ACCESS INTEGRATED TECHNOLOGIES INC
Form 424B3
March 25, 2005

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Registration No. 333-117115

PROSPECTUS

1,460,875 Shares

Class A common stock

This prospectus relates to the resale by the selling security holders of Access Integrated Technologies, Inc., which security holders purchased 1,217,500 shares of our Class A common stock in our June 2004 private offering and 304,375 shares of our Class A common stock issuable upon the exercise of warrants issued to those security holders, of which amount 60,875 shares of our Class A common stock are issuable upon exercise of warrants issued to the placement agent in the private offering.

The selling security holders may offer to sell the shares of our Class A common stock being offered in this prospectus at fixed prices, at prevailing market prices at the time of sale, at varying prices, or at negotiated prices.

The shares of our Class A common stock are listed for trading on the American Stock Exchange under the symbol "AIX". On March 1, 2005, the last reported sale price of our Class A common stock was $4.81 per share.

We will not receive any proceeds from the resale of shares of our Class A common stock by the selling security holders, other than payment of the exercise price of the warrants. We will pay the expenses of this offering.

SEE "RISK FACTORS" BEGINNING ON PAGE 9 FOR A DISCUSSION OF FACTORS THAT YOU SHOULD CONSIDER BEFORE BUYING SHARES OF OUR CLASS A COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

March 23, 2005

PROSPECTUS SUMMARY

YOU SHOULD READ THE FOLLOWING SUMMARY TOGETHER WITH THE MORE DETAILED INFORMATION REGARDING OUR COMPANY AND THE CLASS A COMMON STOCK BEING OFFERED AND THE CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THOSE STATEMENTS APPEARING ELSEWHERE IN THIS PROSPECTUS OR INCORPORATED BY REFERENCE, INCLUDING THE "RISK FACTORS" BEGINNING ON PAGE 9.

In this prospectus, "AccessIT", "we," "us," "our" and the "Company" refer to Access Integrated Technologies, Inc. and its subsidiaries unless the context otherwise requires.

OUR BUSINESS

AccessIT was organized on March 31, 2000 and we are in the business of providing software services and technology solutions to the motion picture industry, and operating Internet data centers. Recently, we have actively expanded into new and interrelated business areas relating to the delivery and management of digital cinema content to entertainment venues worldwide. These businesses, supported by our Internet data center business, have become our primary strategic focus.

Our business focus is to create a secure, managed and complete system that consists of software to book, track and perform accounting functions for digital content in movie theatres, deliver digital content to multiple locations and provide the content management software for managing all brands of in-theatre playback systems and projection systems for the digital cinema marketplace. This system is designed to enable the motion picture industry to move from the analog world to the digital world. The system is intended to use all of our businesses:

MEDIA SERVICES

- DIGITAL MEDIA DELIVERY - digital media managed delivery services and theatre management player software for use in theatres from Access Digital Media, Inc. ("AccessDM") our wholly owned subsidiary, and satellite delivery services from FiberSat Global Services, Inc. ("FiberSat"), our wholly owned subsidiary. ADM Cinema Corporation ("ADM Cinema"), our wholly owned subsidiary which acquired the Pavilion Theatre/Entertainment Complex located in the Park Slope section of Brooklyn, New York (the "Pavilion Theatre"), will utilize our digital media managed delivery services and media player software products; and

- MOVIE DISTRIBUTION AND EXHIBITOR SOFTWARE - Hollywood Software, Inc. ("Hollywood SW"), our wholly owned subsidiary, develops and licenses distribution and exhibitor software products and services.

DATA CENTER SERVICES

- DATA CENTERS - AccessIT's 10 Internet data centers ("IDCs" or "data centers"), including redundant sites in Los Angeles and New York City; and
- MANAGED SERVICE OFFERINGS- managed storage and network and systems management services by Core Technology Services, Inc. ("Core"), our wholly owned subsidiary, and AccessIT.

Our system provides a digital content owner with the secure delivery of multiple files to multiple locations throughout the world with proactive notification and security management. Our system also provides the digital content exhibitor with access to digital content, freedom to choose what to play and when to play it with proactive notifications and management software. We have created a system whereby digital content is delivered where it is supposed to go, is played when

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it is supposed to be played along with the ability to act upon and report back management and financial information. We also have created software designed to enable a movie exhibitor to run all projects in a multiple auditorium theatre from one central server, regardless of the hardware type or manufacturer.

We have two reportable segments: Media Services, which represents the operations of AccessDM (including Boeing Digital (as defined below)), ADM Cinema, FiberSat and Hollywood SW, and Data Center Services, which are comprised of our IDC operations and Managed Service Offerings.

In February 2003, we organized AccessDM, which in May 2004, became our wholly-owned subsidiary. AccessDM has developed proprietary software, Digital Express e-Courier, capable of worldwide delivery of digital data -- including movies, advertisements and alternative content such as concerts, seminars and sporting events -- to movie theaters and other venues having digital projection equipment. We are also in the process of developing media player software for use by digitally-equipped movie theaters called Theatre Command Centre.

In November 2003, we acquired all of the capital stock of Hollywood SW, a leading provider of proprietary transactional support software and consulting services for distributors and exhibitors of filmed entertainment in the United States and Canada (the "Hollywood SW Acquisition"). Its licensed software records and manages information relating to the planning, scheduling, revenue sharing, cash flow and reporting associated with the distribution and exhibition of theatrical films. In addition, Hollywood SW's software complements, and is integrated with, AccessDM's digital content delivery software by enabling Hollywood SW's customers to seamlessly plan and schedule delivery of digital content to entertainment venue operators as well as to manage the related financial transactions.

In an effort to increase the competitive advantage of the IDCs, on January 9, 2004, we acquired Core, a managed service provider of information technologies. As an information technology outsourcing organization, Core manages clients' networks and systems in over 35 countries in Europe, Asia and North and South America and more than 20 states in the United States. Core operates a 24x7 Global Network Command Center ("GNCC"), capable of running the networks and systems of large corporate clients. The 4 largest customers of Core accounted for approximately 77% of its revenues for the year ended March 31, 2004. The managed services capabilities of Core have been integrated with our IDCs and now operate under the name of AccessIT Managed Services.

In March 2004, we acquired certain assets of Boeing Digital Cinema ("Boeing Digital"), a division of The Boeing Company ("Boeing"). These assets were purchased to further our strategy of becoming a leader in the delivery of movies and other digital content to movie theaters. The acquired assets consist of digital projectors, satellite dishes and other equipment installed at 28 screens within 21 theaters in the United States and at one location in London, England, and satellite transmission equipment which we installed in Los Angeles, California.

Also in March 2004, we refinanced approximately $4.2 million aggregate principal amount (plus accrued and unpaid interest) of our promissory notes pursuant to an exchange offer. In exchange for these promissory notes, we issued 707,477 unregistered shares of our Class A common stock and $1.7 million aggregate principal amount of new convertible notes which as of March 1, 2005 were convertible into a maximum of 310,857 shares of our Class A common stock.

In May 2004, we entered into an agreement with the holder of 750,000 shares of AccessDM's common stock, to exchange all of their shares for 31,300 unregistered shares of AccessIT's Class A common stock. As a result of the transaction, which was consummated as of May 31, 2004, AccessIT now holds 100% of AccessDM's common stock.

In June 2004, we consummated a $4.87 million private placement of 1,217,500 unregistered shares of our Class A common stock with institutional and other accredited investors. Pursuant to the private placement, we also issued to the investors and the placement agent warrants to purchase up to 243,500 and 60,875 shares of our Class A common stock, respectively, at an exercise price of $4.80 per share, exercisable upon receipt.

In November 2004, we consummated a $1.1 million private placement of 282,776 unregistered shares of our Class A common stock at $3.89 per share with certain accredited investors. The net proceeds of approximately $1.023 million from such private placement were used for the FiberSat Acquisition (as defined below) and for working capital.

Also in November 2004, we acquired substantially all of the assets and certain liabilities of FiberSat Global Services, LLC ("FiberSat Seller") through our subsidiary FiberSat (the "FiberSat Acquisition"). FiberSat, headquartered in Chatsworth, California, provides services utilizing satellite ground facilities and fiber-optic connectivity to receive, process, store, encrypt and transmit television and data signals globally. FiberSat's Chatsworth facility currently houses the infrastructure operations of our digital cinema satellite delivery services. By completing the FiberSat Acquisition, we gained extensive satellite distribution and networking capabilities provided by FiberSat's fully operational data storage and uplink facility located in Los Angeles, California. FiberSat has the ability to provide broadband video, data and Internet transmission and encryption services for the broadcast and cable television and communications industries.

In February 2005, we consummated a private placement of $7.6 million, 4-year convertible debentures (the "Convertible Debentures"). The Convertible Debentures bear interest at the rate of 7% per year and are convertible into shares of our Class A common stock at the price of $4.07 per share, subject to possible adjustments from time to time. In connection with the Convertible Debenture offering, we issued the participating institutional investors warrants (the "Convertible Debentures Warrants") exercisable for up to 560,197 shares of Class A common stock at an initial exercise price of $4.44 per share, subject to adjustments from time to time. The Convertible Debentures Warrants may be exercised beginning on September 9, 2005 until five years thereafter.

Also in February 2005, we, through ADM Cinema, consummated the acquisition of substantially all of the assets of the Pavilion Theatre. The Pavilion Theatre is an eight-screen movie theatre and cafe and will be a component of the Media Services segment. Continuing to operate as a fully functional multiplex, the Pavilion Theatre will also become our showplace to demonstrate our integrated digital cinema solutions to the movie entertainment industry.

We offer interrelated services that use each of our business units for the planning, purchasing, delivery and management of digital content -- such as movies, advertising, trailers and alternative content, including concerts, seminars and sporting events -- to movie theater and other venue operators. We believe that our ability to offer a wide range of fully managed services will differentiate us from other service providers, including distributors of other types of digital media.

For the three months ended December 31, 2004, we received 47% and 53%, respectively, of our revenues FROM THE MEDIA SERVICES and Data Center Services segments. For the nine months ended December 31, 2004, we received 35% and 65%, respectively, OF OUR REVENUE FROM THE Media Services and Data Center Services segments. During the fiscal year ended March 31, 2004, we received 81% of our revenue from the Data Center Services segment and 19% of our revenue from the Media Services segment. OF OUR REVENUE FROM THE FROM THE MEDIA SERVICES For the fiscal year ended March 31, 2004, KMC Telecom, AT&T and Metro Goldwyn Mayer ("MGM") comprised approximately 27%, 12% and 10% of our revenues, respectively. No other single customer accounted for greater than 10% of revenues during the fiscal year ended March 31, 2004. From our inception through November 3, 2003, all of our revenues have been derived from monthly license fees and fees from other ancillary services provided by us at our IDCs.

Our principal executive offices are at 55 Madison Avenue, Suite 300, Morristown, NJ 07960, and our telephone number at such offices is (973) 290-0080. Our e-mail address is investor@accessitx.com and our web site address is www.accessitx.com. Information accessed on or through our web site does not constitute a part of this prospectus.

THE OFFERING

Class A common stock offered

by selling security holders.........................1,460,875 shares (1)

Common stock equivalents

presently outstanding...............................10,401,233 shares (2)

Common stock equivalents to be
outstanding immediately

after this offering................................	10,401,233 shares (2)
Use of proceeds....................................	We will not receive any proceeds from the resale of shares of our Class A common stock by the selling security holders, other than payment of the exercise price of the warrants.
American Stock Exchange symbol......................	AIX

(1) This prospectus covers the resale by the selling security holders named in this prospectus of up to 1,156,500 shares of our Class A common stock and up to 304,375 shares of our Class A common stock issuable upon the exercise of warrants issued to those selling security holders, of which 60,875 shares of our Class A common stock are issuable upon exercise of warrants issued to the placement agent of our private offering. The offered shares were acquired by the selling security holders in a private placement transaction which was exempt from the registration requirements of the Securities Act of 1933. The selling security holders may offer to sell the shares of Class A common stock being offered in this prospectus at fixed prices, at prevailing market prices at the time of sale, at varying prices or at negotiated prices. Please see "Plan of Distribution" in this prospectus for a detailed explanation of how the shares of Class A common stock may be sold.

(2) Reflects 9,415,422 outstanding shares of our Class A common stock as of March 1, 2005, and 985,811 outstanding shares of our Class B common stock as of March 1, 2005, which are convertible into 985,811 shares of Class A common stock; excludes up to 3,897,661 shares of Class A common stock issuable upon the exercise of outstanding warrants and options, and shares issuable upon the conversion of convertible notes as of March 1, 2005. Please see "Description of Securities" in this prospectus for a discussion of our capital stock.

This prospectus contains our trademarks, tradenames and servicemarks and also contains certain trademarks, tradenames and servicemarks of other parties.

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SUMMARY FINANCIAL INFORMATION

The following table summarizes operating data of our Company and should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and our consolidated financial statements and the notes to those statements appearing elsewhere in this prospectus. The data as of March 31, 2004 and for the fiscal years ended March 31, 2002, 2003 and 2004 has been derived from our audited consolidated financial statements. The data as of December 31, 2004 and for the nine months ended December 31, 2004 has been derived from our unaudited consolidated financial statements. The pro forma condensed combined financial data for the fiscal year ended March 31, 2004 and for the nine months ended December 31, 2004 gives effect to the transactions discussed in the overview of the pro forma data beginning on page P-1 of this prospectus. For a discussion of the adjustments made in presenting such pro forma financial data, see the "Selected Historical and Pro Forma Financial Data" section and the pro forma condensed combined financial data appearing elsewhere in this prospectus.

Consolidated statements of operations data (1):

	FOR THE FISCAL YEARS ENDED MARCH 31, (in thousands, except share and per share da			
	2002	2003	2004	(pro
Revenues..	$1,911	$4,228	$7,201	$
Gross profit....................................	78	1,127	3,534	
Loss from operations............................	(3,417)	(2,964)	(2,505)	
Net loss..	(3,610)	(3,404)	(4,805)	
Net loss available to common stockholders.......	$(3,933)	$(4,261)	$(6,613)	$
Net loss available to common stockholders per common share				
Basic and diluted...............................	$(1.21)	$(1.41)	$(1.37)	
Weighted average number of common shares outstanding				
Basic and diluted...............................	3,238,084	3,027,865	4,826,776	5,6

(1) We acquired one IDC from, and assumed certain liabilities of, BridgePoint International (USA) Inc. ("BridgePoint"), on December 21, 2001. We acquired six IDCs from, and assumed certain liabilities of, R.E. Stafford, Inc. d/b/a/ ColoSolutions ("ColoSolutions"), on November 27, 2002. We acquired all of the capital stock of Hollywood SW on November 3, 2003. We acquired all of the outstanding common stock of Core on January 9, 2004. We acquired certain assets of Boeing Digital, a division of Boeing, on March 29, 2004. We acquired substantially all the assets and certain liabilities of FiberSat Seller on November 17, 2004. The above financial data are derived from our audited and unaudited financial statements and reflect the results of operations of the acquired entities from the respective dates of such acquisitions.

(2) See notes to our unaudited pro forma condensed financial data beginning on page P-1 of this prospectus.

The following table summarizes our consolidated balance sheet data at March 31, 2003 and 2004, and December 31, 2004, respectively, on an actual basis. The information in this table is set forth in thousands.

March 31,

CONSOLIDATED BALANCE SHEET DATA:	2003	2004	December 31, 2004 (unaudited)
Cash and cash equivalents........................	$956	$2,330	$1,515
Working capital (deficit)........................	(954)	212	244
Total current assets.............................	1,327	3,143	3,496
Total assets.....................................	9,894	21,175	23,251
Total current liabilities........................	2,281	2,931	3,272
Total liabilities................................	5,355	11,357	10,860
Mandatorily redeemable convertible preferred stock...............................	2,911	--	--
Redeemable common stock..........................	--	238	247
Total stockholders' equity.......................	1,628	$9,580	$12,144

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RISK FACTORS

AN INVESTMENT IN OUR CLASS A COMMON STOCK INVOLVES A HIGH DEGREE OF RISK AND UNCERTAINTY. YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE DECIDING TO INVEST IN OUR CLASS A COMMON STOCK. THE RISKS DESCRIBED BELOW ARE NOT THE ONLY ONES FACING OUR COMPANY. ADDITIONAL RISKS NOT PRESENTLY KNOWN TO US OR THAT WE PRESENTLY CONSIDER IMMATERIAL MAY ALSO ADVERSELY AFFECT OUR COMPANY. IF ANY OF THE FOLLOWING RISKS OCCUR, OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS COULD BE MATERIALLY ADVERSELY AFFECTED. IN THAT CASE, THE TRADING PRICE OF OUR CLASS A COMMON STOCK COULD DECLINE, AND YOU COULD LOSE ALL OR PART OR YOUR INVESTMENT. IN ASSESSING THESE RISKS, YOU SHOULD ALSO REFER TO THE OTHER INFORMATION INCLUDED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS, INCLUDING THE CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO OF OUR COMPANY INCLUDED ELSEWHERE IN THIS PROSPECTUS.

WE HAVE INCURRED LOSSES SINCE OUR INCEPTION.

We have incurred losses since our inception in March 2000 and have financed our operations principally through equity investments and borrowings. We incurred net losses of $2.33 million and $4.0 million in the nine months ended December 31, 2003 and 2004, respectively. As of December 31, 2004, we had working capital of $224,000 and cash and cash equivalents of $1.52 million; we had an accumulated deficit of $18.7 million; and, from inception through such date, we had used $8.0 million in cash for operating activities. Our net losses are likely to continue for the foreseeable future.

Our profitability is dependent upon us achieving a sufficient volume of business from our customers. If we cannot achieve a high enough volume, we likely will incur additional net and operating losses. We may be unable to continue our business as presently conducted unless we obtain funds from additional financings.

Our net losses and negative cash flows may increase as and to the extent that we increase the size of our business operations, increase our sales and marketing activities, enlarge our customer support and professional services and acquire additional businesses. These efforts may prove to be more expensive than we currently anticipate, which could further increase our losses. We must significantly increase our revenues in order to become profitable. We cannot reliably predict when, or if, we will become profitable. Even if we achieve profitability, we may not be able to sustain it. If we cannot generate operating income or positive cash flows in the future, we will be unable to meet our working capital requirements.

WE HAVE LIMITED EXPERIENCE IN OUR BUSINESS OPERATIONS, WHICH MAY NEGATIVELY AFFECT OUR ABILITY TO GENERATE SUFFICIENT REVENUES TO ACHIEVE PROFITABILITY.

We were incorporated on March 31, 2000. Our original business was data center operations. Our first IDC became operational in December 2000.

In addition to our data center operations, we have expanded into three new business areas: (a) providing back office transactional software for distributors and exhibitors of filmed and digital entertainment through Hollywood SW; (b) providing software and systems for the delivery of digital entertainment, such as movies, to movie theaters and other venues through AccessDM; (c) providing information technologies, secure system monitoring of telecommunications and data network outsourcing through Core, (d) providing

satellite delivery services through FiberSat; and (e) operation of a movie theatre, restaurant and cafe through ADM Cinema. Although we have retained the senior management of Hollywood SW, Core, and FiberSat, we have little experience in these new areas of business and cannot assure you that we will be able to develop and market the services provided thereby. None of these new businesses is directly related to our data center operations and we cannot assure you that any of them will complement our data center operations, or vice versa. We also cannot assure you that we will be able successfully to operate these businesses. Our efforts to expand into these three new business areas may prove costly and time-consuming and may divert a considerable amount of resources from our data center operations.

Our lack of operating experience in the digital cinema industry and providing transactional software for movie distributors could result in:

- increased operating and capital costs;
- an inability to effect a viable growth strategy;
- service interruptions for our customers; and
- an inability to attract and retain customers.

We may not be able to generate sufficient revenues to achieve profitability through the operation of our data centers, our digital cinema business or our movie distribution software business. We cannot assure you that we will be successful in marketing and operating these new businesses or, even if we are successful in doing so, that we will not experience additional losses.

ACCESSDM IS AN EARLY-STAGE COMPANY AND MAY NOT BE ABLE TO MARKET SUCCESSFULLY ITS DIGITAL CONTENT DELIVERY SERVICES.

AccessDM is an early-stage company. It is expected to provide software and systems for the delivery of digital content to movie theaters and other venues. We recently completed development of a working version of this software, with final testing completed in September 2003. We did not, however, have the personnel to develop this type of software and we hired outside consultants to assist us. In addition, we may never be successful in developing software that is commercially saleable or that our customers will buy. Moreover, other companies that are attempting to develop similar software may be able to market and sell their versions before or more cost-effectively than we can.

OUR RECENT ACQUISITIONS INVOLVE RISKS, INCLUDING OUR INABILITY TO INTEGRATE SUCCESSFULLY THE NEW BUSINESSES AND OUR ASSUMPTION OF CERTAIN LIABILITIES.

