Company's obligations under other debt arrangements, as described below, that contain cross-acceleration provisions.

See Note 17 for discussion on subsequent events related to the Existing Facility Agreement, including the lenders' waiver of the events of default occurring as of June 30, 2013 and amendments to the financial covenants included in the Existing Facility Agreement.

### ***Contingent Equity Agreement***

The Company has a Contingent Equity Agreement with Thermo whereby Thermo agreed to deposit \$60.0 million into a contingent equity account to fulfill a condition precedent for borrowing under the Existing Facility Agreement. Under the terms of the Existing Facility Agreement, the Company has the right to make draws from this account if and to the extent it has an actual or projected deficiency in its ability to meet obligations due within a forward-looking 90-day period. Thermo pledged the contingent equity account to secure the Company's obligations under the Existing Facility Agreement.

The Contingent Equity Agreement provides that the Company will pay Thermo an availability fee of 10% per year for maintaining funds in the contingent equity account. This annual fee is payable solely in warrants to purchase common stock at \$0.01 per share with a five-year exercise period from issuance. The Company determined that the warrants issued in conjunction with the availability fee were derivatives and recorded the value of the derivatives as a component of other non-current liabilities, at issuance. The offset was recorded in other assets and is being amortized over the one-year availability period. The warrants issued on June 19, 2012 are not subject to a reset provision subsequent to issuance and are therefore not considered a derivative instrument. The value of the warrants issued was recorded as equity and the offset was recorded in other assets and was amortized over the one-year availability period.

When the Company made draws on the contingent equity account, it issued Thermo shares of common stock calculated using a price per share equal to 80% of the average closing price of the common stock for the 15 trading days immediately preceding the draw. The 20% discount on the value of the shares issued to Thermo is treated as a deferred financing cost and is amortized over the remaining term of the Existing Facility Agreement. The Company had drawn the entire \$60.0 million from this account as of December 31, 2012. Approximately \$1.1 million of interest earned from the funds previously held in this account remained in the account at June 30, 2013 and was available to be drawn by the Company, subject to lender approval. See Note 17 for discussion on subsequent events impacting the withdrawal of funds from this account.

Since the origination of the Contingent Equity Agreement, the Company has issued to Thermo warrants to purchase 41,467,980 shares of common stock for the annual availability fee and subsequent resets due to provisions in the Contingent Equity Agreement and 160,916,223 shares of common stock resulting from the Company's draws on the contingent equity account pursuant to the terms of the Contingent Equity Agreement. As of June 30, 2013, no warrants issued in connection with the Contingent Equity Agreement had been exercised.

On June 19, 2012, the warrants issued on June 19, 2011 were no longer variable, and the related \$5.9 million liability was reclassified to equity.

No voting common stock is issuable to Thermo or any of its affiliates if it would cause Thermo and its affiliates to own more than 70% of the Company's outstanding voting stock. The Company may issue nonvoting common stock in lieu of common stock to the extent issuing common stock would cause Thermo and its affiliates to exceed this 70% ownership level.

### ***Subordinated Loan***

The Company has a Loan Agreement with Thermo whereby Thermo agreed to lend the Company \$25.0 million for the purpose of funding the debt service reserve account required under the Existing Facility Agreement. In 2011, this loan was increased to \$37.5 million. This loan is subordinated to, and the debt service reserve account is pledged to secure, all of the Company's obligations under the Existing Facility Agreement. Amounts deposited in the debt service reserve account are restricted to payments due under the Existing Facility Agreement, unless otherwise authorized by the lenders. See Note 17 for discussion on subsequent events related to the Existing Facility Agreement.

The loan accrues interest at 12% per annum, which is capitalized and added to the outstanding principal in lieu of cash payments. The Company will make payments to Thermo only when permitted under the Existing Facility Agreement. The loan becomes due and payable six months after the obligations under the Existing Facility Agreement have been paid in full, the Company has a change in control or any acceleration of the maturity of the loans under the Existing Facility Agreement occurs. As additional consideration for the loan, the Company issued Thermo a warrant to purchase 4,205,608 shares of common stock at \$0.01 per share with a five-year exercise period. No voting common stock is issuable upon such exercise if such issuance would cause Thermo and its affiliates to own more than 70% of the Company's outstanding voting stock. The Company may issue nonvoting common stock in lieu of common stock to the extent issuing voting common stock would cause Thermo and its affiliates to exceed this 70% ownership level.

