

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

SKYTERRA COMMUNICATIONS INC

Form 10-K/A

November 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
Amendment No. 1

/x/ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004, or

/ / Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission file number 000-13865

SKYTERRA COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

23-2368845
(I.R.S. Employer Identification Number)

19 West 44th Street, Suite 507
New York, New York
(Address of principal executive offices)

10036
(Zip Code)

Registrant's telephone number, including area code: (212) 730-7540

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.01 par value

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes /x/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

Indicate by check mark whether the registrant is an accelerated filer (as

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

defined in Rule 12b-2 of the Act).

Yes / / No /x/

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

Yes / / No /x/

The aggregate market value of the voting common stock held by non-affiliates of the registrant, as of June 30, 2004, was \$31,922,127. All non-voting common stock was held by affiliates of the registrant.

As of November 9, 2005, 8,718,309 shares of our voting common stock and 8,990,212 shares of our non-voting common stock were outstanding.

Explanatory Paragraph

The purpose of this Amendment No. 1 to the Annual Report on Form 10-K of SkyTerra Communications, Inc. (the "Company"), filed with the Securities and Exchange Commission on March 31, 2005, is to amend and restate the Company's audited consolidated financial statements and related notes as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004. This Form 10-K/A also amends and restates Item 9A of Part II, Controls and Procedures. Except for the aforementioned changes, this Form 10-K/A does not modify or update any disclosure in the Company's Form 10-K, including the nature and character of such disclosure to reflect events occurring after the initial filing date of the Company's Form 10-K.

This amendment reflects the restatement of the Company's consolidated financial statements to properly reflect, solely within the equity section of our consolidated balance sheets, the accounting for the dividends paid on the Company's Series A redeemable convertible preferred stock and the accretion of the carrying amount of the Series A redeemable convertible preferred stock up to its \$100 per share face redemption amount. These dividends represent (i) the dividend paid quarterly in additional shares of Series A securities from the June 1999 issuance of the Series A redeemable convertible preferred stock through June 2004 and in cash subsequent to June 2004 and (ii) the deemed dividend relating to the beneficial conversion feature of the Series A redeemable convertible preferred stock and pay-in kind dividends recorded in 1999 and 2000. Cumulative dividends and accretion totaling \$109.0 million as of December 31, 2004, including \$9.9 million, \$9.7 million and \$10.9 million recorded for the years ended December 31, 2004, 2003 and 2002, respectively, were previously reported on the consolidated balance sheets and consolidated statements of changes in stockholders' equity (deficit) as increases in accumulated deficit. The consolidated balance sheets and consolidated statements of changes in stockholders' equity (deficit) have been restated to reflect these amounts as decreases in accumulated paid in capital. This restatement had no impact on our net income (loss) available to common stockholders, total assets or cash flows.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary financial data required by this Item 8 are set forth in Item 15 of this report.

Item 9A. Controls and Procedures

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and principal accounting officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our chief executive officer and principal accounting officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the fourth quarter of 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) The following is a list of certain documents filed as a part of this report:

(1) Financial Statements of the Registrant.

- (i) Report of Independent Registered Public Accounting Firm.
- (ii) Consolidated Balance Sheets as of December 31, 2004 and 2003.
- (iii) Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002.
- (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002.
- (v) Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the years ended December 31, 2004, 2003 and 2002.
- (vi) Notes to Consolidated Financial Statements.
- (vii) Schedule II - Valuation and Qualifying Accounts.

(b) The following sets forth those exhibits filed pursuant to Item 601 of Regulation S-K:

Exhibit Number	Description
-----	-----
23.4	- Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
31.1	- Certification of Jeffrey A. Leddy, Chief Executive Officer and President of the Company, required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	- Certification of Craig J. Kaufmann, Controller and Treasurer of the Company, required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

- 32.1 - Certification of Jeffrey A. Leddy, Chief Executive Officer and President of the Company, Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 - Certification of Craig J. Kaufmann, Controller and Treasurer of the Company, Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of SkyTerra Communications, Inc.:

We have audited the accompanying consolidated balance sheets of SkyTerra Communications, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2004. Our audits also included the consolidated financial statement schedule, Schedule II - Valuation and Qualifying Accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of SkyTerra Communications, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2, the accompanying consolidated balance sheets and consolidated statements of changes in stockholders' equity (deficit) have been restated.

/s/ DELOITTE & TOUCHE LLP

Baltimore, Maryland
November 10, 2005

SKYTERRA COMMUNICATIONS, INC.
 CONSOLIDATED BALANCE SHEETS
 (In thousands, except share data)

	2004
	(Restated)
Assets	
Current assets:	
Cash and cash equivalents	\$34
Short-term investments	59
Total cash, cash equivalents and short-term investments	94
Accounts receivable, net of allowance for bad debt of \$78 and \$44, respectively	
Note receivable from Verestar, Inc.	
Prepaid expenses	
Deferred transaction costs	4
Other current assets	
Total current assets	100
Property and equipment, net	
Notes receivable from the Mobile Satellite Ventures LP, including interest receivable of nil and \$11,520, respectively	
Notes receivable from Motient Corporation, net of reserve of nil and \$22,016, respectively	
Investment in Mobile Satellite Ventures LP	50
Investments in and advances to affiliates	3
Other assets	
Total assets	\$154
Liabilities and Stockholders' Equity (Deficit)	
Current liabilities:	
Accounts payable	\$2
Accrued liabilities	8
Deferred revenue	
Total current liabilities	10
Commitments and contingencies	
Minority interest	9
Series A Redeemable Convertible Preferred Stock, \$.01 par value, net of unamortized discount of \$32,589 and \$36,979, respectively	88
Stockholders' equity (deficit):	
Preferred stock, \$.01 par value. Authorized 10,000,000 shares; issued	

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

1,199,007 shares as Series A Redeemable Convertible Preferred Stock at December 31, 2004 and 1,171,612 shares at December 31, 2003	
Common stock, \$.01 par value. Authorized 200,000,000 shares; issued and outstanding 8,384,809 shares at December 31, 2004 and 6,075,727 shares at December 31, 2003	
Non-voting common stock, \$.01 par value. Authorized 100,000,000 shares; issued and outstanding 8,990,212 shares at December 31, 2004 and 2003	
Additional paid-in capital	475
Accumulated other comprehensive loss	
Accumulated deficit	(430)
Treasury stock, at cost, nil shares at December 31, 2004 and 6,622 shares at December 31, 2003	
Total stockholders' equity (deficit)	45
Total liabilities and stockholders' equity (deficit)	\$154

See accompanying notes to consolidated financial statements.

SKYTERRA COMMUNICATIONS, INC. CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands, except share data)

	Years Ended December	
	2004	2003
	-----	-----
Revenues	\$2,127	\$699
Cost of revenues	2,072	913
	-----	-----
Gross margin	55	(214)
Expenses:		
Selling, general and administrative	10,987	6,690
Depreciation and amortization	168	43
Impairment charge	755	-
	-----	-----
Total expenses	11,910	6,733
	-----	-----
Loss from operations	(11,855)	(6,947)
Interest income, net	10,548	6,304
Equity in loss of Mobile Satellite Ventures LP	(1,020)	-
Equity in loss and loss on investments in affiliates	(1,336)	(404)
Other income (expense), net	21,045	244
Minority interest	(216)	(1,126)
	-----	-----
Income (loss) before taxes and discontinued operations	17,166	(1,929)
Income tax benefit	-	-
	-----	-----
Income (loss) from continuing operations	17,166	(1,929)
Gain from wind-down of discontinued operations	-	1,211
	-----	-----
Net income (loss)	17,166	(718)

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Cumulative dividends and accretion of convertible preferred stock to liquidation value	(9,918)	(9,687)
Net income (loss) attributable to common stockholders	\$7,248	\$ (10,405)
Basic earnings (loss) per common share:		
Continuing operations	\$0.48	\$ (0.76)
Discontinued operations	-	0.08
Net earnings (loss) per share	\$0.48	\$ (0.68)
Diluted earnings (loss) per common share:		
Continuing operations	\$0.46	\$ (0.76)
Discontinued operations	-	0.08
Net earnings (loss) per share	\$0.46	\$ (0.68)
Weighted average common shares outstanding:		
Basic	15,115,895	15,341,518
Diluted	15,837,370	15,341,518

See accompanying notes to consolidated financial statements.

SKYTERRA COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years
	----- 2004 -----
Cash flows from operating activities:	
Net income (loss)	\$17,166
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Gain from adjustment to reserve for note receivable and accrued interest from Motient Corporation	(22,516)
Gain from discontinued operations	-
Depreciation and amortization	168
Impairment charge	755
Equity in loss of Mobile Satellite Ventures LP	1,020
Equity in loss and loss on investments in affiliates	1,336
Minority interest	216
Non-cash compensation charges (benefit)	3,095
Non-cash charge for issuance of option and warrants by consolidated subsidiaries	447
Loss on XM Satellite Radio common stock	-
Changes in assets and liabilities, net of acquisitions and sale of businesses:	
Accounts receivable, net	208

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Prepaid expenses, interest receivable, deferred transaction costs and other assets	10,258
Accounts payable and accrued liabilities	4,230
Deferred revenue	(137)

Net cash provided by (used in) continuing operations	16,246
Net cash used in discontinued operations	(77)

Net cash provided by (used in) operating activities	16,169

Cash flows from investing activities:	
Repayments (purchases) of notes receivable	21,500
Purchases of short-term investments	(68,602)
Sales of short-term investments	30,649
Cash paid for investments in affiliates	(1,928)
Cash received from investments in affiliates	-
Purchases of property and equipment, net	(839)
Cash paid for acquisitions, net of cash acquired and acquisition costs	(105)
Cash received from sale of XM Satellite Radio common stock	-

Net cash (used in) provided by continuing operations	(19,325)
Net cash provided by discontinued operations	-

Net cash (used in) provided by investing activities	(19,325)

Cash flows from financing activities:	
Proceeds from contributions to a consolidated subsidiary	450
Distribution to minority interest of consolidated subsidiary	(3,361)
Proceeds from issuance of common stock, net of costs	35,044
Proceeds from issuance of common stock in connection with the exercise of options	284
Payment of dividend on preferred stock	(1,394)
Repurchase of common stock of consolidated subsidiary	(2)
Cash paid in connection with tender offer	-

Net cash provided by (used in) financing activities	31,021
Effect of exchange rate changes on cash and cash equivalents	(3)

Net increase (decrease) in cash and cash equivalents	27,862
Cash and cash equivalents, beginning of period	6,897

Cash and cash equivalents, end of period	\$34,759
	=====
Noncash investing activities:	
Conversion of notes receivable to partnership interests in Mobile Satellite Ventures LP	\$51,118
	=====

See accompanying notes to consolidated financial statements.

SKYTERRA COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFI
(In thousands, except share data)

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

	Preferred Stock	Voting Common Stock (\$.01 par value)	Non-Voting Common Stock (\$.01 par value)	Additional Paid-In Capital
	-----	-----	-----	-----
Balance, January 1, 2002 (restated - see Note 2)	\$-	\$653	\$-	\$451,526
Issuance of 147,893 shares of voting common stock and 8,990,212 shares of non-voting common stock in rights offering	-	15	899	16,054
One for ten reverse stock split (including 154 shares of common stock purchased for cash in lieu of fractional shares)	-	(601)	(809)	1,410
Retirement of 286 shares of common stock in connection with acquired business	-	-	-	-
Issuance of 2,666 shares of common stock through exercise of stock options	-	-	-	3
Non-cash compensation benefit for option repricing	-	-	-	(228)
Non-cash charge for issuance of warrant by consolidated subsidiary	-	-	-	56
Dividends on and accretion of preferred stock (restated - see Note 2)	-	-	-	(10,937)
Comprehensive loss:				
Net loss	-	-	-	-
Net unrealized loss on investment	-	-	-	-
Net foreign currency translation adjustments	-	-	-	-
Total comprehensive loss	-	-	-	-
	-----	-----	-----	-----
Balance, December 31, 2002 (restated - see Note 2)	-	67	90	457,884
Issuance of 357,143 shares of common stock in connection with the settlement of the class action lawsuit	-	4	-	85
Issuance of 4,367 shares of common stock through exercise of stock options	-	-	-	6
Retirement of 968,398 shares of common stock in connection with the tender offer	-	(10)	-	(1,233)
Non-cash compensation charge for option repricing	-	-	-	107
Non-cash charge for issuance of option by consolidated subsidiary	-	-	-	28
Dividends on and accretion of preferred stock (restated - see Note 2)	-	-	-	(9,687)
Comprehensive loss:				
Net loss	-	-	-	-
Total comprehensive loss	-	-	-	-
	-----	-----	-----	-----
Balance, December 31, 2003 (restated - see Note 2)	\$-	\$61	\$90	\$447,190
	=====	=====	=====	=====

