SKYTERRA COMMUNICATIONS INC
Form 10-Q
November 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2007

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	**23-2368845**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10802 Parkridge Boulevard, Reston, VA 20191	**20191**
(Address of principal executive offices)	**(Zip Code)**

(703) 390-1899

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant, as of September 28, 2007, was $170,026,459 and 62,419,361 shares of non-voting common stock were held by non-affiliates of the registrant as of September 30, 2007.

As of September 30, 2007, 33,839,318 shares of our voting common stock and 68,592,958, shares of our non-voting common stock were outstanding.

SKYTERRA COMMUNICATIONS, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SkyTerra Communications, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except share and per share data)

(unaudited)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Revenues:				
Services and related revenues	$ 7,239	$ 7,093	$ 20,849	$ 20,330
Equipment sales	1,669	2,104	3,952	6,246
Other revenues	201	190	580	548
Total revenues	9,109	9,387	25,381	27,124
Operating expenses:				
Satellite operations and cost of services (exclusive of depreciation and amortization shown separately)	4,081	3,326	11,855	11,033
Cost of equipment sold	1,331	1,632	3,204	5,111
Next generation expenditures (exclusive of depreciation and amortization shown separately)	7,453	7,018	19,656	17,758
Sales and marketing	1,163	837	3,163	2,112
General and administrative	5,634	3,466	16,716	13,310
Depreciation and amortization	7,793	2,344	21,728	9,528
Total operating expenses	27,455	18,623	76,322	58,852
Loss before other income (expense)	(18,346)	(9,236)	(50,941)	(31,728)
Other income (expense):				
Interest income	4,052	6,582	14,884	14,197
Interest expense	(8,162)	(14,029)	(30,848)	(29,312)
Management fee from TerreStar Networks	159	216	448	1,276
Impairment of investment in TerreStar Networks	(22,520)		(22,520)	
Other (expense) income, net	(1,026)	321	(946)	635
Loss before provision for income taxes and minority interest	(45,843)	(16,146)	(89,923)	(44,932)
Benefit (provision) for income taxes	204	(530)	97	(530)
Minority interest	739	1,092	3,305	1,092
Net loss	$ (44,900)	$ (15,584)	$ (86,521)	$ (44,370)
Basic and diluted loss per common share	$ (0.44)	$ (0.38)	$ (0.87)	$ (1.11)
Basic and diluted weighted average common shares outstanding	101,582,277	41,203,755	98,995,856	40,138,094

See accompanying notes.

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SkyTerra Communications, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

(unaudited)

	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 124,835	$ 195,017
Investments	150,331	247,625
Accounts receivable, net of allowance of $92 and $103, respectively	5,242	4,759
Other current assets	6,570	6,375
Total current assets	286,978	453,776
Property and equipment, net	342,437	110,263
Intangible assets, net	519,072	54,446
Goodwill	12,894	16,932
Investment in TerreStar Networks	90,100	112,620
Other assets	12,158	19,010
Total assets	$ 1,263,639	$ 767,047
Liabilities and stockholders equity (deficit)		
Current liabilities:		
Accounts payable and accrued expenses	$ 14,464	$ 12,959
Income taxes payable	30,674	268
Notes payable, current portion	10,503	247
Deferred revenue, current portion	4,333	5,350
Other current liabilities	187	2,288
Total current liabilities	60,161	21,112
Senior secured discount notes, net	536,014	483,410
Deferred revenue, net of current portion	16,445	20,971
Notes payable, net of current portion	12,153	223
Other long term liabilities	7,623	
Total liabilities	632,396	525,716
Commitments and contingencies		
Minority interest	56,601	361,274
Stockholders equity (deficit):		
Common stock, $0.01 par value. Authorized 200,000,000 shares; 33,839,318 and 33,245,018 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	338	332
Non-voting common stock, $0.01 par value. Authorized 100,000,000 shares; 68,592,958 and 31,651,870 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	686	317
Additional paid-in capital	862,163	4,862
Accumulated other comprehensive loss	(1,729)	(798)
Accumulated deficit	(286,816)	(124,656)
Total stockholders equity (deficit)	574,642	(119,943)
Total liabilities and stockholders equity (deficit)	$ 1,263,639	$ 767,047

See accompanying notes.

SkyTerra Communications, Inc.

Condensed Consolidated Statements of Stockholders Equity (Deficit)

(in thousands, except share and per share data)

(unaudited)

	Voting Common Stock		Non-Voting Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balance, December 31, 2006	33,245,018	$ 332	31,651,870	$ 317	$ 4,862	$ (798)	$ (124,656)	$ (119,943)
BCE Exchange Transaction	176,250	2	22,533,745	225	392,781	(296)	(44,877)	347,835
TerreStar Corporation Exchange Transaction			14,407,343	144	438,000	(205)	(30,762)	407,177
Recognition of change in value of minority interest redemption rights					18,961			18,961
Equity-based compensation	250,000	2			6,438			6,440
Exercise of stock options	168,050	2			586			588
Exercise of MSV unit options					535			535
Net loss							(86,521)	(86,521)
Foreign currency translation adjustment						(430)		(430)
Balance, September 30, 2007	33,839,318	$ 338	68,592,958	$ 686	$ 862,163	$ (1,729)	$ (286,816)	$ 574,642

See accompanying notes.

SkyTerra Communications, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Operating activities		
Net loss	$ (86,521)	$ (44,370)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash and working capital items	71,393	39,751
Net cash used in operating activities	(15,128)	(4,619)
Investing activities		
Purchase of property and equipment	(198,662)	(49,448)
Restricted cash	1,494	1,633
Purchase of investments	(249,083)	(303,493)
Proceeds from maturity of investments	352,192	84,010
Cash acquired in BCE Exchange Transaction	37,000	
Cash acquired in MSV Exchange Transaction		10,310
Net cash used in investing activities	(57,059)	(256,988)
Financing activities		
Proceeds from issuance of senior secured discount notes, net of debt issuance costs of $13,118		423,052
Principal payments on notes payable	(183)	(167)
Proceeds from issuance of notes payable	1,219	
Proceeds from exercise of stock options	588	124
Proceeds from exercise of MSV unit options	564	293
Net cash provided by financing activities	2,188	423,302
Effect of exchange rates on cash and cash equivalents	(183)	684
Net (decrease) increase in cash and cash equivalents	(70,182)	162,379
Cash and cash equivalents, beginning of period	195,017	59,925
Cash and cash equivalents, end of period	$ 124,835	$ 222,304
Supplemental information		
Cash paid for interest	$ 302	$ 43
Cash paid for income taxes	$ 1,024	$
Non-cash investing and financing activities (vendor financing)	$ 21,150	$

See accompanying notes.

SkyTerra Communications, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Organization and Basis of Presentation

SkyTerra Communications, Inc. (SkyTerra or the Company) provides mobile satellite and communications services to individual and corporate customers in the United States and Canada through its 94.9% owned consolidated subsidiary, Mobile Satellite Ventures LP (MSV) that owns and operates a satellite based communications network. The Company is also planning, developing, and constructing a next generation integrated satellite and ground based communications network.

The Company s operations are subject to significant risks and uncertainties including technological, competitive, financial, operational, and regulatory risks associated with the wireless communications business. The Company will also require substantial additional capital resources to construct its next generation integrated network.

The Company believes that its existing cash resources will not be sufficient to satisfy anticipated cash requirements for the next twelve months. The Company believes its current sources of liquidity will be sufficient to fund operations through June 2008, assuming no material change in planned expenditures during that period. The Company has significant operating and contractual obligations over the next twelve months.