The Company determined that the warrant was an equity instrument and recorded it as a part of stockholders' equity with a corresponding debt discount of \$5.2 million, which is netted against the principal amount of the loan. The Company is accreting the debt discount associated with the warrant to interest expense over the term of the loan agreement using an effective interest method. As of June 30, 2013, the remaining debt discount was \$3.5 million, and \$19.3 million of interest was outstanding; these amounts are included in long-term debt on the Company's condensed consolidated balance sheet.

### ***5.75% Convertible Senior Unsecured Notes***

In 2008, the Company issued \$150.0 million aggregate principal amount of 5.75% Notes, which were subject to repurchase by the Company for cash at the option of the holders in whole or part on April 1, 2013 at a purchase price equal to 100% of the principal amount (\$71.8 million aggregate principal was outstanding at April 1, 2013) of the 5.75% Notes, plus accrued and unpaid interest, if any.

On March 29, 2013, U.S. Bank National Association, the Trustee under the Indenture and the First Supplemental Indenture governing the 5.75% Notes, each dated as of April 15, 2008, between the Company and the Trustee (collectively, as amended and supplemented or otherwise modified, the "Indenture"), notified the Company in writing

that holders of approximately \$70.7 million principal amount of 5.75% Notes had exercised their purchase rights pursuant to the Indenture. Under the Indenture, the Company was required to deposit with the Trustee by 11 A.M. on April 1, 2013, the purchase price of approximately \$70.7 million in cash to effect the repurchase of the 5.75% Notes from the exercising holders. The Company did not have sufficient funds to pay the purchase price.

In addition, the Indenture also required that, on April 1, 2013, the Company pay interest on the 5.75% Notes in the aggregate amount of approximately \$2.1 million for the six months ended March 31, 2013. The Company did not make this payment. Under the Indenture, failure to pay this interest by April 30, 2013 constituted an event of default.

As discussed below, these events of default were cured pursuant to the Exchange Agreement transactions executed on May 20, 2013.

On May 20, 2013, the Company redeemed the remaining 5.75% Notes for cash equal to their principal amount.

#### *Exchange Agreement*

On May 20, 2013, the Company entered into an Exchange Agreement with the beneficial owners and investment managers for beneficial owners (the “Exchanging Note Holders”) of approximately 91.5% of its outstanding 5.75% Notes and completed the transactions contemplated by the Exchange Agreement.

Pursuant to the Exchange Agreement, the Exchanging Note Holders surrendered their 5.75% Notes (the “Exchanged Notes”) to the Company for cancellation in exchange for:

Approximately \$13.5 million in cash, with respect to the principal amount of the Exchanged Notes, plus approximately \$0.5 million in cash, equal to all accrued and unpaid interest on the Exchanged Notes from April 1, 2013 to the closing;

Approximately 30.3 million shares of voting common stock of the Company; and

Approximately \$54.6 million principal amount of the Company’s new 8.00% Convertible Senior Notes due April 1, 2028 (the “8.00% Notes Issued in 2013”), with an initial conversion price of \$0.80 per share, subject to adjustment as described below.

In the Exchange Agreement, the Company also agreed that, if the Company grants certain liens to Thermo or its affiliates in connection with future financing transactions, the Exchanging Note Holders may participate in such transactions in an amount up to 50% of the participation of Thermo and its affiliates.





Pursuant to the Exchange Agreement, the Company also cured outstanding defaults under the 5.75% Notes by:

Cancelling the Exchanged Notes as described above;

Depositing with the Trustee approximately \$2.1 million, an amount equal to the interest due on all of the 5.75% Notes on April 1, 2013 and accumulated interest thereon, for distribution to the holders of record of the 5.75% Notes as of March 15, 2013;

Depositing with the Trustee approximately \$6.3 million, an amount equal to the principal amount of the 5.75% Notes (other than the Exchanged Notes) and interest thereon from April 1, 2013 to June 26, 2013 and directing the Trustee to pay such amounts to the holders of the 5.75% Notes (other than the Exchanged Notes); and

Redeeming the remaining 5.75% Notes.