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

	Treasury Stock at Cost	Total Stockholders Equity (Deficit)	Comprehensive (Loss) Income
	-----	-----	-----
Balance, January 1, 2002 (restated - see Note 2)	\$ (171)	\$69,304	
Issuance of 147,893 shares of voting common stock and 8,990,212 shares of non-voting common stock in rights offering	-	16,968	
One for ten reverse stock split (including 154 shares of common stock purchased for cash in lieu of fractional shares)	-	-	
Retirement of 286 shares of common stock in connection with acquired business	-	-	
Issuance of 2,666 shares of common stock through exercise of stock options	-	3	
Non-cash compensation benefit for option repricing	-	(228)	
Non-cash charge for issuance of warrant by consolidated subsidiary	-	56	
Dividends on and accretion of preferred stock (restated - see Note 2)	-	(10,937)	
Comprehensive loss:			
Net loss	-	(4,028)	\$ (4,028)
Net unrealized loss on investment	-	(60,306)	(60,306)
Net foreign currency translation adjustments	-	(30)	(30)
Total comprehensive loss	-	-	\$ (64,364) =====
	-----	-----	-----
Balance, December 31, 2002 (restated - see Note 2)	(171)	10,802	
Issuance of 357,143 shares of common stock in connection with the settlement of the class action lawsuit	-	89	
Issuance of 4,367 shares of common stock through exercise of stock options	-	6	
Retirement of 968,398 shares of common stock in connection with the tender offer	-	(1,243)	
Non-cash compensation charge for option repricing	-	107	
Non-cash charge for issuance of option by consolidated subsidiary	-	28	
Dividends on and accretion of preferred stock (restated - see Note 2)	-	(9,687)	
Comprehensive loss:			
Net loss	-	(718)	\$ (718)
Total comprehensive loss	-	-	\$ (718) =====
	-----	-----	-----
Balance, December 31, 2003 (restated - see Note 2)	\$ (171) =====	\$ (616) =====	

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

See accompanying notes to consolidated financial statements.

SKYTERRA COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFINITION OF EQUITY)
(In thousands, except share data)

	Preferred Stock	Voting Common Stock (\$0.01 par value)	Non-Voting Common Stock (\$0.01 par value)	Additional Paid-In Capital
	-----	-----	-----	-----
Balance, December 31, 2003 (restated - see Note 2)	\$-	\$61	\$90	\$447,190
Issuance of 2,000,000 shares of common stock and certain warrants in private placement	-	20	-	35,024
Issuance of 321,966 shares of common stock through exercise of stock options	-	3	-	281
Retirement of 6,262 shares of common stock in connection with acquired businesses	-	-	-	-
Retirement of 6,622 shares held in treasury	-	-	-	(171)
Non-cash compensation charge for option repricing	-	-	-	2,814
Non-cash charge for issuance of option and warrants by consolidated subsidiaries	-	-	-	343
Sale of stock by consolidated subsidiary	-	-	-	264
Dividends on and accretion of preferred stock (restated - see Note 2)	-	-	-	(9,918)
Comprehensive income:				
Net income	-	-	-	-
Net foreign currency translation adjustments	-	-	-	-
Total comprehensive income	-	-	-	-
Balance, December 31, 2004 (restated - see Note 2)	\$-	\$84	\$90	\$475,827
	=====	=====	=====	=====
	Treasury Stock	Total Stockholders Equity	Total Comprehensive (Loss)	

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

	at Cost	(Deficit)	Income
	-----	-----	-----
Balance, December 31, 2003 (restated - see Note 2)	\$ (171)	\$ (616)	
Issuance of 2,000,000 shares of common stock and certain warrants in private placement	-	35,044	
Issuance of 321,966 shares of common stock through exercise of stock options	-	284	
Retirement of 6,262 shares of common stock in connection with acquired businesses	-	-	
Retirement of 6,622 shares held in treasury	171	-	
Non-cash compensation charge for option repricing	-	2,814	
Non-cash charge for issuance of option and warrants by consolidated subsidiaries	-	343	
Sale of stock by consolidated subsidiary	-	264	
Dividends on and accretion of preferred stock (restated - see Note 2)	-	(9,918)	
Comprehensive income:			
Net income	-	17,166	\$17,166
Net foreign currency translation adjustments	-	(3)	(3)
Total comprehensive income	-	-	\$17,163
	-----	-----	=====
Balance, December 31, 2004 (restated - see Note 2)	\$-	\$45,378	
	=====	=====	

See accompanying notes to consolidated financial statements.

SKYTERRA COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

(a) Description of Business and Basis of Presentation

SkyTerra Communications, Inc. (the "Company") operates its business through a group of complementary companies in the telecommunications industry. The Company's consolidated financial statements include the results of operations and financial position of the Company, its controlled majority-owned subsidiaries and variable interest entities ("VIEs"), as defined by Financial Accounting Standards Board ("FASB") Interpretation No. 46R ("FIN 46R"), for which the Company is deemed the primary beneficiary, as defined by FIN 46R. As such, the consolidated financial statements of the Company include the accounts of Electronic System Products, Inc. ("ESP"), AfriHUB, LLC ("AfriHUB"), the Company's 80% owned subsidiary (the "MSV Investors Subsidiary") that holds the interest in Mobile Satellite Ventures LP

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

(the "MSV Joint Venture"), and Miraxis, LLC ("Miraxis").

The Company accounts for minority owned subsidiaries in which the Company owns greater than 20% of the outstanding voting interests but less than 50% and for which the Company possesses significant influence over their operations under the equity method of accounting, whereby the Company records its proportionate share of the subsidiary's operating results. As such, the Company accounts for its interest in the MSV Joint Venture and Navigauge, Inc. (formerly known as IQStat, Inc., "Navigauge") under the equity method.

The Company accounts for its investments in affiliates in which it owns less than 20% of the voting stock and does not possess significant influence over the operations of the investee, under the cost method of accounting.

At the end of the third quarter of 2001, a decision to discontinue the operations of Rare Medium, Inc., along with those of its LiveMarket, Inc. subsidiary ("LiveMarket"), was made as a result of the weakening of general economic conditions that caused many companies to reduce spending on Internet-focused business solutions and in light of their performance and prospects (see Note 14). The discontinuance of these businesses represents the disposal of a business segment under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Accordingly, the results of these operations have been classified as discontinued operations, and prior period results have been reclassified.

All material intercompany balances and transactions have been eliminated.

(b) Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. As of December 31, 2004 and 2003, Rare Medium, Inc. had cash equivalents in the amount of \$0.3 million supporting letters of credit issued for certain real estate leases (see Note 18).

(c) Short-Term Investments

The Company considers all debt securities with maturities of more than three months but less than one year as short-term investments and classifies investments in such short-term debt securities as either held to maturity or available for sale. These investments are diversified among high credit quality securities in accordance with the Company's investment policy. Auction rate securities, which were previously classified as either cash equivalents or held to maturity securities due to their liquidity and pricing reset feature, have been reclassified as available for sale given the long-term stated maturities of 20 to 30 years. As of December 31, 2004 and 2003, the Company had \$36.2 million and \$3.8 million, respectively, of auction rate securities. The remainder of the Company's short-term investments are classified as held to maturity as the Company has both the intent and ability to hold them to maturity. The cost of these securities is adjusted for amortization of premiums and accretion of discounts to maturity over the contractual life of the security. Such amortization and accretion are included in interest income.

During the year ended December 31, 2004, the Company sold a debt security with a face value of \$1.0 million which was previously classified as held to maturity. This sale occurred to ensure that all of the Company's debt securities had a maturity less than one year in accordance with the Company's investment policy and did not have a material impact on the Company's financial position, results of operations or cash flow from operations.

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

The Company classified its investment in XM Satellite Radio common stock as an available-for-sale, marketable security and reported such investment at fair value with net unrealized gains and losses recorded in stockholders' equity. Gains and losses are recognized in the statements of operations when realized. During 2002, the Company sold its shares of XM Satellite Radio for \$16.6 million and recognized a loss on the sale of \$14.9 million.

(d) Property and Equipment

The Company uses the straight-line method of depreciation. The estimated useful lives of property and equipment are as follows:

	Years

Computer equipment and software.....	3 to 5
Furniture and fixtures.....	5 to 7
Machinery and equipment.....	2 to 5

Leasehold improvements are amortized on a straight-line basis over the term of the lease or the estimated useful life of the improvement, whichever is shorter.

(e) Goodwill and Intangibles

The Company records goodwill when consideration paid in a purchase acquisition exceeds the fair value of the net tangible assets and the identifiable intangible assets acquired. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and the identified intangible assets with an indefinite life are not amortized but are tested for impairment at least annually or whenever changes in circumstances indicate that the carrying value may not be recoverable. The Company amortizes the identified intangible assets with a finite life over their respective useful lives on a straight-line basis.

(f) Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets.

As a result of AfriHUB's projected operating losses with respect to its university initiative (see Note 4(c)), at December 31, 2004, the Company evaluated AfriHUB's long-lived assets for recoverability and determined that the undiscounted cash flows over the remaining expected life of the two established centers was less than the carrying value of the long-lived assets relating to those centers. Accordingly, the Company assessed the fair value of these assets by using market prices for recently purchased computers and equipment and using a discounted cash flow model for the intangible asset and building improvements for which market prices were not available. The Company recognized an impairment loss relating to the intangible asset and building improvements as their carrying value exceeded the fair value by approximately \$0.8 million

(g) Revenue Recognition

Revenues from contracts for consulting and engineering services are recognized using the percentage-of-completion method for fixed price contracts

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

and as time is incurred for time and materials contracts, provided the collection of the resulting receivable is reasonably assured. Unbilled receivables represent time and costs incurred on projects in process in excess of amounts billed and are recorded as other current assets in the accompanying balance sheets. Deferred revenue represents amounts billed in excess of revenue recognized and are recorded as liabilities. To the extent costs incurred and anticipated costs to complete projects in progress exceed anticipated billings, a loss is recognized in the period such determination is made for the excess.

A handling and finance charge is added to materials and equipment purchased for certain product development engagements. These charges, as well as those relating to reimbursement of other out-of-pocket expenses billed to clients, are included in revenues. The costs of these reimbursable items are included in cost of revenues.

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(i) Stock Option Plans

The Company accounts for its stock option plan in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), which allows entities to continue to apply the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"), as clarified by Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting For Certain Transactions Involving Stock Compensation," and provides pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method, as defined in SFAS No. 123, had been applied. The Company has elected to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure required by SFAS No. 123 (see Note 15).

APB Opinion No. 25 does not require the recognition of compensation expense for stock options granted to employees at fair market value. However, any modification to previously granted awards generally results in compensation expense or contra-expense recognition using the cumulative expense method, calculated based on quoted prices of the Company's common stock and vesting schedules of underlying awards. As a result of the re-pricing of certain stock options in 2001 and 2002, for the years ended December 31, 2004 and 2003, the Company recognized compensation expense of approximately \$2.8 million and \$0.1 million, respectively. As a result of the re-pricing of those certain stock options, for the year ended December 31, 2002, the Company recognized compensation contra-expense of approximately \$0.2 million.

The following table provides a reconciliation of net income (loss) to pro forma net income (loss) as if the fair value method had been applied to all employee awards:

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

	Years Ended December	
	2004	2003
	(in thousands, except	
Net income (loss), as reported	\$17,166	\$ (718)
Add (Deduct): Stock-based employee compensation expense (contra-expense), as reported	2,814	107
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(315)	(415)
Pro forma net income (loss)	\$19,665	\$ (1,026)
Basic earnings (loss) per common share:		
As reported	\$0.48	\$ (0.68)
Pro forma	\$0.64	\$ (0.70)
Diluted earnings (loss) per common share:		
As reported	\$0.46	\$ (0.68)
Pro forma	\$0.61	\$ (0.70)

The per share weighted average fair value of stock options granted during 2004, 2003 and 2002 was \$2.70, \$0.83 and \$0.56, respectively, on the date of grant using the Black-Scholes option pricing model with the following assumptions: (1) a risk free interest rate ranging from 1.2% to 3.2% in 2004, 1.1% to 4.0% in 2003 and 1.6% to 5.4% in 2002, (2) an expected life of three years in 2004, 2003 and 2002, (3) volatility of approximately 172% in 2004, 175% in 2003 and 164% in 2002, and (4) an annual dividend yield of 0% for all years.