The Company is actively pursuing means to extend its liquidity and raise capital. These alternatives may include the sale of the investment in TerreStar Networks Inc. (TerreStar Networks), a capital infusion through an equity or debt investment with a strategic partner, a capital infusion through the sale of additional debt or equity, renegotiation of vendor cash payment schedules to delay payment into the future, or some combination of these actions. While the Company is actively exploring alternatives for the sale of the TerreStar Networks investment, raising additional capital through a variety of funding sources, and potentially deferring and/or otherwise restructuring some of its contractual obligations, there can be no assurances that the Company will be able to do so or that the Company will be able to do so on terms that are favorable. Any deferrals or restructurings could delay our satellite program or otherwise negatively affect the Company s ability to continue the development of the planned next generation integrated satellite-terrestrial network on a timely basis. If the Company is not able to obtain additional funding, or defer or otherwise restructure significant contractual obligations, the Company may not be able to continue as a going concern, and may be required to consider alternatives such as selling assets, ceasing work on the next generation integrated satellite-terrestrial network, or restructuring debt obligations.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, MSV, all wholly owned subsidiaries of the Company and MSV, and all variable interest entities for which the Company or MSV is the primary beneficiary. All intercompany accounts are eliminated upon consolidation. These unaudited condensed financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of the Company s financial position, results of operations and cash flows at the dates and for the periods indicated. While the Company believes that the disclosures presented are adequate to make the information not misleading, these condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2006.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements requires the use of estimates and judgments that affect the reported amounts of assets, liabilities and equity and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates, particularly estimates relating to the valuation of the investment in TerreStar Networks, valuation of intangible assets, valuation of MSV limited partnership units, and the useful lives of long-lived assets, among others, have a material impact on the financial statements. The Company bases estimates on historical experience and various other assumptions the Company believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets, liabilities and equity that are not readily apparent from other sources. Actual results and outcomes could differ from these estimates and assumptions.

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Investment in TerreStar Networks

The Company owns 11.1% of TerreStar Networks (a consolidated subsidiary of TerreStar Corporation, formerly Motient Corporation). The Company evaluates impairment in accordance with Emerging Issues Task Force 03-01, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. Accordingly, the Company considers both triggering events and tangible evidence that investments are recoverable within a reasonable period of time, as well as its intent and ability to hold investments that may have become temporarily or otherwise impaired.

During the third quarter, an adverse change in the trading stock price of TerreStar Corporation combined with continuing evaluations surrounding the ability and intent of the Company to hold the investment for a reasonable period of time led the Company to reevaluate impairment of the investment in TerreStar Networks. In performing the evaluation of impairment the Company considered various estimates of value, recent discussions and negotiations with interested third parties regarding the possible sale of the investment, and the Company s intent and ability to hold the investment.

Based upon this assessment, the Company concluded that the TerreStar Networks investment had become other-than-temporarily impaired and was written-down to a value of $90.1 million. As such, the Company recorded a charge of $22.5 million during the third quarter to write-down this investment. There is no assurance that the proceeds from the ultimate disposition of this asset, if any, will be equal to or greater than the $90.1 million carrying amount recorded as of September 30, 2007.

Revenue Recognition

The Company generates revenue through the sale of the following satellite based services: capacity, telephony, data, and dispatch. The Company also sells equipment for use by end users. The Company recognizes revenue when services are performed or delivery has occurred, evidence of an arrangement exists, the fee is fixed or determinable, and collection is probable.

Capacity is the supply of bandwidth and power to customers who implement and operate their own networks. Capacity revenue is recognized as the service is provided.

Telephony is the supply of voice service to end users. Telephony customers are acquired through retail dealers or resellers. Retail dealers receive activation fees and earn commissions on monthly end user access and usage revenues. Resellers are under contractual arrangements with the Company for their purchase of monthly access and usage, and they manage the arrangements with the end user. Telephony customers are charged activation fees, fixed monthly access fees and variable usage charges, generally charged by minute of usage, depending on voice plan chosen. Monthly network access revenue is recognized in the month of service to the end user. Variable usage revenue is recognized during the period of usage. Activation fees are deferred and recognized ratably over the customer s contractual service term, generally one year.

Data service provides transmission in an always-on fashion. Common applications for data customers include fleet and load management, credit card verification, e-mail, vehicle position reporting, mobile computing, and data message broadcasting. Customers are acquired through resellers. Resellers are under contractual arrangements for their purchase of monthly access and usage from the Company, and manage the arrangements with the end user. Data service revenue is recognized in the month of service.

Dispatch service provides the wide-area equivalent of push-to-talk two-way radio service among users in customer defined groups. Dispatch service facilitates team-based group operations and is highly suited for emergency communications. Customers are acquired through dealers and resellers. Resellers are under contractual arrangements for their purchase of monthly access from the Company, and manage the arrangements with the end user. Dispatch users pay a fixed access fee for virtually unlimited usage; however, the fee varies with the coverage available. Dispatch service revenue is recognized in the month of service.

New and existing subscribers to the Company s network can purchase from the Company a range of satellite handset configurations. Hardware generally includes handsets, antennas, and cables, and can be purchased in kits that include the hardware a customer would typically need to utilize the satellite services. Resellers may purchase equipment in advance for purposes of resale to their end users. Equipment generally does not carry a right of return, and revenue is recognized upon transfer of title, which occurs at the time of shipment to the customer.

Next Generation Expenditures

The Company classifies costs it incurs related to the development and deployment of its next generation integrated network as next generation expenditures in the accompanying consolidated statements of operations in order to distinguish these costs from the costs related to its current and existing Mobile Satellite Services (MSS).

Next generation expenditures include the following (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Employee related costs	$ 3,646	$ 3,841	$ 9,068	$ 8,012
Professional and consulting expenses	1,756	1,051	4,690	2,124
Legal and regulatory fees	1,071	1,079	3,055	5,172
Research and development expenses	622	714	1,846	1,061
Patent costs and fees	358	333	997	1,389
Total next generation expenditures	$ 7,453	$ 7,018	$ 19,656	$ 17,758

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 carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year 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. Valuation allowances are recorded against deferred tax assets when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning in evaluating whether it is more likely than not that deferred tax assets will be realized. A valuation allowance has been recorded against substantially all of the Company s deferred tax assets.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007. The adoption of FIN 48 did not impact the Company s financial position or results of operations. The Company has concluded that there are no uncertain tax positions requiring recognition in its consolidated financial statements. The Company s policy is to recognize interest and penalties on income tax matters in the income tax provision (benefit).

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and in various states and in foreign jurisdictions, primarily Canada and its provinces. Because the Company has unused net operating loss carryforwards dating, in part, back to 1993, some elements of income tax returns back to 1993 are subject to examination. The Company is currently under audit for income taxes in one Canadian province and in one U.S. state, but the Company does not expect the results of those audits to have a material impact on the Company s financial position or results of operations.

Other Comprehensive Loss

Comprehensive loss is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For the three months ended September 30, 2007 and 2006, comprehensive loss was $45.1 million and $15.6 million, respectively. For the nine months ended September 30, 2007 and 2006, comprehensive loss was $86.9 million and $44.9 million, respectively. The difference between net loss and comprehensive loss is foreign currency translation.

Loss Per Common Share

Basic loss per common share is computed by dividing net loss attributable to the common shareholders by the weighted average number of common shares outstanding for the period, excluding unvested restricted stock. Diluted loss per common share reflects the potential dilution for the exercise or conversion of securities into common stock. For each of the three and nine months ended September 30, 2007 and 2006, options, warrants, and unvested restricted stock grants were excluded from the computation of diluted net loss per common shares as the effect would have been anti-dilutive. The Company also excluded the shares issuable to TerreStar Corporation in exchange for TerreStar Corporation s interest in MSV (see Note 3), as the effect would have been anti-dilutive.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current-year presentation in order to separately present cost of equipment sold.

3. Acquisitions

MSV Exchange Transaction

On May 6, 2006, SkyTerra entered into agreements with certain other partners in MSV and the former minority stakeholders in SkyTerra s MSV Investors, LLC subsidiary (MSV Investors) that, upon closing, resulted in the consolidation of majority ownership and control of MSV and MSV s corporate general partner, Mobile Satellite Ventures GP Inc. (MSV GP), by SkyTerra, as well as SkyTerra owning all of the equity interests in MSV Investors (the MSV Exchange Transactions). Pursuant to these agreements, on September 25, 2006, SkyTerra issued an aggregate of 39.6 million shares of its voting and non-voting common stock to TerreStar Corporation (formerly Motient Corporation), other limited partners of MSV and the former minority stakeholders in MSV Investors for limited partnership interests of MSV, all of the common stock of MSV GP held by these parties and all of the equity interests in MSV Investors held by these parties, resulting in the Company owning 59% of MSV and 78% of MSV GP. Pursuant to the terms of these transactions, TerreStar Corporation agreed to use its commercially reasonable efforts to distribute 25.5 million shares of our common stock that it received to its common stockholders as soon as practicable following the initial closing (the TerreStar Corporation Distribution). Prior to such distribution by TerreStar Corporation, these shares are non-voting.