Based on the Company's evaluation of the exchange transaction, the Exchange Agreement discussed above was determined to be an extinguishment of the 5.75% Notes. As a result of this exchange, the Company recorded a loss on the extinguishment of debt of \$47.2 million in its condensed consolidated statement of operations for the three months ended June 30, 2013. This loss represents the difference between the carrying value of the 5.75% Notes and the fair value of the consideration given in the exchange (including the new 8.00% Notes Issued in 2013, cash payments to both exchanging and non-exchanging holders, equity issued to the holders and other fees incurred in the exchange). See Note 6 for further discussion on the determination of the fair value of this instrument.

#### *The Consent Agreement*

In addition to the lenders' consent to the transactions contemplated by the Exchange Agreement, the Consent Agreement contained a term sheet summarizing certain principal terms for the restructured Facility Agreement. Under the Consent Agreement, completion of the restructuring of the Existing Facility Agreement was subject to the execution of definitive documentation, receipt by each of the lenders and COFACE of final credit approval and satisfaction of the conditions precedent set forth therein.

Pursuant to the Consent Agreement, Thermo agreed that it would make, or arrange for third parties to make, cash contributions to the Company in exchange for equity, subordinated convertible debt or other equity-linked securities as follows:

At the closing of the exchange transaction and thereafter each week until no later than July 31, 2013, an amount sufficient to enable the Company to maintain a consolidated unrestricted cash balance of at least \$4.0 million;  
At the closing of the exchange transaction, \$25.0 million to satisfy all cash requirements associated with the exchange transaction, including agreed principal and interest payments to the holders of the 5.75% Notes as contemplated by the Exchange Agreement, with any remaining portion being retained by the Company for working capital and general corporate purposes;

Contemporaneously with, and as a condition to the closing of, any restructuring of the Facility Agreement, \$20.0 million (less any amount contributed pursuant to the commitment described above with respect to the Company's minimum cash balance);

Subject to the prior closing of the Facility Agreement restructuring, on or prior to December 26, 2013, \$20.0 million; and

Subject to the prior closing of the Facility Agreement restructuring, on or prior to December 31, 2014, \$20.0 million, less the amount by which the aggregate amount of cash received by the Company under the first, third and fourth commitments described above exceeds \$40 million.

The parties agreed that the lenders could terminate the Consent Agreement if, among other things:

The restructuring of the Existing Facility Agreement had not been consummated on or before June 28, 2013 (later extended to August 16, 2013 or such later date as the parties may agree); or

The Company or Thermo materially breached any of its representations, warranties or covenants under the Consent Agreement, which breach was not cured (if curable) within 15 days of receipt of notice by the Company or Thermo, as the case may be.

Any termination of the Consent Agreement will not affect the validity of the lenders' consent to the exchange transaction, which was a condition precedent to closing the Exchange Agreement and required under the Existing Facility Agreement. As of the date of this report, the Consent Agreement had not been cancelled.

#### *The Common Stock Purchase Agreement*

On May 20, 2013, the Company and Thermo entered into a Common Stock Purchase Agreement pursuant to which Thermo purchased 78,125,000 shares of the Company's common stock for \$25.0 million (\$0.32 per share). Thermo also agreed to purchase additional shares of common stock at \$0.32 per share as and when required to fulfill its equity commitment described above to maintain the Company's consolidated unrestricted cash balance at not less than \$4.0 million until the earlier of July 31, 2013 and the closing of a restructuring of the Existing Facility Agreement. In furtherance thereof, at the Closing, Thermo purchased an additional 15,625,000 shares of common stock for an aggregate purchase price of \$5.0 million. In June 2013, Thermo purchased an additional 28,125,000 shares of common stock for an aggregate purchase price of \$9.0 million pursuant to the Common Stock Purchase Agreement.

For the three and six months ended June 30, 2013, the Company recognized a loss on the sale of these shares of approximately \$14.0 million (included in Other income/expense on the condensed consolidated statement of operations), representing the difference between the purchase price and the fair value of the Company's common stock (measured as the closing stock price on the date of each sale).