(j) Foreign Currency Translation

Financial statements of AfriHUB's Nigerian operations are prepared using the Nigerian Naira as the functional currency. Consequently, revenues and expenses of the Nigerian operations are translated into United States dollars using weighted average exchange rates, while assets and liabilities are translated using period end exchange rates. Translations adjustments are included in stockholders' equity as accumulated other comprehensive loss in the accompanying consolidated balance sheets. Gains and losses from foreign currency transactions are reflected in other income (expense), net on the accompanying consolidated statements of operations. During the year ended December 31, 2004, the Company recorded a gain of approximately \$15,000 resulting from foreign currency transactions. The Company did not have any foreign operations during the years ended December 31, 2003 or 2002.

(k) Comprehensive Income

Comprehensive income is defined as the change in equity during a period from non-owner sources. Comprehensive income for the years ended December 31, 2004, 2003 and 2002 have been disclosed within the accompanying consolidated statements of changes in stockholders' equity (deficit). As of December 31, 2004, accumulated other comprehensive loss was comprised of approximately \$3,000 of accumulated foreign currency translation adjustments. As of December 31, 2003 and 2002, the Company did not have any items of accumulated other comprehensive income (loss).

(l) Use of Estimates

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions that affect reported amounts and related disclosures. These estimates are based on historical experience and information that is available to management about current events and actions the Company may take in the future. Significant items subject to estimates and assumptions include the carrying value of long-lived assets (including the impairment charge), valuation allowances for accounts and notes receivable and deferred income tax assets, accrued restructuring charges and other contingent obligations. Actual results could differ from those estimates and assumptions.

(m) Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is computed by dividing net income (loss) attributable to the common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per common share reflects the potential dilution from the exercise or conversion of securities into common stock. The potential dilutive effect of outstanding stock options and warrants is calculated using the "treasury stock" method, and the potential dilutive effect of the convertible preferred stock is calculated using the "if-converted" method.

The following table provides a reconciliation of the shares used in calculating earnings (loss) per common share:

	Years Ended December 31	
	2004	2003
Weighted average common shares outstanding - basic	15,115,895	15,341,518
Common shares issuable upon exercise of stock options	721,475	-
	15,837,370	15,341,518
Weighted average common shares outstanding - diluted	15,837,370	15,341,518

During all periods presented, the Company had certain stock options and warrants outstanding, which could potentially dilute basic earnings (loss) per common share in the future, but were excluded in the computation of diluted earnings (loss) per common share in such periods, as their effect would have been antidilutive. For the years ended December 31, 2004, 2003 and 2002, stock options and warrants exercisable for 1,722,976, 2,405,168 and 2,139,190 shares of common stock, respectively, were excluded from the computation of diluted earnings per common share, as they were either antidilutive or their exercise price exceeded the average trading price of the Company's common stock during the year.

During all periods presented, the conversion of the preferred stock could potentially dilute basic earnings (loss) per common share in the future, but the shares issuable upon the conversion were excluded from the computation of diluted earnings (loss) per common share in such periods, as their effect would have been antidilutive. For the years ended December 31, 2004, 2003 and 2002, there were 1,912,484, 1,710,423 and 1,633,147 shares of common stock, respectively, issuable upon the conversion of the preferred stock were excluded from the computation of diluted earnings per common share, as they were either antidilutive or their conversion price exceeded the average

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

trading price of the Company's common stock during the year.

(n) Fair Value of Financial Instruments

The Company's financial instruments include cash, cash equivalents, short-term investments, accounts receivable, notes receivable, accounts payable and a letter of credit. The fair value of these instruments, other than the notes receivable, approximates book value due to their short-term duration. As of December 31, 2003, the fair value of the convertible notes receivable from the MSV Joint Venture approximated book value based on the equity value of the MSV Joint Venture's 2002 and 2003 funding transactions (see Note 3). As of December 31, 2003, the fair value of the promissory note from Motient Corporation ("Motient") approximated book value due to the uncertainty with respect to the collection (see Note 5). As of December 31, 2003, the fair value of the senior secured notes from Verestar, Inc. ("Verestar") approximated book value due to the sufficiency of Verestar's assets in which the Company held a security interest despite Verestar having filed for bankruptcy protection (see Note 4(f)).

(o) Concentration of Credit Risk

Financial instruments which potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents and short-term investments. Although the Company maintains cash balances at financial institutions that exceed federally insured limits, these balances are placed with various high credit quality financial institutions. Further, in accordance with an investment policy, the Company diversifies its short-term investments among debt instruments that are believed to be low risk.

ESP's revenues are generated principally from customers located in the United States. AfriHUB's revenues are generated principally from customers located in Nigeria. For the year ended December 31, 2004 and for the period from the August 25, 2003 acquisition of ESP through December 31, 2003, three and two customers, respectively, individually accounted for more than 10% of the Company's consolidated revenues. Combined, these customers account for approximately \$1.1 million of consolidated revenues for the year ended December 31, 2004 and \$0.4 million for the period from the August 25, 2003 acquisition of ESP through December 31, 2003. As of December 31, 2004 and 2003, accounts receivable from these significant customers was approximately \$14,000 and \$0.1 million, respectively.

(p) Sales of Stock by a Subsidiary

The Company accounts for the sale of stock by a consolidated subsidiary as a capital transaction whereby the change in the Company's proportionate share of the subsidiary equity resulting from the additional equity raised by the subsidiary is reflected in stockholders' equity on the accompanying consolidated balance sheets.

In October 2004, AfriHUB agreed to sell membership interests to an unaffiliated third party for approximately \$0.5 million in cash (see Note 4(c)). The Company increased additional paid in capital on the accompanying consolidated balance sheets by approximately \$0.3 million related to this transaction.

(q) Recently Issued Accounting Standards

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires the classification of certain

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

financial instruments as a liability (or in certain circumstances an asset) because that instrument embodies an obligation of the company. SFAS No. 150 is effective immediately for instruments entered into or modified after May 31, 2003 and in the first interim period beginning after June 15, 2003 for all instruments entered into before May 31, 2003. The adoption of SFAS No. 150 did not have an impact on the Company's financial position or results of operations.

In December 2003, the FASB issued Interpretation No. 46R, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN No. 46R"). FIN No. 46R provides clarification on the consolidation of certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have certain characteristics of a controlling financial interest ("variable interest entities" or "VIEs"). FIN No. 46R requires that VIEs be consolidated by the entity considered to be the primary beneficiary of the VIE and is effective immediately for VIEs created after January 31, 2003 and in the first fiscal year or interim period beginning after December 15, 2003 for any VIEs created prior to January 31, 2003. In accordance with FIN No. 46R, the Company has included the operating results and financial position of Miraxis in its consolidated financial statements. The consolidation of Miraxis did not have a material impact on the Company's financial position or results of operations.

In December 2003, the staff of the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" ("SAB No. 104"), which supersedes SAB No. 101, "Revenue Recognition in Financial Statements." SAB No. 104 primarily rescinds the accounting guidance contained in SAB No. 101 related to multiple-element revenue arrangements, which was superseded as a result of the issuance of EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Additionally, SAB No. 104 rescinds the SEC's "Revenue Recognition in Financial Statements Frequently Asked Questions and Answers" issued with SAB No. 101, which had been codified in SEC Topic 13, "Revenue Recognition." SAB No. 104 was effective upon issuance. The issuance of SAB No. 104 did not have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"), a revision of SFAS No. 123. SFAS No. 123R requires entities to recognize compensation expense for all share-based payments to employees, including stock options, based on the estimated fair value of the instrument on the date it is granted. The expense will be recognized over the vesting period of the award. SFAS No. 123R is effective for periods beginning after June 15, 2005 and provides entities two transition methods. Under the modified prospective method, compensation expense is recognized beginning with the effective date for all awards granted to employees prior to the effective date that are unvested on the effective date. The modified retrospective method is a variation of the modified prospective method, except entities can restate all prior periods presented or prior interim period in the year of adoption using the amounts previously presented in the pro forma disclosure required by SFAS No. 123. As the Company currently accounts for share-based payments using the intrinsic value method as allowed by APB Opinion No. 25, the adoption of the fair value method under SFAS No. 123R will have an impact on the Company's results of operations. However, the extent of the impact cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. Had the Company adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income (loss) and earnings (loss) per share described above in Note 1(i).

In December 2004, the FASB issued SFAS No. 153, "Exchanges of

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Nonmonetary Assets - an amendment of APB Opinion No. 29" ("SFAS No. 153"). SFAS No. 153 eliminates the exception for nonmonetary exchanges of similar productive assets of APB Opinion No. 29 and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on the Company's financial position or results of operations.

(r) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current year's presentation. Auction rate securities totaling \$36.2 million, \$3.0 million and \$2.0 million as of December 31, 2004, 2003 and 2002, respectively, which were previously reported on the accompanying consolidated balance sheets and consolidated statements of cash flows as cash equivalents, have been reclassified as short-term investments. These reclassifications had no impact on the Company's results of operations, total assets or changes in shareholders' equity.

The following is a summary of the impact of the reclassification of the auction rate securities on the accompanying consolidated balance sheets and consolidated statements of cash flows:

	Dec 2003
	(in
Impact on consolidated balance sheets:	
Cash and cash equivalents, as previously reported	\$9,897
Cash and cash equivalents, as reclassified	6,897
Net change	\$ (3,000)
Short-term investments, as previously reported	\$18,795
Short-term investments, as reclassified	21,795
Net change	\$3,000
Impact on consolidated cash flow statements:	
Net cash (used in) provided by investing activities, as previously reported	\$ (19,650)
Net cash (used in) provided by investing activities, as reclassified	(20,650)
Net change	\$ (1,000)
Net (decrease) increase in cash and cash equivalents, as previously reported	\$ (27,587)
Net (decrease) increase in cash and cash equivalents, as reclassified	(28,587)
Net change	\$ (1,000)

(2) Restatement

Subsequent to the issuance of the Company's consolidated financial

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

statements as of and for the year ended December 31, 2004, the Company determined that it would restate its consolidated financial statements to properly reflect the accounting for the dividends paid on its Series A redeemable convertible preferred stock and the accretion of the carrying amount of the Series A redeemable convertible preferred stock up to its \$100 per share face redemption amount. These dividends represent (i) the dividend paid quarterly in additional shares of Series A redeemable securities from the issuance of the Series A redeemable convertible preferred stock in June 1999 through June 2004 and in cash subsequent to June 2004 and (ii) the deemed dividend relating to the beneficial conversion feature of the Series A redeemable convertible preferred stock and pay-in kind dividends recorded in 1999 and 2000. Cumulative dividends and accretion totaling \$109.0 million as of December 31, 2004, including \$9.9 million, \$9.7 million and \$10.9 million recorded for the years ended December 31, 2004, 2003 and 2002, respectively, were previously reported on the consolidated balance sheets and consolidated statements of changes in stockholders' equity (deficit) as increases in accumulated deficit. The accompanying consolidated balance sheets and consolidated statements of changes in stockholders' equity (deficit) have been restated to reflect these amounts as decreases in accumulated paid in capital. This restatement had no impact on the Company's net income (loss) available to common stockholders, total assets or cash flows.

The following is a summary of the impact of the restatement on the accompanying consolidated balance sheets and consolidated statements of changes in stockholders' equity:

	December 31,		
	2004	2003	2002
	(in thousands)		
Additional paid in capital, as previously reported	\$584,798	\$546,243	\$547,000
Additional paid in capital, as restated	475,827	447,190	457,000
Net change	\$ (108,971)	\$ (99,053)	\$ (89,000)
Accumulated deficit, as previously reported	\$ (539,591)	\$ (546,839)	\$ (536,000)
Accumulated deficit, as restated	(430,620)	(447,786)	(447,000)
Net change	\$108,971	\$99,053	\$89,000

(3) Interest in the MSV Joint Venture

On November 26, 2001, through its 80% owned MSV Investors, LLC subsidiary ("MSV Investors Subsidiary"), the Company purchased an interest in the MSV Joint Venture in the form of a convertible note with a principal amount of \$50.0 million. Immediately prior to the purchase of the convertible note, the Company contributed \$40.0 million to the MSV Investors Subsidiary and a group of unaffiliated third parties collectively contributed \$10.0 million. The note yielded interest at a rate of 10% per year, had a maturity date of November 26, 2006, and was convertible at any time at the option of the MSV Investors Subsidiary into equity interests in the MSV Joint Venture.

On August 13, 2002, the MSV Joint Venture completed a rights offering allowing its investors to purchase their pro rata share of an aggregate \$3.0 million of newly issued convertible notes with terms similar to the

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

convertible note already held by the MSV Investors Subsidiary. The MSV Investors Subsidiary exercised its basic and over subscription rights and purchased approximately \$1.1 million of the convertible notes. The group of unaffiliated third parties collectively contributed \$0.2 million to the MSV Investors Subsidiary in connection with the MSV Joint Venture rights offering.