Notwithstanding the legal form of the transactions, the MSV Exchange Transactions have been accounted for as a reverse acquisition, with MSV being treated as the accounting acquirer of SkyTerra. The determination that MSV is the accounting acquirer was based primarily on the relative voting rights of the MSV and SkyTerra shareholder groups in the Company after the MSV Exchange Transactions and the TerreStar Corporation Distribution and the composition of management of the Company after the MSV Exchange Transactions. Accordingly, the historical financial statements of the Company prior to September 25, 2006 are the historical financial statements of MSV. The consolidated financial statements of MSV were retroactively adjusted to reflect the recapitalization of MSV with the 39.6 million shares of SkyTerra common stock issued to MSV equity holders in the MSV Exchange Transactions.

The reverse acquisition resulting from MSV Exchange Transactions has been accounted for under the purchase method of accounting under Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. The purchase price is determined based on the fair value of the equity instruments of SkyTerra outstanding as of September 25, 2006. More specifically, the purchase price in the MSV Exchange Transaction was $398.4 million, which consists of (i) the $381.5 million attributed to the 24.6 million shares of the Company s common stock outstanding as of September 25, 2006, (ii) the $10.4 million attributed to outstanding options to purchase shares of the Company s common stock exercisable as of September 25, 2006 and (iii) the $6.5 million estimated fair value attributed to the Company s Series 1-A and Series 2-A warrants outstanding as of September 25, 2006. The fair value of the outstanding stock options and warrants were estimated using the Black-Scholes option pricing model. The Series 1-A and Series 2-A warrants are exercisable at any time and expire on June 4, 2009. Pursuant to the original terms of the warrants, the exercise price and the number of shares for which the Series 1-A and Series 2-A warrants are exercisable is subject to adjustment under certain anti-dilution provisions contained in the warrants.

The $398.4 million purchase price was allocated the acquired assets and liabilities based on their relative estimated fair value. The excess of the fair value of the net assets acquired over the purchase price has been reflected as a reduction of fair value, on a pro rata basis, of the investment in each of MSV and TerreStar Networks. The following table presents the purchase price allocation (in thousands):

Current assets	$ 11,591
Investment in Mobile Satellite Ventures LP (a)	284,327
Investment in TerreStar Networks	111,967
Current liabilities	(9,516)
	$ 398,369

(a) As MSV is treated as the accounting acquirer, the MSV limited partnership units held by SkyTerra prior to the MSV Exchange Transactions are deemed to be reacquired in a treasury stock transaction. Accordingly, the value allocated to such limited partnership interests was recorded as a reduction of additional paid-in capital.

BCE Exchange Transaction

On January 5, 2007, SkyTerra acquired all of the equity interests in MSV and MSV GP owned by BCE, Inc. through the purchase of its wholly-owned subsidiary TMI Delaware. In exchange for 8.0 million limited partnership interests in MSV and 740 shares of MSV GP, the Company issued 22.5 million shares of its non-voting common stock (the BCE Exchange Transaction). These shares of non-voting common stock are also exchangeable for a like number of shares of voting common stock upon the transfer in a sale by BCE in the open market pursuant to an effective registration statement or an exemption from registration or following such transfer, to a person who will not beneficially own 10% or more of the Company s voting common stock. Substantially concurrently with the BCE Exchange Transaction, SkyTerra issued 176,250 shares of common stock to Winchester Development LLC, a Delaware limited liability company beneficially owned by a former director of MSV. Such shares were issued in exchange for $0.4 million in cash and 50,226 limited partnership interests of the Company.

The BCE Exchange Transaction was accounted for under the purchase method of accounting. The $319.1 million valuation of the securities issued was determined in accordance with EITF 99-12, Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination, based on the October 6, 2006 announcement date. The purchase price was allocated on a preliminary basis to the acquired assets and liabilities based on their relative estimated fair value. The final allocation of the purchase price is dependent on a number of factors, including the final evaluation of fair value of the assets acquired and liabilities assumed. The following table presents the preliminary purchase price allocation:

	Historical Basis of Equity Interests Not Acquired	Fair Value of MSV Minority Interest Acquired	MSV as Adjusted	MSV Historical	Adjustment (Purchase Price Allocation)
			(in thousands)		
Assets:					
Current assets	$ 350,855	$ 98,862	$ 449,717	$ 449,717	$
Restricted cash	1,833	517	2,350	2,350	
Property and equipment, net	86,024	20,455	106,479	110,264	(3,785)
Intangible assets (a)	42,477	340,174	382,651	54,446	328,205
Goodwill	13,210		13,210	16,932	(3,722)
Other assets	14,968	1,550	16,518	19,185	(2,667)
Total assets	509,367	461,558	970,925	652,894	318,031
Liabilities:					
Current liabilities	14,048	3,959	18,007	18,007	
Senior secured discount notes, net	377,141	109,641	486,782	483,410	3,372
Deferred revenue, net of current portion	16,361	142	16,503	20,971	(4,468)
Other long-term liabilities	174	49	223	223	
Total liabilities	407,724	113,791	521,515	522,611	(1,096)
Net assets	$ 101,643	$ 347,767	$ 449,410	$ 130,283	$ 319,127

(a) The identifiable intangible assets consist of spectrum licenses and contractual rights to various spectrum authorizations, patented technologies, customer contracts and customer relationships. These intangible assets will be amortized on a straight-line basis over useful lives ranging from 6 to 20 years, with a weighted-average period of 19.5 years.

TerreStar Corporation Exchange Transaction

As a result of the MSV Exchange Transactions, TerreStar Corporation has the right to exchange, until September 25, 2011, its remaining ownership interests in MSV for shares of SkyTerra non-voting common stock, which would be exchangeable for a like number of shares of SkyTerra voting common stock upon the disposition of any such shares by TerreStar Corporation. Following a change of control of SkyTerra, as defined in the agreement with TerreStar Corporation, SkyTerra has the right to require TerreStar Corporation to complete the exchange of its remaining MSV interests. If TerreStar Corporation has not exchanged its remaining MSV interests by September 25, 2011 and a change of control of SkyTerra has not subsequently occurred with SkyTerra exercising its right, such remaining interests shall be exchanged for shares of non- voting common stock of SkyTerra at an exchange ratio reflecting the fair market value of such interests and SkyTerra s common stock on May 6, 2021.

The Company records TerreStar Corporation s remaining minority interest in MSV at fair value at the end of each reporting period. Changes in the fair value of the MSV interests held by TerreStar Corporation will be recorded in minority interest, but will have no impact on the Company s results of operations. On each date an exchange occurs, the Company will eliminate any previous adjustments to minority interest and stockholders equity and will account for the exchange as an acquisition of the minority interests in MSV under the purchase method of accounting. The fair value of the TerreStar exchange right was $52.0 million and $280.3 as of September 30, 2007, and 2006, respectively, and is recorded in Minority Interest.

On February 12, 2007, TerreStar Corporation exchanged 5.1 million MSV limited partnership units for 14.4 million shares of SkyTerra s common stock in accordance with the terms of the MSV Exchange agreement. As a result of this transaction, the Company reversed its previous adjustments to the fair value of Motient s minority interests, which resulted in a reduction of minority interest and an increase of stockholder s equity of $236.5 million. Prior to a distribution by TerreStar Corporation, these shares are non-voting.

The TerreStar Corporation Exchange Transaction was accounted for under the purchase method of accounting. The $153.3 million valuation of the equity securities issued was determined in accordance with EITF 99-12, based on the February 12, 2007 exercise date. The purchase price was allocated on a preliminary basis to the acquired assets and liabilities based on their relative estimated fair value. The final allocation of the purchase price is dependent on a number of factors, including the final evaluation of the fair value of the assets acquired and liabilities assumed. The following table presents the preliminary price allocation:

	Historical Basis of Equity Interests Not Acquired	Fair Value of MSV Minority Interest Acquired	MSV as Adjusted	MSV Historical	Adjustment (Purchase Price Allocation)
			(in thousands)		
Assets:					
Current assets	$ 362,412	$ 60,321	$ 422,733	$ 422,733	$
Restricted cash	2,015	335	2,350	2,350	
Property and equipment, net	114,209	15,245	129,454	133,218	(3,764)
Intangible assets (a)	326,453	210,778	537,231	380,788	156,443
Goodwill	11,377		11,377	13,270	(1,893)
Other assets	13,990	1,005	14,995	16,318	(1,323)
Total assets	830,456	287,684	1,118,140	968,677	149,463
Liabilities:					
Current liabilities	12,302	2,047	14,349	14,349	
Senior secured discount notes, net	423,870	69,027	492,897	494,419	(1,522)
Deferred revenue, net of current portion	14,214	57	14,271	16,580	(2,309)
Other long-term liabilities	167	28	195	195	
Total liabilities	450,553	71,159	521,712	525,543	(3,831)
Net assets	$ 379,903	$ 216,525	$ 596,428	$ 443,134	$ 153,294

(a) The identifiable intangible assets consist of spectrum licenses and contractual rights to various spectrum authorizations, patented technologies, customer contracts and customer relationships. These intangible assets will be amortized on a straight-line basis over useful lives ranging from 6 to 20 years, with a weighted average period of 19.5 years. The life of certain intellectual property was increased from 15 to 20 years due to the BCE and TerreStar Corporation exchange transactions which decreased amortization expense for the nine months ended September 30, 2007 by $2.0 million and decreased net loss per share by $0.02.