As of June 30, 2013, Thermo had purchased approximately 121.9 million shares of the Company's common stock pursuant to the Common Stock Purchase Agreement for an aggregate \$39.0 million. Pursuant to the Common Stock Purchase Agreement, the shares of common stock are intended to be shares of non-voting common stock. As of May 20, 2013, the Company's certificate of incorporation did not provide for any authorized but unissued shares of non-voting common stock. On July 8, 2013, the Company filed an amendment to its certificate of incorporation increasing the number of authorized shares of non-voting common stock by 265.0 million shares to a total of 400.0 million shares and subsequently issued nonvoting shares to Thermo as previously purchased under the Common Stock Purchase Agreement. The Company recorded the fair value of these shares as a future equity issuance in the stockholders' equity section of the Company's condensed consolidated balance sheet as of June 30, 2013.

The terms of the Common Stock Purchase Agreement were approved by a special committee of the Company's board of directors consisting solely of the Company's unaffiliated directors. The committee, which was represented by independent legal counsel, determined that the terms of the Common Stock Purchase Agreement were fair and in the best interests of the Company and its shareholders. The terms of future equity commitments provided to the Company by Thermo pursuant to the Consent Agreement will also be determined by this special committee.

#### *Share Lending Agreement*

Concurrently with the offering of the 5.75% Notes, the Company entered into a share lending agreement (the "Share Lending Agreement") with Merrill Lynch International (the "Borrower"), pursuant to which the Company agreed to lend up to 36,144,570 shares of common stock (the "Borrowed Shares") to the Borrower, subject to certain adjustments, for a period ending on the earliest of (i) at the Company's option, at any time after the entire principal amount of the 5.75% Notes ceases to be outstanding, (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. Pursuant to the Share Lending Agreement, upon the termination of the share loan, the Borrower must return the Borrowed Shares to the Company. Upon the conversion of 5.75% Notes (in whole or in part), a number of Borrowed Shares proportional to the conversion rate for such notes must be returned to the Company. At the Company's election, the Borrower may deliver cash equal to the market value of the corresponding Borrowed Shares instead of returning to the Company the Borrowed Shares otherwise required by conversions of 5.75% Notes.

Pursuant to and upon the terms of the Share Lending Agreement, the Company will issue and lend the Borrowed Shares to the Borrower as a share loan. The Borrowing Agent also is acting as an underwriter with respect to the Borrowed Shares, which are being offered to the public. The Borrowed Shares included approximately 32.0 million

shares of common stock initially loaned by the Company to the Borrower on separate occasions, delivered pursuant to the Share Lending Agreement and the Underwriting Agreement, and an additional 4.1 million 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 Borrowed Shares are free trading shares. At each of June 30, 2013 and December 31, 2012, approximately 17.3 million Borrowed Shares remained outstanding.

During July 2013, in connection with the exchange or redemption of all of the 5.75% Notes, the Company and the Borrower terminated the Share Lending Agreement. In connection with this termination, the Borrower returned 10.2 million loaned shares to Globalstar and paid approximately \$4.4 million in cash for the remaining 7.1 million shares.

### ***8.00% Convertible Senior Notes Issued in 2013***

On May 20, 2013, pursuant to the Exchange Agreement, the Company issued \$54.6 million aggregate principal amount of 8.00% Convertible Senior Notes (the “8.00% Notes Issued in 2013”) to the Exchanging Note Holders. The 8.00% Notes Issued in 2013 are convertible into shares of common stock at an initial conversion price of \$0.80 per share of common stock, or 1,250 shares of the Company’s common stock per \$1,000 principal amount of the 8.00% Notes Issued in 2013, subject to adjustment as provided in the Fourth Supplemental Indenture between the Company and U.S. Bank National Association, as Trustee, (the “New Indenture”). The conversion price of the 8.00% Notes Issued in 2013 will be adjusted in the event of certain stock splits or extraordinary share distributions, or as a reset of the base conversion and exercise price as described below.