We have recently made meaningful acquisitions to expand into new business areas. However, we may experience costs and hardships in integrating the new acquisitions into our current business structure. On November 3, 2003 we acquired Hollywood SW and on January 9, 2004 we acquired Core. On March 29, 2004, we acquired assets used in the operations of Boeing Digital, a business unit of Boeing, which we intend to integrate into the business of AccessDM. On November 17, 2004, we acquired assets of FiberSat Seller. Most recently, on February 11, 2005, we acquired the Pavilion Theatre through ADM Cinema. We may not be able to integrate successfully the acquired businesses and assets into our existing business. We cannot assure you that we will be able to effectively market the services provided by Hollywood SW, AccessDM, Core, FiberSat and the Pavilion Theatre along with our data centers. Further, these new businesses and assets may involve a significant diversion of our management time and resources and be costly. Our acquisition of these businesses and assets also involves the risks that the businesses and assets acquired may prove to be less valuable than we expected and/or that we may assume unknown or unexpected liabilities, costs and problems. In addition, we assumed certain liabilities in connection with these acquisitions and we cannot assure you that we will be able to adequately pay off such assumed liabilities. Other companies that offer similar products and services may be able to market and sell their products and services more cost-effectively than we can.

BECAUSE THE USE OF ACCESSDM'S SERVICES LARGELY DEPENDS ON THE EXPANDED USE OF DIGITAL PRESENTATIONS REQUIRING ELECTRONIC DELIVERY, IF SUCH EXPANDED USE DOES NOT OCCUR, NO VIABLE MARKET FOR ACCESSDM'S SERVICES MAY DEVELOP.

Even if we are among the first to develop software and systems for the delivery of digital content to movie theaters and other venues, the demand for them will largely depend on a concurrent expansion of digital presentations at theaters, which may not occur for several years. There can be no assurance, however, that major movie studios that currently rely on traditional distribution networks to provide physical delivery of digital files will adopt a different method, particularly electronic delivery, of distributing digital content to movie theaters. If the development of digital presentations and changes in the way digital files are delivered does not occur, there may be no viable market for AccessDM's delivery systems and software.

IF WE DO NOT MANAGE OUR GROWTH, OUR BUSINESS WILL BE HARMED.

We may not be successful in managing our rapid growth. Since February 2003, we acquired five businesses and in connection with those acquisitions, we formed three additional subsidiaries. These subsidiaries operate in business areas different from our data center operations business. The number of our employees has grown from 11 in March 2003 to 34 in March 2004 and to 58 by December 2004. Past growth has placed, and future growth will continue to place, a significant challenge to our management and resources, related to the successful integration of the newly acquired businesses. To manage the expected growth of our operations, we will need to improve our existing and implement new operational and financial systems, procedures and controls. We may also need to expand our finance, administrative, client services and operations staff and train and manage our growing employee base effectively. Our current and planned personnel, systems, procedures and controls may not be adequate to support our future operations. Our business, results of operations and financial position will suffer if we do not effectively manage our growth.

WE MAY NOT BE ABLE TO GENERATE THE AMOUNT OF CASH NEEDED TO FUND OUR FUTURE OPERATIONS.

Our ability either to make payments on or to refinance our indebtedness, or to fund planned capital expenditures and research and development efforts, may depend on our ability to generate cash in the future. Our ability to generate cash is in part subject to general economic, financial, competitive, regulatory and other factors that are beyond our control.

Based on our current level of operations, we believe our cash flow from operations and available cash financed through the issuance of common stock and promissory notes will be adequate to meet our future liquidity needs for at least one year from the date of this prospectus. Significant assumptions underlie this belief, including, among other things, that there will be no material adverse developments in our business, liquidity or capital requirements. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as:

- reducing capital expenditures;
- reducing research and development efforts;
- selling assets;
- restructuring or refinancing our remaining indebtedness; and
- seeking additional funding.

We cannot assure you, however, that our business will generate sufficient cash flow from operations, or that we will be able to make future borrowings in amounts sufficient to enable us to pay the principal and interest on our current indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

WE MAY CONTINUE TO HAVE CUSTOMER CONCENTRATION IN OUR BUSINESS, AND THE LOSS OF ONE OR MORE OF OUR LARGEST CUSTOMERS COULD HAVE A MATERIAL ADVERSE EFFECT ON US.

We expect that we will rely, at least in the near future, upon a limited number of customers for a substantial percentage of our revenues and may continue to have customer concentration company-wide. For fiscal years 2003 and 2004, our four largest IDC customers accounted for approximately 60% and 54% of our revenues, respectively (our largest customer, KMC Telecom, accounted for approximately 17% and 27%, respectively of our revenues for such fiscal years, and our second largest customer, AT&T, accounted for approximately 21% and 12%, respectively, of our revenues for such fiscal years). For the nine months ended December 31, 2004 our four largest IDC customers accounted for approximately 39% of our revenues (our largest customer, KMC Telecom, accounted for approximately 20% of our revenues, and our second largest customer, AT&T, accounted for approximately 9% of our revenues. The revenues generated from our IDC business constituted approximately 57% of our total revenue for the nine months ended December 31, 2004.

To date, AccessDM has generated revenues of $173,000 and we anticipate that AccessDM will not generate any significant revenues through March 31, 2005. For the five months ended March 31, 2004 (the approximate period of ownership of

Hollywood SW by AccessIT), the five largest customers of Hollywood SW accounted for approximately 87% of its revenues (its largest customer, MGM, accounted for approximately 54% of its revenues for such period). For the nine months ended December 31, 2004, the five largest customers of Hollywood SW accounted for approximately 81% of its revenues (its largest customer, Twentieth Century Fox, accounted for approximately 30% of its revenues, and its second largest customer, MGM, accounted for approximately 25% of its revenue, for such period). For the three months ended March 31, 2004 (the approximate period of ownership of Core by AccessIT during the period), the 4 largest customers of Core accounted for approximately 77% of its revenues. For the nine months ended December 31, 2004, the 4 largest customers of Core accounted for approximately 73% of its revenues. A loss of or decrease in business from one or more of our largest customers for any reason could have a material adverse effect on our business, financial position and results of operations.

OUR SUBSTANTIAL DEBT AND LEASE OBLIGATIONS COULD IMPAIR OUR FINANCIAL FLEXIBILITY AND OUR COMPETITIVE POSITION.

We now have, and will continue to have, significant debt obligations. We currently have notes payable to third parties with principal amounts aggregating $15.5 million as of March 1, 2005. We also have capital lease obligations with principal amounts aggregating $435,000 as of March 1, 2005.

These obligations could have important consequences for us, including:

- limiting our ability to obtain necessary financing in the future and make it more difficult for us to satisfy our lease and debt obligations;

- requiring us to dedicate a substantial portion of our cash flow to payments on our lease and debt obligations, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other corporate requirements;

- making us more vulnerable to a downturn in our business and limit our flexibility to plan for, or react to, changes in our business; and

- placing us at a competitive disadvantage compared to competitors that might have stronger balance sheets or better access to capital by, for example, limiting our ability to enter into new markets.

If we are unable to meet our lease and debt obligations, we could be forced to restructure or refinance our obligations, to seek additional equity financing or to sell assets, which we may not be able to do on satisfactory terms or at all. As a result, we could default on those obligations.

AN INABILITY TO OBTAIN NECESSARY FINANCING MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL POSITION, OPERATIONS AND PROSPECTS IF UNANTICIPATED CAPITAL NEEDS ARISE.

Our capital requirements may vary significantly from what we currently project and be affected by unforeseen delays and expenses. We may experience problems, delays, expenses and difficulties frequently encountered by similarly-situated companies, as well as difficulties as a result of changes in economic, regulatory or competitive conditions. If we encounter any of these problems or difficulties or have underestimated our operating losses or capital requirements, we may require significantly more financing than we currently anticipate. We cannot assure you that we will be able to obtain any required additional financing on terms acceptable to us, if at all. We will be restricted on the type and amount of additional indebtedness that we may incur as a result of our acquisition of Hollywood SW. In connection with the Hollywood SW Acquisition, we issued secured promissory notes to the sellers that will be senior to all indebtedness during the term of those notes other than any debt provided by a bank or institutional lender, which is less than $1 million in aggregate principal amount, unsecured or secured by the assets of Hollywood SW and its subsidiaries. We will also be restricted on the type of additional indebtedness that we may incur as a result of our Convertible Debentures. An inability to obtain necessary financing could have a material adverse effect on our financial position, operations and prospects.

OUR PLAN TO ACQUIRE ADDITIONAL BUSINESSES INVOLVES RISKS, INCLUDING OUR INABILITY SUCCESSFULLY TO COMPLETE AN ACQUISITION, OUR ASSUMPTION OF LIABILITIES, DILUTION OF YOUR INVESTMENT AND SIGNIFICANT COSTS.

We intend to make further acquisitions of similar or complementary businesses or assets, although there are no acquisitions identified by us as probable at this time. Even if we identify appropriate acquisition candidates, we may be unable to negotiate successfully the terms of the acquisitions, finance them, integrate the acquired business into our then existing business and/or attract and retain customers. Completing an acquisition and integrating an acquired business, including our recently acquired businesses, may require a significant diversion of management time and resources and involves assuming new liabilities. Any acquisition also involves the risks that the assets acquired may prove less valuable than expected and/or that we may assume unknown or unexpected liabilities, costs and problems. If we make one or more significant acquisitions in which the consideration consists of our capital stock, your equity interest in our company could be diluted, perhaps significantly. If we were to proceed with one or more significant acquisitions in which the consideration included cash, we could be required to use a substantial portion of our available cash, or obtain additional financing to consummate them.

WE EXPECT COMPETITION TO BE INTENSE: IF WE ARE UNABLE TO COMPETE SUCCESSFULLY, OUR BUSINESS AND RESULTS OF OPERATIONS WILL BE SERIOUSLY HARMED.

The market for the IDC facilities and managed services business, the digital cinema business and the movie distribution software business, although relatively new, are competitive, evolving and subject to rapid technological and other changes. We expect the intensity of competition in each of these areas to increase in the future. Companies willing to expend the necessary capital to create facilities and/or software similar to ours may compete with our business. Increased competition may result in reduced revenues and/or margins and loss of market share, any of which could seriously harm our business. In order to compete effectively in each of these fields, we must differentiate ourselves from competitors.

Many of our current and potential competitors have longer operating histories and greater financial, technical, marketing and other resources than us, which

may permit them to adopt aggressive pricing policies. As a result, we may suffer from pricing pressures that could adversely affect our ability to generate revenues and our results of operations. Many of our competitors also have significantly greater name and brand recognition and a larger customer base than us. We may not be able to compete successfully with our competitors. If we are unable to compete successfully, our business and results of operations will be seriously harmed.

WE FACE THE RISKS OF AN EARLY-STAGE COMPANY IN A NEW AND RAPIDLY EVOLVING MARKET AND MAY NOT BE ABLE SUCCESSFULLY TO ADDRESS SUCH RISKS AND EVER BE SUCCESSFUL OR PROFITABLE.

We have encountered and will continue to encounter the challenges, uncertainties and difficulties frequently experienced by early-stage companies in new and rapidly evolving markets, including:

- lack of operating experience;
- net losses;
- lack of sufficient customers;
- insufficient revenues and cash flow to be self-sustaining;
- necessary capital expenditures;
- an unproven business model;
- a changing business focus; and
- difficulties in managing potentially rapid growth.

This is particularly the case with respect to our newly acquired businesses. We cannot assure you that we will ever be successful or profitable.

MANY OF OUR CORPORATE ACTIONS MAY BE CONTROLLED BY OUR OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS; THESE ACTIONS MAY BENEFIT THESE PRINCIPAL STOCKHOLDERS MORE THAN OUR OTHER STOCKHOLDERS.

As of March 1, 2005, our directors, executive officers and principal stockholders beneficially own, directly or indirectly, in the aggregate, approximately 41% of our outstanding common stock. In particular, A. Dale Mayo, our President and Chief Executive Officer, beneficially holds 985,811 shares of Class B common stock, 9,601 shares of Class A common stock, and notes which are convertible into 45,412 shares of Class A common stock, which collectively represent approximately 10% of our outstanding common stock, but due to the supervoting Class B common stock, represent approximately 51% of the voting power. These stockholders, and Mr. Mayo himself, will have significant influence over our business affairs, with the ability to control matters requiring approval by our security holders, including elections of directors and approvals of mergers or other business combinations. Our Class B common stock entitles the holder to ten votes per share. The shares of Class A common stock have one vote per share. Also, certain corporate actions directed by our officers may not necessarily inure to the proportional benefit of other stockholders of our company; under his employment agreement, for example, Mr. Mayo is entitled to receive cash bonuses based on our revenues, regardless of our earnings, if any.

OUR SUCCESS WILL SIGNIFICANTLY DEPEND ON OUR ABILITY TO HIRE AND RETAIN KEY PERSONNEL.

Our success will depend in significant part upon the continued services of our key technical, sales and senior management personnel. If we lose one or more of our key employees, we may not be able to find a suitable replacement(s) and our business and results of operations could be adversely affected. In particular, our performance depends significantly upon the continued service of A. Dale

Mayo, our President and Chief Executive Officer, whose experience and relationships in the movie theater industry are integral to our business, particularly in the business areas of Hollywood SW and AccessDM. Although we have obtained two $5 million key-man life insurance policies in respect of Mr. Mayo, the loss of his services would have a material and adverse effect on our business, operations and prospects. Each policy carries a death benefit of $5 million, and while we are the beneficiary of each policy, under one of the policies the proceeds will be used to repurchase, after reimbursement of all premiums paid by us some, or all, of the shares of our capital stock held by Mr. Mayo's estate at the then-determined fair market value. We also rely on the experience and expertise of Russell J. Wintner, AccessDM's President and Chief Operating Officer, the two co-founders of Hollywood SW, David Gajda and Robert Jackovich, who manage Hollywood SW's day-to-day operations, and Ravi Patel, FiberSat's President and Chief Operating Officer. In addition, our future success will depend upon our ability to hire, train, integrate and retain qualified new employees.

IF WE ARE NOT SUCCESSFUL IN PROTECTING OUR INTELLECTUAL PROPERTY, OUR BUSINESS WILL SUFFER.

We depend heavily on technology to operate our business. Our success depends on protecting our intellectual property, which is one of our most important assets. Although we do not currently hold any copyrights, patents or registered trademarks, we do have intellectual property consisting of:

- licensable software products;
- rights to certain domain names;
- registered service marks on certain names and phrases;
- various unregistered trademarks and service marks;
- know-how; and
- rights to certain logos.

If we do not adequately protect our intellectual property, our business, financial position and results of operations would be harmed. Our means of protecting our intellectual property may not be adequate. Unauthorized parties may attempt to copy aspects of our intellectual property or to obtain and use information that we regard as proprietary. In addition, competitors may be able to devise methods of competing with our business that are not covered by our intellectual property. Our competitors may independently develop similar technology, duplicate our technology or design around any intellectual property that we may obtain.

The success of some of our business operations depends on the proprietary nature of certain software. We do not, however, have any patents with respect to such software. Because there is no patent protection in respect of our software, other companies are not prevented from developing and marketing similar software. We cannot assure you, therefore, that we will not face more competitors or that we can compete effectively against any companies that develop similar software. We also cannot assure you that we can compete effectively or not suffer from pricing pressure with respect to our existing and developing products that could adversely affect our ability to generate revenues.

Although we hold rights to various web domain names, regulatory bodies in the United States and abroad could establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. The relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We may be unable to prevent third parties from acquiring domain names that are similar to or diminish the value of our proprietary rights.

SERVICE AND OTHER INTERRUPTIONS COULD POTENTIALLY REDUCE OUR REVENUES AND HARM OUR REPUTATION AND FINANCIAL RESULTS.

Our facilities and our customers' equipment are vulnerable to damage from human error, physical or electronic security breaches, power loss, other facility failures, fire, earthquake, water damage, sabotage, vandalism and similar events. In addition, our customers would be adversely affected by the failure of carriers to provide network access to our facilities as a result of any of these events. Any of these events or other unanticipated problems could interrupt our customers' ability to provide services from our facilities. This could damage our reputation, make it difficult to attract new and retain customers and cause our customers to terminate their contracts with us and to seek damages. Any of these events could have a material adverse effect on our business, financial position and prospects.

WE DEPEND ON RELATIONSHIPS WITH THIRD PARTIES, WHICH, IF NOT MAINTAINED, MAY ADVERSELY AFFECT OUR ABILITY TO PROVIDE SERVICES TO OUR CUSTOMERS.

We are not a communications carrier and, therefore, we rely substantially on third parties to provide our customers with access to voice, data and Internet networks. We must maintain relationships with third-party network providers in order to offer our data center customers access to a choice of networks. Many carriers have their own data center facilities and may be reluctant to provide network services at our data centers. As a result, some carriers may choose not to connect their services to our data centers. We do not own any real property and depend on our ability to negotiate favorable lease terms with the owners of our data center facilities. The use of our IDCs is limited to the extent that we do not extend or renew our leases, in which case we might not be able to accommodate our customers, particularly if we were unable to relocate timely to a comparable facility.

The availability of an adequate supply of electrical power and the infrastructure to deliver that power is critical to our ability to attract and retain customers and achieve profitability. We rely on third parties to provide electrical power to our data centers, and cannot be certain that these parties will provide adequate electrical power or that we will have the necessary infrastructure to deliver such power to our customers. If the electrical power delivered to our facilities is inadequate to support our customers' requirements or if delivery is not timely, our results of operations and financial position may be materially and adversely affected.

WE MAY HAVE DIFFICULTY COLLECTING PAYMENTS FROM SOME OF OUR CUSTOMERS AND INCUR COSTS AS A RESULT.

A number of our customers are early stage companies. In addition, many of our customers are telecommunications companies, and many telecommunications companies have been experiencing significant financial difficulties. There is a risk that these companies will experience difficulty paying amounts owed to us, and we might not be able to collect on a timely basis all monies owed to us by some of them. Although we intend to remove customers that do not pay us in a timely manner, we may experience difficulties and costs in collecting from or removing these customers.

IF WE DO NOT RESPOND TO FUTURE ADVANCES IN TECHNOLOGY AND CHANGES IN CUSTOMER DEMANDS, OUR FINANCIAL POSITION, PROSPECTS AND RESULTS OF OPERATIONS MAY BE ADVERSELY AFFECTED.

The demand for our digital cinema business, movie distribution software and data centers will be affected, in large part, by future advances in technology and changes in customer demands. Our success will also depend on our ability to

address the increasingly sophisticated and varied needs of our existing and prospective customers.

We cannot assure you that there will be a demand for the digital cinema software and delivery services provided by AccessDM. AccessDM's profitability depends largely upon the general expansion of digital presentations at theaters, which may not occur for several years. There can be no assurance that major movie studios relying on traditional distribution networks to provide physical delivery of digital files will adopt a different method, particularly electronic delivery, of distributing digital content to movie theaters. If the development of digital presentations and changes in the way digital files are delivered does not occur, there may be no viable market for AccessDM's software and systems.

WE MAY BE SUBJECT TO ENVIRONMENTAL RISKS RELATING TO THE ON-SITE STORAGE OF DIESEL FUEL AND BATTERIES.

Our data centers contain tanks for the storage of diesel fuel for our generators and significant quantities of lead acid batteries used to provide back-up power generation for uninterrupted operation of our customers' equipment. We cannot assure you that our systems will be free from leaks or that use of our systems will not result in spills. Any leak or spill, depending on such factors as the nature and quantity of the materials involved and the environmental setting, could result in interruptions to our operations and the incurrence of significant costs, particularly to the extent we incur liability under applicable environmental laws. This could have a material adverse effect on our business, financial position and results of operations.

RISKS RELATING TO OUR CLASS A COMMON STOCK

THE LIQUIDITY OF OUR CLASS A COMMON STOCK IS UNCERTAIN; THE LIMITED TRADING VOLUME OF OUR CLASS A COMMON STOCK MAY DEPRESS THE PRICE OF SUCH STOCK OR CAUSE IT TO FLUCTUATE SIGNIFICANTLY.

Although shares of our Class A common stock are listed on the American Stock Exchange (the "AMEX"), there has been a limited public market for our Class A common stock and there can be no assurance that an active trading market for our common stock will develop. As a result, you may not be able to sell your shares of Class A common stock in short time periods, or possibly at all. The absence of an active trading market may cause the price per share of our Class A common stock to fluctuate significantly.

SUBSTANTIAL RESALES OF OUR CLASS A COMMON STOCK COULD DEPRESS OUR STOCK PRICE.

The market price for our Class A common stock could decline, perhaps significantly, as a result of resales of a large number of shares of Class A common stock in the public market or even the perception that such resales could occur, including resales of the shares being registered hereunder pursuant to the registration statement of which this prospectus is a part. In addition, we have a substantial number of options, warrants and other securities convertible into shares of our Class A common stock outstanding that may be exercised in the future. Certain holders of these warrants and convertible securities, as well as holders of our outstanding shares of Class A common stock, have piggy-back registration rights and the holder of shares of Class A common stock issuable in exchange for its shares of preferred stock and certain warrants has demand and piggy-back registration rights. These factors could also make it more difficult for us to raise funds through future offerings of our equity securities.

YOU WILL INCUR SUBSTANTIAL DILUTION AS A RESULT OF CERTAIN FUTURE EQUITY ISSUANCES.

We have a substantial number of options, warrants and other securities currently outstanding which may be immediately converted into shares of our Class A common stock. To the extent that these options, warrants or similar securities are exercised or converted, as the case may be, there will be further dilution to holders of shares of our Class A common stock.

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PROVISIONS OF OUR CERTIFICATE OF INCORPORATION AND DELAWARE LAW COULD MAKE IT MORE DIFFICULT FOR A THIRD PARTY TO ACQUIRE US.

Provisions of our certificate of incorporation, as well as of Section 203 of the Delaware General Corporation Law (the "DGCL") could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders.