After the BCE Exchange Transaction and the TerreStar Corporation Exchange Transaction, SkyTerra is the sole owner of MSV GP and owns 94.9% of the outstanding limited partnership interests of MSV.

The following unaudited pro forma information is presented as if the Company had completed all the above acquisitions as of January 1, 2006. The pro forma information is not necessarily indicative of what the results of operations would have been had the acquisitions taken place at such date or of the future results of operations (in thousands except per share information):

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Pro forma revenues	$ 9,109	$ 9,387	$ 25,381	$ 27,124
Pro forma net loss	(44,900)	(19,977)[(c)]	(88,555)	(63,745)[(a)(b)(c)]
Pro forma net loss per share basic and diluted	$ (0.44)	$ (0.26)[(c)]	$ (0.87)	$ (0.83)[(a)(b)(c)]

(a) The pro forma net loss and pro forma net loss per share include $3.5 million of compensation expense related to the modification of an executive s employment agreement (See Note 5).

(b) The pro forma net loss and pro forma loss per share include $2.3 million expense related to forfeiture of FCC performance bond.

(c) The pro forma net loss and pro forma loss per share include $22.5 million expense related to the write-down of investment in TerreStar Networks.

4. Debt

Debt consisted of the following (in thousands):

	September 30, 2007	December 31, 2006
Senior secured discount notes, net	$ 536,014	$ 483,410
Vendor note payable	21,150	
Note payable	1,219	
Note payable due to Telesat Canada	287	470
Total debt	$ 558,670	$ 483,880

In March 2006, MSV and its wholly-owned subsidiary, MSV Finance Co., issued Senior Secured Discount Notes with an aggregate principal amount of $750.0 million at maturity, generating gross proceeds of $436.2 million. MSV and MSV Finance Co. are jointly and severally liable for all obligations under the Senior Secured Discount Notes. All of MSV s domestic subsidiaries, Mobile Satellite Ventures Corp. (a Canadian subsidiary) and Mobile Satellite Ventures (Canada) Inc. (MSV Canada), jointly and severally guarantee the Senior Secured Discount Notes. Interest on the notes will accrete from the issue date at a rate of 14.0% per annum, until they reach full principal amount at April 1, 2010. Following April 1, 2010, interest will be payable semi-annually in arrears in cash at a rate of 14% per annum, with the first such payment being due on October 1, 2010. The Senior Secured Discount Notes will mature on April 1, 2013. MSV may redeem some or all of the Senior Secured Discount Notes any time after April 1, 2010 at a redemption price starting at 107% of the accreted value of the Senior Secured Discount Notes and declining to par after April 1, 2012. In addition, at any time before April 1, 2009, the Company may redeem up to 35% of the aggregate principal amount at maturity of the Senior Secured Discount Notes with the net proceeds of certain equity offerings at a redemption price equal to 114.0% of the accreted value of the Senior Secured Discount Notes plus interest, if any, if at least 65% of the originally issued aggregate principal amount of the Senior Secured Discount Notes remain outstanding. At any time before April 1, 2010, MSV may redeem all or a portion of the Senior Secured Discount Notes on one or more occasions at a redemption price equal to 100% of the accreted value plus a premium computed using a discount rate equal to the rate on United States Treasury securities maturing on or about April 1, 2010 plus 50 basis points.

Upon the occurrence of certain change of control events, each holder of Senior Secured Discount Notes may require MSV to repurchase all or a portion of its Senior Secured Discount Notes at a price of 101% of the accreted value, plus, after April 1, 2010, accrued interest. The Senior Secured Discount Notes are secured by substantially all of MSV s assets.

The terms of the Senior Secured Discount Notes require MSV to comply with certain covenants that restrict some of the Company s corporate activities, including MSV s ability to incur additional debt, pay dividends, create liens, make investments, sell assets, make capital expenditures, repurchase equity or subordinated debt, and engage in specified transactions with affiliates. MSV may incur indebtedness beyond the specific baskets allowed under the Senior Secured Discount Notes, provided it maintains a leverage ratio of 6.0 to 1.0. Noncompliance with any of the covenants without cure or waiver would constitute an event of default under the Senior Secured Discount Notes. An event of default resulting from a breach of a covenant may result, at the option of the note holders, in an acceleration of the principal and interest outstanding. The Senior Secured Discount Notes also contain other customary events of default (subject to specified grace periods), including defaults based on events of bankruptcy and insolvency, and nonpayment of principal, interest or fees when due. MSV was in compliance with the covenants of the Senior Secured Discount Notes as of September 30, 2007.

During the three months ended September 30, 2007, the Company financed $21.2 million of satellite vendor payments with secured vendor notes payable under a credit arrangement (Vendor Notes) that bears interest of LIBOR plus 400 basis points along with a 2% administrative fee. The notes are secured by the deliverables and work performed under the satellite construction contract. MSV will be required to pay interest monthly on the amount outstanding beginning the month subsequent to the utilization of the available credit. If the credit arrangement is not fully utilized, all outstanding Vendor Notes must be repaid prior to satellite delivery. MSV anticipates making interest payments and payments of principal beginning in the second quarter of 2008. MSV may prepay some or all of the Vendor Notes at anytime with no penalties.

In June 2007, MSV entered into an agreement with a third party to finance the purchase of software. Total payments under the agreement are $1.6 million, including all principal and interest. The quarterly payments are fixed and are paid quarterly over the two year term, ending in April, 2009. The imputed interest rate is 11%. The note is secured by an interest in the related software license.

In February 2003, MSV entered into an agreement with Telesat Canada (Telesat), a satellite communications provider that is a related party (see Note 8) for the construction and procurement of a ground station. Telesat Canada provided financing for this project totaling $1.0 million at an interest rate of 9.5%.

Future minimum principal payments related to the Company s debt agreements, described above, including Vendor Notes, are as follows for the years ended December 31 (in thousands):

2007	$ 224
2008	19,590
2009	2,842
2010	
2011	
Thereafter	750,000
Total future principal payments	$ 772,656

5. Equity Based Compensation Plans

MSV Unit Option Incentive Plan

In December 2001, MSV adopted a unit option incentive plan (MSV Unit Option Incentive Plan), which allows for the granting of options and other unit based awards to employees and directors upon approval by MSV s Board of Directors. Effective January 1, 2006, MSV adopted SFAS No. 123(R), Share Based Payment, using the prospective method, as MSV previously used the minimum-value method for disclosure purposes. Under the prospective transition method, the Company records compensation expense for all options and awards granted subsequent to January 1, 2006 based on the grant date fair value estimated in accordance with SFAS No. 123(R). The Company records compensation expense for unvested options that were outstanding as of December 31, 2005 under the intrinsic value method of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees.

The Company recognizes compensation expense on a straight-line basis over the requisite service period for the entire award. The fair value of each option is estimated on the date of grant using the Black-Scholes option valuation model. For the three and nine months ended September 30, 2006 and 2007, as MSV s equity securities are not publicly traded, management used the median historical volatility of the public securities of three comparable companies whose value is predominantly derived from similar asset holdings. Additionally, the fair value of units underlying the equity-based awards (Limited Investor Units) is an input to the determination of the fair value of equity-based awards, which requires complex and subjective judgments. The Company utilized a market approach to estimate the fair value of Limited Investor Units at each date on which equity-based awards were granted. The market approach uses an analysis of the observable market price of equity instruments for companies with similar assets and businesses as MSV, and which, in some cases hold MSV Common Units. In order to derive the amount of the comparable companies securities values attributable to the Common Units, which are held by limited partners of MSV, the Company used a market approach to estimate the value of other equity investments and assets owned, and made adjustments to account for the differences in volatility and liquidity between the implied value and a Common Unit. The Company determined the estimated value of a Limited Investor

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Unit by making further adjustments to account for differences in rights attributable to a Common Unit as compared to those of a Limited Investor Unit. Beginning in 2007, MSV conducts these estimates based solely on the market price of SkyTerra common stock. There is inherent uncertainty in making these judgments and estimates.