The 8.00% Notes Issued in 2013 are senior unsecured debt obligations of the Company and rank pari passu with the Company's existing 5.0% Convertible Senior Unsecured Notes and 8.00% Convertible Senior Unsecured Notes Issued in 2009. There is no sinking fund for the 8.00% Notes Issued in 2013. The 8.00% Notes Issued in 2013 will mature on April 1, 2028, subject to various call and put features as described below, and bear interest at a rate of 8.00% per annum. Interest on the 8.00% Notes Issued in 2013 is payable semi-annually in arrears on April 1 and October 1 of each year, commencing on October 1, 2013. Interest is paid in cash at a rate of 5.75% per annum and additional 8.00% Notes Issued in 2013 at a rate of 2.25% per annum.

Subject to certain conditions set forth in the New Indenture, including prior approval of the Majority Lenders (as defined in the Facility Agreement), the Company may redeem the 8.00% Notes Issued in 2013, in whole or in part, on December 10, 2013, if the average of the volume-weighted prices of the Company's common stock for the 30-day period ending November 29, 2013, is less than \$0.20, at a price equal to the principal amount of the 8.00% Notes Issued in 2013 to be redeemed plus an amount equal to 32% of such principal amount minus all interest which is paid on the 8.00% Notes Issued in 2013 prior to their redemption. The Company may also redeem the 8.00% Notes Issued in 2013, with the prior approval of the Majority Lenders, in whole or in part, at any time on or after April 1, 2018, at a price equal to the principal amount of the 8.00% Notes Issued in 2013 to be redeemed plus all accrued and unpaid interest thereon.

A holder of 8.00% Notes Issued in 2013 has the right, at the Holder's option, to require the Company to purchase some or all of the 8.00% Notes Issued in 2013 held by it on each of April 1, 2018 and April 1, 2023 at a price equal to the principal amount of the 8.00% Notes Issued in 2013 to be purchased plus accrued and unpaid interest.

A holder of the 8.00% Notes Issued in 2013 has the right, at the holder's option, to require the Company to purchase some or all of the 8.00% Notes Issued in 2013 held by it at any time if there is a Fundamental Change. A Fundamental Change occurs if the Company's common stock ceases to be traded on a stock exchange or an established over-the-counter market or there is a change of control of the Company. If there is a Fundamental Change, the price of any 8.00% Notes Issued in 2013 purchased by the Company will be equal to its principal amount plus accrued and unpaid interest and a Fundamental Change Make-Whole Amount calculated as provided in the New Indenture.

Subject to the procedures for conversion and other terms and conditions of the New Indenture, a holder may convert its 8.00% Notes Issued in 2013 at its option at any time prior to the close of business on the business day immediately preceding April 1, 2028, into shares of common stock (or, at the option of the Company, cash in lieu of all or a portion thereof, provided that, under the Amended and Restated Facility Agreement, the Company may pay cash only with the consent of the Majority Lenders). Upon conversion, the holder will be entitled to receive shares of common stock, cash or a combination thereof (provided that, under the Amended and Restated Facility Agreement, the Company may pay cash only with the consent of the Majority Lenders), in such amounts and subject to terms and conditions set forth in the New Indenture. The Company will pay cash in lieu of fractional shares otherwise issuable upon conversion of the 8.00% Notes Issued in 2013 as specified in the Indenture. As of June 30, 2013, no 8.00% Notes Issued in 2013 had been converted.

A holder may elect to convert up to 15% of its 8.00% Notes Issued in 2013 on each of July 19, 2013 and March 20, 2014. If a holder elects to convert on either of those dates, it will receive, at the Company's option, either cash equal to the par value of the 8.00% Notes Issued in 2013 plus accrued interest (provided that, under the Amended and Restated Facility Agreement, the Company may pay cash only with the consent of the Majority Lenders) or shares of the Company's common stock equal to the principal amount of the 8.00% Notes Issued in 2013 to be converted plus accrued interest divided by the lower of the average price of the common stock in a specified period and \$0.50. \$7.9 million principal amount (approximately 14.4% of the outstanding principal amount) of 8.00% Notes Issued in 2013 was converted on July 19, 2013, , resulting in the issuance of 15.9 million shares.