Under the joint venture agreement among the partners of the MSV Joint Venture, the convertible notes held by the MSV Investors Subsidiary would automatically convert into equity interests in the MSV Joint Venture upon the repayment of (i) the outstanding principal and accrued interest on certain outstanding debt of the MSV Joint Venture and (ii) the accrued interest on all outstanding convertible notes of the MSV Joint Venture, including the convertible notes held by the MSV Investors Subsidiary. On November 12, 2004, the MSV Joint Venture raised \$145.0 million in cash by selling partnership units for \$29.45 per unit and exchanged or converted approximately \$84.9 million of debt securities and accrued interest. In connection with this financing, the convertible notes held by the MSV Investors Subsidiary converted into approximately 23% of the limited partnership interests of the MSV Joint Venture on an undiluted basis, at their original conversion price of \$6.45 per unit. As a result of these transactions, the MSV Investors Subsidiary also received approximately \$17.1 million in cash from the MSV Joint Venture to pay the accrued interest on the convertible notes. The MSV Investors Subsidiary distributed approximately \$13.6 million of this cash to the Company and \$3.4 million of cash to the unaffiliated third parties who own the 20% minority interest.

Following the November 12, 2004 conversion of its notes receivable into limited partnership interests, the Company accounts for its interest in the MSV Joint Venture under the equity method. Accordingly, on the date of conversion, the remaining \$51.1 million carrying amount of the notes receivable was reclassified to investment in Mobile Satellite Venture LP and will be adjusted thereafter for the Company's proportionate share of the net income (loss) of the MSV Joint Venture, subject to certain adjustments. These adjustments relate primarily to the amortization of the excess of the Company's \$51.1 million carrying amount over the Company's proportionate share of the MSV Joint Venture's net assets on the date of conversion. This excess will be amortized over the remaining useful life of certain MSV Joint Venture long-lived assets on a straight line basis. As of December 31, 2004, the Company's book investment exceeded its proportionate share of the MSV Joint Venture's net assets by approximately \$1.6 million.

The following table presents summarized consolidated financial information for the MSV Joint Venture as of and for the year ended December 31, 2004 and are derived from the MSV Joint Venture's audited consolidated financial statements (in thousands):

Consolidated balance sheet:

Current assets	\$139,978
Noncurrent assets	106,245
Current liabilities	11,772
Noncurrent liabilities	21,386
Minority interest	101
Partners' equity	212,964

Consolidated statement of operations:

Revenues	\$29,007
Loss from operations	(28,692)
Net loss	(33,455)

The MSV Investors Subsidiary and the other partners of the MSV Joint Venture have agreed that the acquisition or disposition by the MSV Joint Venture of its assets, certain acquisitions or dispositions of a limited

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

partner's interest in the MSV Joint Venture, subsequent investment into the MSV Joint Venture by any person, and any merger or other business combination of the MSV Joint Venture, are subject to the control restrictions contained in the Amended and Restated Limited Partnership Agreement and the Amended and Restated Stockholders Agreement. The control restrictions include, but are not limited to, rights of first refusal, tag along rights and drag along rights. Many of these actions, among others, cannot occur without the consent of the majority of the ownership interests of the MSV Joint Venture. In addition, the MSV Investors Subsidiary and two of the three other joint venture partner groups have entered into a voting agreement pursuant to which three of the four joint venture partner groups must consent to certain transactions involving the MSV Joint Venture or the partners or none of the parties to the voting agreement will support such actions.

On May 7, 2004, in connection with services being provided which support the regulatory effort of the MSV Joint Venture, an unaffiliated consultant was issued an option to purchase a less than one percent ownership interest in the MSV Investors Subsidiary. The option is immediately exercisable and will expire on the earlier of the dissolution of the MSV Investors Subsidiary or December 31, 2010. During 2004, the Company recognized expense of approximately \$0.3 million related to the issuance of the option, which was the approximate fair value of the option using the Black-Scholes option valuation model. To provide additional incentive to the consultant, the MSV Investors Subsidiary agreed to pay the consultant a one-time fee of \$0.4 million upon a liquidity event, as defined in the agreement. The MSV Investors Subsidiary would recognize an expense related to this fee when a liquidity event becomes probable.

On December 20, 2004, the MSV Joint Venture issued rights to receive all of the shares of common stock of TerreStar Networks Inc. ("TerreStar"), a wholly-owned subsidiary of the MSV Joint Venture, to the limited partners of the MSV Joint Venture, pro rata in accordance with each limited partner's percentage ownership. TerreStar was formed by the MSV Joint Venture to develop business opportunities related to the proposed receipt of certain licenses in the 2 GHz band. The rights will be exchanged into shares of TerreStar common stock automatically on May 20, 2005. In connection with the distribution of the rights, TerreStar issued warrants to purchase shares of TerreStar common stock representing 3% of the outstanding equity to one of the Other MSV Investors. These warrants have an exercise price of \$0.21491 per share and expire on December 20, 2006. Following the exchange of the rights and considering this warrant, the MSV Investors Subsidiary would own approximately 22% of TerreStar on an undiluted basis.

(4) Business Transactions

(a) Interest in Hughes Network Systems

On December 3, 2004, the Company signed an agreement to acquire a 50% interest in the business of Hughes Network Systems, Inc. ("HNSI"), a leading developer, manufacturer, installer and provider of advanced satellite based networking solutions and services for businesses, governments and consumers worldwide. Pursuant to the terms of the agreement, HNSI will contribute to Hughes Network Systems, LLC ("HNS LLC"), a newly formed entity, substantially all of the assets and certain liabilities of its very small aperture terminal ("VSAT"), mobile satellite and carrier businesses, as well as the certain portions of its SPACEWAY Ka-band satellite communications platform that is under development. In consideration of this contribution, HNS LLC will pay HNSI \$201.0 million of cash, subject to adjustment depending principally upon the closing value of HNSI's working capital (as defined in the agreement). In order to finance the asset purchase, HNS LLC intends to incur \$325.0 million of term indebtedness and obtain a \$50.0 million revolving credit facility which is expected to be undrawn at closing.

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Upon the consummation of the foregoing transactions, the Company will purchase 50% of the equity interests of HNS LLC for \$50.0 million in cash and 300,000 shares of the Company's common stock. Following this purchase, the Company will serve as the managing member of HNS LLC. Closing of the Company's purchase is subject to HNS LLC completing the issuance of the senior notes, regulatory approvals and other customary closing conditions.

The Company has incurred approximately \$5.0 million in transaction costs, including legal, accounting and other costs directly related to the transaction. As of December 31, 2004, these costs are included in deferred transaction costs on the accompanying consolidated balance sheets. If the transaction closes as expected in April 2005, these costs will be paid by HNS LLC. However, if the transaction does not close, the Company expects to negotiate a discount on such amounts owed.

(b) Interest in Electronic System Products

On August 25, 2003, for nominal consideration, the Company acquired all of the outstanding common stock of ESP, a product development and engineering services firm that has historically created products for and provides consulting and engineering services to the telecommunications, broadband, satellite communications, and wireless industries. ESP is currently focused on exploiting its existing intellectual property portfolio. In November 2003, ESP made restricted stock grants to its employees representing an aggregate of 30% of ESP's outstanding equity, diluting the Company's ownership to 70%. In October 2004, ESP repurchased shares of its common stock from terminated employees for an aggregate of approximately \$2,000, raising the Company's ownership to approximately 78%.

The following table summarizes the estimated fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition:

	August 25, 2003
(in thousands)	
Current assets	\$666
Property and equipment	54
Investment in affiliates	349
Total assets acquired	
	1,069
Current liabilities	(983)
Net assets acquired	
	\$86

The following unaudited pro forma information is presented as if the Company had completed the acquisition of ESP as of January 1, 2002. The pro forma information is not necessarily indicative of what the results of operations would have been had the acquisitions taken place at those dates or of the future results of operations.

2003

(in thousands,
dat

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Revenues	\$2,543
Net loss	(2,983)
Loss per share attributable to common stockholders - basic and diluted	(0.83)

(c) Interest in AfriHUB

On April 19, 2004, the Company signed an agreement to acquire 80% of the outstanding membership interests of AfriHUB for an aggregate purchase price of \$1.5 million in cash. AfriHUB planned to provide instructor led and distance based technical training and satellite based broadband Internet access and domestic and international calling services through exclusive partnerships with certain Nigerian based universities. While establishing centers which provide these services on two university campuses during the fourth quarter of 2004, AfriHUB experienced significant unanticipated delays and costs in opening these facilities, as well as greater price sensitivity within the university communities. As a result, AfriHUB has suspended its planned roll out of service to additional campuses and is actively pursuing other opportunities to provide technical training in the Nigerian market.

In connection with the allocation of the purchase price to the fair value of the identifiable net assets acquired, the Company ascribed approximately \$0.6 million to a significant contract. This intangible asset was being amortized over the approximate five-year minimum life of the contract, and for the year ended December 31, 2004, such amortization was approximately \$34,000. As a result of AfriHUB's strategy shift, the Company recognized an impairment loss of approximately \$0.8 million relating to this intangible asset and certain building improvements (see Note 1(f)).

In accordance with their employment contracts, certain employees will be issued warrants to purchase ownership interests of AfriHUB if AfriHUB meets any five operating and financial milestones. Pursuant to APB Opinion No. 25, the warrants qualify for variable accounting, as the number of shares to be issued has not been determined yet. As such, in accordance with FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans," compensation expense equal to the intrinsic value of the number warrants expected to be issued will be recorded over the service period, which the Company has determined to be the period through which the milestone must be achieved. Until the date the milestone is achieved, compensation expense shall be adjusted for changes (either increases or decreases) in the fair market value of the underlying units. If circumstances indicate that a milestone is not expected to be achieved, compensation contra-expense will be recognized in the period such circumstance occurs. As of December 31, 2004, the Company determined that two of the five milestones were not likely to be achieved, and the compensation expense associated with the warrants underlying these milestones was reversed. For the year ended December 31, 2004, the Company recognized non-cash expense totaling approximately \$0.2 million relating to the remaining warrants. The Company will continue monitoring the likelihood as to whether the remaining three milestones will be achieved.

On October 8, 2004, AfriHUB agreed to sell membership interests to an unaffiliated third party for approximately \$0.5 million in cash (see Note 1(p)). As a result of this sale of membership units, the Company's ownership of AfriHUB's outstanding membership interests decreased to approximately 70%. Including the effect of the warrants underlying the remaining milestones, the Company held approximately 62% of the ownership interests of AfriHUB as of December 31, 2004.

(d) Interest in Miraxis

On May 28, 2002, the Company acquired Series B Preferred Shares and a

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

warrant from Miraxis for approximately \$0.4 million, representing an ownership of approximately 30%. Miraxis is a development stage telecommunications company that has access to a Ka-band license with which it is striving to provide satellite based multi-channel, broadband data and video services in North America. The Company has the right to appoint two of the five directors of the manager of Miraxis. Additionally, the Company entered into a management support agreement with Miraxis under which the Company's current Chief Executive Officer and President provided certain services to Miraxis through February 2003 in exchange for additional Series B Preferred Shares and warrants being issued to the Company. In addition, on December 20, 2002, the Company acquired Series C Preferred Shares and warrants from Miraxis for approximately \$0.1 million.

In February 2003, the Company entered into a consulting agreement with Miraxis pursuant to which Miraxis personnel provided services to the Company through May 2003. In addition, Miraxis extended the management support agreement whereby the Company's current Chief Executive Officer and President continued to provide certain services to Miraxis through May 2003. In connection with these agreements, the Company paid Miraxis approximately \$40,000 but also received additional Series C Preferred Shares and warrants.

In April 2003, the Company acquired additional Series C Preferred Shares and warrants for approximately \$40,000. Between June 2003 and September 2003, the Company purchased promissory notes from Miraxis with an aggregate principal amount of approximately \$0.1 million. In November 2003, the promissory notes were converted to Series D Preferred Shares. During 2004, the Company purchased additional promissory notes with an aggregate principal balance of approximately \$0.1 million. As of December 31, 2004, the Company held approximately 40% of the ownership interests of Miraxis. The Company's President and Chief Executive Officer currently holds an approximate 1% interest in Miraxis.

In accordance with FIN No. 46R, beginning January 1, 2004, the operating results and financial position of Miraxis have been included in the consolidated financial statements. Prior to January 1, 2004, this investment was included in investments in affiliates on the accompanying consolidated balance sheets and was accounted for under the equity method with the Company's share of Miraxis' loss being recorded in equity in loss and loss on investments in affiliates on the accompanying consolidated statements of operations. The consolidation of Miraxis did not have a material impact on the Company's operating results or financial position.