Our certificate of incorporation authorizes the issuance of 15,000,000 shares of preferred stock. The terms of our preferred stock may be fixed by the company's board of directors without further stockholder action. The terms of any outstanding series or class of preferred stock may include priority claims to assets and dividends and special voting rights, which could adversely affect the rights of holders of our Class A common stock. Any future issuance(s) of preferred stock could make the takeover of the company more difficult, discourage unsolicited bids for control of the company in which our stockholders could receive premiums for their shares, dilute or subordinate the rights of holders of Class A common stock and adversely affect the trading price of our Class A common stock.

Under Section 203 of the DGCL, Delaware corporations whose securities are listed on a national securities exchange, like the AMEX, may not engage in business combinations such as mergers or acquisitions with any interested stockholders, defined as an entity or person beneficially owning 15% or more of our outstanding common stock without obtaining certain prior approvals. As a result of the application of Section 203, potential acquirers of the company may be discouraged from attempting to effect an acquisition transaction with the company, thereby depriving holders of the company's securities of opportunities to sell or otherwise dispose of the securities at prices above prevailing market prices.

WE MAY NOT BE ABLE TO MAINTAIN LISTING ON THE AMEX, WHICH MAY ADVERSELY AFFECT THE ABILITY OF PURCHASERS IN THIS OFFERING TO RESELL THEIR SECURITIES IN THE SECONDARY MARKET.

Our Class A common stock is presently listed on the AMEX. However, we cannot assure you that the company will meet the criteria for continued listing on the AMEX. If the company is unable to meet the continued listing criteria of the AMEX and became delisted, trading of the Class A common stock could thereafter be conducted in the over-the-counter market in the so-called "pink sheets" or, if available, the NASD's Electronic Bulletin Board. In such case, an investor would likely find it more difficult to dispose of, or to obtain accurate market quotations for, the company's securities.

If the shares of Class A common stock were delisted from the AMEX, they may become subject to Rule 15g-9 under the Exchange Act, which imposes sales practice requirements on broker-dealers that sell such securities to persons other than established customers and "accredited investors." Application of this Rule could adversely affect the ability and/or willingness of broker-dealers to sell the company's securities and may adversely affect the ability of purchasers in this offering to resell their securities in the secondary market.

FORWARD-LOOKING STATEMENTS

Various statements contained in this prospectus or incorporated by reference into this prospectus constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and are indicated by words or phrases such as "believe," "expect," "may," "will," "should," "seek," "plan," "intend" or "anticipate" or the negative thereof or comparable terminology, or by discussion of strategy. Forward-looking statements are primarily contained in the sections of this prospectus entitled "Prospectus Summary," "Risk Factors," "Selected Historical and Pro Forma Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." Forward-looking statements represent as of the date of this prospectus our judgment relating to, among other things, future results of operations, growth

plans, sales, capital requirements and general industry and business conditions applicable to us. Such forward-looking statements are based largely on our current expectations and are inherently subject to risks and uncertainties. Our actual results could differ materially from those that are anticipated or projected as a result of certain risks and uncertainties, including, but not limited to, a number of factors, such as:

- successful integration of acquired businesses;
- the effect of our indebtedness on our financial condition and financial flexibility, including, but not limited to, the ability to obtain necessary financing for our business;
- economic and market conditions;
- the performance of our targeted markets;
- changes in business relationships with our major customers;
- competitive product and pricing pressures; and
- the other risks and uncertainties that are described in this prospectus and from time to time in our filings with the SEC.

Except as otherwise required to be disclosed in periodic reports required to be filed by public companies with the SEC pursuant to the SEC's rules, we have no duty to update these statements, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward-looking information contained in this prospectus will in fact transpire.

USE OF PROCEEDS

We will receive no proceeds from the sale of any of or all of the shares being offered by the selling security holders under this prospectus. We may receive an amount of up to approximately $1,461,000 upon the exercise of the warrants, if exercised, as to which we are registering the underlying shares of Class A common stock. Any proceeds that we receive from the exercise of outstanding warrants will be used by us for general working capital. The actual allocation of proceeds realized from the exercise of these securities will depend upon the amount and timing of such exercises, our operating revenues and cash position at such time and our working capital requirements. There can be no assurances that any of the outstanding warrants will be exercised.

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CAPITALIZATION

The first column in the following table sets forth our capitalization as of March 31, 2004 on an actual basis. The second column sets forth our capitalization as of December 31, 2004 on an actual basis. Except share and per share data, the information in this table is set forth in thousands. You should read this information together with the financial statements and the notes to those statements appearing elsewhere in this prospectus.

	March 31, 2004	December 31, 2004 (unaudited)
Notes payable, including current portion......................	$6,239	$5,946
Capital leases, including current portion.....................	150	515
Redeemable Class A common stock, par value $0.001, 53,534 shares issued and oustanding...........................	238	247
Stockholders' equity:		
Common stock, par value $.001; 80,000,000 shares authorized; 8,287,541, 9,505,041 and 10,359,139 shares issued and outstanding, respectively..........................	8	11
Treasury Stock, at cost; 9140 shares..........................	--	(32)
Additional paid-in capital....................................	24,271	30,853
Accumulated deficit...	(14,699)	(18,688)
Total stockholders' equity....................................	9,580	12,144
Total capitalization..	$16,207	$18,852

The table above assumes that no stock options or warrants outstanding as of March 31, 2004 and December 31, 2004 or granted thereafter are exercised. In addition to the shares of capital stock outstanding, we may issue shares of our common stock under the following plans and arrangements:

- 520,564 and 598,897 shares of Class A common stock subject to stock options granted under our 2000 Stock Option Plan (the "Plan") and 79,436 and 251,103 shares available for future issuance under such Plan as of March 31, 2004 and December 31, 2004, respectively;

- 120,000 shares of Class A common stock reserved for issuance upon exercise of warrants issued in connection with our initial public offering in November 2003 (the "IPO"), the proceeds of which are to be used as working capital for general corporate purposes; and

- 304,375 shares of Class A common stock reserved for issuance upon exercise of warrants issued in connection with our June 2004 private placement, the proceeds of which are to be used as working capital for general corporate purposes; and

- 308,225 and 307,871 shares of Class A common stock as of March 31, 2004 and December 31, 2004, respectively, reserved for issuance upon conversion of notes payable issued in connection with March 2004 exchange of 8% notes payable for 6% convertible notes payable.

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PRICE RANGE OF COMMON STOCK

We consummated our IPO at a price of $5.00 per share. Our Class A common stock trades publicly on the AMEX under the trading symbol "AIX." The following table shows the high and low sales prices per share of our Class A common stock as reported by the AMEX for the periods indicated:

	HIGH	LOW
FISCAL YEAR ENDED MARCH 31, 2004		
Third Quarter (from November 10, 2003).............	$ 6.95	$ 5.00
Fourth Quarter....................................	$ 5.30	$ 4.09
FISCAL YEAR ENDED MARCH 31, 2005		
First Quarter	$ 5.20	$ 4.10
Second Quarter	$ 5.15	$ 3.20
Third Quarter	$ 4.17	$ 3.75
Fourth Quarter (through March 1, 2005).............	$ 5.15	$ 4.81

The last reported sale price of our Class A common stock on the AMEX on March 1, 2005 was $ 4.81 per share. As of March 1, 2005, there were approximately 171 beneficial holders of record of our Class A common stock.

DIVIDEND POLICY

We have never paid any cash dividends on our common stock or preferred stock and do not anticipate paying any on our common stock in the foreseeable future. Any future payment of dividends on our common stock will be in the sole discretion of our board of directors.

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SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA

The summary below sets forth certain selected historical financial data. The financial data below should be read in conjunction with the historical financial statements and the notes thereto of our Company and of Hollywood SW and FiberSat Seller appearing elsewhere in this prospectus.

THE COMPANY. The following tables set forth selected historical financial data of our Company at and for each of the fiscal years ended March 31, 2002, 2003 and 2004 and the nine months ended December 31, 2004. The data for each of the fiscal years ended March 31, 2002, 2003 and 2004 has been derived from our audited consolidated financial statements. The data as of December 31, 2004 and for the nine months ended December 31, 2004 has been derived from our unaudited consolidated financial statements. When you read the selected financial data below, it is important that you also read our audited consolidated financial statements and the notes to those statements appearing elsewhere in this prospectus, as well as the section of this prospectus entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ACCESS INTEGRATED TECHNOLOGIES, INC.
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	FISCAL YEAR ENDED MARCH 31,		
	2002	2003	2004
CONSOLIDATED STATEMENTS OF OPERATIONS DATA (1):			
Revenues	$ 1,911	$ 4,228	$ 7,201
Costs of revenues	1,833	3,101	3,667
Gross profit	78	1,127	3,534
Selling, general and administrative expenses(2)	2,267	2,305	3,277
Provision for doubtful accounts	--	--	--
Research and development	--	--	55
Non-cash stock-based compensation	235	99	15
Depreciation and amortization	993	2,692	2,457

Loss from operations	$ (3,417)	$ (2,964)	$ (2,505)
Interest income	30	13	6
Interest expense(3)	(83)	(364)	(542)
Loss on early extinguishment of debt	--	--	(126)
Non-cash interest expense	(140)	(282)	(1,823)
Minority interest in subsidiary	--	--	25
Other income	--	8	(52)
Net loss before income taxes	$ (3,610)	$ (3,589)	$ (5,017)
Income tax benefit	--	185	212
Net loss	$ (3,610)	$ (3,404)	$ (4,805)
Preferred stock accretion(4)	(323)	(857)	(1,808)
Net loss available to common stockholders	$ (3,933)	$ (4,261)	$ (6,613)
Net loss available to common stockholders per share - basic and diluted	$ (1.21)	$ (1.41)	$ (1.37)
Weighted average number of common shares outstanding - basic and diluted(5)	3,238,084	3,027,865	4,826,776

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(1) We acquired one IDC from, and assumed certain liabilities of BridgePoint on December 21, 2001. We acquired six IDCs from, and assumed certain liabilities of ColoSolutions on November 27, 2002. We acquired all of the capital stock of Hollywood SW on November 3, 2003. We acquired all of the outstanding common stock of Core on January 9, 2004. We acquired certain assets of Boeing Digital, a division of Boeing, on March 29, 2004. We acquired substantially all of the assets and certain liabilities of Fibersat Seller on November 17, 2004. The above financial data are derived from our audited and unaudited financial statements and reflect the results of operations of the acquired entities from the respective dates of such acquisitions.

(2) Excludes non-cash, stock-based compensation expense of $235,000, $99,000 $15,000 and $4,000 for the years ended March 31, 2002, 2003 and 2004, and nine months ended December 31, 2004, respectively.

(3) Excludes non-cash interest expense related to the accretion of the value of warrants attached to our one- and five-year promissory notes of $140,000, $282,000, $1,823,000 and $155,000 for the years ended March 31, 2002, 2003 and 2004, and nine months ended December 31, 2004, respectively.

(4) Reflects the accretion of dividends, expenses and warrants on our Series A and Series B preferred stock and a beneficial conversion feature of our Series A preferred stock.

(5) The information regarding net loss per common share and weighted average number of common shares for the fiscal years ended March 31, 2002 and 2003 gives effect to the one-for-five reverse stock split of our common stock effected in September 2003.

ACCESS INTEGRATED TECHNOLOGIES, INC.
(IN THOUSANDS, EXCEPT SHARE DATA)

	AT MARCH 31,			AT DECE
	2002	2003	2004	200
				(unaudi
CONSOLIDATED BALANCE SHEET DATA:				
Cash and cash equivalents..............	$ 1,001	$ 956	$ 2,330	$ 1,51
Working capital (deficit)..............	378	(954)	212	24
Total assets...........................	8,616	9,894	21,175	23,25
Current portion of notes payable...............	333	1,152	650	1,00
Capital lease obligations..............	440	513	150	51
Long-term debt, net of current portion.	921	1,730	5,589	4,93
Total liabilities............................	3,652	5,355	11,357	10,86
Mandatorily redeemable, convertible preferred stock..............................	251	2,911	--	-
Redeemable common stock.......................	--	--	238	24
Total stockholders' equity	$ 4,713	$ 1,628	$ 9,580	$12,14

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HOLLYWOOD SOFTWARE. The following table sets forth selected historical financial data of Hollywood SW for the fiscal year ended March 31, 2003.

HOLLYWOOD SOFTWARE, INC.
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	FISCAL YEAR ENDED MARCH 31, 2003
STATEMENT OF OPERATIONS DATA:	
Revenues.....................................	$ 1,908
Cost of revenues.............................	319
Gross profit.................................	1,589
Research and development.....................	289
Selling, general and administrative expenses..	1,131
Income from operations.......................	169
Other expense................................	(2)
Net income...................................	$118
Net income per share - basic and diluted......	$.01
Weighted average number of common shares outstanding	
- basic......................................	10,000,000
- diluted....................................	10,293,167

FIBERSAT SELLER. The following table sets forth selected historical financial data of FiberSat Seller for the year ended December 31, 2003 and the nine month period ended September 30, 2004.

FIBERSAT GLOBAL SERVICES, LLC
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 2003	NINE MONTHS ENDED SEPTEMBER 30, 2004
		(unaudited)
STATEMENT OF OPERATIONS DATA:		
Revenues	$ 3,408	$ 2,567
Cost of revenues	1,093	740
Gross profit	2,315	1,827
Selling, general and administrative expenses	1,833	981
Depreciation and amortization	884	548
Impairment loss	--	358
Loss from operations	(402)	(60)
Interest income	51	2
Interest expense	(245)	(120)
Net loss before income taxes	(596)	(178)
Income tax expense	(3)	(5)
Net loss	$ (599)	$ (183)

SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA

The following tables set forth selected unaudited pro forma condensed combined statement of operations data of our Company for the fiscal year ended March 31, 2004 and for the nine months ended December 31, 2004, after giving effect to the transactions discussed in the overview of the pro forma data beginning on page P-1 of this prospectus. The Hollywood SW Acquisition and the FiberSat Acquisition were accounted for using the purchase method of accounting and, accordingly, the assets, liabilities and results of operations of Hollywood SW and FiberSat Seller have been included in our Company's consolidated financial statements subsequent to their acquisition date.

The following selected unaudited financial data should be read in conjunction with the historical financial statements of our Company, Hollywood SW, and FiberSat Seller, and the unaudited pro forma condensed combined consolidated financial information, including the notes thereto, appearing elsewhere in this prospectus. The unaudited pro forma condensed combined information is presented for illustrative purposes only and is not necessarily indicative of the results of operations that would have occurred if the transactions had been completed at the dates indicated, nor is it necessarily indicative of future results of operations of the combined company.

ACCESS INTEGRATED TECHNOLOGIES, INC.
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

FISCAL YEAR ENDED
MARCH 31, 2004

PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS DATA:	
Revenues	$ 11,581
Cost of revenues	5,078
Gross profit	6,503
Selling, general and administrative expenses	5,793
Research and development	273
Non-cash stock-based compensation	470
Depreciation and amortization	3,578
Loss from operations	(3,611)
Interest income	57
Interest expense	(802)
Loss on early extinguishment of debt	(126)
Non-cash interest expense	(1,823)
Minority interest in subsidiary	25
Other expense, net	(52)
Net loss before income taxes	(6,332)
Income tax benefit	161
Net loss	(6,171)
Accretion related to redeemable convertible Preferred stock	(1,588)
Accretion of preferred dividends	(220)
Net loss available to common stockholders	$(7,979)
Net loss per share - basic and diluted	$(1.42)
Weighted average number of common shares for net loss per share computations - basic and diluted	5,610,492

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	NINE MONTHS ENDED DECEMBER 31, 2004
PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS DATA:	
Revenues	$ 9,702
Cost of revenues	4,754
Gross profit	4,948
Selling, general and administrative expenses	4,569
Provisions for doubtful accounts	598
Research and Development	288
Non-Cash Stock-Based Compensation	4
Depreciation and Amortization	2,897
Loss From Operations	(3,408)
Interest Income	2
Interest Expense	(341)
Non-Cash Interest Expense	(155)

Other Expense, Net	17
Income Tax Benefit (Expense)	228
Minority Interest in Subsidiary	10
Net Loss	(3,647)
Net Loss Available to Common Stockholders	$(3,647)
Net Loss Available to Common Stockholders per Common Share Basic and Diluted	$(0.39)
Weighted average number of common outstanding shares - Basic and diluted	9,432,380

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements and related notes appearing elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in those forward-looking statements as a result of factors described within this prospectus and other factors. We refer you to the section captioned "Forward-Looking Statements" in this prospectus.

OVERVIEW

AccessIT was organized on March 31, 2000 and we are in the business of providing software services and technology solutions to the motion picture industry, and operating IDCs. Recently, we have actively expanded into new and interrelated business areas relating to the delivery and management of digital cinema content to entertainment venues worldwide. These businesses, supported by our IDC business, have become our primary strategic focus. Our business focus is to create a secure, managed and complete system that consists of software to book, track and perform accounting functions for digital content in movie theatres, deliver digital content to multiple locations and provide the content management software for managing all brands of in-theatre playback systems and projection systems for the digital cinema marketplace. This system is designed to enable the motion picture industry to move from the analog world to the digital world. The system is intended to use all of our businesses:

MEDIA SERVICES

- DIGITAL MEDIA DELIVERY - digital media managed delivery services and theater management player software for use in theatres from AccessDM and satellite delivery services from FiberSat. ADM Cinema, which acquired the Pavilion Theatre, will utilize our digital media managed delivery services and media player software products; and

- MOVIE DISTRIBUTION AND EXHIBITOR SOFTWARE - Hollywood SW develops and licenses distribution and exhibitor software products and services.

DATA CENTER SERVICES

- DATA CENTERS - AccessIT's IDCs, including redundant sites in Los

Angeles and New York City; and

- o MANAGED SERVICE OFFERINGS - managed storage and network and systems management services by Core and AccessIT.

Our system provides a digital content owner with the secure delivery of multiple files to multiple locations throughout the world with proactive notification and security management. Our system also provides the digital content exhibitor with access to digital content, freedom to choose what to play and when to play it with proactive notifications and management software. We have created a system whereby digital content is delivered where it is supposed to go, is played when it is supposed to be played along with the ability to act upon and report back management and financial information. We also have created software designed to enable a movie exhibitor to run all projectors in a multiple auditorium theatre from one central server, regardless of the hardware type or manufacturer.

In February 2003, we organized AccessDM, which in May 2004, became our wholly-owned subsidiary. AccessDM has developed proprietary software, Digital Express e-Courier, capable of worldwide delivery of digital data -- including

movies, advertisements and alternative content such as concerts, seminars and sporting events -- to movie theaters and other venues having digital projection equipment. We are also in the process of developing media player software for use by digitally-equipped movie theaters called Theatre Command Centre.

In November 2003, we acquired all of the capital stock of Hollywood SW, a leading provider of proprietary transactional support software and consulting services for distributors and exhibitors of filmed entertainment in the United States and Canada. Its licensed software records and manages information relating to the planning, scheduling, revenue sharing, cash flow and reporting associated with the distribution and exhibition of theatrical films. In addition, Hollywood SW's software complements, and is integrated with, AccessDM's digital content delivery software by enabling Hollywood SW's customers to seamlessly plan and schedule delivery of digital content to entertainment venue operators as well as to manage the related financial transactions.

In an effort to increase the competitive advantage of the IDCs, on January 9, 2004, we acquired Core, a managed service provider of information technologies. As an information technology outsourcing organization, Core manages clients' networks and systems in over 35 countries in Europe, Asia and North and South America and more than 20 states in the United States. Core operates a 24x7 GNCC, capable of running the networks and systems of large corporate clients. The 4 largest customers of Core accounted for approximately 77% of its revenues for the year ended March 31, 2004. The managed services capabilities of Core have been integrated with our IDCs and now operate under the name of AccessIT Managed Services.

In March 2004, we acquired certain assets of Boeing Digital, a division of Boeing. These assets were purchased to further our strategy of becoming a leader in the delivery of movies and other digital content to movie theaters. The acquired assets consist of digital projectors, satellite dishes and other equipment installed at 28 screens within 21 theaters in the United States and at one location in London, England, and satellite transmission equipment which we installed in Los Angeles, California.

Also in March 2004, we refinanced approximately $4.2 aggregate principal amount (plus accrued and unpaid interest) of our promissory notes pursuant to an exchange offer. In exchange for these promissory notes, we issued 707,477 unregistered shares of our Class A common stock and $1.7 million aggregate principal amount of new convertible notes which as of March 1, 2005 were convertible into a maximum of 310,857 shares of our Class A common stock.

In June 2004, we consummated a $4.87 million private placement of 1,217,500 unregistered shares of our Class A common stock with institutional and other accredited investors. Pursuant to the private placement, we also issued to the investors and the placement agent warrants to purchase up to 243,500 and 60,875 shares of our Class A common stock, respectively, at an exercise price of $4.80 per share, exercisable upon receipt.

In November 2004, we consummated a $1.1 million private placement of 282,776 unregistered shares of our Class A common stock at $3.89 per share with certain accredited investors. The net proceeds of $1.023 million from such private placement were used for the FiberSat Acquisition and for working capital.