The base conversion rate may be adjusted on each of April 1, 2014 and April 1, 2015 based on the average price of the Company's common stock in the 30-day period ending on that date. If the base conversion rate is adjusted on April 1, 2014, the Company also will provide additional consideration to the holders of the 8.00% Notes Issued in 2013 in an amount equal to 25% of the principal amount of the outstanding 8.00% Notes Issued in 2013, payable in equity or cash at the Company's election (provided, under the Facility Agreement, that the Company may pay cash only with the consent of the Majority Lenders). That consideration will not reduce the principal amount of the 8.00% Notes Issued in 2013 or any interest otherwise payable on the 8.00% Notes Issued in 2013.

The New Indenture also provides for other customary adjustments of the base conversion rate, including upon the Company's sale of additional equity securities at a price below the then applicable conversion price. If a 8.00% Note Issued in 2013 is converted after May 20, 2014, the holder is entitled to receive additional shares of common stock as a make-whole premium equal to the first three years of interest on the Notes (i.e. 24% of the Notes less any interest already paid through the date of the conversion) as provided in the New Indenture. Due to common stock issuances by the Company since May 20, 2013, the current base conversion rate was reduced to \$0.75 per share of common stock as of June 30, 2013.

The New Indenture provides that the Company and its subsidiaries may not, with specified exceptions, including the liens securing the Facility and liens approved in writing by the Agent, create, incur, assume or suffer to exist any lien on any of their assets, provided that if the Company or any of its subsidiaries creates, incurs or assumes any lien which is junior to the most senior lien securing the Facility Agreement (other than a lien pursuant to a restructuring of the Facility Agreement in which Thermo and its affiliates do not participate as a secured lender), the Company must promptly issue to the holders of the 8.00% Notes Issued in 2013 \$3,590,200 (representing 5.0% of the principal amount of the 5.75% Notes) of the Company's common stock. At June 30, 2013, the Company did believe that a lien will be created that does not meet at least one of the specified exceptions in the New Indenture, and therefore no amount is accrued for this feature at June 30, 2013.

The New Indenture requires that on or before December 31, 2013, but subject to the conditions described below, the Company must cause all of its subsidiaries that guaranty the obligations of the Company under the Amended and Restated Facility Agreement or any notes of another series issued under the Indenture dated as of April 15, 2008 (the "Base Indenture") to execute and deliver to the Trustee a guaranty of the Company's obligations under the 8.00% Notes Issued in 2013 in the form attached to the New Indenture. The subsidiaries' obligations under the guaranty will be subordinated to their obligations under their guaranty of the Amended and Restated Facility Agreement. The execution and delivery of the guaranty is conditioned on the prior completion of the restructuring of the Existing Facility Agreement, the absence of any payment default under the Amended and Restated Facility Agreement, and the absence of any breach by Thermo of its obligations to provide funds to the Company (the "Contribution Obligations") as required by the Consent Agreement (or, as applicable, the anticipated corresponding provision in the Amended and Restated Facility Agreement. If the guaranty agreement is not executed and delivered on or before December 31, 2013, the Company must by January 2, 2014, issue to the holders of the 8.00% Notes Issued in 2013 approximately 11.2 million shares of the Company's common stock. The issuance of these shares will not reduce the principal of the 8.00% Notes Issued in 2013 or interest otherwise payable by the Company with respect to the 8.00% Notes Issued in 2013 and will not relieve its subsidiaries of the obligation to execute and deliver the guaranty at a later date if the conditions described above are then met. As of June 30, 2013, the Company expected its subsidiaries to issue the guarantee required by this provision on or before December 31, 2013, and therefore no amount is accrued for this feature at June 30, 2013.

The New Indenture provides for customary events of default, including without limitation, failure to pay principal or premium on the 8.00% Notes Issued in 2013 when due or to distribute cash or shares of common stock when due as described above; failure by the Company to comply with its obligations and covenants in the New Indenture; default by the Company in the payment of principal or interest on any other indebtedness for borrowed money with a principal amount in excess of \$10.0 million, if such indebtedness is accelerated and not rescinded with 30 days; rendering of certain final judgments; failure by Thermo to fulfill the Contribution Obligations (as described above); and certain events of insolvency or bankruptcy. If there is an event of default, the Trustee may, at the direction of the holders of 25% or more in aggregate principal amount of the 8.00% Notes Issued in 2013, accelerate the maturity of the 8.00% Notes Issued in 2013. The Company was not in default under the 8.00% Notes Issued in 2013 as of June 30, 2013.