The total equity-based compensation expense related to the MSV Unit Option Incentive Plan recorded during the nine months ended September 30, 2007 and 2006 was $3.1 million and $9.3 million, respectively, and $1.3 million and $3.1 million for the three months ended September 30, 2007 and 2006, respectively, for all equity-based awards accounted for under either SFAS No. 123(R) or APB Opinion No. 25, as appropriate. Included in the expense for the nine months ended September 30, 2006 is $3.5 million of compensation expense that was recorded related to the modification of an executive s employment agreement.

On February 9, 2007, the Compensation Committee of the Board of Directors of MSV GP decreased the exercise prices of outstanding unit options with exercise prices of $56.33 to $35.00. No other terms, including vesting, were modified. This modification will result in the recognition of additional compensation expense in the years ending December 31, 2007 and 2008 totaling $1.2 million.

As of September 30, 2007, the total unrecognized compensation related to MSV equity-based compensation was $7.1 million, which will be recognized over a weighted-average period of 1.9 years.

SkyTerra Equity-Based Compensation Plans

SkyTerra has a long-term incentive plan, a nonqualified stock option plan, and an equity incentive plan, which allows for the granting of options and other equity-based awards. Through September 30, 2007, the Company granted awards of 850,000 restricted shares of common stock. One-third of these awards will vest after three years; another one-third will vest on the first day following the 20th consecutive trading day on which the SkyTerra stock price exceeds $20 per share and the last third will vest on the first day following the 20th consecutive trading day on which the SkyTerra stock price exceeds $25 per share. The fair value of the restricted stock grants containing market conditions and deemed service period was estimated using a Monte Carlo simulation model, with inputs of a risk free rate ranging from 4.8% to 5.2% and a volatility ranging from 53% to 56%. The total equity-based compensation expense related to the SkyTerra equity awards recorded during the three and nine months ended September 30, 2007 was $1.0 million and $3.0 million, respectively. As of September 30, 2007, the total unrecognized compensation related to SkyTerra equity-based compensation is $3.9 million, which is expected to be recognized over a weighted-average period of 1.3 years.

In June 2007, the Company filed with the Securities and Exchange Commission a Registration Statement on Form S-4 (the Form S-4) for an exchange offer (the Exchange Offer) to be made to all current option holders in the MSV option plan to grant them new options under the Company s Stock Option Plan in exchange for surrender and termination of their MSV options. The Form S-4 has not yet been declared effective and the Exchange Offer has not yet commenced.

In accordance with the terms of the Exchange Offer, all option holders would receive options in the Company s plan on the same economic terms on which the Motient and BCE exchanges occurred (see Note 3). Sale of all shares subject to the options received upon exchange would be subject to restrictions until May 1, 2010, subject to certain exceptions described in the Exchange Offer which could result in earlier termination of the restrictions.

While the Company intends to complete the Exchange Offer, there is no guarantee that in fact it will be completed, the percentage of the MSV option holders that will elect to participate and on what final terms the Exchange Offer will be completed.

6. Commitments and Contingencies

Leases

Office facility leases may provide for escalations of rent or rent abatements, and payment of pro rata portions of building operating expenses. The Company records rent expense using the straight-line method over the term of the lease agreement. As of September 30, 2007, MSV has non-cancelable operating leases, expiring starting in December 2008.

Boeing Contract

MSV has a fixed price contract with Boeing Satellite Systems, Inc. (Boeing) for the comprehensive design, development, construction, manufacturing, testing, and installation of a space-based network, providing satellite launch support and other services related to mission operations and system training. Under the terms of the contract, the Company will purchase up to three satellites with an option for one additional satellite that must be exercised no later than July 1, 2008. Each satellite is contracted to have a mission life of 15 years with a portion of the contract value payable if certain performance incentives are met, over the expected 15-year operating life. Boeing has a first lien on each satellite and related work until title and risk of loss transfers to the Company upon launch.

In September 2006, MSV deferred construction of a South American satellite (MSV-SA). The MSV option to restart construction expires November 8, 2008. MSV currently does not have plans to construct MSV-SA, and as such, no amounts for this satellite are included in our future commitments table. If our plans were to change in the future and we elect to proceed with MSV-SA construction, assuming contractual terms governing the construction have not expired, we would likely incur additional expenditures in excess of $500 million to construct, launch, and insure the satellite, depending upon how such a plan is pursued.

If MSV elects to terminate the Boeing contract in whole, the Company will be subject to termination liability charges that would range from approximately $185 million to $215 million, declining in mid 2008, which would be expensed when incurred. Similarly, an in part termination would range from approximately $93 million to $117 million. In accordance with the amended contract, future minimum contractual payments due under this contract disclosed below, exclude all potential performance incentives which could total a maximum of $96.7 million, interest payments on the performance incentives and deferred construction payments, options, and full construction for MSV-SA.

HNS Contract

MSV entered into an agreement with Hughes Network Systems, LLC (HNS), a related party, to purchase four base transceiver subsystems and air interface technology for a fixed price of $43.0 million. The transceiver subsystems will integrate the satellite component into the Company s next generation integrated network.

Launch Contracts

In May 2007, MSV entered into fixed price contracts with ILS International Launch Services, Inc. and Sea Launch Company, LLC to launch the next generation satellites. MSV plans to launch its new satellite, MSV-1 in 2009 and pursuant to an in-orbit delivery agreement with MSV Canada, to launch the identical Canadian satellite, MSV-2 in 2010. The aggregate base cost for these agreements is $174.8 million. MSV may also incur liquidated damages if the respective contracts are terminated for convenience by the Company. For the period from contract signing to 21 months prior to each scheduled launch, the liquidated damages would be no more than the amounts already paid under each contract or $8.7 million in aggregate, resulting in no additional payments upon termination. During the remaining 21 months leading to each launch, the maximum liquidated damages would be $8.9 million, in addition to amounts already paid.

Other Agreements

In September 2005, MSV entered into an agreement with a third-party that will provide the Company with rights to the use of certain intangible assets in future periods. The Company has paid $3.0 million related to this agreement, $2.5 million of which is included in other assets, and $0.2 million is included in prepaid expenses and other current assets as of September 30, 2007, in the accompanying condensed consolidated balance sheet. The Company has also agreed to provide annual payments of $0.2 million for the remainder of the contract. The Company is amortizing the costs of the contract ratably over the 20-year term of the agreement.

Future minimum payments related to the Company s commitments described above, are as follows as of September 30, 2007 for the years ended December 31 (in thousands):

	Leases	Boeing[a]	HNS	Launch Services	Other	Total
2007	$ 572	$ 38,938	$	$	$	$ 39,510
2008	2,316	189,498	19,348	29,110	158	240,430
2009	1,807	134,938	10,749	98,315	158	245,967
2010	1,829	4,440		38,588	158	45,015
2011	148				158	306
Thereafter					2,052	2,052
	$ 6,672	$ 367,814	$ 30,097	$ 166,013	$ 2,684	$ 573,280

(a) Amounts exclude in-orbit incentives and potential interest associated with the incentives as discussed above. In addition, it does not include any future costs related to construction of MSV-SA.

Litigation and Claims

The Company is periodically a party to lawsuits and claims in the normal course of business. While the outcome of the lawsuits and claims against the Company cannot be predicted with certainty, management believes that the ultimate resolution of the matters will not have a material adverse effect on the financial position or results of operations of the Company.

Contingencies

From time to time, the Company may have certain contingencies that arise in the ordinary course of its business activities. The Company recognizes a liability for these contingencies when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Regulatory Matters

During 2001, Motient applied to the Federal Communications Commission (FCC) to transfer licenses and authorizations related to its L-Band MSS system to MSV. This transfer was approved in November 2001. In connection with this application, Motient sought FCC authority to launch and operate a next generation integrated network that will include the deployment of satellites and terrestrial base stations operating in the same frequencies. In February 2003, the FCC adopted general rules for MSS operators, including MSV, for the deployment of an integrated network that will include the operation of satellites and terrestrial base stations (called an Ancillary Terrestrial Component or ATC), subject to the requirement that the MSS operator file an additional application for a specific ATC consistent with the broader guidelines issued in the February 2003 order.