Also in November 2004, we acquired substantially all of the assets of FiberSat Seller through FiberSat. FiberSat, headquartered in Chatsworth, California, provides services utilizing satellite ground facilities and fiber-optic connectivity to receive, process, store, encrypt and transmit television and data signals globally. FiberSat's Chatsworth facility currently houses the infrastructure operations of our digital cinema satellite delivery services. By

completing the FiberSat Acquisition, we gained extensive satellite distribution and networking capabilities provided by FiberSat's fully operational data storage and uplink facility located in Los Angeles, California. FiberSat has, and will continue to, provide broadband video, data and Internet transmission and encryption services for multiple customers in the broadcast and cable television and communications industries.

In February 2005, we consummated a private placement of $7.6 million of the Convertible Debentures. The Convertible Debentures bear interest at the rate of 7% per year and are convertible into shares of our Class A common stock at the price of $4.07 per share, subject to possible adjustments from time to time. In connection with the Convertible Debenture offering, we issued the participating institutional investors the Convertible Debentures Warrants, exercisable for up to 560,197 shares of Class A common stock at an initial exercise price of $4.44 per share, subject to adjustments from time to time. The Convertible Debentures Warrants may be exercised beginning on September 9, 2005 until five years thereafter.

Also in February 2005, we consummated the acquisition of substantially all of the assets of the Pavilion Theatre. The Pavilion Theatre is an eight-screen movie theatre and cafe and will be a component of the Media Services segment. Continuing to operate as a fully functional multiplex, the Pavilion Theatre will also become our showplace to demonstrate our integrated digital cinema solutions to the movie entertainment industry

We offer interrelated services that use each of our business units for the planning, purchasing, delivery and management of digital content -- such as movies, advertising, trailers and alternative content, including concerts, seminars and sporting events -- to movie theater and other venue operators. We believe that our ability to offer a wide range of fully managed services will differentiate us from other service providers, including distributors of other types of digital media.

We have two reportable segments: Data Center Services, which comprise our IDC operations and the operations of Core; and Media Services, which represents the operations of Hollywood SW, AccessDM (including Boeing Digital), FiberSat and ADM Cinema. For the three months ended December 31, 2004, we received 47% and 53%, respectively, of our revenue from the Media Services and Data Center Services segments. For the nine months ended December 31, 2004, we received 35% and 65%, respectively, of our revenue from the Media Services and Data Services segments.

From our inception through November 3, 2003, all of our revenues have been derived from monthly license fees and fees from other ancillary services provided by us at our IDCs. We do not intend to build any additional IDCs. Instead, we may continue expanding our IDC footprint by acquiring additional, operational IDCs from third parties. Hollywood SW generates revenues from software license fees, ASP fees, enhancements, consulting and maintenance fees. Core generates revenues primarily from managed network services. AccessDM generates revenues from the delivery of movies and other content into movie theaters. We incurred net losses of $2.33 million and $4.0 million in the nine months ended December 31, 2003 and 2004, respectively, and we have an accumulated deficit of $18.7 million as of December 31, 2004. We anticipate that, with the acquisitions of Hollywood SW, Core, FiberSat, the Pavilion Theatre and substantially all of the assets of Boeing Digital, and the operation of AccessDM, our results of operations will improve. As we grow, we expect our operating costs and general and administrative expenses will also increase for the foreseeable future, but as a lower percentage of revenue. In order to achieve and sustain profitable operations, we will need to generate more revenues, and we may need to obtain additional financing, than we have in prior years.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of consolidated financial statements in conformity

with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Our most significant estimates relate to software revenue recognition, capitalized software, depreciation of fixed assets and amortization of intangible assets. Actual results could differ from these estimates. On an on-going basis, we evaluate our estimates, including those related to the carrying values of our fixed assets and intangible assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances made, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions or conditions.

We believe that the following critical accounting policies and estimates affect our more significant estimates and judgments used in the preparation of our consolidated financial statements.

REVENUE RECOGNITION

Through December 31, 2004, our Media Services segment revenues have been primarily generated by Hollywood SW, and are accounted for in accordance with

Statement of Position 97-2 "Software Revenue Recognition" ("SOP 97-2"), and Staff Accounting Bulletin No. 104, "Revenue Recognition." Our software revenues are generated from the following primary sources:

- software licensing, including customer licenses and Application Service Provider ("ASP") agreements;
- software maintenance contracts; and
- professional consulting services, which includes systems implementation, training, custom software development services and other professional services.
- Software licensing revenue is recognized when the following criteria are met:
- persuasive evidence of an arrangement exists;
- delivery has occurred and no significant obligations remain;
- the fee is fixed or determinable; and
- collection is determined to be probable.

Significant upfront fees are received in addition to periodic amounts upon achievement of contractual events for licensing of our products. Such amounts are deferred until the revenue recognition criteria has been met, which typically occurs after delivery and acceptance.

For arrangements with multiple elements (e.g., delivered and undelivered products, maintenance and other services), we separately negotiate each element of the arrangement based on the fair value of the elements. The fair values for ongoing maintenance and support obligations are based upon separate sales of renewals to customers or upon substantive renewal rates quoted in the agreements. The fair values for services, such as training or consulting, are based upon hourly billing rates of these services when sold separately to other customers. In instances where we are not able to determine fair value of each element and the services are essential to the functionality of the software, we follow percentage-of-completion accounting to recognize revenue.

Customers not wishing to license and operate our software themselves may use the software through an ASP arrangement, in which we host the application and provide customer access via the internet. Annual minimum ASP service fees are recognized ratably over the contract term. Overage revenues for usage in excess of stated minimums are recognized monthly.

Maintenance services and website subscription fees are recognized ratably over the contract term. Professional consulting services, sales of third party products and resale hardware revenues are recognized as services are provided. Software development revenues are recognized when delivery has occurred and no significant obligations remain.

Deferred revenue is recorded in cases of:

- a portion or the entire contract amount cannot be recognized as revenue due to non-delivery or acceptance of licensed software or custom programming;
- incomplete implementation of ASP service arrangements; or

- unexpired pro-rata periods of maintenance, minimum ASP service fees or website subscription fees.

As license fees, maintenance fees, minimum ASP service fees and website subscription fees are often paid in advance, a portion of this revenue is deferred until the contract ends. Such amounts are classified as deferred revenue in the consolidated balance sheet and are recognized as revenue in accordance with our revenue recognition policies described above.

In addition, revenues in the Media Services segment include digital cinema - related revenues generated by AccessDM. These revenues consist of (1) satellite delivery revenues, (2) encryption and preparation fee revenues, (3) landing fees for delivery to each movie theatre. These revenues are recognized upon completion of the related services.

Our Data Center Services segment revenues consist of license fees for colocation space, riser access charges, electric and cross-connect fees, and non-recurring equipment installation fees. Revenues from our IDCs, riser access charges, electric and cross-connect fees are billed monthly and, in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition," are recognized ratably over the terms of the contracts, generally two to nine years. Certain customer contracts contain periodic increases in the amount of license fees to be paid, and those amounts are recognized as license fee revenues on a straight-line basis over the term of the contracts. Installation fees are recognized on a time and materials basis in the period in which the services were provided and represent the culmination of the earnings process as no significant obligations remain. Amounts such as prepaid license fees and other amounts, which are collected prior to satisfying the above revenue recognition criteria, are classified as deferred revenues. Amounts satisfying the above revenue recognition criteria prior to billing are classified as unbilled revenues. In addition, within our Data Center Services segment, Core revenues consist of network monitoring and maintenance fees. These fees consist of monthly recurring billings pursuant to contracts, which are recognized as revenues in the month earned, and other billings which are recognized on a time and materials basis in the period in which the services were provided.

The adoption of Staff Accounting Bulletin No. 104, "Revenue Recognition," did not affect our revenue recognition policies.

CAPITALIZED SOFTWARE COSTS

We account for software costs under Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold,

Leased, or Otherwise Marketed." Software development costs that are incurred subsequent to establishing technological feasibility, and until the product is commercially released, are capitalized. Amounts capitalized as software development costs are generally amortized periodically using a formula based on the greater of the units sold during the period or on a straight-line basis over five years. We review capitalized software costs for impairment on an annual basis. To the extent that the carrying amount exceeds the estimated net realizable value of the capitalized software cost, an impairment charge is recorded. No impairment was recorded for the fiscal year ended March 31, 2004 and the nine months ended December 31, 2004. Amortization of capitalized software development costs, included in costs of revenues, for the fiscal year ended March 31, 2004 amounted to $118,000, and for the three and nine months ended December 31, 2004 amounted to $92,000 and $220,000, respectively.

BUSINESS COMBINATIONS AND INTANGIBLE ASSETS

We have adopted SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and other Intangible Assets." SFAS No. 141 requires all business combinations to be accounted for using the purchase method of accounting and that certain intangible assets acquired in a business combination must be recognized as assets separate from goodwill. SFAS No. 142 addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 also addresses the initial recognition and measurement of intangible assets acquired outside of a business combination, whether acquired individually or with a group of other assets. This statement provides that intangible assets with indefinite lives and goodwill will not be amortized but will be tested at least annually for impairment. If an impairment is indicated, then the asset will be written down to its fair value, typically based upon its future expected discounted cash flows. Intangible assets of the Company as of March 31, 2003 consisted of customer contracts. In addition, during the fiscal year ended March 31, 2004, the Company acquired intangible assets related to customer contracts, trade names, trademarks and covenants not to compete, which are estimated to have useful lives of ranging from 2 to 10 years. As of December 31, 2004, our finite-lived intangible assets consisted of customer agreements, covenants not to compete, Federal Communications Commission licenses for satellite transmission services, trade names and trademarks, which are estimated to have useful lives of ranging from 2 to 10 years. In addition, the Company has recorded goodwill in connection with the acquisitions of Hollywood SW, Core and FiberSat.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are being amortized over the shorter of the lease term or the estimated useful life of the improvement. Maintenance and repair costs are charged to expense as incurred. Major renewals, improvements and additions are capitalized.

IMPAIRMENT OF LONG-LIVED ASSETS

We review the recoverability of our long-lived assets on a periodic basis in order to identify business conditions, which may indicate a possible impairment. The assessment for potential impairment is based primarily on our ability to recover the carrying value of our long-lived assets from expected future undiscounted cash flows. If the total of expected future undiscounted cash flows is less than the total carrying value of the assets, a loss is recognized for the difference between the fair value (computed based upon the expected future discounted cash flows) and the carrying value of the assets.

DESCRIPTION OF LINE ITEMS

The following is a description of certain line items from our statements of operations:

- Media Services revenues include charges for software license fees, ASP service fees, consulting, development and maintenance fees, digital delivery and digital media software license fees. Media Services revenue are those generated by Hollywood SW, AccessDM and FiberSat. Our Data Center Services revenues include charges for monthly license fees for IDC space, electric fees, riser access charges and installation fees, and managed network monitoring fees.

- Cost of revenues consists of facility operating costs such as rent, utilities, real estate taxes, repairs and maintenance, insurance and other related expenses, direct personnel costs and amortization of capitalized software development costs.

- Selling, general and administrative expenses consist primarily of salaries and related personnel costs for management and other headquarters office employees, professional fees, advertising and marketing costs, and our corporate and divisional headquarters facility costs.

- Provision for doubtful accounts represents amounts deemed not probable of collection from customers.

- Non-cash, stock-based compensation represents the value of employee and non-employee stock options and restricted stock grants, amortized over the vesting periods (if any).

- Non-cash interest expense represents the accretion of the value of warrants attached to our five-year promissory notes, and the imputing of interest on a non-interest bearing note payable.

INITIAL PUBLIC OFFERING

On November 10, 2003, our registration statement on Form SB-2 was declared effective by the SEC. In connection with the completion of IPO, we issued 1,380,000 shares of Class A common stock, 180,000 of which shares were issued in connection with the lead underwriter's exercise of its over-allotment option, at $5.00 per share. The net proceeds from the IPO after deducting all offering expenses, including underwriting discounts and commissions, the cash portion of the purchase price of Hollywood SW, and the repayment of a note payable, was approximately $1,067,000. We are listed on the AMEX under the symbol "AIX".

PRIVATE PLACEMENTS

On June 4, 2004, we concluded the private placement with several investors whereby we issued 1,217,500 unregistered shares of our Class A common stock at a sale price of $4.00 per share. The total net proceeds, including fees and expenses to register the securities were approximately $4.0 million, which is being used for capital investments and working capital. We also issued to investors and to the investment firm in our June 2004 private placement, warrants to purchase a total of 304,375 shares of our Class A common stock at an exercise price of $4.80 per share, which became exercisable upon receipt. We agreed to file a registration statement for the resale of these shares and the shares underlying the warrants with the SEC by filing a Form SB-2 on or before July 5, 2004. We filed the Form SB-2 on July 2, 2004, and the Form SB-2 was declared effective on July 20, 2004.

In November 2004, we consummated a $1.1 million private placement of 282,776 unregistered shares of our Class A common stock at $3.89 per share with certain accredited investors. These shares carry piggyback and demand registration rights, at the sole expense of the investors. The net proceeds of $1.023 million from such private placement were used for the FiberSat Acquisition and for working capital.

In February 2005, we consummated a private placement of $7.6 million of the Convertible Debentures. The Convertible Debentures bear interest at the rate of 7% per year and are convertible into shares of our Class A common stock at the price of $4.07 per share, subject to possible adjustments from time to time. In connection with the Convertible Debenture offering, we issued the participating institutional investors the Convertible Debentures Warrants, exercisable for up to 560,197 shares of Class A common stock at an initial exercise price of $4.44 per share, subject to adjustments from time to time. The Convertible Debentures Warrants may be exercised beginning on September 9, 2005 until five years thereafter.

ACCESS DIGITAL MEDIA

AccessDM was formed in February 2003 by AccessIT. AccessDM has completed development of its proprietary software enabling the delivery of digital content -- such as movies, advertising, trailers and alternative content such as concerts, seminars and sporting events -- to movie theaters and other venues equipped with digital projection equipment.

AccessDM has been, and will continue in the foreseeable future to be, financed principally by AccessIT. In March 2003, we engaged The Casey Group, Inc., a software consulting company, to help develop software designed to enable the delivery of digital content. As compensation for assisting us in the development of the software, the cost of which was agreed to be $174,000, we issued to The Casey Group 750,000 shares of AccessDM common stock in September 2003 and 8,700 shares of AccessIT Class A common stock in November 2003. The AccessDM shares issued to The Casey Group represented 20% of AccessDM's outstanding capital stock after giving effect to such issuance. On May 26, 2004, AccessIT entered into an agreement with The Casey Group to issue 31,300 unregistered shares of our Class A common stock in exchange for the 750,000 shares of AccessDM's common stock held by The Casey Group. Following such exchange, as of May 26, 2004, AccessIT owns 100% of AccessDM's outstanding common stock.

The operations of AccessDM are controlled by AccessIT, and certain members of the senior management of AccessIT are also members of the senior management of AccessDM. All intercompany transactions between AccessIT and AccessDM are conducted as transactions on competitive terms, including the terms of any future investments by AccessIT in AccessDM and the terms of any intercompany sales. For the nine months ended December 31, 2004, AccessDM generated $173,000 of revenues.

ACQUISITIONS

On July 17, 2003, we signed a stock purchase agreement with Hollywood SW and its two selling stockholders. On November 3, 2003, we acquired Hollywood SW, after amending the agreement to complete the acquisition on that date, by issuing secured promissory notes (the "Initial Notes"), each in the principal amount of $3.6 million, to the two selling stockholders. On November 10, 2003, we completed the IPO and (1) the Initial Notes were exchanged for the consideration described in clauses (2) and (3) below and cancelled and returned to us by Hollywood SW's selling stockholders, (2) the lead underwriter in the IPO transmitted, in the aggregate, $2.45 million to the selling stockholders and (3) we issued to such selling stockholders $3 million in 8% promissory notes and 400,000 unregistered shares of our Class A common stock.

We may pay an additional purchase price in each of the three years following the closing of the Hollywood SW acquisition if certain annual earnings targets are achieved. We also have agreed to issue additional unregistered shares of our Class A common stock if, during the 90 days following the applicable lock-up period, the average value of our Class A common stock during such 90 days declines below an average of $3.60 per share.

On December 22, 2003, we signed an agreement to purchase all of the outstanding common stock of Core, and on January 9, 2004, the acquisition of Core was completed. Core is a managed service provider of information technologies; its primary product is managed network services through its global network command center. We believe that the acquisition of Core will expand the existing capabilities and services of our IDCs. The initial purchase price consisted of

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$250,000 in cash and 100,000 unregistered shares of our Class A common stock. In addition, we may be required to pay a contingent purchase price for any of the three years following the closing in which certain earnings targets are achieved; any additional payment is to be made in the same proportionate combination of cash and unregistered shares of our Class A common stock as the purchase price payable at closing. We have also agreed to a one time issuance of additional unregistered shares of our Class A common stock to the seller up to a maximum of 20,000 shares if, in accordance with an agreed upon formula, the market value of our Class A common stock is less than an average of $4.00 during the final 90 days of the lock up period.

On March 29, 2004, we consummated an acquisition of certain assets of Boeing Digital, a division of Boeing, pursuant to an asset purchase agreement of same date. The acquired assets consist of digital projectors, satellite dishes and other equipment installed at 28 screens within 21 theatres in the United States and one location in London, England, and satellite transmission equipment which we installed in Los Angeles, California. The initial purchase price consisted of: $250,000 in cash; 53,534 unregistered shares of our Class A common stock; and a non-interest bearing promissory note payable for $1.8 million payable in equal installments over 4 years. In addition, we agreed to make payments totaling a maximum of $1 million over 4 years, which payments are comprised of 20% of the gross receipts generated by the acquired assets during the 4 year period after the closing. Additionally, at any time during the 90 day period immediately following the first 12 months after the closing, Boeing may sell its 53,534 unregistered shares of our Class A common stock to AccessIT in exchange for $250,000 in cash. In connection with the acquisition, Boeing agreed to purchase from AccessIT a minimum of $450,000 managed storage services per year for four years from the date of the agreement.

On October 19, 2004, we entered into an agreement to purchase substantially all of the assets and certain specified liabilities of FiberSat Seller. On November 17, 2004, the FiberSat Acquisition was completed. FiberSat, headquartered in Chatsworth, California, provides services utilizing satellite ground facilities and fiber-optic connectivity to receive, process, store, encrypt and transmit television and data signals globally. FiberSat's Chatsworth facility currently houses the infrastructure operations of the Company's digital cinema satellite delivery services. The initial purchase price for FiberSat consisted of 500,000 unregistered shares of our Class A common stock, and we agreed to repay certain liabilities of FiberSat on or before the closing of the acquisition, with up to $500,000 in cash and 100,000 unregistered shares of our Class A common stock. We had the option to exchange up to 50,000 of such 100,000 unregistered shares of Class A common stock to increase the cash, and thereby decrease the Class A common stock portion of such repayment based on the rati

(Unaudited)

		September 30, 2008		December 31, 2007
ASSETS				
Current assets:				
Cash and cash equivalents	$	12,937	$	37,554

Accounts receivable, net of allowance of $5,701 (2008) and $4,177 (2007)		15,279		12,399
Inventory		64,849		54,939
Advances for inventory		9,313		9,769
Deferred tax assets		604		1,257
Prepaid expenses and other current assets		6,867		3,262
Total current assets		109,849		119,180
Property and equipment:				
Spare satellites and related launch costs				47,848
Second-generation satellites, launch costs and ground segment		435,218		147,998
Globalstar System, net		122,753		84,939
Other property and equipment, net		12,812		9,318
		570,783		290,103
Other assets:				
Restricted cash		104,722		80,871
Deferred tax assets		19,049		20,303
Other assets, net		15,174		2,518
Total assets	$	819,577	$	512,975
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$	35,952	$	8,400
Accrued expenses		39,543		17,650
Payables to affiliates		3,119		1,487
Deferred revenue		19,740		19,396
Total current liabilities		98,354		46,933
Borrowings under revolving credit facility		35,000		50,000
Long term debt		100,000		
Long term convertible senior notes		150,000		
Employee benefit obligations, net of current portion		1,422		1,779
Other non-current liabilities		54,583		8,719
Total non-current liabilities		341,005		60,498
Ownership equity:				
Preferred Stock, $0.0001 par value; 100,000 shares authorized, issued and outstanding none				
Common Stock, $0.0001 par value; 800,000 shares authorized, 118,419 shares issued and outstanding at September 30, 2008 and 83,693 shares issued and outstanding at December 31, 2007		12		8
Additional paid-in capital		424,443		407,743
Accumulated other comprehensive income		1,467		3,411
Retained deficit		(45,704)		(5,618)
Total ownership equity		380,218		405,544
Total liabilities and shareholders equity	$	819,577	$	512,975

See accompanying notes to unaudited interim consolidated financial statements.