(e) Interest in Navigauge

On April 21, 2003, the Company acquired Series B Preferred Shares from Navigauge, formerly known as IQStat, for approximately \$0.3 million, representing an ownership interest of approximately 5%. Navigauge is a privately held media and marketing research firm that collects data on in-car radio usage and driving habits of consumers and markets the aggregate data to radio broadcasters, advertisers and advertising agencies in the United States.

In connection with the acquisition of ESP in August 2003, the Company obtained indirect ownership of Series A Preferred Shares representing an additional 16% ownership interest in Navigauge. In December 2003, the Company acquired additional Series B Preferred Shares and warrants for approximately \$0.1 million. From January 2004 through April 2004, the Company acquired additional Series B Preferred Shares and warrants from Navigauge for approximately \$0.5 million. Furthermore, from April 2004 through June 2004, the Company purchased short-term promissory notes from Navigauge with an aggregate principal amount of approximately \$0.4 million.

On June 14, 2004, Navigauge completed a recapitalization in which all

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

outstanding Series A Preferred Shares and Series B Preferred Shares were converted to new Series A Preferred Shares with substantially similar rights as the old Series B Preferred Shares. Following the exchange, the Company converted the outstanding short-term promissory notes into new Series A Preferred Shares and purchased additional Series A Preferred Shares for approximately \$0.4 million. The Company also obtained direct ownership of the old Series A Preferred Shares held by ESP in exchange for the forgiveness of intercompany promissory notes.

On August 16, 2004, the Company purchased additional Series A Preferred Shares for approximately \$0.2 million. Furthermore, from October 2004 through December 2004, the Company purchased short-term promissory notes from Navigauge with an aggregate principal amount of \$0.5 million. As of December 31, 2004, the Company owned approximately 39% of the outstanding equity of Navigauge on an undiluted basis.

Although Navigauge is a variable interest entity as defined by FIN 46R, the Company is not the primary beneficiary. Accordingly, this investment is included in investments in affiliates on the accompanying consolidated balance sheets and is being accounted for under the equity method with the Company's share of Navigauge's loss being recorded in equity in loss and loss on investments in affiliates on the accompanying consolidated statements of operations.

(f) Verestar Transactions

On August 29, 2003, the Company signed a securities purchase agreement to acquire, through a newly formed subsidiary, approximately 67% (on a fully-diluted basis) of Verestar. Concurrent with the signing of the securities purchase agreement, the Company purchased a 10% senior secured note with a principal balance of \$2.5 million and a due date of August 2007. The Company terminated the securities purchase agreement on December 22, 2003. Subsequently, Verestar filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code.

On March 8, 2004, the Company executed an asset purchase agreement to acquire, through a newly formed subsidiary, substantially all of the assets and business of Verestar pursuant to Section 363 of the Bankruptcy Code. The transaction was subject to a number of contingencies, including an auction on March 30, 2004 at which Verestar considered higher and better offers. At the auction, a bid was accepted from a strategic buyer at a price higher than the Company was willing to offer.

In connection with the Verestar bankruptcy, the Company entered into a stipulation with Verestar pursuant to which the parties agreed to, among other things, the validity and enforcement of the obligation under the senior secured note and the Company's security interest in Verestar's assets. On April 30, 2004, Verestar paid the Company approximately \$2.9 million representing the \$2.5 million outstanding principal amount of the senior secured note and approximately \$0.4 million as a break-up fee in connection with the termination of the March 2004 asset purchase agreement.

On July 9, 2004, the Company settled its dispute with Verestar's parent company regarding the break-up fee in connection with the termination of the August 2003 securities purchase agreement. As consideration for the settlement, Verestar's parent company paid the Company \$1.5 million. This amount is included in other income (expense), net on the accompanying consolidated statements of operations.

On July 29, 2004, the Company entered into a stipulated settlement with Verestar and its Creditor Committee pursuant to which Verestar agreed to pay the Company approximately \$0.4 million representing certain amounts owed,

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

including unpaid accrued interest, in connection with the senior secured note. On August 13, 2004, the Bankruptcy Court approved the stipulated settlement. This settlement amount is included in interest income, net on the accompanying consolidated statements of operations.

(5) Notes Receivable from Motient

On April 2, 2001, the Company agreed to purchase from Motient 12.5% secured promissory notes, issuable in two tranches, each in the principal amount of \$25.0 million. The notes were collateralized by five million shares of XM Satellite Radio common stock owned by Motient. The first tranche was purchased on April 4, 2001, and the second tranche was purchased on July 16, 2001. The principal of and accrued interest on the notes were payable on October 1, 2001 in either cash, shares of XM Satellite Radio, or any combination thereof at Motient's option, as set forth in the agreement. At the option of the Company, the notes were exchangeable for a number of XM Satellite Radio shares based on a formula, as set forth in the agreement.

On May 14, 2001, the Company entered into an agreement to merge with a subsidiary of Motient. By a letter agreement dated October 1, 2001, Motient and the Company terminated the planned merger. As a result of the termination, neither the Company nor Motient had any obligation to the other party with respect to the merger, except for repayment by Motient to the Company of amounts outstanding under the promissory notes.

On October 1, 2001, and again on October 8, 2001, the Company extended the maturity date of the notes. On October 12, 2001, in accordance with the terms of the notes, the Company received five million shares of XM Satellite Radio as payment for \$26.2 million of the notes and accrued interest. The maturity date for the remaining balance of the Motient Notes in the principal amount of approximately \$26.2 million, and interest thereon, was extended for 60 days. On January 10, 2002, Motient and its subsidiaries filed for protection under Chapter 11 of the United States Bankruptcy Code. As part of its filing, Motient indicated that it would likely challenge the Company's right to the \$26.2 million outstanding principal balance and accrued interest thereon, as well as the delivery of the shares of XM Satellite Radio common stock as partial repayment of the aggregate \$50.0 million principal amount of the notes. As a result of uncertainty with respect to the ultimate collection on the notes, a reserve was recognized for the entire amount. This loss of approximately \$26.9 million was partially offset by a gain of \$5.3 million that resulted from the difference between the value of the XM Satellite Radio common stock received in connection with the partial repayment of the Motient notes in accordance with their terms and the value of the XM Satellite Radio common stock using its closing price on the date of the partial repayment. The results of these transactions are reflected in other income (expense), net on the accompanying consolidated statements of operations.

On May 1, 2002, to mitigate the risk, uncertainties and expenses associated with Motient's plan of reorganization, the Company cancelled the outstanding amounts due under the original promissory notes issued by Motient and accepted a new note in the principal amount of \$19.0 million (the "New Motient Note") that was issued by a new, wholly-owned subsidiary of Motient that owns 100% of Motient's interests in the MSV Joint Venture. The New Motient Note was due on May 1, 2005 and yielded interest at a rate of 9% per annum. As a result of the uncertainty with respect to the ultimate collection on the remaining amounts due on the New Motient Note, a reserve was maintained for the entire principal amount of the note and unpaid interest accrued thereon.

On April 7, 2004, as a result of a payment received by Motient pursuant to a promissory note from the MSV Joint Venture, Motient paid the Company approximately \$0.5 million of interest accrued on the New Motient Note.

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Following several financings by Motient, on July 15, 2004, Motient paid the Company approximately \$22.6 million representing all outstanding principal and accrued interest due on the New Motient Note. Accordingly, the reserve was adjusted resulting in the recognition of \$23.1 million of income which is reflected in the accompanying consolidated statements of operations as \$19.0 million in other income (expense), net and \$4.1 million in interest income, net.

(6) Investments in and advances to Affiliates

The following is a summary of the carrying value of investments held by the Company at December 31:

	2004	2003
	-----	-----
	(in thousands)	
Cost method investments	\$2,280	\$2,250
Equity method investments	1,081	519
	-----	-----
	\$3,361	\$2,769
	=====	=====

For the years ended December 31, 2004, 2003 and 2002, the Company recognized losses on investments in affiliates of approximately \$1.3 million, \$0.4 million and \$0.4 million, respectively, consisting primarily of its proportionate share of affiliates' operating losses for those affiliates accounted for under the equity method.

The aggregate carrying value of the Company's cost method investments totaled approximately \$2.3 million as of December 31, 2004. Cost method investments with an aggregate cost of approximately \$1.9 million were not evaluated for impairment because (i) the Company did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments and (ii) the Company did not estimate the fair value of those investments in accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" as the cost to make such estimation was prohibitive. The Company estimated that the fair value approximated or exceeded the carrying amount of the remaining \$0.4 million of cost method investments.

(7) Sale of Investment in XM Satellite Radio

The Company classified its investment in XM Satellite Radio common stock as an available-for-sale, marketable security and reported such investment at fair value with net unrealized gains and losses recorded in stockholders' equity. Gains and losses are recognized in the accompanying consolidated statements of operations when realized or when a decline in value is considered to be other than temporary. During the year ended December 31, 2002, the Company sold its 5,000,000 shares of XM Satellite Radio common stock at an average price of \$3.36 per share, resulting in net proceeds of \$16.6 million. These sales resulted in a loss of approximately \$14.9 million which is included in other income (expense), net on the accompanying consolidated statements of operations.

(8) Short-Term Investments

Short-term investments consisted of the following debt securities:

December 31,	
2004	2003
-----	-----

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

	(in thousands)	
Auction rate securities	\$36,150	\$3,800
Government agencies securities	19,356	11,979
Municipal bonds	4,242	6,016
	-----	-----
	\$59,748	\$21,795
	=====	=====

The government agencies securities and municipal bonds are classified as held to maturity. The amortized cost of these securities approximated fair value as of December 31, 2004 and 2003. Auction rate securities are classified as available for sale. As of December 31, 2004 and 2003, there were no unrealized gains or losses associated with these investments and the adjusted fair market value equaled the adjusted costs. Auction rate securities, which were previously recorded in cash and cash equivalents due to their liquidity and pricing reset feature, have been included as short-term investments in the accompanying consolidated balance sheets. Prior period information was reclassified to conform to the current year presentation. There was no impact on the Company's results of operations or cash flow from operations as a result of the reclassification (see Note 1(c)).

(9) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and consisted of the following:

	December 31,	
	2004	2003
	-----	-----
	(in thousands)	
Computer equipment and software	\$817	\$247
Furniture and fixtures	54	29
Machinery and equipment	21	4
Leasehold improvements	21	21
	-----	-----
	913	301
Less accumulated depreciation	(308)	(244)
	-----	-----
Property and equipment, net	\$605	\$57
	=====	=====

Depreciation expense for the years ended December 31, 2004, 2003 and 2002 was approximately \$0.1 million, \$28,000 and \$0.1 million, respectively. During the year ended December 31, 2004, \$0.2 million of the AfriHUB impairment charge was allocated to leasehold improvements relating to AfriHUB's two service centers.

(10) Accrued Liabilities

Accrued liabilities consisted of the following:

	December 31,	
	2004	2003
	-----	-----
	(in thousands)	
Accrued transaction costs	\$4,647	\$-
Accrued restructuring charges	1,550	1,580
Accrued professional fees	1,231	1,461

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Accrued compensation	662	402
Other accrued liabilities	191	507
	\$8,281	\$3,950
	\$8,281	\$3,950

(11) Stockholders' Equity

On December 23, 2004, the Company sold 2,000,000 shares of its common stock for gross proceeds of \$36.5 million (net proceeds of \$35.1 million) in a private placement to a group of institutional investors. In connection with this sale, the Company entered into a registration rights agreement with the investors requiring that, among other things, the Company register the resale of the shares. If the Company does not meet certain deadlines between June 30, 2005 and December 31, 2005 with respect to making the registration effective, then warrants, which were issued to the investors in connection with the transaction, to purchase up to an additional 600,000 shares of common stock at an exercise price of \$18.25 per share will vest and be exercisable at any time through December 23, 2009. The number of warrants that vest, if any, will depend on when the registration statement becomes effective. If the Company meets the June 30, 2005 deadline and otherwise complies with certain registration obligations, none of the warrants will vest. As part of the placement fees incurred in connection with the transaction, the Company also issued a warrant to purchase 110,000 shares at an exercise price of \$18.25 per share to the placement agent. This warrant is exercisable at any time through December 23, 2009 and had an estimated fair value of approximately \$2.2 million using the Black-Scholes option valuation model with the following assumptions: \$21.50 price per share on date of grant, an expected life of five years, a risk free interest rate of 3.6%, volatility of 166% and an annual dividend yield of 0%.