MSV believes that the ruling allows for significant commercial opportunity related to the Company s next generation integrated network. Both opponents and proponents of ATC, including MSV, asked the FCC to reconsider the rules adopted in the February 2003 order. Opponents of the ruling advocated changes that could adversely impact MSV s business plans. MSV also sought certain corrections and relaxations of technical standards that would further enhance the commercial viability of the next generation integrated network. The FCC issued an order on reconsideration of the February 2003 order in February 2005. The FCC granted some of the corrections and relaxations of technical standards MSV had advocated and rejected the requests for changes advocated by opponents of the FCC s February 2003 order. One party has filed a petition for reconsideration of the February 2005 order asking the FCC to adopt certain restrictions on the technical standards for ATC. This petition is pending.

In November 2003, MSV applied for authority to operate ATC in conjunction with the current and next generation satellites of MSV and MSV Canada. The FCC s International Bureau granted this authorization, in part, in November 2004 and deferred certain issues to the FCC s rule-making proceeding, which was resolved in February 2005. One opponent of MSV s authorization has asked the FCC to review the grant of MSV s ATC authorization. This challenge is pending. The Company filed applications to modify its ATC authorization in November 2005. One party filed comments in opposition to the applications, which are still pending. In May 2007, MSV filed modification applications to its ATC authorization, seeking a waiver of one of the ATC requirements. Those waiver request applications are pending.

In 2005, MSV received authorizations to construct, launch, and operate two satellites from the FCC, one providing coverage of North America and the other providing coverage of South America. In addition to a petition for clarification filed by MSV, one party filed a petition for reconsideration of MSV s FCC satellite authorization for its North American satellite. This challenge is pending. MSV posted a $3 million performance bond for each authorization to construct a satellite. MSV Canada has also received authorization from Industry Canada to construct, launch, and operate another North American satellite. Pursuant to these satellite authorizations, MSV and MSV Canada must meet certain satellite milestone requirements.

In January 2006, MSV entered into a contract with Boeing to construct three satellites, one of which was designated to fulfill the South American authorization held by MSV, and the other two were designated to fulfill the North American satellite authorizations held by MSV and MSV Canada. In January 2006, MSV submitted a certification of compliance with its initial FCC milestone requirement for its North American and South American authorizations. In April 2006, the FCC ruled that MSV met the first milestone requirement for its authorizations and permitted MSV to reduce the performance bond associated with each authorization by $750,000. One party challenged this finding, and its challenge is pending. In June 2006, MSV surrendered its South American authorization and requested withdrawal and release of the $2.25 million performance bond associated with that authorization. That request is pending. Industry Canada has ruled that MSV Canada has met its first milestone with regard to design specifications. In March 2007, MSV Canada filed a submission with Industry Canada which provided evidence showing that it had complied with its second milestone requiring it to demonstrate that it had entered into a contract for the construction of the MSV-2 satellite. Industry Canada has not yet determined whether MSV Canada has met this milestone. In April 2007, MSV submitted a certification of compliance with the FCC s Critical Design Review milestone for its North American authorization. In June 2007, the FCC

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determined that MSV met this milestone requirement, and permitted MSV to reduce its performance bond by $750,000. In June 2007, MSV also submitted a certification of compliance with its Begin Physical Construction milestone. In August 2007, the FCC determined that MSV met the Begin Physical Construction milestone and permitted MSV to reduce its performance bond by $750,000. In May 2007, MSV filed with the FCC a request to waive the requirement for an on-ground spare satellite in order to operate an ATC system. That waiver request is still pending.

There can be no assurance that, following the conclusion of the legal challenges discussed above, MSV will have authority to operate a commercially viable next generation integrated network.

7. Income Taxes

SkyTerra and its eligible subsidiaries file a consolidated United States federal income tax return. As a limited partnership, MSV is not subject to income tax. Rather, each partner, including SkyTerra, is subject to income tax based on such partner s portion of MSV s income or loss. MSV s Canadian subsidiary and MSV Canada are taxed as corporations in Canada and, as such, are subject to Canadian entity-level tax. The Company s income tax provision relates to MSV Canada.

The Company s effective rate of 0.11% differs from the Federal statutory rate of 34.0%, due primarily to losses for which a full valuation allowance has been recognized and the portion of MSV s losses attributable to the other limited partners.

SkyTerra and the consolidated subsidiaries have unused net operating loss (NOL) carryforwards of $49.8 million expiring from 2008 through 2025. Utilization of US NOL carryforwards ($32.9 million at September 30, 2007) may be subject to an annual limitation if the Company experiences an ownership change as defined by Section 382 of the Internal Revenue Code. Additionally, despite the NOL carryforwards, the Company may have a future income tax liability due to alternative minimum tax or state or foreign tax requirements.

As the distribution of Hughes Communications Inc. (Hughes) in February 2006, which was previously a consolidated subsidiary of SkyTerra, did not qualify as a tax-free spin-off, SkyTerra recognized a significant taxable gain for federal income tax purposes. The Company believes that its loss carryforwards are sufficient to offset such gain. However, pursuant to the tax sharing agreement between Hughes and the Company, Hughes will be responsible for any taxes, including alternative minimum tax or state taxes, relating to the distribution not otherwise offset by loss carryforwards. Accordingly, if the Company s estimate of the tax obligations generated by the distribution changes and SkyTerra s loss carryforwards are not sufficient to offset the obligation, Hughes will be responsible to reimburse the Company for any resulting tax payments. If Hughes is unable to pay such taxes, the Company will be required to make such payments.

Prior to the closing of the MSV Exchange Transactions, a minority stakeholder in MSV Investors distributed to its shareholders all of its assets other than its interest in MSV Investors. Under the terms of the merger agreement between SkyTerra and the shareholders of the minority stakeholder, such shareholders have agreed to indemnify the Company for any taxes imposed on the minority stakeholder for any taxable period or portion thereof ending on or prior to the closing of the MSV Exchange Transactions, including all liabilities for taxes relating to the distribution of its assets as described above. At closing, such shareholders paid the Company $7.5 million of cash, which the Company used to pay such taxes. To the extent that the tax liability is less than $7.5 million, the Company will refund to the former shareholders the difference. If the former shareholders are unable to pay any taxes that exceed the $7.5 million, the Company will be required to make such payments. As of September 30, 2007, the remaining cash and liability related to this arrangement was $1.5 million.

Prior to the closing of the BCE Exchange Transaction, TMI Delaware distributed to BCE and its affiliates all of the assets of TMI Delaware other than its limited partnership interests in MSV and its common stock of MSV GP. Under the terms of the exchange agreement between the Company and BCE, BCE has indemnified the Company for any taxes imposed on TMI Delaware for any taxable period or portion thereof ending on or prior to the closing of the BCE Exchange Transaction, including all liabilities for taxes relating to the distribution of its assets. At closing, BCE transferred $37.0 million of cash to TMI Delaware that the Company will use to pay such taxes. To the extent that the tax liability is less than $37.0 million, the Company will refund to BCE the difference. As of September 30, 2007, the Company estimates that the refund to BCE will be $7.6 million and is included in other long term liabilities in the accompanying condensed consolidated balance sheet.

8. Related Party Transactions

The Company s related parties include the following entities, due to common ownership: Telesat, Infosat Communications Inc., HNS, Hughes Telematics, Inc., LCC International Inc, TerreStar Corporation, and TerreStar Networks. The following table summarizes related party transactions (in thousands):

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Income, including management fees	$ 670	$ 720	$ 1,804	$ 2,657
Expenses	598	2,494	2,550	2,124
Costs related to system under construction	4,300		8,599	
Due from related parties, as of	425	908	425	908
Due to related parties, as of	7,879	255	7,879	255

9. Segment Information

The following table presents certain financial information on the Company s reportable segments. SkyTerra amounts reflect the results of operations for the period following the September 25, 2006 MSV Exchange Transactions through December 31, 2006 (in thousands). Prior to September 25, 2006, MSV was the only operating segment.

Three months ended September 30, 2007	SkyTerra	MSV	Eliminations	Consolidated
Revenue	$	$ 9,109	$	$ 9,109
Minority interest			739	739
Net (loss) income	(24,964)	(20,675)	739	(44,900)

Nine months ended September 30, 2007	SkyTerra	MSV	Eliminations	Consolidated
Revenue	$	$ 25,381	$	$ 25,381
Minority interest			3,305	3,305
Net (loss) income	(28,116)	(61,709)	3,305	(86,521)
Total assets, as of	130,667	1,135,592	(2,620)	1,263,639

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve risks and uncertainties, including statements regarding our capital needs, business strategy, expectations and intentions. We urge you to consider that statements that use the terms believe, do not believe, anticipate, expect, plan, esti intend and similar expressions are intended to identify forward-looking statements.