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GLOBALSTAR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Nine Months Ended	
	September 30, 2008	**September 30, 2007**
Cash flows from operating activities:		
Net loss	$ (40,086)	$ (11,591)
Adjustments to reconcile net loss to net cash from operating activities:		
Deferred income taxes	1,800	(510)
Depreciation and amortization	19,135	8,225
Interest rate derivative loss	25	751
Stock-based compensation expense	10,318	5,409
Loss (gain) on disposal of fixed assets	59	(137)
Provision for bad debts	1,871	425
Interest income on restricted cash	(3,526)	(1,557)
Contribution of services	337	315
Cost of subscriber equipment sales - impairment of assets	404	17,255
Amortization of deferred financing costs	514	332
Loss in equity method investee	105	
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(4,931)	5,132
Inventory	(13,871)	(25,447)
Advances for inventory	(74)	6,607
Prepaid expenses and other current assets	1,219	(429)
Other assets	(1,035)	327
Accounts payable	1,665	(8,549)
Payables to affiliates	1,722	128
Accrued expenses and employee benefit obligations	(3,504)	(4,036)
Other non-current liabilities	1,075	(109)
Deferred revenue	804	(4,152)
Net cash from operating activities	(25,974)	(11,611)
Cash flows from investing activities:		
Spare and second-generation satellites and launch costs	(199,525)	(125,850)
Second-generation ground	(5,294)	
Property and equipment additions	(4,551)	(2,702)
Proceeds from sale of property and equipment	141	263
Payment for intangible assets		(214)
Investment in businesses	(2,000)	
Cash acquired on purchase of subsidiary	1,839	
Restricted cash	(18,298)	
Net cash from investing activities	(227,688)	(128,503)
Cash flows from financing activities:		
Proceeds from revolving credit loan	35,000	
Payment of principal on notes payable		(273)
Borrowings from long-term convertible senior notes	150,000	
Borrowings from long term debt	100,000	
Repayment of revolving credit loan	(50,000)	
Proceeds from irrevocable standby stock purchase agreement		140,255
Deferred financing cost payments	(4,880)	(1,533)
Reduction in derivative margin account balance requirements	159	

Net cash from financing activities		230,279		138,449
Effect of exchange rate changes on cash		(1,234)		(5,694)
Net decrease in cash and cash equivalents		(24,617)		(7,359)
Cash and cash equivalents, beginning of period		37,554		43,698
Cash and cash equivalents, end of period	$	12,937	$	36,339
Supplemental disclosure of cash flow information:				
Cash paid for:				
Interest	$	5,502	$	2,301
Income taxes	$	994	$	84
Supplemental disclosure of non-cash financing and investing activities:				
Conversion of redeemable Common Stock to Common Stock	$		$	1,249
Accrued launch costs and second-generation satellites costs	$	27,481	$	347
Capitalization of interest for spare and second-generation satellites and launch costs	$	10,460	$	
Vendor financing of second-generation Globalstar System	$	48,215	$	

See accompanying notes to unaudited interim consolidated financial statements.

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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 and nine months ended September 30, 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.

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.

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Other income (expense) includes foreign exchange transaction gains (losses) of $(6.5) million and $1.6 million for the three and nine months ended September 30, 2008, respectively, and $3.8 million and $4.9 million for the three and nine months ended September 30, 2007, respectively.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Standards 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 FASB Staff Position (FSP) FAS 157-2, 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 a company to convey better the purpose of derivative use in terms of the risks that it 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.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP (the GAAP hierarchy). SFAS No. 162 supersedes the existing hierarchy contained in the U.S. auditing standards. The existing hierarchy was carried over to SFAS No. 162 essentially unchanged. The Statement becomes effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to the auditing literature. The new hierarchy is not expected to change current accounting practice in any area.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, *Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants*. Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company will adopt FSP APB 14-1 beginning in the first quarter of 2009, and this standard must be applied on a retrospective basis. The Company is evaluating the impact of the adoption of FSP APB 14-1 on its financial position, results of operations or cash flows.

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Note 2: Basic and Diluted Loss 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 loss per share (in thousands, except per share data):

	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
	Income (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per-Share Amount	Income (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per-Share Amount
Basic and Dilutive loss per common share						
Net loss	$ (26,103)	84,631	$ (0.31)	$ (40,086)	83,711	$ (0.48)

	Three Months Ended September 30, 2007			Nine Months Ended September 30, 2007		
	Income (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per-Share Amount	Income (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per-Share Amount
Basic income (loss) per common share						
Net income (loss)	$ 652	78,000	$ 0.01	$ (11,591)	75,614	$ (0.15)
Effect of Dilutive Securities						
Stock Options to Director		88				
GAT acquisition		536				
Unvested restricted stock		420				
Diluted income (loss) per common share	$ 652	79,044	$ 0.01	$ (11,591)	75,614	$ (0.15)

For the three and nine months ended September 30, 2008 and 2007, diluted net income (loss) per share of Common Stock is the same as basic net income (loss) per share of Common Stock, because the effects of potentially dilutive securities are anti-dilutive.

Shares issued under the Share Lending Agreement (31.4 million shares at September 30, 2008) are excluded from the computation of earnings per share (Note 13).

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 of 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 operator. 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

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Note 4: Property and Equipment

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

	September 30, 2008	December 31, 2007
Globalstar System:		
Space segment	$ 132,983	$ 85,142
Ground segment	27,822	21,530
Second-generation satellites and related launch costs	428,998	147,998
Second-generation ground segment	6,263	
Spare satellites and related launch costs		47,848
Furniture and office equipment	16,872	14,417
Land and buildings	3,079	2,478
Leasehold improvements	705	717
Construction in progress	3,710	1,132
	620,432	321,262
Accumulated depreciation	(49,649)	(31,159)
	$ 570,783	$ 290,103

Property and equipment consists of an in-orbit satellite constellation, ground equipment, spare satellites and related launch costs, second-generation satellites and related launch costs, second-generation ground segment 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 669.6 million (approximately $946.7 million at a weighted average conversion rate of 1.00 = $1.4139 at September 30, 2008) including approximately 146.8 million which was 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 September 30, 2008, $72.8 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 ($9.7 million to $19.4 million at 1.00 = $1.4449). In 2007, the Company authorized the first two portions of the Thales four-part sequential plan with an additional cost of 4.1 million ($5.9 million at 1.00 = $1.4449). In October 2008, the Company authorized the third portion of the sequential plan with an additional cost of 0.9 million ($1.3 million at 1.00 = $1.4449). The Company cannot provide assurance that 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 9.1 million (approximately $13.1 million at a weighted average conversion rate of 1.00 = $1.4345) consisting of 4.0 million for the Satellite Operations Control Centers, 3.1 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.

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On September 5, 2007, the Company and Arianespace (the Launch Provider) 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, the Launch Provider will make four launches of six satellites each, and the Company has the option to require the Launch Provider to make four additional launches of six satellites each. The total contract price for the first four launches is approximately $210.1 million. On July 5, 2008, the Company amended its agreement with its Launch Provider for the launch of the Company s second-generation satellites and certain pre and post-launch services. Under the amended terms, the Company can defer payment on up to 75% of certain amounts due to the Launch Provider. The deferred payments will incur annual interest at 8% to 12%. 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 the Launch Provider. 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 the Launch Provider 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. All of the eight spare satellites had been placed into service and were handling call traffic as of June 30, 2008.

On May 14, 2008, the Company and Hughes Network Systems, LLC (Hughes) entered into an agreement under which Hughes will design, supply and implement the Radio Access Network (RAN) ground network equipment and software upgrades for installation at a number of the Company s satellite gateway ground stations and satellite interface chips to be a part of the User Terminal Subsystem (UTS) in various next-generation Globalstar devices. The total contract purchase price of approximately $100.8 million is payable in various increments over a period of 40 months. The Company has the option to purchase additional RANs and other software and hardware improvements at pre-negotiated prices. The RANs, when completed, will be covered by a limited one-year warranty, with an option for the Company to extend the warranty. The agreement contains customary arbitration and indemnification provisions. Future costs associated with certain projects under this contract will be capitalized once the Company has determined that technological feasibility has been achieved on these projects.

As of September 30, 2008 and December 31, 2007, capitalized interest recorded was $14.8 million and $1.1 million, respectively. Interest capitalized during the three and nine months ended September 30, 2008 was $5.4 million and $13.7 million, respectively. No interest was capitalized during the three and nine months ended September 30, 2007. Depreciation expense for the three and nine months ended September 30, 2008 was $7.2 million and $19.0 million, respectively, and $3.2 million and $8.1 million for the three and nine months ended September 30, 2007, respectively.

Note 5: Payables to Affiliates

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

	September 30, 2008	December 31, 2007
QUALCOMM	$ 2,912	$ 1,286
Thermo Capital Partners	207	201
	$ 3,119	$ 1,487

Thermo incurs certain general and administrative expenses on behalf of the Company, which are charged to the Company. For the three and nine months ended September 30, 2008, total expenses were approximately $57,000 and $167,000, respectively, and $45,000 and $143,000 for the three and nine months ended September 30, 2007, respectively.

For the three and nine months ended September 30, 2008, the Company also recorded approximately $112,000 and $337,000, respectively, of non-cash expenses related to services provided by two executive officers of Thermo and the Company who receive no compensation from the Company, which were accounted for as a contribution to capital. For the three and nine months ended September 30, 2007, the Company recorded $141,000 and $315,000, respectively, of expenses related to services provided by officers of Thermo, 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.

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Note 6: Other Related Party Transactions

Since 2005, Globalstar has 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 September 30, 2008 and December 31, 2007, total advances to QUALCOMM for inventory were $9.2 million and $9.7 million, respectively. As of September 30, 2008 and December 31, 2007, the Company had outstanding commitment balances of approximately $50.4 million and $57.0 million, respectively. On October 28, 2008, the Company amended its agreement with QUALCOMM to extend the term for 12 months and defer delivery of mobile phones and related equipment until 2010.

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 September 30, 2008, the Company had drawn $35.0 million of the revolving credit facility and $100.0 million of the delayed draw term loan facility was outstanding. As of December 31, 2007, the Company had drawn $50.0 million of the revolving credit facility but none of the delayed draw term loan was outstanding.

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 either 5% plus the greater of the prime rate and the Federal Funds rate plus 0.5%, or LIBOR plus 6%. The delayed draw term loan facility bore an annual commitment fee of 2.0% until drawn or terminated. Commitment fees related to the loans, incurred during the three and nine months ended September 30, 2008 were less than $0.1 million and $0.3 million, respectively. Commitment fees related to the loans, incurred during the three and nine months ended September 30, 2007, were $0.6 million and $1.7 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. On September 29, 2008, the Company and Thermo agreed that, effective May 26, 2008, all payment of interest on the debt will be deferred until 45 days after Thermo provides notice that the interest is then payable. Interest would accrue on this outstanding interest at the same rate as the underlying loan and be compounded on December 31, 2008 and annually thereafter.

Purchases and other transactions with Affiliates

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
QUALCOMM	$ 3,119	$ 9,794	$ 9,023	$ 32,486
Other affiliates	29	6,326	1,597	13,690
Total	$ 3,148	$ 16,120	$ 10,620	$ 46,176

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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 and nine months ended September 30, 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. At September 30, 2008, the Company determined, based on its evaluation of current evidence and its effect on its estimate of future taxable income that it was necessary to provide a full valuation allowance against its Canadian subsidiary s deferred tax assets. Accordingly, the Company increased its deferred tax valuation allowance by $2.1 million with respect to its deferred tax assets,

The Company has been notified that one of its subsidiaries and its predecessor, Globalstar L.P. are currently under audit for the 2004 and 2005 tax years. During the audit period, the Company and its subsidiaries 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 with respect to Income Taxes. 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 (Loss)

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 September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Net income (loss)	$ (26,103)	$ 652	$ (40,086)	$ (11,591)
Other comprehensive income:				
Foreign currency translation adjustments	(488)	1,488	(1,944)	4,184

Minimum pension liability adjustment								(203)
Total comprehensive income (loss)	$	(26,591)	$	2,140	$	(42,030)	$	(7,610)

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 0.1 million and 2.1 million restricted stock awards and restricted stock units (including grants to both employees and executives) were granted during the three and nine months ended September 30, 2008, respectively. In January 2008, the Company s Board of Directors approved the addition of approximately 1.7 million shares of the Company s Common Stock to the shares available for issuance under the Equity Plan. The Company s stockholders approved the Amended and Restated Equity Plan on May 13, 2008, which added an additional 3.0 million shares of the Company s Common Stock to the shares available for issuance under the Equity Plan.

Note 10: Litigation and Other Contingencies

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

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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 filed a Second Amended Complaint. That complaint 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 was filed May 15, 2008. On September 30, 2008, the presiding judge dismissed all of the plaintiff s claims with prejudice. The plaintiff filed a notice of appeal to the Second Circuit Court of Appeals on October 29, 2008.

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. A hearing on Globalstar s motion for summary judgment was held on October 29, 2008. The judge deferred hearing plaintiffs motion for class certification.

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 asserted claims based on Quebec law related to his alleged problems with Globalstar Canada s service. In June 2008 Globalstar Canada and the plaintiff settled the case for an immaterial amount. The settlement was approved by the court on June 25, 2008 and has been fully implemented.

On February 5, 2008, the Company filed a Petition for Review in the U.S. Court of Appeals for the District of Columbia Circuit of the FCC s November 9, 2007, Second Order on Reconsideration and Second Report and Order (the Second Report) in IB Docket No. 02-364. The Second Report, among other things, reassigned the L-band spectrum in the 1610-1626.5 MHz frequency band between the Company and Iridium Satellite LLC, reducing Globalstar s spectrum and increasing Iridium s. The Company filed its brief on September 17, and the FCC filed its brief on October 17. The Company s reply brief is due on November 18. The Company cannot predict whether the court will rule in its favor or when a decision may be issued.

The Company is under a sales and use tax examination by the California Board of Equalization for tax years ended 2005, 2006 and 2007. The Company believes that the amount accrued on its books related to sales and use tax contingency is adequate.

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 and nine months ended September 30, 2008 and 2007 (in thousands):

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Service:				
United States	$ 8,233	$ 11,922	$ 24,908	$ 32,175
Canada	5,018	7,047	16,140	20,391
Europe	946	1,431	3,018	3,498
Central and South America	1,747	559	4,165	1,788
Others	206	304	602	861
Total service revenue	16,150	21,263	48,833	58,713
Subscriber equipment:				
United States	3,742	1,298	9,730	6,351
Canada	1,632	1,522	5,644	4,259
Europe	115	1,163	1,534	4,066
Central and South America	685	255	1,677	714
Others	201	187	240	576
Total subscriber equipment revenue	6,375	4,425	18,825	15,966
Total revenue	$ 22,525	$ 25,688	$ 67,658	$ 74,679

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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 September 30, 2008 and December 31, 2007 is presented in the table below.

		Fair Value Measurements at September 30, 2008 using			
(In Thousands)	**December 31, 2007**	**Quoted Prices in Active Markets for Identical Instruments (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Balance**
Other non-current liabilities:					
Interest rate derivative	$ 5,949	$	$ 5,974	$	$ 5,974
Total non-current liabilities measured at fair value	$ 5,949	$	$ 5,974	$	$ 5,974

The increases in fair value of the interest rate swap agreement liability, for the three and nine months ended September 30, 2008, of approximately $0.2 million and less than $0.1 million, respectively, were recognized as Interest rate derivative loss in the accompanying Consolidated Statements of Operations.

Note 13: Recent Public Offerings

Convertible Senior Note 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 $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.

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 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.

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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 below.

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. See Note 14.

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 below) will be entitled to an increase in the conversion rate as specified in the Indenture. The number of additional shares by which the applicable base conversion rate will be increased will be determined by reference to the applicable table below and is based on the date on which the make whole fundamental change becomes effective (the effective date) and the price (the stock price) paid, or deemed paid, per share of the Company s common stock in the make whole fundamental change, subject to adjustment as described below. If the holders of common stock receive only cash in a make whole fundamental change, the stock price will be the cash amount paid per share of the Company s common stock. Otherwise, the stock price will be the average of the closing sale prices of the Company s common stock for each of the 10 consecutive trading days prior to, but excluding, the relevant effective date.

The events that constitute a make whole fundamental change are as follows:

- Any person or group (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person shall be deemed to have beneficial ownership of all shares that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of voting stock representing 50% of more (or if such person is Thermo Capital Partners LLC, 70% or more) of the total voting power of all outstanding voting stock of the Company;

- The Company consolidates with, or merges with or into, another person or the Company sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets to any person;

- The adoption of a plan of liquidation or dissolution of the Company; or

- The Company s common stock (or other common stock into which the Notes are then convertible) is not listed on a United States national securities exchange or approved for quotation and trading on a national automated dealer quotation system or established automated over-the-counter trading market in the United States.

The stock prices set forth in the first column of the Make Whole Table below will be adjusted as of any date on which the base conversion rate of the notes is otherwise adjusted. The adjusted stock prices will equal the stock prices applicable immediately prior to the adjusted multiplied by a fraction, the numerator of which is the base conversion rate immediately prior to the adjustment giving rise to the stock price adjustment and the denominator of which is the base conversion rate as so adjusted. The base conversion rate adjustment amounts set forth in the table below will be adjusted in the same manner as the base conversion rate.

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		Effective Date Make Whole Premium (Increase in Applicable Base Conversion Rate)					
Stock Price on Effective Date		April 15, 2008	April 1, 2009	April 1, 2010	April 1, 2011	April 1, 2012	April 1, 2013
$	4.15	74.7818	74.7818	74.7818	74.7818	74.7818	74.7818
$	5.00	74.7818	64.8342	51.4077	38.9804	29.2910	33.8180
$	6.00	74.7818	63.9801	51.4158	38.2260	24.0003	0.4847
$	7.00	63.9283	53.8295	42.6844	30.6779	17.2388	0.0000
$	8.00	55.1934	46.3816	36.6610	26.0029	14.2808	0.0000
$	10.00	42.8698	36.0342	28.5164	20.1806	11.0823	0.0000
$	20.00	18.5313	15.7624	12.4774	8.8928	4.9445	0.0000
$	30.00	10.5642	8.8990	7.1438	5.1356	2.8997	0.0000
$	40.00	6.6227	5.5262	4.4811	3.2576	1.8772	0.0000
$	50.00	4.1965	3.5475	2.8790	2.1317	1.2635	0.0000
$	75.00	1.4038	1.1810	0.9358	0.6740	0.4466	0.0000
$	100.00	0.4174	0.2992	0.1899	0.0985	0.0663	0.0000

The actual stock price and effective date may not be set forth in the table above, in which case:

- If the actual stock price on the effective date is between two stock prices in the table or the actual effective date is between two effective dates in the table, the amount of the base conversion rate adjustment will be determined by straight-line interpolation between the adjustment amounts set forth for the higher and lower stock prices and the earlier and later effective dates, as applicable, based on a 365-day year;

- If the actual stock price on the effective date exceeds $100.00 per share of the Company s common stock (subject to adjustment), no adjustment to the base conversion rate will be made; and

- **If the actual stock price on the effective date is less than $4.15 per share of the Company s common stock (subject to adjustment), no adjustment to the base conversion rate will be made.**

· If the actual stock price on the effective date is less than $4.15 per share of the Company s common st

Notwithstanding the foregoing, the base conversion rate will not exceed 240.9638 shares of common stock per $1,000 principal amount of Notes, subject to adjustment in the same manner as the base conversion rate.

Except as described above with respect to holders of notes who convert their Notes prior to April 1, 2011, there is no circumstance in which holders could receive cash in addition to the maximum number of shares of common stock issuable upon conversion of the Notes.

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 (the Borrowed Shares) 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, 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. Pursuant to the Share Lending Agreement, upon the termination of the share loan, the Borrower must return the Borrowed Shares to the Company. The only exception would be that, if pursuant to a merger, recapitalization or reorganization, the Borrowed Shares were exchanged for or converted into cash, securities or other property (Reference Property), the Borrower would return the Reference Property. Upon the conversion of 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. In no event will the Borrower retain the Borrowed Shares.

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 the Borrowed Shares to the Borrower 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, an aggregate of 10,000,000 shares of Common Stock loaned by the Company to the Borrower on two separate occasions pursuant to Borrowing Notices dated as of April 15, 2008 and August 13, 2008, delivered pursuant to the Share Lending Agreement and the Underwriting Agreement, and an additional 4,208,550 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 sale of the Borrowed Shares was registered under the S-3 (33-149798). The Company used two prospectus supplements for the transaction, one for the sale of the Notes (and the underlying Common Stock) and the other for the sale of the Borrowed Shares. The Company filed the prospectus supplement for the sale of the Borrowed Shares pursuant to Rule 424(b) (3) on April 2, 2008 and pursuant to Rule 424(b) (5) on April 14, 2008. Hence the Borrowed Shares are free trading shares.

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 Borrowed Shares are treated as 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.

The Company evaluated the various embedded derivatives within the Indenture for bifurcation from the Notes under the provisions of FASB s Statement of Financial Standards No.133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), Emerging Issues Task Force Issue No. 01-6, The Meaning of Indexed to a Company s Own Stock (EITF 01-6) and Emerging Issues Task Force Issue No. 00-19, Accounting for Derivative Financial Instruments

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Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19). Based upon its detailed assessment, the Company concluded that these embedded derivatives were either (i) excluded from bifurcation as a result of being clearly and closely related to the Notes or are indexed to the Company s Common Stock and would be classified in stockholders equity if freestanding or (ii) the fair value of the embedded derivatives was estimated to be immaterial.

Note 14: Subsequent Events

On October 8, 2008, the Company signed an agreement with Ericsson Federal Inc., a leading global provider of technology and services to telecom operators. According to the $22.7 million contract, Ericsson will work with the Company to develop, implement and maintain a ground interface, or core network, system that will be installed at Globalstar s satellite gateway ground stations. The all Internet Protocol (IP) based core network system is wireless 3G/4G compatible and will link the Company s radio access network to the public-switched telephone network (PSTN) and/or Internet. Design of the new core network system is now underway.