On March 13, 2003, the Company commenced a cash tender offer at a price of \$1.00 per share for up to 2,500,000 shares of its outstanding voting common stock. The tender offer expired on April 23, 2003 with 968,398 shares purchased for an aggregate cost, including all fees and expenses applicable to the tender offer, of approximately \$1.2 million. The primary purpose of the tender offer was to provide public stockholders with additional liquidity for their shares of common stock, particularly in light of decreased liquidity arising from the decision of Nasdaq to delist the Company's common stock, and to do so at a premium over the stock price before the tender offer and without the usual transaction costs associated with open market sales. The Apollo Stockholders (as defined in Note 12) did not sell any shares of common stock in the tender offer.

On January 10, 2003, as part of the settlement of the class action lawsuit, the Company issued 357,143 shares of the Company's common stock to the plaintiff's counsel as attorney's fees. During the year ended December 31, 2002, the Company recognized a charge of \$0.3 million relating to this settlement based on the \$0.25 trading price of the common stock on January 2, 2003, the date the shares were issuable. The charge is included in accrued liabilities at December 31, 2002.

On July 16, 2002, the Company sold 9,138,105 shares of common stock for gross proceeds of \$18.4 million (net proceeds of \$17.0 million) in a rights offering. In connection with the settlement of the class action lawsuit, the Company distributed to each holder of record of common stock, warrants and preferred stock, as of the close of business on May 16, 2002, one non-transferable right to purchase one additional share of common stock, for each share held, at a purchase price of \$2.01 per share. As part of the rights offering, the Apollo Stockholders purchased 3,876,584 shares of non-voting common stock in April 2002 and an additional 5,113,628 shares of non-voting

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

common stock in July 2002 pursuant to their over subscription privilege.

Pursuant to an April 2002 investment agreement, the Apollo Stockholders may exchange shares of non-voting common stock for an equal number of shares of voting common stock if, after giving effect to such exchange, they collectively will own no more than 29.9% of the outstanding voting power of the Company. Following the issuance of common stock in the December 2004 private placement, the Apollo Stockholders' voting power declined below 29.9%. Accordingly, as of December 31, 2004, the Apollo Stockholders may exchange 552,634 shares of non-voting common stock for an equal number of shares of voting common stock.

In connection with certain acquisitions made in 1999, the former shareholders agreed to indemnify the Company for any losses resulting from a breach of, among other things, their respective representations, warranties and covenants. To secure the indemnification obligations of these shareholders thereunder, 1,336 shares of the Company's common stock delivered to these shareholders, included as part of the consideration, remain in escrow at December 31, 2004, and the liability of these shareholders under such indemnification obligations is expressly limited to the value of such shares held in escrow. During the year ended December 31, 2004, the Company retired 6,262 shares of its common stock as a reduction of consideration for acquisitions made during 1999 and 2000. During the year ended December 31, 2002, the Company retired 286 shares of its common stock as a reduction of consideration for a 2000 acquisition.

(12) Redeemable Preferred Stock

On June 4, 1999, the Company issued and sold to Apollo Investment Fund IV, LP, Apollo Overseas Partners IV, LP and AIF IV/RRRR LLC (collectively with AP/RM Acquisition LLC, the "Apollo Stockholders"), for an aggregate purchase price of \$87.0 million, 126,000 shares of the Company's Series A Redeemable Convertible Preferred Stock (the "Series A Preferred Stock"), 126,000 Series 1-A Warrants (the "Series 1-A Warrants"), 1,916,994 Series 2-A Warrants (the "Series 2-A Warrants"), 744,000 shares of the Company's Series B Preferred Stock (the "Series B Preferred Stock"), 744,000 Series 1-B Warrants (the "Series 1-B Warrants") and 10,345,548 Series 2-B Warrants (the "Series 2-B Warrants"). As approved at the Company's 1999 annual meeting of stockholders, all Series B securities were converted to Series A securities.

The Series A Preferred Stock is subject to mandatory and optional redemption. On June 30, 2012, the Company will be required to redeem all Series A Preferred Stock plus any accrued and unpaid dividends. At the option of the Company, the Series A Preferred Stock can be redeemed after June 30, 2002 provided that the trading price of the Company's common stock for each of the preceding 30 trading days is greater than \$120.00 per share, or after June 30, 2004 at a price of 103% of the face value of the Series A Preferred Stock plus any accrued and unpaid dividends. In the event of a change of control, as defined, at the option of the holders of the majority of the then outstanding shares of the Series A Preferred Stock, the Company is required to redeem all or any number of such holders' shares of Series A Preferred Stock plus any accrued and unpaid dividends. As a result of the July 2002 rights offering, the conversion price of the Series A Preferred Stock was adjusted, pursuant to certain anti-dilution provisions as defined, from \$70.00 to \$68.50 per share. As a result of the December 2004 private placement, the conversion price of the Series A Preferred Stock was further adjusted to \$62.69 per share. The conversion price is subject to further adjustment pursuant to the anti-dilution provisions.

From the date of issuance to June 30, 2002, the quarterly dividends on the Series A securities were based on a rate of 7.5% per annum and were paid in additional shares of Series A securities. Under the terms of the securities

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

purchase agreement, from July 1, 2002 through June 30, 2004, the quarterly dividend was based on a rate of 4.65% per annum and was payable, at the option of the holder, in additional shares of Series A securities or cash. As part of the settlement of the class action lawsuit, the Apollo Stockholders agreed to accept payment in additional shares of Series A securities. Dividends paid from July 1, 2004 through the date of redemption will be based on a rate of 4.65% per annum and will be payable quarterly in arrears in cash. The first such payment, for the three months ended September 30, 2004, of approximately \$1.4 million was declared by the Company's board of directors and paid on October 14, 2004. The quarterly payment of approximately \$1.4 million, for the three months ended December 31, 2004, was declared and paid on January 13, 2005 and is reflected in the accompanying consolidated financial statements in the carrying amount of the Series A Preferred Stock and in net loss attributable to common stockholders.

The Series 1-A and Series 2-A warrants are exercisable at any time and expire ten years from the date issued. The holders of the Series 1-A and Series 2-A warrants have the option to pay the exercise price of the warrants in cash, Company common stock previously held, or instructing the Company to withhold a number of Company shares with an aggregate fair value equal to the aggregate exercise price. Pursuant to the original terms of the Series 1-A warrants, each warrant was exercisable into 1.35 shares of the Company's common stock, and the exercise price was dependent on the trading price of the Company's common stock. The exercise price ranged from \$0.10, if the trading price is equal to or greater than \$70.00 per share, to \$42.00 if the trading price is equal to or less than \$40.00 per share. Pursuant to their original terms, each Series 2-A warrant was exercisable into 0.1 share of the Company's common stock at an exercise price of \$70.00.

The exercise price and the number of shares for which the Series 1-A and Series 2-A warrants are exercisable for is subject to adjustment under certain anti-dilution and other provisions as defined. As such, as a result of the issuance of additional shares of common stock in the July 2002 rights offering to shareholders other than the Apollo Stockholders at a price below the exercise price of the warrants at the time of the offering, the highest exercise price of the Series 1-A warrants was adjusted from \$42.00 to \$41.12, and the number of shares of the Company's common stock issuable upon the exercise of each Series 1-A warrant became a range dependent on the trading price of the Company's common stock. The number of shares issuable upon the exercise of each Series 1-A warrant ranged from 1.35 shares, if the trading price is equal to or greater than \$70.00 per share to 1.379 shares if the trading price was less than or equal to \$40.00 per share. The exercise price of the Series 2-A warrants was adjusted from \$70.00 to \$68.50, and the number of shares of the Company's common stock issuable upon the exercise of each Series 2-A warrant was adjusted from 0.1 to 0.1022 shares.

As a result of the December 2004 private placement in which additional shares of common stock were sold at a price below the exercise price of the warrants at the time of the placement, the highest exercise price of the Series 1-A warrants was adjusted from \$41.12 to \$38.48, and the highest number of shares of the Company's common stock issuable upon the exercise of each Series 1-A warrant was adjusted from 1.379 shares to 1.4737 shares. The exercise price of the Series 2-A warrants was adjusted from \$68.50 to \$62.69, and the number of shares of the Company's common stock issuable upon the exercise of each Series 2-A warrant was further adjusted to 0.111665 shares.

On January 2, 2003, pursuant to the settlement of the class action lawsuit, 22,218 Series 1-A warrants and 2,452,509 Series 2-A warrants were cancelled. As of December 31, 2004, the 1,199,007 shares of Series A Preferred Stock are convertible into 1,912,485 shares of common stock, and the 234,633 Series 1-A warrants and the 9,810,033 Series 2-A warrants are exercisable for 345,776 shares and 1,095,436 shares of common stock, respectively. Assuming

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

all the Series A securities are either converted or exercised, as of December 31, 2004, the Apollo Stockholders would own approximately 65% of the Company's outstanding common stock and 36% of the Company's outstanding voting power on a fully diluted basis.

At the time of issuance, the Company ascribed value to the Series A securities based on their relative fair value. As such, \$29.9 million was allocated to Series A Preferred Stock and the remaining \$57.1 million was allocated to the related Series 1-A and Series 2-A warrants. This transaction was accounted for in accordance with FASB Emerging Issues Task Force 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features." Subsequently, dividends have been recorded representing the accrual of the quarterly paid-in-kind dividends and the accretion of the carrying value up to the face redemption over 13 years.

(13) Segment Information

The segment information is reported along the same lines that the Company's chief operating decision maker reviews the operating results in assessing performance and allocating resources. Accordingly, the Company's consolidated operations have been classified into four reportable segments: the MSV Joint Venture, ESP, AfriHUB and Parent and other. The MSV Joint Venture, which became a reportable segment following the November 2004 conversion of the notes receivable into limited partnership interests of the MSV Joint Venture, provides mobile digital voice and data communications services via satellite. ESP, which became a reportable segment following the August 2003 acquisition by the Company, is an engineering services firm with expertise in the design and manufacturing of electronic products and systems across many disciplines of electrical engineering. AfriHUB, which became a reportable segment following the April 2004 acquisition by the Company, provides a limited amount of satellite based Internet access and domestic and international calling services through exclusive partnerships with certain Nigerian based universities while it explores opportunities to provide technical training in the Nigerian market. Parent and other includes the Company, other consolidated entities other than ESP and AfriHUB and eliminations.

The following table presents certain financial information on the Company's reportable segments as of or for the year ended December 31, 2004. Although the MSV Joint Venture became a reportable segment in November 2004 following the conversion of the notes receivable, the MSV Joint Venture column represents the results of operations for the full year ended December 31, 2004 due to the significance to the Company's operations. Since our 23% share of the results MSV Joint Venture's operations for the period following the conversion is already included in the Parent and Other column, the MSV Joint Venture Elimination column removes the full year results of the MSV Joint Venture shown in the MSV Joint Venture column.

	MSV Joint Venture	ESP	AfriHUB	Parent and Other
	-----	-----	-----	-----
	(in thousands)			
Revenues	\$29,007	\$2,117	\$10	\$-
Operating expenses	(57,699)	(2,932)	(2,475)	(8,575)

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Loss from operations	(28,692)	(815)	(2,465)	(8,575)
Interest (expense) income, net	(8,112)	(56)	(7)	10,611
Equity in loss of Mobile Satellite Ventures LP	-	-	-	(1,020)
Equity in loss and loss on investments in affiliates	(275)	(164)	-	(1,172)
Other income (expense), net	3,624	866	15	20,164
Minority interest	-	-	594	(810)
Net (loss) income before taxes and discontinued operations	<u>\$ (33,455)</u>	<u>\$ (169)</u>	<u>\$ (1,863)</u>	<u>\$19,198</u>
Total assets	<u>\$246,223</u>	<u>\$268</u>	<u>\$646</u>	<u>\$153,656</u>

The following table presents certain financial information on the Company's reportable segments as of or for the year ended December 31, 2003:

	ESP	Parent and Other	Consolidated
Revenues	\$699	\$-	\$699
Operating expenses	(1,412)	(6,234)	(7,646)
Loss from operations	(713)	(6,234)	(6,947)
Interest (expense) income, net	(11)	6,315	6,304
Equity in loss and loss on investments in affiliates	(112)	(292)	(404)
Other income (expense), net	24	220	244
Minority interest	-	(1,126)	(1,126)
Net loss before taxes and discontinued operations	<u>\$ (812)</u>	<u>\$ (1,117)</u>	<u>\$ (1,929)</u>
Total assets	<u>\$555</u>	<u>\$97,544</u>	<u>\$98,099</u>

For the year ended December 31, 2002, the Company operated in only the Parent and other segment. As of December 31, 2004 and 2003, all of the Company's long-lived assets were located in the United States, excluding \$0.5 million located in Nigeria as of December 31, 2004.