These statements reflect our current views with respect to future events and because our business is subject to numerous risks, uncertainties and risk factors, our actual results could differ materially from those anticipated in the forward-looking statements, including those set forth below under this Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report. Actual results will most likely differ from those reflected in these statements, and the differences could be substantial. We disclaim any obligation to publicly update these statements, or disclose any difference between our actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Overview

All of our operating and development activity is performed through our 94.9% owned consolidated subsidiary Mobile Satellite Ventures LP (MSV). We currently offer a range of mobile satellite services (MSS) using two geostationary satellites that support the delivery of data, voice, fax and dispatch radio services. We are licensed by the United States and Canadian governments to operate in the L-band spectrum which we have coordinated for our use. We currently have coordinated approximately 30 MHz of spectrum throughout the United States and Canada. Our spectrum footprint covers a total population of nearly 330 million. Our spectrum occupies a portion of the L-band and is positioned between the frequencies used today by terrestrial wireless providers in the United States and Canada.

We are developing an integrated satellite and terrestrial communications network to provide ubiquitous wireless broadband services, including Internet access and voice services, in the United States and Canada. In operating our next generation integrated satellite-terrestrial network, we plan to allocate the use of spectrum between satellite and terrestrial service. Using an all-IP, open architecture, we believe our network will provide significant advantages over existing wireless networks. Such potential advantages include higher data speeds, lower costs per bit and flexibility to support a range of custom IP applications and services. We were the first MSS provider to receive a license to operate an ancillary terrestrial component (ATC) network from the FCC. We were a major proponent of the FCC s February 2003 and February 2005 ATC and ATC Reconsideration Orders, both of which were adopted on a bipartisan, 5-0 basis. These ATC licenses permit the use of our L-band satellite frequencies in the operation of an advanced, integrated network capable of providing wireless broadband on a fixed, portable and fully mobile basis. We plan to launch two new satellites that will serve as the core of our new network. The launch of MSV-1 is planned for September 2009, and the launch of MSV-2 is planned for July 2010.

Our current business plan for the next generation integrated satellite-terrestrial network envisions a carrier s carrier wholesale model whereby our strategic partners and other wholesale customers can use our network to provide differentiated broadband services to their subscribers. We believe our planned open network, in contrast to legacy networks currently operated by incumbent providers, will allow distribution and other strategic partners to have open network access and create a wide variety of custom applications and services for consumers.

To address the opportunities and challenges inherent in the development of our next generation network, we continue to focus on certain initiatives related to:

- Coordination with third party licensees of L-band spectrum to organize large blocks of contiguous spectrum for the use of MSV and its potential future partners;

- Arrangement of strategic technology and distribution partnerships for both the ATC and MSS components of the next generation network, leading to decisions on air-interface technologies and terrestrial deployment plans. Continued development of the infrastructure and technologies required to operate MSS services upon launch

- Continued monitoring of satellite construction with our satellite manufacturer (Boeing)

Corporate Activity

MSV Exchange Transactions

On May 6, 2006, SkyTerra entered into agreements that, upon closing, resulted in the consolidation of majority ownership and control of MSV under SkyTerra (the MSV Exchange Transactions). On September 25, 2006, we issued 39.6 million shares of our voting and non-voting common stock to TerreStar Corporation (formerly Motient Corporation), other limited partners and stakeholders in MSV in exchange for limited partnership interests of MSV, all of the common stock of MSV GP held by these parties and all of the equity interests in MSV Investors held by these parties, resulting in us owning 59% of MSV and 78% of MSV GP. Pursuant to the terms of these transactions, TerreStar Corporation agreed to use its commercially reasonable efforts to distribute 25.5 million shares of our common stock that it received to its common stockholders as soon as practicable following the initial closing (the TerreStar Corporation Distribution). Prior to such distribution by TerreStar Corporation, these shares are non-voting.

Notwithstanding the legal form, the MSV Exchange Transactions have been accounted for as a reverse acquisition due to, among other things, the relative voting rights of the MSV and SkyTerra stockholder groups in the combined company after the MSV Exchange Transactions and subsequent to the TerreStar Corporation Distribution, and the composition of senior management of the combined company. Accordingly, MSV is the accounting acquirer for financial reporting purposes. As such, our historical financial statements prior to September 25, 2006 are the historical financial statements of MSV. The consolidated financial statements of MSV have been retroactively restated to reflect the recapitalization of MSV with the 39.6 million shares of our common stock issued to MSV equity holders in the MSV Exchange Transactions.

BCE Exchange Transaction

On January 5, 2007, we acquired all of the equity interests in MSV LP and MSV GP owned by BCE, Inc. In exchange for 8.0 million limited partnership interests in MSV LP and 740 shares of MSV GP, we issued 22.5 million shares of our non-voting common stock (the BCE Exchange Transaction). The shares of our non-voting common stock issued in the BCE Exchange Transaction are exchangeable for a like number of shares of our voting common stock upon the transfer in a sale by BCE in the open market pursuant to an effective registration statement or an exemption from registration or following such transfer, to a person who will not beneficially own 10% or more of our voting common stock. Substantially concurrently with the BCE Exchange Transaction, we issued 176,250 shares of our common stock to Winchester Development LLC, a Delaware limited liability company beneficially owned by a former director of MSV. Such shares were issued in exchange for $0.4 million in cash and 50,226 limited partnership interests of MSV.

TerreStar Corporation Exchange Transaction

As a result of the MSV Exchange Transactions, TerreStar Corporation has the right to exchange, until September 25, 2011, its remaining ownership interest in MSV for shares of SkyTerra non-voting common stock. This non-voting common stock is exchangeable for a like number of shares of SkyTerra voting common stock upon the disposition of any such shares by TerreStar Corporation. Following a change of control of SkyTerra, as defined in the agreement, we have the right to require TerreStar Corporation to complete the exchange of its remaining MSV interests. If TerreStar Corporation has not exchanged its remaining MSV interests by September 25, 2011 any remaining MSV interests held by TerreStar Corporation shall be exchanged for shares of non-voting common stock of SkyTerra at an exchange ratio reflecting the fair market value of such interests and our common stock on May 6, 2021. The fair value of this exchange right was $52.0 million and $280.3 million as of September 30, 2007, and 2006, respectively, and is recorded in Minority Interest.

As an exchange will occur no later then May 6, 2021 at the fair values of the investments, we record TerreStar Corporation s remaining minority interest in MSV at fair value. Changes in the fair value of the MSV interests held by TerreStar Corporation are recorded in minority interest, and stockholders equity, with no impact on our results of operations. On each date an exchange occurs, we will eliminate any previous adjustments to minority interest and stockholders equity and account for the exchange as an acquisition of the minority interests in MSV under the purchase method of accounting.

On February 12, 2007, TerreStar Corporation exchanged 5.1 million MSV limited partnership units for 14.4 million shares of our common stock in accordance with the terms of the MSV Exchange agreement. As a result of this transaction, we reversed our previous adjustments to the fair value of TerreStar Corporation s minority interest, which resulted in a reduction of minority interest and an increase of stockholders equity by $236.5 million. Prior to distribution by TerreStar Corporation, these shares are non-voting.

As a result of these transactions, we became the sole owner of MSV GP and we own 94.9% of the outstanding limited partnership interests of MSV.

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TerreStar Networks

We own 11.1% of TerreStar Networks Inc. (a consolidated subsidiary of TerreStar Corporation, formerly Motient Corporation). TerreStar Networks Inc. (TerreStar Networks) was a wholly-owned subsidiary of MSV that developed business opportunities related to certain licenses in the S-band. In May, 2005, MSV distributed all of the outstanding shares of common stock of TerreStar Networks to its limited partners; including SkyTerra. The distribution was recorded at book value. In connection with the distribution MSV entered into a management services agreement with TerreStar Networks whereby it agreed to provide TerreStar Networks with certain corporate services. MSV also entered into a license agreement whereby it granted TerreStar Networks the use of some of MSV intellectual property for S-band services. In May 2006, MSV discontinued providing management services to TerreStar Networks but continues to provide rights to MSV intellectual property under a royalty arrangement.