On October 15, 2008, the FCC released an Order of Modifications (Order) modifying both the Company s and Iridium s satellite constellation licenses consistent with its Second Report. See Note 10. The FCC s Order, which is effective December 14, 2008, reduces the Company s spectrum assignment not only in the U.S. but globally. The FCC invited the Company to file applications for waiver of the Order in the event that the Order would cause particular hardship. The Company has not yet decided how to respond to the Order.

On October 28, 2008, the Company amended its agreement with QUALCOMM to extend the term for 12 months and defer delivery of mobile phones and related equipment until 2010.

On October 31, 2008, the FCC released an order authorizing us to implement the Company s agreement with Open Range Communications, Inc, to provide WiMax service in rural communities as an ancillary terrestrial component of the Company s satellite service.

Holders of $36 million aggregate principal amount, or 24%, of the outstanding 5.75% Convertible Senior Notes due 2028 (Notes) of the Company have submitted notices of conversion to the trustee in order to convert their Notes into Common Stock in accordance with the terms of the indenture governing the Notes. The Company expects to issue approximately 6.0 million shares of its Common Stock and pay a nominal amount of cash for fractional shares when the conversion of these Notes is completed over the conversion reference period. In addition, the holders are entitled to receive an early conversion make whole amount of approximately $5.2 million representing the next five semi-annual interest payments that would have become due on the converted Notes, which will be paid from funds in an escrow account for the benefit of the holders of Notes. After this conversion, $114 million aggregate principal amount of Notes will remain outstanding. The Company s aggregate cash interest cost savings through maturity resulting from these conversions will be approximately $35.2 million.

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 obtain additional financing, 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

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uncertainties that could cause or contribute to such differences include, without limitation, those in Part II. Item 1A. Risk Factors in this Report or 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.

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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;
- a general reduction in prices of user equipment; and
- with the addition of our retail product line we are exposed to current consumer spending and consumer confidence.

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. All 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 ability to connect, or 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. As of September 30, 2008, we have decommissioned 10 of our original 52 satellites.

Although the rate of degradation of the S-band antennas has slowed since 2007, we continue to believe that the quality of two-way communication services will continue to decline, and by some time in early 2009 we anticipate that 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 satellite messenger 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. In October, 2008, we accepted the third portion of the four-part sequential plan. See Part II, Item 1A. Risk Factors.

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• *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. We believe Inmarsat plans to commence offering satellite services to handheld devices in the United States in 2009, and several competitors, such as ICO Global Communications Company, are constructing geostationary satellites to provide mobile satellite service. The increased number 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 70% of our total assets at September 30, 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 from 2006 to 2008, and we expect to incur additional significant expenditures through 2013 under the following commitments:

We estimate that procuring and deploying our second-generation satellite constellation and upgrading our gateways and other ground facilities will cost approximately $1.26 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 669.6 million (approximately $946.7 million at a weighted average conversion rate of 1.00 = $1.4139 at September 30, 2008, including approximately 146.8 million paid by us in U.S. dollars at a fixed conversion rate of 1.00 = $1.2940). We have made aggregate payments of approximately 217.7 million (approximately $294.4 million) through September 30, 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 ($9.7 million to $19.4 million at 1.00 = $1.4449). In 2007, we accepted the first two portions of the Thales four-part sequential acceleration plan with an additional cost of 4.1 million ($5.9 million at 1.00 = $1.4449). In October 2008, the Company authorized the third portion of the sequential plan with an additional cost of 0.9 million ($1.3 million at 1.00 = $1.4449). We cannot provide assurance that any of the remaining acceleration will occur.

In March 2007, we entered into a 9.1 million (approximately $13.1 million at a weighted average conversion rate of 1.00 = $1.4345) 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 aggregate payments under this contract of approximately 6.7 million (approximately $9.9 million) through September 30, 2008.

In September, 2007, we entered into a contract with 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 $210.1 million. On July 5, 2008, we amended our agreement with our Launch Provider for the launch of our second-generation satellites and certain pre and post-launch services. Under the amended terms, we can defer payment on up to 75% of certain amounts due to the Launch Provider. The deferred payments will incur annual interest at 8% to 12%. We have made aggregate payments under this contract of approximately $26.3 million through September 30, 2008.

On May 14, 2008, we entered into a contract with Hughes under which Hughes will design, supply and implement the Radio Access Network (RAN) ground network equipment and software upgrades for installation at a number of our satellite gateway ground stations and satellite interface chips to be a part of the User Terminal Subsystem (UTS) in our various next-generation devices. The total contract purchase price of approximately $100.8 million is payable in various increments over a period of 40 months. We have the option to purchase additional RANs and other software and hardware improvements at pre-negotiated prices. We have made aggregate payments under this contract of approximately $4.8 million through September 30, 2008.

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On October 8, 2008, we signed an agreement with Ericsson Federal Inc., a leading global provider of technology and services to telecom operators. According to the $22.7 million contract, Ericsson will work with us to develop, implement and maintain a ground interface, or core network, system that will be installed at our satellite gateway ground stations. The all Internet protocol (IP) based core network system is wireless 3G/4G compatible and will link our radio access network to the public-switched telephone network (PSTN) and/or Internet. Design of the new core network system is now underway.

We have completed construction of a gateway in Singapore at a total cost of approximately $4.0 million. This gateway was fully operational for Simplex service in October 2008. Duplex service is expected to be introduced when the second-generation constellation becomes operational.

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 continuing to develop 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 consists of approximately 50 million consumers, primarily made up of outdoor enthusiasts. 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 60% 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 (IGOs) 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, depending whether they are for domestic or international service, currently range from $99.99 to approximately $156.00 for our basic level plan, and $149.98 to approximately $218.00 with additional tracking capability. We expect the equipment will be sold to end users at $149.99 to approximately $300.00 per unit (subject to foreign currency rates).

- 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, Costco, 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. We have achieved our objective to sell SPOT satellite messenger products through approximately 5,000 distribution points and expect to reach 10,000 in 2009. 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*).

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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 (41% for the nine months ended September 30, 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. The recent increase in the relative value of the U.S. dollar versus the Euro has positively affected our revenues and is expected to decrease our capital expenditures. Any future declines in the relative value of the U.S. dollar versus the Euro will have an opposite affect on our revenue and increase our capital expenditures. The recent increase in the relative value of the U.S. dollar versus the Canadian dollar has negatively affected our revenues. 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 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, $3.0 million of which was made through September 30, 2008. 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 monetization strategies and 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.

On April 10, 2008, the FCC increased our ATC grant to a total of 19.275 MHz in our two frequency bands. The FCC s order is now final and effective. On May 16, 2008, we filed an application with the FCC to modify our authorization by adding additional wave forms. One of these is the time division duplex (TDD) WiMAX wave form that Open Range intends to deploy. Two parties, Iridium and Sprint Nextel, filed petitions to deny our application, and we and Open Range filed our oppositions to their petitions. On October 31, 2008, the FCC granted us the authority necessary to implement our agreement with Open Range but deferred a decision on waveforms other than WiMax.

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 and nine months ended September 30, 2008 and 2007.

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	Three months ended September 30, 2008 Revenue	% of Total Revenue	Three months ended September 30, 2007 Revenue	% of Total Revenue	Nine months ended September 30, 2008 Revenue	% of Total Revenue	Nine months ended September 30, 2007 Revenue	% of Total Revenue
Service Revenue:								
Mobile	$ 9,976	44%	$ 16,482	64%	$ 33,199	49%	$ 46,409	62%
Fixed	920	4	1,389	6	2,817	4	4,383	6
Data	174	1	380	2	600	1	1,160	2
Simplex	1,838	8	570	2	4,239	6	1,730	2
IGO	889	4	1,340	5	2,617	4	3,145	4
Other(1)	2,353	10	1,102	4	5,361	8	1,886	3
Total Service Revenue	16,150	71	21,263	83	48,833	72	58,713	79
Subscriber Equipment Sales:								
Mobile	2,043	9	2,854	11	6,383	9	9,731	13
Fixed	162	1	380	1	1,053	2	1,977	2
Data and Simplex	1,936	9	174	1	6,471	10	540	1
Accessories	2,234	10	1,017	4	4,918	7	3,718	5
Total Subscriber Equipment Sales	6,375	29	4,425	17	18,825	28	15,966	21
Total Revenue	$ 22,525	100%	$ 25,688	100%	$ 67,658	100%	$ 74,679	100%

(1) Includes engineering services and activation fees

Operating Loss. We realized an operating loss of $41.1 million for the nine months ended September 30, 2008 compared to an operating loss of $16.8 million for the same period in 2007. This increased loss can be attributed primarily to lower service revenues and higher depreciation expense, non-cash executive compensation expense related to a change in compensation from cash to restricted stock, advertising and marketing expense, as well as higher cost of services. 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 nine months of 2008. The higher depreciation expense resulted from placing all eight of our recently launched spare satellites into service. The higher advertising expense resulted from the launch of our SPOT satellite messenger product and services.

Subscribers and ARPU for the three and nine months ended September 30, 3008 and 2007. Average number of subscribers and ARPU for retail, IGO and Simplex customers for the three and nine months ended September 30, 2008 and 2007 are presented below. The following numbers are subject to immaterial rounding inherent in calculating averages.

	Three months ended September 30, 2008	2007	% Net Change	Nine months ended September 30, 2008	2007	% Net Change

Average number of subscribers for the period:						
Retail	119,222	122,880	(3)%	178,448	185,403	(4)%
IGO	76,101	91,780	(17)	120,488	135,476	(11)
Simplex	127,328	66,805	91	161,802	91,121	78
ARPU (monthly):						
Retail	$ 35.32	$ 48.41	(27)	$ 37.34	$ 46.21	(19)
IGO	$ 3.89	$ 4.87	(20)	$ 3.62	$ 3.87	(6)
Simplex	$ 4.85	$ 2.84	71	$ 4.36	$ 3.16	38

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	September 30, 2008	September 30, 2007	% Net Change
Ending number of subscribers:			
Retail	118,802	121,342	(2)%
IGO	74,272	92,276	(20)
Simplex	136,314	71,650	90
Total	329,388	285,268	16%

The total number of net subscribers increased from approximately 285,000 at September 30, 2007 to approximately 329,000 at September 30, 2008. Although we experienced a net increase in our total customer base of 15% from September 30, 2007 to September 30, 2008, our total service revenue decreased for the same period. This is due primarily to lower contributions from subscribers in addition to the change in our subscriber mix.

Independent Gateway Acquisition Strategy

Currently, 13 of the 26 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;
- average monthly revenue per unit, or ARPU, which is an indicator of our pricing and ability to obtain effectively long-term, high-value customers. We calculate ARPU separately for each of our retail, IGO and Simplex businesses;
- operating income, which is an indication of our performance;

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- 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

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

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 a portion of our service revenue.

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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 September 30, 2008 and December 31, 2007, our deferred revenue aggregated approximately $20.9 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

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

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. We regard these recently launched satellites as part of the second-generation constellation which will be supplemented by the 48 second-generation satellites currently being constructed. These 48 second-generation satellites will have an estimated in-orbit life of 15 years.

The carrying value of the Globalstar System components is reviewed for impairment whenever events or changes in circumstances indicate that the recorded value of the space segment and ground segment, 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. We believe our two-way telecommunications services, or Duplex services, after the launch of our second-generation constellation, and Simplex services will generate sufficient undiscounted cash flow after our second-generation system becomes fully operational, which is expected to be sometime in 2010, to justify our carrying value for our second-generation costs.

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) are being depreciated over an estimated life of eight years beginning on the satellite s In-Service Date.

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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

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. At September 30, 2008, we determined, based on our evaluation of current evidence and its effect on our estimate of future taxable income that it was necessary to provide a full valuation allowance against our Canadian subsidiary s deferred tax assets. Accordingly, we increased our deferred tax valuation allowance by $2.1 million with respect to our deferred tax assets. 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 and Related Launch Costs, Second-Generation Satellites and Launch Costs and Ground Segment

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 began when the satellites were placed in service and began to handle call traffic. As of September 30, 2008, all eight satellites were in service. As of December 31, 2007, the spare satellites not in service were recorded at $47.8 million. The amount relating to spare satellites that were placed into service during the three and nine months ended September 30, 2008 (approximately zero and $48.0 million, respectively), 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.

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On May 14, 2008, we entered into a contract with Hughes under which Hughes will design, supply and implement the Radio Access Network (RAN) ground network equipment and software upgrades for installation at a number of our satellite gateway ground stations and satellite interface chips to be a part of the User Terminal Subsystem (UTS) in our various next-generation Globalstar devices. The total contract purchase price of approximately $100.8 million is payable in various increments over a period of 40 months. We have the option to purchase additional RANs and other software and hardware improvements at pre-negotiated prices.

On October 8, 2008, we signed an agreement with Ericsson Federal Inc., a leading global provider of technology and services to telecom operators. According to the $22.7 million contract, Ericsson will work with us to develop, implement and maintain a ground interface, or core network, system that will be installed at our satellite gateway ground stations. The all Internet protocol (IP) based core network system is wireless 3G/4G compatible and will link our radio access network to the public-switched telephone network (PSTN) and/or Internet. Design of the new core network system is now underway.

The depreciation of 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

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. 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.

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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.

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 September 30, 2008 and 2007 (in thousands):

	Three months ended September 30,		
	2008	**2007**	**% Change**
Revenue:			
Service revenue	$ 16,150	$ 21,263	(24)%
Subscriber equipment sales	6,375	4,425	44
Total revenue	22,525	25,688	(12)
Operating expenses:			
Cost of services (exclusive of depreciation and amortization shown separately below)	10,452	7,307	43
Cost of subscriber equipment sales:			
Cost of subscriber equipment sales	4,942	3,390	46
Cost of subscriber equipment sales Impairment of assets			
Total cost of subscriber equipment sales	4,942	3,390	46
Marketing, general and administrative	17,372	12,069	44
Depreciation and amortization	7,196	3,264	120
Total operating expenses	39,962	26,030	54
Operating loss	(17,437)	(342)	4,999
Other income (expense):			
Interest income	1,474	734	101
Interest expense	(1,285)	(341)	277
Interest rate derivative loss	(229)	(2,297)	(90)
Other income (expense)	(6,587)	3,827	N/A
Total other income (expense)	(6,627)	1,923	N/A
Income (loss) before income taxes	(24,064)	1,581	N/A

Income tax expense		2,039		929	119
Net income (loss)	$	(26,103)	$	652	N/A%

Revenue. Total revenue decreased by $3.2 million, or approximately 12%, to $22.5 million for the three months ended September 30, 2008, from $25.7 million for the three months ended September 30, 2007. This decrease is attributable to lower service revenue which, we believe, stems from lower price service plans introduced in order to maintain our subscriber base despite our two-way communication issues. This resulted in a reduction in our retail ARPU during the three months ended September 30, 2008, which decreased by approximately 27% to $35.32 from $48.41 for the three months ended September 30, 2007.

Service Revenue. Service revenue decreased $5.1 million, or approximately 24%, to $16.2 million for the three months ended September 30, 2008, from $21.3 million for the three months ended September 30, 2007. Our overall subscriber base grew 15% to approximately 329,000 over the twelve-month period from September 30, 2007 to September 30, 2008. All of such growth resulted from an increase in the number of our Simplex customers. However, we experienced decreased retail ARPU for the three months ended September 30, 2008 compared to the same period in 2007.

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We believe that the two-way communication issues we first reported in February 2007 and related price reductions, as well as a change in the mix of our subscriber base, were the reasons for this reduction. This was partially offset by increases in our Simplex ARPU during the three months ended September 30, 2008 compared to the same period in 2007. The increase in our Simplex ARPU was due to introduction of SPOT satellite messenger services during the fourth quarter of 2007.

Subscriber Equipment Sales. Subscriber equipment sales increased by $2.0 million, or approximately 44%, to $6.4 million for the three months ended September 30, 2008, from $4.4 million for the three months ended September 30, 2007. This increase is attributable to the sales of our SPOT satellite messenger product in the third quarter of 2008.

Operating Expenses. Total operating expenses increased approximately $13.9 million, or approximately 54%, from $26.0 million for the three months ended September 30, 2007 to $40.0 million for the three months ended September 30, 2008. This increase was due to higher costs related to our SPOT satellite messenger product and services, expenses related to the construction of our ground segment, higher bad debt expense, expenses from our recently acquired subsidiary in Brazil, and higher depreciation expense as a result of all eight of our spare satellites being in service in the quarter ended September 30, 2008.

Cost of Services. Our cost of services for the three months ended September 30, 2008 and 2007 were $10.5 million and $7.3 million, respectively. Our cost of services is comprised primarily of network operating costs, which are generally fixed in nature. The increase in the cost of services during the three months ended September 30, 2008 is primarily due to expenses related to the construction of our ground segment..

Cost of Subscriber Equipment Sales. Cost of subscriber equipment sales increased approximately $1.6 million, or approximately 46%, from $3.4 million for the three months ended September 30, 2007 to $4.9 million for the three months ended September 30, 2008. This increase was due to increased sales of our SPOT satellite messenger products in the quarter ended September 30, 2008. Sales of SPOT satellite messenger products commenced in the fourth quarter of 2007.

Marketing, General and Administrative. Marketing, general and administrative expenses increased $5.3 million, or approximately 44%, from $12.1 million for the three months ended September 30, 2007 to $17.4 million for the three months ended September 30, 2008. This increase was due primarily to increased advertising and marketing costs related to our SPOT satellite messenger product and services, expenses from our recently acquired subsidiary in Brazil, and increased bad debt expense.

Depreciation and Amortization. Depreciation and amortization expense increased $3.9 million, or approximately 120%, from $3.3 million for the three months ended September 30, 2007 to $7.2 million for the three months ended September 30, 2008. This increase was due primarily to the additional depreciation associated with placing all eight of our recently-launched spare satellites into service.

Operating Loss. Our operating loss of $17.4 million for the three months ended September 30, 2008, increased $17.1 million from an operating loss of $0.3 million for the three months ended September 30, 2007. The increased loss was due to lower retail ARPU as a consequence of our two-way communication issues in 2008 and the change in our subscriber base. Higher advertising and marketing costs and higher depreciation expense associated with all eight of our spare satellites being in service also contributed to our operating loss during the three months ended September 30, 2008.

Interest Income. Interest income increased by $0.7 million for the three months ended September 30, 2008. This increase was due to increased cash balances on hand.

Interest Expense. Interest expense increased by approximately $0.9 million from $0.3 million for the three months ended September 30, 2007, to $1.3 million for the three months ended September 30, 2008. This increase was primarily due to higher levels of debt outstanding during the second quarter of 2008.

Interest Rate Derivative Loss. Interest rate derivative loss decreased by $2.1 million from $2.3 million for three months ended September 30, 2007 to $0.2 million for the three months ended September 30, 2008. This decrease was due to an increase in the fair value of our interest rate swap agreement liability.

Other Income (Expense). Other income (expense) generally consists of foreign exchange transaction gains and losses. Other expense increased by $10.4 million for the three months ended September 30, 2008 as compared to the same period in 2007, primarily as a result of the unfavorable exchange rate on the Euro denominated escrow account for our second-generation constellation procurement contract resulting from the appreciation of the U.S. dollar vis-à-vis the Euro.

Income Tax Expense. Income tax expense for the three months ended September 30, 2008 was $2.0 million compared to $0.9 million during the same period in 2007. This was due primarily to recording an increase in the valuation allowance against our Canadian subsidiary s deferred tax asset during the three months ended September 30, 2008.

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Net Income (Loss). Our net income decreased $26.8 million from a net income of $0.7 million for the three months ended September 30, 2007 to a net loss of $26.1 million for the three months ended September 30, 2008. This decrease was due to lower retail ARPU as a consequence of our two-way communication issues. Furthermore, we experienced higher advertising, marketing, and depreciation expenses, and higher expenses from our recently acquired subsidiary in Brazil, during the three months ended September 30, 2008.

Comparison of Results of Operations for the Nine Months Ended September 30, 2008 and 2007 (in thousands):

	Nine months ended September 30, 2008	Nine months ended September 30, 2007	% Change
Revenue:			
Service revenue	$ 48,833	$ 58,713	(17)%
Subscriber equipment sales	18,825	15,966	18
Total revenue	67,658	74,679	(9)
Operating expenses:			
Cost of services (exclusive of depreciation and amortization shown separately below)	26,534	20,428	30
Cost of subscriber equipment sales:			
Cost of subscriber equipment sales	14,050	11,398	23
Cost of subscriber equipment sales Impairment of assets	404	17,255	(98)
Total cost of subscriber equipment sales	14,454	28,653	(50)
Marketing, general and administrative	48,602	34,185	42
Depreciation and amortization	19,135	8,225	133
Total operating expenses	108,725	91,491	19
Operating loss	(41,067)	(16,812)	144
Other income (expense):			
Interest income	4,407	2,253	96
Interest expense	(2,754)	(1,037)	166
Interest rate derivative loss	(25)	(751)	(97)
Other income (expense)	1,587	4,874	(67)
Total other income (expense)	3,215	5,339	(40)
Loss before income taxes	(37,852)	(11,473)	230
Income tax expense	2,234	118	1,793
Net loss	$ (40,086)	$ (11,591)	246%

Revenue. Total revenue decreased by $7.0 million, or approximately 9%, from $74.7 million for the nine months ended September 30, 2007 to $67.7 million for the nine months ended September 30, 2008, This decrease is attributable to lower service revenue which we believe stems from lower price service plans introduced in order to maintain our subscriber base despite our two-way communication issues. This resulted in a reduction in our retail ARPU during the nine months ended September 30, 2008, which decreased by 19% to $37.34 from $46.21 for the nine months ended September 30, 2007.