(14) Discontinued Operations

At the end of the third quarter of 2001, a decision to discontinue the operations of Rare Medium, Inc. and the LiveMarket subsidiary was made as a result of the weakening of general economic conditions that caused many companies to reduce spending on Internet-focused business solutions and in light of their performance and prospects. As of December 31, 2004 and 2003, the remaining assets of Rare Medium, Inc. and LiveMarket totaled approximately \$15,000 and \$0.1 million, respectively, consisting of cash (excluding the \$0.3 million of cash collateralizing a letter of credit) and other assets. As of December 31, 2004 and 2003, the liabilities of these subsidiaries totaled approximately \$2.3 million and \$2.4 million, respectively, consisting of

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

accounts payable and accrued expenses. Included in the total liabilities of these subsidiaries is \$1.0 million related to a lease obligation which is guaranteed by the Company. The total maximum potential liability of this guarantee is approximately \$3.7 million, subject to certain defenses by the Company. Rare Medium, Inc. holds \$0.3 million of cash in a certificate of deposit which is maintained as collateral for a letter of credit supporting the lease obligation. For the years ended December 31, 2004 and 2003, the Company recognized a gain of approximately nil and \$1.2 million, respectively, as a result of the settlement of Rare Medium, Inc. liabilities at amounts less than their recorded amounts.

In 2000, Rare Medium, Inc. entered into a strategic alliance agreement, as amended, with a software company (the "Partner") to assist in the training of personnel and development and delivery by Rare Medium, Inc. of solutions built utilizing the Partner's technology. Under the terms of the alliance, the Partner was to provide Rare Medium, Inc. with refundable advances of approximately \$17.1 million, on an interest-free basis, to be paid to Rare Medium, Inc. over the term of the two-year agreement, subject to Rare Medium, Inc.'s compliance with certain requirements set forth in the agreement. The amount and timing of the repayment of the advances were adjustable based on Rare Medium, Inc.'s achievement of certain milestones in accordance with the terms of the agreement. The Partner and Rare Medium, Inc. had a dispute as to whether certain milestones were achieved. Efforts at renegotiating the payment schedule and milestones were not successful. In July 2001, the Partner commenced an arbitration against Rare Medium, Inc. seeking the return of the approximately \$8.6 million, plus interest, that had been advanced by the Partner. On May 6, 2002, Rare Medium, Inc. and the Partner settled this dispute and certain related disputes with an affiliate of the Partner, with Rare Medium, Inc. agreeing to pay the affiliate of the Partner \$0.9 million.

(15) Stock-Based Compensation Plans

The Company provides incentive and nonqualified stock option plans for directors, officers, and key employees of the Company and others. The Company has reserved a total of 2.3 million shares of authorized common stock for issuance under the 1998 Long-Term Incentive Plan ("Stock Incentive Plan"). The Company has options outstanding under the Nonqualified Stock Option Plan, but no new grants are being made under this plan. The number of options to be granted and the option prices are determined by the Compensation Committee of the Board of Directors in accordance with the terms of the plans. Options generally expire five to ten years after the date of grant.

During 1998, the Board of Directors approved the Stock Incentive Plan under which "non-qualified" stock options ("NQSOs") to acquire shares of common stock may be granted to non-employee directors and consultants of the Company, and "incentive" stock options ("ISOs") to acquire shares of common stock may be granted to employees. The Stock Incentive Plan also provides for the grant of stock appreciation rights, shares of restricted stock, deferred stock awards, dividend equivalents, and other stock-based awards to the Company's employees, directors, and consultants. Under the Stock Incentive Plan, the option price of any ISO may not be less than the fair market value of a share of common stock on the date on which the option is granted. The option price of an NQSO may be less than the fair market value on the date the NQSO is granted if the Board of Directors so determines. An ISO may not be granted to a "ten percent stockholder" (as such term is defined in section 422A of the Internal Revenue Code) unless the exercise price is at least 110% of the fair market value of the common stock and the term of the option may not exceed five years from the date of grant. Common stock subject to a restricted stock purchase or a bonus agreement is transferable only as provided in such agreement. The maximum term of each stock option granted to persons other than ten percent stockholders is ten years from the date of grant.

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Under the Nonqualified Stock Option Plan, which provided for the issuance of up to 510,000 shares, the option price as determined by the Compensation Committee was permitted to be greater or less than the fair market value of the common stock as of the date of the grant, and the options were generally exercisable for three to five years subsequent to the grant date. The Nonqualified Stock Option Plan expired on July 18, 2000, and thereafter, no new options can be granted under the plan.

On October 5, 2001, the compensation committee of the Company's board of directors determined that because the outstanding options held by certain executive officers and employees were exercisable at prices that were significantly above prevailing market prices for the Company's common stock, they no longer provided an adequate level of incentive. Accordingly, to reincentivize certain executive officers and employees of the Company and in recognition of their service to the Company, the compensation committee approved the repricing of the exercise prices of options to purchase an aggregate of 32,833 shares of common stock to \$1.30 per share, the fair market value at the date of the repricing. On December 21, 2001, the compensation committee approved an additional repricing of the exercise prices of options to purchase an aggregate of 40,000 shares of common stock held by non-management directors to \$6.00 per share, the fair market value at the date of the repricing. On October 15, 2002, in recognition of the former Chief Executive Officer's contribution to the Company, among other things, the compensation committee of the Company's board of directors approved the repricing of the exercise price of the former Chief Executive Officer's outstanding options to purchase 140,000 shares of common stock to \$0.85, the fair market value at the date of the repricing. As a result of these actions, the Company recorded non-cash compensation expense during the year ended December 31, 2004 and 2003 of approximately \$2.8 million and \$0.1 million, respectively, and non-cash compensation contra-expense during the year ended December 31, 2002 of approximately \$0.2 million.

Stock option activity under the various option plans is shown below:

	Weighted Average Exercise Prices	Number of Shares
	-----	-----
Outstanding at January 1, 2002	\$32.45	449,495
Granted	0.89	630,000
Forfeited	33.12	(153,005)
Exercised	1.30	(2,666)
Outstanding at December 31, 2002	10.91	923,824
Granted	1.02	235,000
Forfeited	19.38	(37,650)
Exercised	1.30	(4,367)
Outstanding at December 31, 2003	8.58	1,116,807
Granted	3.35	220,000
Forfeited	62.01	(28,081)
Exercised	0.88	(321,966)
Outstanding at December 31, 2004	\$8.40	986,760
		=====

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

The following table summarizes weighted-average option price information:

Range of Exercise Prices	Number Outstanding at December 31, 2004	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2004
\$0.85 - \$0.85	310,000	7.22	\$0.85	231,670
\$0.91 - \$1.55	232,500	8.25	\$1.02	75,836
\$1.80 - \$4.50	205,000	8.95	\$2.53	25,000
\$6.00 - \$51.10	229,910	4.66	\$27.82	189,910
\$72.50 - \$95.00	9,350	4.50	\$93.56	9,350
	----- 986,760 =====	7.20	\$8.40	----- 531,766 =====

(16) Income Taxes

The difference between the statutory federal income tax rate and the Company's effective tax rate for the years ended December 31, 2004 and 2003 is principally due to the Company incurring net operating losses for which no tax benefit was recorded.

For Federal income tax purposes, the Company has unused net operating loss carryforwards ("NOL") of approximately \$210.0 million expiring in 2008 through 2024, including various foreign subsidiaries, and a capital loss of approximately \$85.5 million expiring in 2006 through 2009. As a result of various equity transactions, the Company may have experienced at least one "ownership change" as defined by Section 382 of the Internal Revenue Code ("Section 382") since 1999. If the Company has experienced an ownership change as defined by Section 382, then the utilization of its net operating loss carryforwards is subject to a significant annual limitation in offsetting future taxable income.

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets are as follows:

	December 31,	
	2004	2003
	----- (in thousands) -----	
Deferred tax assets:		
Net operating loss carryforwards	\$79,804	\$76,487
Capital loss carryforwards	32,475	29,900
Impairment loss on investments in affiliates	9,639	11,455
Reserve for notes receivable from Motient	-	8,366
Other assets	1,035	605
	-----	-----
Total gross deferred tax assets	122,953	126,813
Less valuation allowance	(122,953)	(126,813)
	-----	-----

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Total deferred tax assets	\$-	\$-
	=====	=====

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning in making these assessments.

Due to the Company's operating losses, there is uncertainty surrounding whether the Company will ultimately realize its deferred tax assets. Accordingly, these assets have been fully reserved. During the year ended December 31, 2004, the valuation allowance decreased by approximately \$3.9 million, and during the year ended December 31, 2003, the valuation allowance increased by approximately \$4.0 million. Of the total valuation allowance of \$123.0 million, subsequently recognized tax benefits, if any, in the amount of approximately \$7.4 million will be applied directly to contributed capital. This amount relates to the tax effect of employee stock option deductions included in the Company's net operating loss carryforward.

Due to changes in the Federal tax code, the Company received a refund of approximately \$0.4 million during the year ended December 31, 2002 relating to alternate minimum tax paid in 1998.

(17) Related Party Transactions

During the year ended December 31, 2004 and from the August 25, 2003 acquisition through December 31, 2003, ESP recognized revenues totaling approximately \$0.6 million and \$0.3 million, respectively, for certain services provided to Navigage and the MSV Joint Venture.

In May 2002, the Company acquired ownership interests in Miraxis (see Note 4(d)). Prior to joining the Company, the Company's Chief Executive Officer and President served as President of Miraxis, a position he continues to hold. The Company's Chief Executive Officer and President currently holds shares, options and warrants of Miraxis representing approximately 1% of the outstanding ownership interests.

Miraxis License Holdings, LLC ("MLH"), an entity unaffiliated with Miraxis, other than as described herein, holds the rights to certain orbital slots, one of which Miraxis has the ability to use so long as it implements its business plan. Miraxis issued 10% of its outstanding common equity on a fully diluted basis to MLH as partial consideration for access to that slot. In addition, Miraxis expects to pay certain royalties to MLH for use of the slot should it ever launch satellites. Prior to becoming affiliated with the Company, its Chief Executive Officer and President acquired a 2% interest in MLH. In addition, prior to the Company acquiring an interest in Miraxis, an affiliate of the Company's preferred stockholders acquired an approximate 70% interest in MLH.

During 2002, in accordance with the terms of the Investment Agreement, dated April 2, 2002, and the Amended and Restated Purchase Agreement, dated June 4, 1999, each between the Company and the Apollo Stockholders, the Company paid approximately \$0.2 million for professional fees resulting from the Company's rights offering and approximately \$0.9 million for certain professional fees substantially associated with the class action lawsuit and other indemnified legal actions, all of which were incurred by the Apollo Stockholders.

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

From time to time, the Company designates certain of its directors and officers to serve on the Board of Directors of an affiliate, including the MSV Joint Venture and TerreStar. To the extent such affiliate grants or has granted options to members of its Board of Directors, the Company designees on such Board receives similar grants for their service.

(18) Contingencies and Commitments

Leases

The Company has non-cancelable operating leases, primarily related to the rental of facilities by Rare Medium, Inc., which is one of the Company's discontinued operating subsidiaries. Future minimum payments, by year and in the aggregate, under operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2004 (in thousands):

Year Ending December 31:	
2005	\$1,340
2006	27
2007	-
2008	-
2009	-
Thereafter	-

Total minimum lease payments	\$1,367
	=====

Of the total commitment, approximately \$0.2 million in 2005 and \$27,000 in 2006 relate to leases for the Company's continuing operations. Also included in the total commitment is approximately \$0.8 million, net of secured letters of credit, which is guaranteed by the Company (see Note 14). Excluded from total commitments is \$1.8 million, net of secured letters of credit issued by the assignee, relating to leases that have been assigned and require no future payments by the Company or its subsidiaries unless there is a default by the party to which the respective lease has been assigned. Rare Medium, Inc. is holding funds in a certificate of deposit which is maintained under an agreement to assure future credit availability relating to one of these leases. As of December 31, 2004 and 2003, these restricted funds amounted to approximately \$0.3 million which is included in cash and cash equivalents.

Total expense under operating leases amounted to \$0.3 million, \$0.2 million and \$0.1 million for 2004, 2003 and 2002, respectively.

Employment Agreements

The Company is a party to an amended and restated employment agreement with its Chief Executive Officer and President. The term of the agreement is from January 1, 2004 to December 31, 2005 and calls for a base salary of \$300,000 per year. Annual increases are at the sole discretion of the compensation committee of the Company's board of directors. In addition, the officer is eligible, based upon the achievement of certain subjective goals established by the compensation committee, to receive a target bonus of up to 75% of his base salary following the end of each calendar year during the term of the agreement.