MSV Option Exchange Offer

On June 27, 2007, we filed with the Securities and Exchange Commission a Registration Statement on Form S-4 for an offer to be made to all current MSV option holders to grant them options to purchase SkyTerra common stock in exchange for surrender and termination of their MSV options. The Registration on Statement on Form S-4 has not yet been declared effective and the exchange offer has not yet commenced.

All MSV option holders who participate in the exchange offer would receive options to purchase SkyTerra common stock with the same economic terms on which the TerreStar Corporation and BCE exchanges occurred. SkyTerra common stock received through exercise of SkyTerra options received under this exchange offer is subject to lockup restrictions until May 1, 2010. There exist certain exceptions that could result in earlier termination of the lockup restrictions. We intend to complete the exchange offer, however, there is no guarantee it will be completed, on what final terms the exchange offer will be completed, and what percentage of the MSV option holders will elect to participate.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and equity and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates, particularly estimates relating to the valuation of our investment in TerreStar Networks, valuation of intangible assets, valuation of MSV limited partnership units, and the useful lives for long-lived assets, among others, have a material impact on our financial statements and are discussed in detail throughout our analysis of the results of operations discussed below. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets, liabilities and equity that are not readily apparent from other sources. Actual results and outcomes could differ from these estimates and assumptions.

SkyTerra and MSV do not have any material ownership interests in any special purpose or other entities that are not consolidated into our consolidated financial statements. SkyTerra and MSV have related party transactions as defined under Statement of Financial Accounting Standards (SFAS) No. 57, Related Party Disclosures that are discussed further in this document.

For a more detailed explanation of the judgments made in these areas and a discussion of our accounting estimates and policies, refer to Critical Accounting Estimates included in Item 7 and Summary of Significant Accounting Policies (Note 4) included in Section F of our Annual Report on Form 10-K for the year ended December 31, 2006.

Investment in TerreStar Networks

We own 11.1% of TerreStar Networks with a carrying amount of $90.1 million that is accounted for under the cost method. We evaluate impairment in accordance with Emerging Issues Task Force 03-01, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. Accordingly, we consider both triggering events and tangible evidence that investments are recoverable within a reasonable period of time, as well as our intent and ability to hold investments that may have become temporarily or otherwise impaired.

During the third quarter, an adverse change in the trading stock price of TerreStar Corporation combined with continuing evaluations surrounding the ability and intent of the Company to hold the investment for a reasonable period of time led us to reevaluate the impairment of the investment in TerreStar Networks. In performing the evaluation, we considered various estimates of value, recent discussions and negotiations with interested third parties regarding the possible sale of the investment, and our intent and ability to hold the investment. Our intent to hold the investment is impacted by our current liquidity, discussed further in the Liquidity and Capital Resources section of Management s Discussion and Analysis.

Based upon this assessment, we concluded that the TerreStar Networks investment had became other-than-temporarily impaired and was written-down to $90.1 million. As such, we recorded a charge of $22.5 million during the third quarter to write-down this investment. There is no assurance that the proceeds from the ultimate disposition of this asset, if any, will be equal to or greater then the $90.1 million carrying amount recorded as of September 30, 2007.

Purchase Accounting Intangible Assets

Our intangible assets and goodwill arose as a result of acquisitions accounted for using the purchase method of accounting. At the time of the acquisitions, the Company allocated the purchase price to the assets acquired and liabilities assumed based on their respective estimated fair values.

The identified intangible assets are customer contracts and intellectual property related to the next generation integrated network. Customer contracts and customer relationships are being amortized over a period ranging from 4.5 to 7 years. Next generation intellectual property is being amortized over periods ranging from 4.5 to 20 years, with a weighted average life of 19.5 years. The Company s next generation intellectual property consists of a combination of spectrum licenses and contractual rights to various spectrum licenses and authorizations, certain technology, and certain other rights. The useful life of our next generation intellectual property acquired from TerreStar Corporation and TMI, was initially set at 15 years based on the estimated useful life of our existing satellites. In connection with the BCE and TerreStar Corporation Exchange Transactions, we revised the estimated useful life of certain next generation intellectual property to 20 years. We will reevaluate the useful life of our next generation intellectual property when we commence commercial deployment of the terrestrial component of our next generation integrated network, at which point our next generation intellectual property will have many of the same attributes as terrestrial spectrum licenses held by cellular carriers who account for these assets as indefinite lived intangible assets.

Determination of Fair Value of MSV Partnership Interests Underlying Unit Incentive Plan Options

Determining the fair value of MSV partnership interests underlying options (Limited Partnership Interests) requires complex and subjective judgments. MSV partnership interests that are issued to holders of options granted under MSV s Unit Incentive Plan have fewer rights than the outstanding partnership interests held by MSV s other limited partners. Such limitations include, but are not limited to, the lack of a corresponding general partner share which provides voting and other rights. We utilized the market approach to estimate the fair value of Limited Partnership Interest at each date on which options were granted. The market approach uses an analysis of the observable market price of equity instruments for companies with similar assets and businesses. We estimated the value of a Limited Partnership Interest based on the values implied for partnership interests (Full Partnership Interest) held by limited partners which hold significant interests in MSV, and whose equity securities are publicly traded. In order to derive the amount of the comparable companies security s value attributable to the Full Partnership Interest we used the market approach to estimate the value of other equity investments and assets owned. We made adjustments to account for the differences in volatility and liquidity between the comparable companies reference securities and a private Full Partnership Interest. We determined the estimated value of a Limited Partnership Interest by making further adjustments to account for differences in rights attributable to a Full Partnership Interest as compared to those of a Limited Partnership Interest. As a result of the BCE and TerreStar Corporation Exchange Transactions, we now determine these estimates based solely on the market price of SkyTerra. There is inherent uncertainty in making these estimates. As of September 30, 2007, our total unamortized equity-based compensation was $7.1 million, which we expect to recognize over a weighted-average period of 1.9 years.

Current Business

Our significant operating activity is performed through our consolidated subsidiary MSV. Through MSV we are a provider of mobile satellite communication services. We provide service in the United States and Canada using two nearly identical satellites. The first satellite is located at 101degrees West Longitude. The second satellite is located at 106.5 degrees West Longitude. End users of our mobile satellite services operate at sea, on land and in the air, and our customers use various services including satellite bandwidth and power capacity, telephony, data, and dispatch services. We also sell equipment for use on our network.

Comparison of the three and nine months ended September 30, 2007 and 2006

Revenues

The following table sets forth revenues (in thousands) and percentage changes for the periods indicated:

	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Change	2007	2006	Change
Revenues						
Capacity	$ 3,096	$ 3,087	0.3%	$ 9,169	$ 9,051	1.3%
Telephony	2,706	2,664	1.6	7,506	7,459	0.6
Data	733	660	11.1	2,084	1,818	14.6
Dispatch	641	623	2.9	1,910	1,818	5.0
Equipment	1,669	2,104	(20.7)	3,952	6,246	(36.7)
Other	264	249	6.0	760	732	3.8
	$ 9,109	$ 9,387	(3.0)%	$ 25,381	$ 27,124	(6.4)%

Capacity

We provide bandwidth and power to certain customers who implement and operate their own networks. The specified bandwidth and power is generally customer dedicated once purchased and are not subject to other sale or preemption by MSV except for emergency purposes as provided in our FCC and Industry Canada authorizations.

Capacity customers generally operate under contractual arrangements ranging from short-term (month-to-month) to end of current satellite life in length. These contracts do not generally provide for annual increases or variable revenues. As such, capacity revenues generally do not fluctuate significantly from period to period.

Telephony

We provide voice service to end users. Telephony customers are acquired through retail dealers or resellers. Retail dealers receive activation fees and earn commissions on monthly end user access and usage revenues. Resellers are under contractual arrangements with us for their purchase of monthly access and usage, and they manage the arrangements with the end user. Telephony customers are charged fixed monthly access fees and variable usage charges, generally charged by minute of usage, depending on voice plan chosen.

The number of subscribers increased 3.5% for the three months ended September 30, 2007 as compared to the same period in the prior year, and 1.3% for the nine months ended September 30, 2007 as compared to the same period in the prior year. Average monthly revenue per subscriber unit remained the same for the three months ended September 30, 2007 as compared to the same period in the prior year and increased 0.9% for the nine months ended September 30, 2007.

Data

Data service provides transmission in an always-on fashion. Common applications for data customers include fleet and load management, credit card verification, e-mail, vehicle position reporting, mobile computing, and data message broadcasting. Customers are acquired through resellers. Resellers are under contractual arrangements for their purchase of m