Service Revenue. Service revenue decreased $9.9 million, or approximately 17%, from $58.7 million for the nine months ended September 30, 2007 to $48.8 million for the nine months ended September 30, 2008. Although our overall subscriber base grew 15% to approximately 329,000 over the twelve-month period from September 30, 2007 to September 30, 2008, we experienced decreased retail ARPU. We believe that the two-way communication issues we first reported in February 2007 and related price reductions and the change in our subscriber base were the primary reasons for this decrease.

Subscriber Equipment Sales. Subscriber equipment sales increased by approximately $2.9 million, or approximately 18%, from $16.0 million for the nine months ended September 30, 2007 to $18.8 million for the nine months ended September 30, 2008, This increase is attributable to the sales of our SPOT satellite messenger product.

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Operating Expenses. Total operating expenses increased $17.2 million, or approximately 19%, from $91.5 million for the nine months ended September 30, 2007 to $108.7 million for the nine months ended September 30, 2008. This increase was due to costs related to the launch of our new SPOT satellite messenger product and services, higher depreciation expense as a result of placing all eight of our spare satellites into service, and higher non-cash stock compensation expense. Consistent with higher subscriber equipment sales, higher costs of subscriber equipment also contributed to the increase in operating expenses for the nine months ended September 30, 2008.

Cost of Services. Our cost of services for the nine months ended September 30, 2008 and 2007 were $26.5 million and $20.4 million, respectively. Our cost of services is comprised primarily of network operating costs, which are generally fixed in nature. The increase in the cost of services during the nine months ended September 30, 2008 is due to higher non-cash executive incentive compensation costs resulting from the change in our Executive Incentive Compensation Plan in August 2007, and expenses related to the construction of our ground segment. Furthermore, the expenses from our recently acquired subsidiary in Brazil also contributed to the increase.

Cost of Subscriber Equipment Sales. Cost of subscriber equipment sales decreased $14.2 million, or approximately 50%, from $28.7 million for the nine months ended September 30, 2007 to $14.5 million for the nine months ended September 30, 2008. This decrease was due primarily to the asset impairment charge of $17.3 million that we recognized in 2007, which was not repeated in 2008, and which was partially offset by higher equipment sales in the nine months ended September 30, 2008 as compared to the same period in 2007 resulting from sales of our new SPOT satellite messenger product.

Marketing, General and Administrative. Marketing, general and administrative expenses increased $14.4 million, or approximately 42%, from $34.2 million for the nine months ended September 30, 2007 to $48.6 million for the nine months ended September 30, 2008. This increase was due primarily to higher non-cash executive compensation costs resulting from the change in the Executive Incentive Compensation Plan, increased advertising and marketing costs related to the sales of our new SPOT satellite messenger product and services, as well as higher costs by our Brazilian subsidiary, which was acquired in March, 2008, and increased bad debt expenses.

Depreciation and Amortization. Depreciation and amortization expense increased approximately $10.9 million, or approximately 133%, from $8.2 million for the nine months ended September 30, 2007 to $19.1 million for the nine months ended September 30, 2008. This increase was due primarily to the additional depreciation associated with placing all eight of our spare satellites into service.

Operating Loss. Our operating loss of $41.1 million for the nine months ended September 30, 2008, increased approximately $24.3 million from an operating loss of $16.8 million for the nine months ended September 30, 2007. The increase was due to lower retail ARPU as a consequence of our two-way communication issues and change in subscriber base mix, higher non-cash executive incentive compensation, higher advertising and marketing costs, higher depreciation expense associated with placing all eight of our spare satellites into service, and expenses from our recently acquired subsidiary in Brazil.

Interest Income. Interest income increased by $2.2 million for the nine months ended September 30, 2008. This increase was due to increased cash balances on hand.

Interest Expense. Interest expense increased by $1.7 million, to $2.8 million for the nine months ended September 30, 2008 from $1.0 million for the nine months ended September 30, 2007. This increase was primarily due to higher levels of debt outstanding during the first nine months of 2008.

Interest Rate Derivative Loss. Interest rate derivative loss decreased by $0.7 million to less than $0.1 million for the nine months ended September 30, 2008 from $0.8 million for nine months ended September 30, 2007. This decrease was due to change in the fair value of our interest rate swap agreement.

Other Income (Expense). Other income (expense) generally consists of foreign exchange transaction gains and losses. Other income decreased by $3.3 million for the nine months ended September 30, 2008 as compared to the same period in 2007 primarily as a result of the unfavorable exchange rate on the Euro denominated escrow account for our second-generation constellation procurement contract resulting from the increase of the U.S. dollar vis-à-vis the Euro.

Income Tax Expense. Income tax expense for the nine months ended September 30, 2008 was $2.2 million compared to $0.1 million during the same period in 2007. This was due primarily to the absence in the first nine months of 2008 of the impairment charge recognized during the nine months ended September 30, 2007, and a valuation allowance on our Canadian subsidiary s deferred tax assets recognized during the three months ended September 30, 2008.

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Net Loss. Our net loss increased $28.5 million to a loss of $40.1 million for the nine months ended September 30, 2008 from a net loss of $11.6 million for the nine months ended September 30, 2007. This increase was due to lower retail ARPU as a consequence of our two-way communication issues and higher non-cash executive incentive compensation, advertising, marketing and depreciation expenses, as well as the expenses from our recently acquired subsidiary in Brazil during the nine months ended September 30, 2008.

Liquidity and Capital Resources

The following table shows our cash flows from operating, investing, and financing activities for the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net cash from (used in) operating activities	$ (25,974)	$ (11,611)
Net cash from (used in) investing activities	(227,688)	(128,503)
Net cash from financing activities	230,279	138,449
Effect of exchange rate changes on cash	(1,234)	(5,694)
Net decrease in cash and cash equivalents	$ (24,617)	$ (7,359)

Currently, our principal sources of liquidity are our credit agreement with Thermo Funding and our existing cash.

At November 1, 2008, our principal short-term liquidity needs were:

- to make payments to procure our second-generation satellite constellation and construct the Control Network Facility in a total amount not yet determined, but which will include approximately 123.3 million (approximately $178.2 million at a conversion rate of 1.00 = $1.4449 at September 30, 2008) payable to Thales Alenia Space by September 30, 2009 under the purchase contract for our second-generation satellites. The amount payable to Thales Alenia Space by September 30, 2009 under the contract for construction of the Control Network Facility is approximately 2.4 million (approximately $3.5 million at 1.00 = $1.4449);

- to make payments related to our launch for the second-generation satellite constellation in the amount of $85.4 million payable to our launch provider by September 30, 2009;

- to make payments related to the construction of our second-generation ground segment in the amount of $15.0 million by September 30, 2009; and

- to fund our working capital ($11.5 million at September 30, 2008).

We do not believe our liquidity sources at September 30, 2008 are sufficient to fund our short-term needs without additional debt or equity financing or access to our restricted cash balance reserved for making payments under our second-generation satellite construction contract.

During the nine months ended September 30, 2008 and the year ended December 31, 2007, our principal sources of liquidity were:

Dollars in millions	**Nine Months Ended September 30, 2008**	**Year Ended December 31, 2007**
Cash on-hand at beginning of period	$ 12.9	$ 43.7
Net proceeds from Convertible Senior Notes	$ 119.6	$
Borrowings under Thermo Funding credit agreement	$ 135.0	$ 50.0
Purchase of Common Stock by Thermo Funding	$	$ 152.7

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We expect to fund our short-term liquidity requirements from the following sources:

- cash from our revolving credit agreement with Thermo ($15.0 million at September 30, 2008 which we borrowed in October 2008);
- cash on hand ($12.9 million at September 30, 2008);
- cash in our escrow account ($72.8 million at September 30, 2008), which will be used periodically to pay down our obligation to Thales Alenia Space or, if permitted, for operating purposes; and
- the incurrence of additional indebtedness, additional equity financings or a combination thereof.

We may not be able to meet these expectations. Currently, we are exploring many financing options, but we have not obtained any commitments and we cannot give you any assurance that these efforts will be successful.

Our principal long-term liquidity needs are:

- to pay the costs of procuring and deploying our second-generation satellite constellation and upgrading our gateways and other ground facilities;
- to fund our working capital, including any growth in working capital required by growth in our business; and
- to fund the cash requirements of our independent gateway operator acquisition strategy, in an amount not determinable at this time.

We expect to fund our long-term capital needs with cash flow from operations anticipated in future periods, which we expect will be generated primarily from sales of our Simplex products and services, including our new SPOT products and services, potential ATC monetization strategies and the incurrence of additional indebtedness, additional equity financings or a combination of these potential sources of funds. See Capital Expenditures below and Part I, Item 1A. Risk Factors We must generate significant cash flow from operations and have to raise additional capital in order to complete our second-generation satellite constellation in our Annual Report on Form 10-K for the year ended

December 31, 2007. See Note 13 to the unaudited interim consolidated financial statements.

Our liquidity and our ability to fund these needs will depend on achieving substantial growth in revenues, having positive cash flows from operations, obtaining additional financing or access to our restricted cash for operating purposes or a combination thereof, which will be subject in part to general economic, financial, regulatory and other factors, including obtaining the consent of others, that are beyond our control, including our ability to achieve positive cash flow from operations despite the problems with our satellite constellation described elsewhere, the willingness of others to invest in us and trends in our industry and technology discussed elsewhere in this Report. In addition to these general and economic and industry factors, the principal factors affecting our cash flows will be our ability to continue to provide attractive and competitive services and products, successfully manage our two-way communication issues until we can deploy our second-generation satellite constellation, increase our number of subscribers and retail average revenue per unit, control our costs, and maintain our margins and profitability. If those factors change significantly or other unexpected factors adversely affect us, our business may not generate sufficient cash flow from operations and future financings may not be available on terms acceptable to us or at all to meet our liquidity needs. In assessing our liquidity, our management reviews and analyzes our current cash on-hand, the average number of days our accounts receivable are outstanding, the contractual rates that we have established with our vendors, inventory turns, foreign exchange rates, capital expenditure commitments and income tax rates.

Net Cash from Operating Activities

Net cash used by operating activities for the nine months ended September 30, 2008 increased to a cash outflow of $26.0 million from a cash outflow of $11.6 million for the nine months ended September 30, 2007. This increase was due primarily to lower collections on account balances during the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, offset partially by lower inventory purchases.

Net Cash from Investing Activities

Cash used in investing activities was $227.7 million for the nine months ended September 30, 2008, compared to $128.5 million for the same period in 2007. This increase was the result of higher capital expenditures associated with construction expenses for our second-generation satellite constellation.

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Net Cash from Financing Activities

Net cash provided by financing activities increased by approximately $91.8 million to $230.3 million from $138.4 million for the nine months ended September 30, 2007. The increase was primarily the result of $119.6 million of net proceeds of the sale of Convertible Senior Notes, and $100.0 million and $35.0 million, respectively, of term loans and revolving credit loans borrowed from Thermo Funding under our credit agreement, in the nine months ended September 30, 2008.

Capital Expenditures

Our capital expenditures consist primarily of procurement and launch of our second-generation satellite constellation and upgrading our gateways and other ground facilities. We have completed construction of a gateway in Singapore at a total cost of approximately $4.0 million. This gateway was fully operational for Simplex service in October 2008. Duplex service is expected to be introduced when the second-generation constellation becomes operational.

In the fourth quarter of 2006, we entered into a contract with Thales Alenia Space for our second-generation satellite constellation. The total contract price, including subsequent additions, is 669.6 million (approximately $946.7 million at a weighted average conversion rate of 1.00 = $1.4139 at September 30, 2008, including approximately 146.8 million which was paid by us in U.S. dollars at a fixed conversion rate of 1.00 = $1.2940). We have made payments in the amount of approximately $294.4 million in related costs through September 30, 2008. In addition, $72.8 million is held in an escrow account that will be used for future payments on 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 ($9.7 million to $19.4 million at 1.00 = $1.4449). In 2007, we authorized the first two portions of the Thales four-part sequential plan with an additional cost of 4.1 million ($5.9 million at 1.00 = $1.4449). In October 2008, we authorized the third portion of the sequential plan with an additional cost of 0.9 million ($1.3 million at 1.00 = 1.4449). We cannot assure you that the remaining acceleration will occur.

In March 2007, we entered into an 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. This agreement complements the second-generation satellite construction contract with 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 9.1 million (approximately $13.1 million at a weighted average conversion rate of 1.00 = $1.4345) consisting of 4.0 million for the Satellite Operations Control Centers, 3.1 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. We have made payments in the aggregate amount of approximately 6.7 million (approximately $9.9 million) through September 30, 2008.

In September 2007, we entered into a contract with 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 $210.1 million. As of September 30, 2008, we have made payments in the aggregate amount of approximately $26.3 million associated with our launch services contract. The anticipated time period for the first four launches ranges from as early as 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 us or our Launch Provider may result in adjustments to the payment schedule.

On May 14, 2008, we entered into a contract with Hughes under which Hughes will design, supply and implement the Radio Access Network (RAN) ground network equipment and software upgrades for installation at a number of our satellite gateway ground stations and satellite interface chips to be a part of the User Terminal Subsystem (UTS) in our various next-generation devices. The total contract purchase price of approximately $100.8 million is payable in various increments over a period of 40 months. We have the option to purchase additional RANs and other software and hardware improvements at pre-negotiated prices. As of September 30, 2008, we have made payments in the aggregate amount of approximately $4.8 million associated with this contract.

On October 8, 2008, we signed an agreement with Ericsson Federal Inc., a leading global provider of technology and services to telecom operators. According to the $22.7 million contract, Ericsson will work with us to develop, implement and maintain a ground interface, or core network, system that will be installed at our satellite gateway ground stations. The all Internet protocol (IP) based core network system is wireless 3G/4G compatible and will link our radio access network to the public-switched telephone network (PSTN) and/or Internet. Design of the new core network system is now underway. The agreement represents the final significant ground network infrastructure component for our next-generation of advanced IP-based satellite voice and data services.

The total cost for the satellites, launches and the satellite ground stations under these contracts with Thales Alenia Space, our Launch Provider, Hughes, and Ericsson are included in the estimated $1.26 billion (which is exclusive of internal costs and capitalized interest and the majority of which is denominated in Euros) of capital expenditures which we currently anticipate will be required to procure and deploy our second-generation satellite constellation and related gateway upgrades. Since the fourth quarter of 2006, we have used portions of the proceeds from sales of Common Stock to Thermo Funding under the irrevocable standby stock purchase agreement, the proceeds from our initial public offering, the net proceeds from the sale of the Convertible Senior Notes and borrowings under our credit agreement to fund the approximately $488.4 million (excluding internal costs and capitalized interest but including $72.8 million which is held in escrow pursuant to the contract for the procurement of our second-generation satellite constellation to secure our payment obligations under that contract) paid through September 30, 2008. We expect to fund the balance of the capital expenditures through cash generated by our operations, which has been and is currently negative, future debt financings, deferral of payments to certain of our vendors and additional equity financings or a combination of these potential sources. The extent of our need for external capital, which we expect to be substantial, will vary depending on the success of our SPOT satellite messenger product and services and other commercial factors. This funding may not be available to us on acceptable terms, or at all.

The amount of actual and contractual capital expenditures related to the construction of the second-generation constellation and satellite operations control centers, ground segment and related costs and the launch services contracts is presented in the table below (in millions):

Contract	Currency of Payment	Payments through September 30, 2008	Estimated Future Payments				
			2008	2009	2010	Thereafter	Total
Thales Alenia Second Generation Constellation	EUR	217.7	36.0	96.0	92.3	227.6	669.6
Thales Alenia Satellite Operations Control Centers	EUR	6.7	1.5	0.9			9.1
Arianespace Launch Services	USD	$ 26.3	$	$ 128.6	$ 55.2	$	$ 210.1
Hughes second-generation ground segment	USD	$ 4.8	$ 1.1	$ 19.1	$ 60.1	$ 15.7	$ 100.8
Ericsson	USD	$	$ 0.5	$ 0.5	$ 5.9	$ 15.8	$ 22.7

The exchange rate on September 30, 2008 was 1.00 = $1.4449. The estimated future payments do not include the interest payable on vendor financing agreements related to the Arianespace and Hughes contracts. A portion of these above costs are not considered capitalizable and will be expensed. See Item 3 - Quantitative and Qualitative Disclosures About Market Risk.

Cash Position and Indebtedness

As of September 30, 2008, our total cash and cash equivalents were $12.9 million and we had total indebtedness of $333.2 million (with $15.0 million available under the revolving credit facility which we borrowed in October 2008), compared to total cash and cash equivalents and total indebtedness at December 31, 2007 of $37.6 million and $50.0 million, respectively.

Convertible Debt

On April 15, 2008, we 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 us 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, we 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.

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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.

The Notes were issued under a Senior Indenture, entered into and dated as of April 15, 2008 (the Base Indenture), between us 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 us 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 are invested in government securities and, if we do not elect to make the payments from other funds, will be used to make the first six scheduled semi-annual interest payments on the Notes. Pursuant to the Pledge Agreement, we pledged our 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 our senior unsecured debt obligations. There is no sinking fund for the Notes. The Notes mature on April 1, 2028 and bear interest at a 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 our 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 our 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 of $36 million aggregate principal amount, or 24%, of the outstanding Notes have submitted notices of conversion to the trustee in order to convert their Notes into our Common Stock in accordance with the terms of the Indenture. We expect to issue approximately 6.0 million shares of our Common Stock and pay a nominal amount of cash for fractional shares when the conversion of these Notes is completed over the conversion reference period. In addition, the holders are entitled to receive an early conversion make whole amount of approximately $5.2 million representing the next five semi-annual interest payments that would have become due on the converted Notes, which will be paid from funds in an escrow account for the benefit of the holders of Notes. After these conversions, $114 million aggregate principal amount of Notes will remain outstanding. Our aggregate cash interest cost savings through maturity resulting from this conversion will be approximately $35.2 million.

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 Note 13 to the unaudited interim consolidated financial statements) will be entitled to an increase in the conversion rate as described in Note 13.

If we make at least 10 scheduled semi-annual interest payments, the Notes are subject to redemption at our 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

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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 us or our significant subsidiaries, the principal amount of the Notes and accrued interest automatically becomes due and payable.

Concurrently with the offering of the Notes, on April 10, 2008, we 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 we agreed to lend up to 36,144,570 shares of Common Stock (the Borrowed Shares) 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 we notify 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 we have 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, repurchase, cancellation, at maturity or otherwise, (ii) our written agreement with the Borrower to terminate, (iii) the occurrence of a Borrower default, at our option, and (iv) the occurrence of our 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 us. The only exception would be that, if pursuant to a merger, recapitalization or reorganization, the Borrowed Shares were exchanged for or converted into cash, securities or other property (Reference Property), the Borrower would return the Reference Property. Upon the conversion of Notes (in whole or in part), a number of Borrowed Shares proportional to the conversion rate for such notes must be returned to us. In no event will the Borrower retain the Borrowed Shares.

On April 10, 2008, we 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, we will issue and lend the Borrowed Shares to the Borrower 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 us to the Borrower pursuant to Section 2(a) of the Underwriting Agreement, an aggregate of 10,000,000 shares of Common Stock loaned by us to the Borrower on two separate occasions pursuant to Borrowing Notices dated as of April 15, 2008 and August 13, 2008, delivered pursuant to the Share Lending Agreement and the Underwriting Agreement, and an additional 4,208,550 shares of Common Stock that, from time to time, may be borrowed from us 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 sale of the Borrowed Shares was registered under the S-3(33-149798). We used two prospectus supplements for the transaction, one for the sale of the convertible notes (and the underlying common stock) and the other for the sale of the Borrowed Shares. We filed the prospectus supplement for the sale of the Borrowed Shares pursuant to Rule 424(b) (3) on April 2, 2008 and pursuant to Rule 424(b) (5) on April 14, 2008.

We 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 we loan 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 we 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 our outstanding shares, including the right to vote the shares on all matters submitted to a vote of our stockholders and the right to receive any dividends or other distributions that we 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 us an amount equal to any cash dividends that we pay on the Borrowed Shares; and

- To pay or deliver to us, upon termination of the loan of Borrowed Shares, any other distribution, in liquidation or otherwise, that we make on the Borrowed Shares.

To the extent the Borrowed Shares we 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 our Common Stock.

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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, we believe 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 our earnings per share.

We evaluated the various embedded derivatives within the Indenture for bifurcation from the Notes under the provisions of FASB s Statement of Financial Standards No.133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), Emerging Issues Task Force Issue No. 01-6, The Meaning of Indexed to a Company s Own Stock (EITF 01-6) and Emerging Issues Task Force Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF 00-19). Based upon our detailed assessment, we concluded that these embedded derivatives were either (i) excluded from bifurcation as a result of being clearly and closely related to the Notes or are indexed to our Common Stock and would be classified in stockholders equity if freestanding or (ii) the fair value of the embedded derivatives was estimated to be immaterial.