The Company is party to employment agreements with two of its other executive officers. Under one agreement, if, either (i) after 90 days following a change in control of the Company, the executive terminates his employment or (ii) the executive is terminated for other than "cause" as such term is defined in his agreement, then the executive is entitled to receive

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

severance compensation in a lump sum payment consisting of one year of his current salary and the right to exercise all vested stock options and unvested stock options through the option expiration date for such options. The other agreement provides that the executive is entitled to a lump sum payment consisting of six months of his then current salary if his terminated for other than "for cause," as such term is defined in his agreement.

Litigation

On November 19, 2001, five of the Company's former shareholders filed a complaint against the Company, certain of its subsidiaries and certain of the then current and former officers and directors in the United States District Court for the Southern District of New York, *Dovitz v. Rare Medium Group, Inc. et al.*, No. 01 Civ. 10196. Plaintiffs became owners of restricted Company stock when they sold the company that they owned to the Company. Plaintiffs assert the following four claims against defendants: (1) common-law fraud; (2) violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder; (3) violation of the Michigan Securities Act; and (4) breach of fiduciary duty. These claims arise out of alleged representations by defendants to induce plaintiffs to enter into the transaction. The complaint sought compensatory damages of approximately \$5.6 million, exemplary and/or punitive damages in the same amount, as well as attorney fees. On January 25, 2002, the Company filed a motion to dismiss the complaint in its entirety. On June 3, 2002, the Court dismissed the matter without prejudice. On or about July 17, 2002, the plaintiffs filed an amended complaint asserting similar causes of action to those asserted in the original complaint. On September 12, 2002, the Company filed a motion to dismiss the amended complaint. On March 7, 2003, the Court denied the motion to dismiss, and discovery commenced. Following the completion of discovery, the Company filed a motion for summary judgment on July 30, 2004. Plaintiffs opposed the motion (the "Plaintiffs' Opposition"), and the Company responded.

On September 14, 2004 and again on November 1, 2004, the Company notified the plaintiffs that, upon a final adjudication of the matter, it intended to seek sanctions pursuant to Rule 11 of the Federal Rules of Civil Procedure, based upon what were believed to be numerous falsehoods contained in the plaintiffs' complaint and various other filings in the case, including the Plaintiffs' Opposition. In response, on November 12, 2004, the plaintiffs withdrew certain of the assertions contained in Plaintiffs' Opposition. The Company then filed the motion for sanctions (the "Sanctions Motion") against the plaintiffs seeking attorney's fees and expenses incurred in connection with the action. The plaintiffs opposed the sanctions motion on December 17, 2004 and the Company replied. On January 13, 2005, the case was dismissed by the Court with prejudice, subject to reinstatement by either party within 30 days of the order, in light of an agreement in principle to resolve the matter. On February 11, 2005, the parties executed a settlement agreement pursuant to which all parties denied liability relating to all matters, including but not limited to the original complaint and the Sanctions Motion, exchanged mutual releases, and the Company agreed to transfer to the plaintiffs an indirect nominal interest in a former subsidiary of the Company. The Company did not recognize a charge in connection with this settlement as the interest in the former subsidiary had no carrying value on the accompanying consolidated balance sheets.

The Company and certain of its subsidiaries (along with the Engelhard Corporation) are parties to an arbitration relating to certain agreements that existed between or among the claimant and ICC Technologies, Inc., the Company's former name, and the Engelhard/ICC ("E/ICC") joint venture arising from the desiccant air conditioning business that the Company and its subsidiaries sold in 1998. The claimant has sought \$8.5 million for (1) its alleged out of pocket losses in investing in certain of E/ICC's technology; (2) unjust enrichment resulting from the reorganization of E/ICC in 1998; and

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

(3) lost profits arising from the fact that it was allegedly forced to leave the air conditioning business when the E/ICC joint venture was dissolved. The Company intends to vigorously dispute this action.

In August 2003, a former employee of the Company's discontinued services subsidiary, filed a putative class action against Rare Medium, Inc. and the Company, and certain other former subsidiaries that were merged into Rare Medium, Inc., in Los Angeles County Superior Court captioned Joe Robuck, individually and on behalf of all similarly situated individuals v. Rare Medium Group, Inc., Rare Medium L.A., Inc., Rare Medium, Inc., and Rare Medium Dallas, Inc., Los Angeles County Superior Court Case No. BC300310. The plaintiff filed the action as a putative class action and putative representative action asserting that: (i) certain payments were purportedly due and went unpaid for overtime for employees with five job titles; (ii) certain related violations of California's overtime statute were committed when these employees were not paid such allegedly due and unpaid overtime at the time of their termination; and (iii) certain related alleged violations of California's unfair competition statute were committed. Plaintiff seeks to recover for himself and all of the putative class, alleged unpaid overtime, waiting time penalties (which can be up to 30 days' pay for each person not paid all wages due at the time of termination), interest, attorneys' fees, costs and disgorgement of profits garnered as a result of the alleged failure to pay overtime. The plaintiff has served discovery requests and all of the defendants have submitted objections and do not intend to provide substantive responses until the Court determines whether the plaintiff must arbitrate his individual claims. In February 2005, the Company and Rare Medium, Inc. reached an agreement in principle with the plaintiff pursuant to which the class action will be dismissed without prejudice. As part of the agreement, the Company and Rare Medium, Inc. will receive releases from certain individuals and the certain individuals will each receive an immaterial settlement payment. Should the settlement agreement not be finalized, the Company and Rare Medium, Inc. intend to vigorously dispute this action.

Though it intends to continue to vigorously contest each of the aforementioned cases to the extent not settled, the Company is unable to predict their respective outcomes, or reasonably estimate a range of possible losses, if any, given the current status of these cases. Additionally, from time to time, the Company is subject to litigation in the normal course of business. The Company is of the opinion that, based on information presently available, the resolution of any such additional legal matters will not have a material adverse effect on the Company's financial position or results of its operations.

(19) Subsequent Events

The terms of the Company's Series A Preferred stock provide for dividends of 4.65% of the then current face value to be paid quarterly in arrears. The payment of approximately \$1.4 million, for the three months ended December 31, 2004, was declared by the Company's board of directors and paid on January 13, 2005 and is reflected in the accompanying consolidated financial statements in the carrying amount of the Series A Preferred Stock and in net loss attributable to common stockholders.

On April 22, 2005, the Company completed its acquisition of 50% of the equity interests of HNS LLC from HNSI, a wholly owned subsidiary of DIRECTV, for \$50.0 million in cash and 300,000 shares of the Company's common stock. The acquisition occurred pursuant to an agreement among the Company, DIRECTV, HNSI and HNS LLC, dated December 3, 2004, as amended. Immediately prior to the acquisition, HNSI contributed substantially all of the assets and certain liabilities of its very small aperture terminal, mobile satellite and carrier businesses, as well as the certain portions of its SPACEWAY Ka-band satellite communications platform that is under development, to HNS LLC, which at the time

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

was a wholly-owned subsidiary of HNSI. In consideration for the contribution of assets by HNSI, HNS LLC paid HNSI \$190.7 million of cash. This payment represents the \$201.0 million stated in the agreement less an estimated purchase price adjustment of \$10.3 million, which is subject to further adjustment depending principally upon the closing value of HNS LLC's working capital (as defined in the agreement). On July 21, 2005, DIRECTV submitted its proposed final working capital statement asserting that it was entitled to a \$12.0 million payment from HNS LLC. On October 21, 2005, HNS LLC notified DIRECTV of its objection to the proposed final working capital statement and asserted that an additional payment of \$19.7 million was due from DIRECTV to HNS LLC. Under the terms of the agreement, if the parties are unable to resolve the dispute, it will be referred to an independent accounting firm for binding resolution.

Concurrent with the acquisition, HNS LLC incurred \$325.0 million of term indebtedness and obtained a \$50.0 million revolving credit facility. The Company and HNSI have each granted a security interest in their respective equity interest in HNS LLC to secure the obligations of HNS LLC under the term indebtedness. Following the acquisition, the Company serves as the managing member of HNS LLC. The Company will account for its interest in HNS LLC under the equity method in accordance with FIN 46R, as HNS LLC is a variable interest entity as defined in FIN 46R and the Company is not the primary beneficiary, as defined in FIN 46R.

On May 11, 2005, TerreStar raised \$200.0 million in cash by selling common stock to Motient at a purchase price of \$24.42 per share (the "TerreStar Private Placement"), raising Motient's ownership of TerreStar to approximately 61% on an undiluted basis (see Note 3). In connection with the TerreStar Private Placement, the TerreStar Rights were exchanged for shares of TerreStar common stock. Following these transactions, the Company's MSV Investors Subsidiary owns 5,303,315 shares of TerreStar common stock, or approximately 17% of TerreStar on an undiluted basis, and will account for its interest in TerreStar under the cost method.

On September 22, 2005, the Company announced a plan to separate into two publicly owned companies: the Company, which would solely hold its current stake in each of the MSV Joint Venture and TerreStar; and a newly formed subsidiary ("Holdings") that would own all of the Company's other assets, including its managing interest in HNS LLC. This proposed separation would be accomplished by a special dividend distribution of shares of Holdings to the Company's stockholders. The Company also announced that it had executed a non-binding letter of intent with Motient and TMI Communications and Company, among others, that would result in the consolidation of the ownership of the MSV Joint Venture and TerreStar into Motient. This consolidation would include the merger of the Company, following the special dividend distribution, into Motient, in a tax-free stock-for-stock merger.

On November 10, 2005, the Company, through Holdings, entered into an agreement with DIRECTV to acquire the remaining 50% of the Class A membership interests of HNS LLC for \$100.0 million in cash. To finance the transaction, Holdings has received a commitment for \$100.0 million of short-term debt financing from certain of the Apollo Stockholders. Concurrent with the special dividend distribution of shares of Holdings to the Company's shareholders, the Company expects that Holdings will conduct a rights offering to its stockholders in order to repay the short-term debt financing provided by such Apollo Stockholders. In connection with such rights offering, such Apollo Stockholders have agreed to subscribe for the maximum number of shares of common stock allocated to them, including the exercise of pro rata over-subscription rights. The exercise by such Apollo Stockholders of their rights would occur by converting the outstanding amounts due under the note into a number of shares of Holdings' common stock at the subscription price in the rights offering. The unconverted principal and interest obligations under the note would be repaid in cash immediately following the consummation of the rights offering. The closing

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

of the acquisition is expected in the first quarter of 2006 and is subject to regulatory approvals, receipt of the short-term financing from such Apollo Stockholders and customary closing conditions. Pursuant to the acquisition agreement, HNS LLC and DIRECTV agreed to resolve the purchase price adjustment related to the April 2005 transactions with HNS LLC paying DIRECTV \$10.0 million at closing.

SKYTERRA COMMUNICATIONS, INC.
Schedule II - Valuation and Qualifying Accounts

Deductions - Descriptions	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts
	-----	-----	-----
Reserves and allowances deducted from asset accounts:			
Allowances for uncollectible accounts receivable			
Year ended December 31, 2002	\$649,961	-	-
Year ended December 31, 2003	-	\$43,672	-
Year ended December 31, 2004	\$43,672	\$38,093	-
Allowances for uncollectible notes receivable			
Year ended December 31, 2002	\$26,956,853	\$1,160,774	-
Year ended December 31, 2003	\$20,160,774	\$1,855,292	-
Year ended December 31, 2004	\$22,016,066	-	-

(1) Relates to adjustment to reserve for note receivable from Motient Corporation as a result of repayment of amounts owed thereunder.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SKYTERRA COMMUNICATIONS, INC.

Date: November 10, 2005

By: /s/ JEFFREY A. LEDDY

Edgar Filing: SKYTERRA COMMUNICATIONS INC - Form 10-K/A

Name: Jeffrey A. Leddy
 Title: Chief Executive Officer and President

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.

Signature -----	Title -----	Date
/s/ JEFFREY A. LEDDY ----- Jeffrey A. Leddy	Chief Executive Officer and President (Principal Executive Officer and Principal Financial Officer)	November 1, 2011
/s/ CRAIG J. KAUFMANN ----- Craig J. Kaufmann	Controller and Treasurer (Principal Accounting Officer)	November 1, 2011
/s/ ANDREW D. AFRICK ----- Andrew D. Africk	Director	November 1, 2011
/s/ JEFFREY M. KILLEEN ----- Jeffrey M. Killeen	Director	November 1, 2011
/s/ WILLIAM F. STASIOR ----- William F. Stasior	Director	November 1, 2011
/s/ AARON J. STONE ----- Aaron J. Stone	Director	November 1, 2011
/s/ MICHAEL D. WEINER ----- Michael D. Weiner	Director	November 1, 2011