The Company evaluated the various embedded derivatives within the New Indenture. The Company determined that the conversion option and the contingent put feature within the New Indenture required bifurcation from the 8.00%

Notes Issued in 2013. The conversion option and the contingent put feature were not deemed clearly and closely related to the 8.00% Notes Issued in 2013 and were separately accounted for as a standalone derivative. The Company recorded this compound embedded derivative liability as a non-current liability on its condensed consolidated balance sheet with a corresponding debt discount which is netted against the face value of the 8.00% Notes Issued in 2013.

The Company is accreting the debt discount associated with the compound embedded derivative liability to interest expense through the first put date of the 8.00% Notes Issued in 2013 (April 1, 2018) using an effective interest rate method. The fair value of the compound embedded derivative liability is being marked-to-market at the end of each reporting period, with any changes in value reported in the condensed consolidated statements of operations. The Company determined the fair value of the compound embedded derivative using a Monte Carlo simulation model.

The Company netted the debt discount associated with compound embedded derivative against the fair value of the 8.00% Notes Issued in 2013 to determine the carrying amount of the 8.00% Notes Issued in 2013. The accretion of the debt discount will increase the carrying amount of the debt through April 1, 2018 (the first put date of the 8.00% Notes Issued in 2013). The Company allocated the fair value at issuance as follows (in thousands):

Senior notes	\$27,890
Compound embedded derivative liability	56,752
Fair value of 8.00% Notes Issued in 2013	\$84,642

### ***5.00% Convertible Senior Notes***

In 2011, the Company issued \$38.0 million in aggregate principal amount of 5.0% Convertible Senior Unsecured Notes (the “5.0% Notes”) and warrants (the “5.0% Warrants”) to purchase 15,200,000 shares of voting common stock of the Company. The 5.0% Notes are convertible into shares of common stock at an initial conversion price of \$1.25 per share of common stock, or 800 shares of the Company’s common stock per \$1,000 principal amount of the 5.0% Notes, subject to adjustment in the manner set forth in the Indenture. The 5.0% Notes are guaranteed on a subordinated basis by substantially all of the Company’s domestic subsidiaries (the “Guarantors”), on an unconditional joint and several basis, pursuant to a Guaranty Agreement (the “Guaranty”). The 5.0% Warrants are exercisable until five years after their issuance. The 5.0% Notes and 5.0% Warrants have anti-dilution protection in the event of certain stock splits or extraordinary share distributions, and a reset of the conversion and exercise price on April 15, 2013 if the Company’s common stock is below the initial conversion and exercise price at that time.



The 5.0% Notes are senior unsecured debt obligations of the Company and rank pari passu with the Company's existing 8.00% Notes Issued in 2009 and 8.00% Notes Issued in 2013 and are subordinated to the Company's obligations pursuant to its Existing Facility Agreement. There is no sinking fund for the 5.0% Notes. The 5.0% Notes will mature at the earlier to occur of (i) December 14, 2021, or (ii) six months following the maturity date of the Amended and Restated Facility Agreement and bear interest at a rate of 5.0% per annum. Interest on the 5.0% Notes is payable in-kind semi-annually in arrears on June 15 and December 15 of each year. Under certain circumstances, interest on the 5.0% Notes will be payable in cash at the election of the holder if such payments are permitted under the Facility Agreement. The indenture governing the 5.0% Notes contains customary events of default. No event of default existed as of June 30, 2013.

The Company is accreting the debt discount associated with the 5.0% Notes and 5.0% Warrants to interest expense over the term of the agreement using the effective interest rate method.

Due to the terms in the indenture, on April 15, 2013, the base conversion rate for the 5.0% Notes and the exercise price of the 5.0% Warrants were reset to \$0.50 and \$0.32, respectively.

As of June 30, 2013, approximately \$8.6 million of 5.0% Notes had been converted resulting in the issuance of 21.3 million shares of Company common stock and 5.0% Warrants to purchase 3.2 million shares of common stock had been exercised, which resulted in the Company receiving \$1.0 million upon exercise.