Credit Agreement

On August 16, 2006, we 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. At March 31, 2008, we had drawn $50.0 million under the revolving credit facility, which was subsequently repaid in full in April 2008 with a portion of the proceeds of our Convertible Senior Notes offering. At September 30, 2008, $35.0 million on the revolving credit facility were outstanding. The delayed draw term loan could be drawn after January 1, 2008 and prior to August 16, 2009. Since January 1, 2008, we have drawn an aggregate of $100.0 million of the delayed draw term loan. In addition to the $150.0 million revolving and delayed draw term loan facilities, the amended and restated credit agreement permits us to incur additional term loans on an equally and ratably secured, *pari passu*, basis in an aggregate amount of up to $250.0 million (plus the amount of any reduction in the delayed draw term loan facility or prepayment of loans) from the lenders under the credit agreement or other banks, financial institutions or investment funds approved by us and the administrative agent. We have not sought commitments for these additional term loans. These additional term loans may be incurred only if no event of default then exists and if we are in pro-forma compliance with all of the financial covenants of the credit agreement.

The credit agreement limits the amount of our capital expenditures, requires us to maintain minimum liquidity of $5.0 million and provides that as of the end of the second full fiscal quarter after we place 24 of our second-generation satellites into service and at the end of each fiscal quarter thereafter, we must maintain a consolidated senior secured leverage ratio of not greater than 5.0 to 1.0. We were in compliance with these debt covenants at September 30, 2008.

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 the Federal Funds rate plus 3.25% to 3.75%. We had borrowings of $150.0 million under the revolving credit facility at September 30, 2008. The delayed draw term loan bears interest at either 5% plus the greater of the prime rate and the Federal Funds rate plus 0.5%, or LIBOR plus 6%. The delayed draw term loan facility bears an annual commitment fee of 2.0% until drawn or terminated. 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. The loans may be prepaid without penalty at any time. On September 29, 2008, we and Thermo agreed that, effective May 26, 2008, all payment of interest on the debt would be deferred until 45 days after Thermo provides notice that the interest is then payable. Interest will accrue on this outstanding interest at the same rate as the underlying loan and be compounded on December 31, 2008 and annually thereafter.

To hedge a portion of the interest rate risk with respect to the delayed draw term loans, we entered into a five-year interest rate swap agreement. See Note 12: Derivatives of the Notes to Unaudited Interim Consolidated Financial Statements in Part I, Item 1 of this Report. Upon the assumption of the credit agreement by Thermo Funding, the interest rate swap agreement was amended to require us to provide collateral in cash and securities equal to the negative value of the interest rate swap. At September 30, 2008, the negative value of the interest rate swap was approximately $6.0 million and was classified as a non-current liability.

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Irrevocable Standby Stock Purchase Agreement

In connection with the execution of the initial Wachovia credit agreement on April 24, 2006, we entered into an irrevocable standby stock purchase agreement with Thermo Funding pursuant to which it agreed to purchase under the circumstances described below up to 12,371,136 shares of our Common Stock at a price per share of approximately $16.17 (approximately $200.0 million in the aggregate), without regard to any future increase or decrease in the trading price of our Common Stock. Thermo Funding s obligation to purchase these shares was secured by the escrow of cash and marketable securities in an amount equal to 105% of its unfunded commitment. Thermo Funding completed its purchase of all shares subject to the agreement on November 2, 2007. All requirements were fulfilled by Thermo Funding by November 2007. As required by the pre-emptive rights provisions contained in our former certificate of incorporation, we intend to offer our stockholders as of June 15, 2006 who are accredited investors (as defined under the Securities Act of 1933) and who received 36 or more shares of our Common Stock as a result of the Old Globalstar bankruptcy, the opportunity to purchase shares of our Common Stock on substantially the same terms as Thermo Funding. These stockholders, excluding stockholders who have waived their pre-emptive rights, will be entitled to purchase, and upon entering into a commitment may elect to purchase at any time thereafter, up to 785,328 additional shares of our Common Stock at approximately $16.17 per share in the pre-emptive rights offering.

Contractual Obligations and Commitments

At September 30, 2008, we have a remaining commitment to purchase a total of $50.4 million of mobile phones, services and other equipment under various commercial agreements with QUALCOMM. We believe the long-term equipment contract with QUALCOMM is necessary to obtain the best possible pricing for the development and purchase of our second-generation of handsets and accessories. We expect to fund this remaining commitment from our working capital, funds generated by our operations, proceeds from our convertible notes offering which closed on April 15, 2008 and, if necessary, additional capital from the issuance of equity or debt. On October 28, 2008, we and QUALCOMM amended our agreement to extend the term for 12 months and defer delivery of mobile phones and related equipment until 2010.

Effective August 10, 2007 (the Effective Date), our board of directors, upon recommendation of the Compensation Committee, approved the concurrent termination of our Executive Incentive Compensation Plan and awards of restricted stock or restricted stock units under our 2006 Equity Incentive Plan to five executive officers (the Participants). Each Award Agreement provides that the recipient will receive awards of restricted Common Stock or restricted stock units, which upon vesting, each entitle him to one share of our Common Stock. Total benefits per Participant (valued at the grant date) are approximately $6.0 million, which represents an increase of approximately $1.5 million in potential compensation compared to the maximum potential benefits under the Executive Incentive Compensation Plan. However, the new Award Agreements extend the vesting period by up to two years and provide for payment in shares of Common Stock instead of cash, thereby enabling us to conserve our cash for capital expenditures for the procurement and launch of our second-generation satellite constellation and related ground station upgrades.

In November 2006, we and Thales Alenia Space entered into a definitive contract pursuant to which Thales Alenia Space will construct 48 low-earth-orbit satellites in two batches (the first of 25, including a proto-flight model satellite, and the second of 23) for our second-generation satellite constellation. Under the contract, Thales Alenia Space also will provide launch support services and mission operations support services. We have contracted separately with our Launch Provider for launch services and will do so for launch insurance for the satellites. In March 2007, we entered into an 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. This agreement complements the second-generation satellite construction contract with 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. In September 2007, we entered into a contract with 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. On July 5, 2008, we amended our agreement with our Launch Provider for the launch of our second-generation satellites and certain pre and post-launch services. Under the amended terms, we can defer payment on up to 75% of certain amounts due to the Launch Provider. The deferred payments will incur annual interest at 8% to 12%.

On May 14, 2008, we entered into a contract with Hughes under which Hughes will design, supply and implement the Radio Access Network (RAN) ground network equipment and software upgrades for installation at a number of our satellite gateway ground stations and satellite interface chips to be a part of the User Terminal Subsystem (UTS) in our various next-generation devices. The total contract purchase price of approximately $100.8 million is payable in various increments over a period of 40 months. We have the option to purchase additional RANs and other software and hardware improvements at pre-negotiated prices. For a schedule of contractual payments, see Capital Expenditures under Liquidity and Capital Resources.

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On October 8, 2008, we signed an agreement with Ericsson Federal Inc., a leading global provider of technology and services to telecom operators. According to the $22.7 million contract, Ericsson will work with us to develop, implement and maintain a ground interface, or core network, system that will be installed at our satellite gateway ground stations. The all Internet protocol (IP) based core network system is wireless 3G/4G compatible and will link our radio access network to the public-switched telephone network (PSTN) and/or Internet. Design of the new core network system is now underway. The agreement represents the final significant ground network infrastructure component for our next-generation of advanced IP-based satellite voice and data services.

Off-Balance Sheet Transactions

We have no material off-balance sheet transactions.

Recently Issued Accounting Pronouncements

The information provided under Note 1: The Company and Summary of Significant Accounting Policies Recent Accounting Pronouncements of the Notes to Unaudited Interim Consolidated Financial Statements in Part I, Item 1 of this Report is incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our services and products are sold, distributed or available in over 120 countries. Our international sales are made primarily in U.S. dollars, Canadian dollars and Euros. In some cases insufficient supplies of U.S. currency may require us to accept payment in other foreign currencies. We reduce our currency exchange risk from revenues in currencies other than the U.S. dollar by requiring payment in U.S. dollars whenever possible and purchasing foreign currencies on the spot market when rates are favorable. We currently do not purchase hedging instruments to hedge foreign currencies. However, our credit agreement requires us to do so on terms reasonably acceptable to the administrative agent not later than 90 days after the end of any quarter in which more than 25% of our revenue is originally denominated in a single currency other than U.S. or Canadian dollars.

As discussed in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Contractual Obligations and Commitments, we have entered into two separate contracts with Thales Alenia Space to construct 48 low earth orbit satellites for our second-generation satellite constellation and to provide launch-related and operations support services, and to construct the Satellite Operations Control Centers, Telemetry Command Units and In-Orbit Test Equipment for our second-generation satellite constellation. A substantial majority of the payments under the Thales Alenia Space agreements is denominated in Euros.

Our interest rate risk arises from our variable rate debt under our credit agreement, under which loans bear interest at a floating rate based on the U.S. prime rate or LIBOR. Assuming that we borrowed the entire $150.0 million in revolving and term debt available under our credit agreement, and without giving effect to the hedging arrangement described in the next sentence, a 1.0% change in interest rates would result in a change to interest expense of approximately $1.5 million annually. To hedge a portion of our interest rate risk, we have entered into a five-year interest rate swap agreement with respect to a $100.0 million notional amount at a fixed rate of 5.64%. See Note 12: Interest Rate Derivative of the Notes to Unaudited Interim Consolidated Financial Statements in Part I, Item 1 of this Report.

Our exposure to fluctuations in currency exchange rates has increased significantly as a result of contracts for the construction of our second-generation constellation satellite and the related control network facility, which are primarily payable in Euros. A 1.0% decline in the relative value of the U.S. dollar, on the remaining balance related to these contracts of approximately 454.4 million on September 30, 2008, would result in $6.6 million of additional payments. See Note 4: Property and Equipment of the Unaudited Interim Consolidated Financial Statements in Part I, Item 1 of this Report.

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Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.*

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 as of September 30, 2008, the end of the period covered by this Report. The evaluation included certain internal control areas in which we have made and are continuing to make changes to improve and enhance controls. This evaluation was based on the guidelines established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Based on this evaluation, our chief executive officer and chief financial officer concluded that as of September 30, 2008 our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

We believe that the consolidated financial statements included in this Report fairly present, in all material respects, our consolidated financial position and results of operations as of and for the three and nine months ended September 30, 2008.

(b) *Changes in internal control over financial reporting.*

As of September 30, 2008, our management, with the participation of our chief executive officer and chief financial officer, evaluated our internal control over financial reporting. Based on that evaluation, our CEO and CFO concluded that there were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2008 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 certain litigation matters as discussed elsewhere in this Report. For more detailed information on litigation matters outstanding please see Note 10 of the Notes to Unaudited Interim Consolidated Financial Statements in Part I, Item 1 of this Report. From time to time, we are involved in various other litigation matters involving ordinary and routine claims incidental to our business. Management currently believes that the outcome of these proceedings, either individually or in the aggregate, will not have a material adverse effect on our business, results of operations or financial conditions.

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Item 1A. Risk Factors

You should carefully consider the risks described in this Report and all of the other reports that we file from time to time with the Securities and Exchange Commission (SEC), in evaluating and understanding us and our business. Additional risks not presently known or that we currently deem immaterial may also impact our business operations and the risks identified in this Report may adversely affect our business in ways we do not currently anticipate. Our financial condition or results of operations also could be materially adversely affected by any of these risks. Other than as described in the risk factors below, there have been no material changes to the risk factors disclosed in Part I. Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC on March 17, 2008.

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.

Since the first Old Globalstar satellites were launched in 1998, ten satellites have failed in orbit and we expect others to fail in the future. Eight of these satellite failures have been attributed to anomalies of the S-band antenna. The ninth satellite s failure was attributed to an anomaly of the satellite command receiver. The tenth satellite s failure was attributed to a failure of one of its two solar array wings and a failure in a branch module in the flight computer. In-orbit failure may result from various causes, including component failure, loss of power or fuel, inability to control positioning of the satellite, solar or other astronomical events, including solar radiation and flares, and space debris. We consider a satellite failed only when it can no longer provide any communications service, and we do not intend to undertake any further efforts to return it to service. Other factors that could affect the useful lives of our satellites include the quality of construction, gradual degradation of solar panels and the durability of components. Radiation induced failure of satellite components may result in damage to or loss of a satellite before the end of its currently expected life.

As a result of the issues described above, some of our in-orbit satellites may not be fully functioning at any given time. As discussed below, substantially all of our current satellites launched before 2007 have experienced partial failures and degraded performance of their S-band downlink communications capabilities, and we currently believe that by early 2009 none of these satellites will be able to support two-way communication services. However, this will not impair their ability to continue to support Simplex data transmissions in the L-band, and accordingly, we do not classify them as failed.

As our constellation has aged, the ability of our satellites to carry two-way communications has diminished, and is continuing to diminish, adversely affecting the availability of our two-way communications service, which has adversely affected our results of operations, cash flow and financial condition. Although we do not incur any direct cash costs related to the failure of a satellite, if a satellite fails, we record an impairment charge reflecting its net book value. There are some remote tools we use to remedy certain types of problems affecting the performance of our satellites, but the physical repair of satellites in space is not feasible. We do not insure our satellites against in-orbit failures, whether such failures are caused by internal or external factors.

S-band Antenna Amplifier Degradation

As described further below, the degradation of the S-band antenna amplifier in our satellites launched prior to 2007, previously disclosed in February 2007, has slowed but is expected to continue. 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 reduces the call completion rate for 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. The root cause of the degradation in performance of the S-band antenna amplifiers is unknown, although we believe it may result from irradiation of the satellites in orbit. The S-band antenna amplifier degradation does not affect adversely our one-way Simplex data transmission services, which utilize only the L-band uplink from a subscriber s Simplex terminal to the satellites.

To date, we have managed the degradation of the S-band antenna amplifiers in various technical ways, as well as by launching our spare satellites, placing into service spare satellites already in orbit and moving less impaired satellites to key orbital positions. To address the quality and capacity of our service in light of this problem and to prepare for the integration of our eight spare satellites launched in 2007, on February 2, 2007, we completed the reconfiguration of our satellite constellation to combine two different Walker configurations, which continue to operate as a single constellation of 48 satellites plus in-orbit spares. This reconfiguration was done to maintain, to the extent possible, the capacity and quality of service as well as to insert the spare satellites into the constellation. The eight spare satellites launched are being utilized to augment our existing satellite constellation and later will be integrated into our second-generation satellite constellation. On October 4, 2007, we completed another reconfiguration of our satellite constellation into two further different Walker

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configurations. This reconfiguration was done to improve service given the current operating status of our old satellite constellation and the newly launched eight satellites. We currently expect to launch our second-generation satellites beginning in the third quarter of 2009.

In early 2006, we engaged an expert third-party to undertake a comprehensive review of the S-band antenna amplifier degradation and its likely impact on the performance of the constellation as a whole. At that time, based in part on the third-party report, we concluded that, although there was risk, with the addition of the eight spare satellites in 2007, the constellation would continue to provide commercially viable two-way communication services until the next generation satellites began to be launched in 2009. However, based on data collected in 2007 from satellite operations, we concluded in February 2007 that the degradation of the S-band functionality for two-way communications service was occurring at a faster rate than previously experienced and anticipated. In response, in consultation with outside experts, we have implemented innovative methods, and plan to continue to research additional measures, to attempt to ameliorate this problem, including modifying the configuration of our constellation as described above, changing the way our gateways operate with the satellites and experimenting with new antennas on our phones, thereby attempting to extend the life of the two-way communication capacity of the constellation. We have forecasted the time and duration of two-way service coverage at any particular location in our service area, and we have made this information available without charge to our customers and service providers, including our wholly owned operating subsidiaries, so that they may work with their subscribers to reduce the impact of the service interruptions in their respective service areas. Nonetheless, we expect the S-band antenna amplifier degradation to continue as the satellites age in orbit.

We believe that if the degradation of the S-band antenna amplifiers continues at the current rate or further accelerates, and if we are unsuccessful in developing additional technical solutions, interruptions of two-way communications services will increase, and by some time in early 2009 substantially all of our in-orbit satellites launched prior to 2007 will cease to be able to support two-way communications services. As the number of in-orbit satellites (other than the eight spare satellites launched in 2007) with properly functioning S-band antenna amplifiers decreases, even with optimized placement in orbit of the eight spare satellites, increasingly larger coverage gaps will occur over areas in which we currently provide two-way communications service. Two-way communications service will continue to be available, but at certain times in any given location it will take substantially longer to establish calls and the average duration of calls will be impacted adversely. This has materially adversely affected our ability to attract new subscribers and maintain our existing subscribers for our two-way communications services, equipment sales of two-way communication devices, ARPU and our results of operations and is likely to have a further material adverse effect on each of these in the future. If our retail subscriber base continues to decline, our ability to attract and retain subscribers at higher rates when our second- generation constellation is placed in service may be affected adversely.

During the year ended December 31, 2007, our retail average revenue per unit, or ARPU, decreased by 21% to $46.26 from $58.91 in 2006. In addition, our service revenue declined from $92.0 million to $78.3 million and our subscriber equipment sales declined from $44.6 million to $20.1 million. During the nine months ended September 30, 2008, our retail ARPU decreased by 19% to $37.34 from $46.21 for the nine months ended September 30, 2007. Our service revenue declined from $58.7 million for the nine months ended September 30, 2007 to $48.8 million for the nine months ended September 30, 2008 while our subscriber equipment sales increased from $16.0 million to $18.8 million over the same period. We believe that customer reaction to the S-band antenna amplifier degradation and our related price reductions have been the primary cause of these reductions. If we are unable to maintain our customer base for two-way communications service, our business and profitability may be further materially and adversely affected. In addition, after our second-generation satellite constellation becomes operational, we may face challenges in maintaining our current subscriber base for two-way communications service because we plan then to increase prices, consistent with market conditions, to reflect our improved two-way service and coverage.

Recessionary indicators and continued volatility in global economic conditions and the financial markets have adversely affected and may continue to affect adversely sales of our new SPOT satellite messenger product and reduce our ability to raise additional capital in order to complete our second-generation constellation.

The volatility and disruption to the financial markets has reached unprecedented levels and has significantly adversely impacted global economic conditions. As a result, there have been substantial declines in consumer confidence and demand. These conditions could lead to further reduced consumer spending in the foreseeable future, especially for discretionary travel and related products. A substantial portion of the potential addressable market for our SPOT satellite messenger products and services relates to recreational users, such as mountain climbers, campers, kayakers, sport fishermen and wilderness hikers. These potential customers may reduce their activities due to economic conditions, which could adversely affect our business, financial condition, results of operations and liquidity.

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These conditions also have materially impacted liquidity in the capital and credit markets, making terms for certain financings less attractive or unavailable. Continued uncertainty may negatively impact our ability to access additional financing or make it difficult or more costly to raise capital through the issuance of our equity or debt securities. These disruptions have had and may continue to have a material adverse effect on the market price of our common stock.

Failure to satisfy NASDAQ Global Select Market listing requirements may result in our common stock being removed from listing on the NASDAQ Global Select Market.

Our Common Stock is currently listed on the NASDAQ Global Select Market under the symbol GSAT. For continued inclusion on the NASDAQ Global Select Market, we must generally maintain, among other requirements, either (a) shareholders equity of at least $10 million, a minimum closing bid price of $1.00 per share and a market value of our public float of at least $5 million; or (b) market capitalization of at least $50 million, a minimum closing bid price of $1.00 per share and a market value of our public float of at least $15 million. On November 4, 2008, the closing bid price of our common stock was $0.77 and our public float was $92.2 million. NASDAQ has recently suspended enforcement, through January 16, 2009, of the rules requiring a minimum closing bid price and a minimum market value of public float. After January 16, 2009, however, if we fail to meet the minimum closing bid price or the minimum market value standards described above for at least 30 consecutive trading days, our Common Stock could be at risk of being removed from listing on the NASDAQ Global Select Market. If our Common Stock were removed from listing on the NASDAQ Global Select Market, our Common Stock may be transferred to the NASDAQ Capital Market if we satisfy the listing criteria for the NASDAQ Capital Market, or trading of our Common Stock may be conducted in the over-the-counter market in the so-called pink sheets or, if available, the National Association of Securities Dealer s Electronic Bulletin Board. Consequently, broker-dealers may be less willing or able to sell and/or make a market in our Common Stock, which may make it more difficult for shareholders to dispose of, or to obtain accurate quotations for the price of, our Common Stock. Removal of our Common Stock from listing on the NASDAQ Global Select Market may also make it more difficult for us to raise capital through the sale of our securities.

In addition, if our Common Stock is not listed on a U.S. national stock exchange, such as NASDAQ, or approved for quotation and trading on a national automated dealer quotation system or established automated over-the-counter trading market, holders of our 5.75% Convertible Senior Notes will have the option to require us to repurchase the notes, which we will not have sufficient financial resources to do.

Item 6. Exhibits

Number	Description
10.1	Purchase Agreement between Globalstar, Inc. and Ericsson Federal Inc. effective as of October 1, 2008
10.2	Letter from Thermo Funding Company LLC dated September 29, 2008
31.1	Section 302 Certification of the Chief Executive Officer
31.2	Section 302 Certification of the Chief Financial Officer
32.1	Section 906 Certifications

Portions of the exhibit have been omitted pursuant to a request for confidential treatment filed with the Commission. The omitted portions of the exhibit have been filed with the Commission.

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SIGNATURES

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

	GLOBALSTAR, INC.	
Date: November 10, 2008	By:	/s/ JAMES MONROE III James Monroe III Chairman and Chief Executive Officer
Date: November 10, 2008	By:	/s/ FUAD AHMAD Fuad Ahmad Senior Vice President and Chief Financial Officer