

SKYTERRA COMMUNICATIONS INC

Form 10-Q

May 10, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 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

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**SKYTERRA COMMUNICATIONS, INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

23-2368845  
(I.R.S. Employer  
Identification No.)

10802 Parkridge Boulevard, Reston, VA 20191

20191

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(Address of principal executive offices)

(703) 390-1899

(Zip Code)

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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  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

The aggregate market value of the voting common stock held by non-affiliates of the registrant, as of March 31, 2007, was \$198,196,202 and 62,419,361 shares of non-voting common stock were held by non-affiliates of the registrant as of March 31, 2007.

As of April 20, 2007, 33,819,318 shares of our voting common stock and 68,592,958, shares of our non-voting common stock were outstanding.

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**SKYTERRA COMMUNICATIONS, INC.**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****SkyTerra Communications, Inc.****Condensed Consolidated Balance Sheets****(in thousands, except share and per share data)****(unaudited)**

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 151,326	\$ 195,017
Investments	263,532	247,625
Accounts receivable, net of allowance of \$103 and \$44, respectively	5,241	4,759
Other current assets	7,237	6,375
<b>Total current assets</b>	<b>427,336</b>	<b>453,776</b>
Property and equipment, net	169,018	110,263
Intangible assets, net	533,257	54,446
Goodwill	11,372	16,932
Investment in TerreStar and TerreStar Global	112,620	112,620
Other assets	14,732	19,010
<b>Total assets</b>	<b>\$ 1,268,335</b>	<b>\$ 767,047</b>
<b>Liabilities and stockholders equity (deficit)</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 10,669	\$ 13,227
Deferred revenue, current portion	5,142	5,350
Other current liabilities	41,414	2,535
<b>Total current liabilities</b>	<b>57,225</b>	<b>21,112</b>
Senior secured discount notes, net	501,297	483,410
Note payable, Telesat Canada, net of current portion	158	223
Deferred revenue, net of current portion	14,236	20,971
<b>Total liabilities</b>	<b>572,916</b>	<b>525,716</b>
Commitments and contingencies		
Minority interest	80,805	361,274
Stockholders equity (deficit):		
Common stock, \$0.01 par value. Authorized 200,000,000 shares; 33,819,318 and 33,245,018 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively.	338	332
Non-voting common stock, \$0.01 par value. Authorized 100,000,000 shares; 68,592,598 and 31,651,870 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	686	317
Additional paid-in capital	834,921	4,862

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Accumulated other comprehensive loss	(1,230)	(798)
Accumulated deficit	(220,101)	(124,656)
Total stockholders' equity (deficit)	614,614	(119,943)
Total liabilities and stockholders' equity (deficit)	\$ 1,268,335	\$ 767,047

See accompanying notes.

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## SkyTerra Communications, Inc.

**Condensed Consolidated Statements of Operations**

(in thousands, except share and per share data)

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>		
Services and related revenues	\$ 6,753	\$ 6,337
Equipment sales	1,186	1,745
Other revenues	163	174
<b>Total revenues</b>	<b>8,102</b>	<b>8,256</b>
<b>Operating expenses:</b>		
Satellite operations and cost of services (exclusive of depreciation and amortization shown separately)	3,809	3,730
Cost of equipment sold	984	1,472
Next generation expenditures (exclusive of depreciation and amortization shown separately)	5,562	4,346
Sales and marketing	709	649
General and administrative	6,152	6,439
Depreciation and amortization	6,346	3,865
<b>Total operating expenses</b>	<b>23,562</b>	<b>20,501</b>
Loss before other income (expense)	(15,460)	(12,245)
<b>Other income (expense):</b>		
Interest income	5,848	1,217
Interest expense	(12,129)	(354)
Management fee from TerreStar	160	651
Other (expense) income, net	(28)	30
Loss before provision for income taxes and minority interest	(21,609)	(10,701)
Provision for income taxes	(8)	
Minority interest	1,800	
<b>Net loss</b>	<b>\$ (19,817)</b>	<b>\$ (10,701)</b>
Basic and diluted loss per common share	\$ (0.21)	\$ (0.27)
Basic and diluted weighted average common shares outstanding	93,756,135	39,596,433

See accompanying notes.

**Table of Contents****SkyTerra Communications, Inc.****Condensed Consolidated Statements of Stockholders Equity (Deficit) Loss**

(in thousands, except share and per share data)

(unaudited)

	Voting		Non-Voting		Additional Paid-in Capital	Accumulated Other Comprehensive	Accumulated Deficit	Total Stockholders Equity (Deficit)
	Common Stock		Common Stock			Income (Loss)		
	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	392,780	(296)	(44,877)	347,834
Motient Exchange Transaction			14,407,343	144	437,989	(205)	(30,751)	407,177
Recognition of change in value of minority interest redemption rights					(3,885)			(3,885)
Equity-based compensation	250,000	3			2,613			2,616
Exercise of stock options	148,050	1			562			563
Net loss							(19,817)	(19,817)
Foreign currency translation adjustment						69		69
Balance, March 31, 2007	33,819,318	\$ 338	68,592,958	\$ 686	\$ 834,921	\$ (1,230)	\$ (220,101)	\$ 614,614

Total, three months ended March 31,  
2007

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## SkyTerra Communications, Inc.

## Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2007	2006
<b>Operating activities</b>		
Loss from continuing operations	\$ (19,817)	\$ (10,701)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash and working capital items	13,705	5,478
Net cash used in operating activities	(6,112)	(5,223)
<b>Investing activities</b>		
Purchase of property and equipment	(62,142)	(9,294)
Restricted cash	18	147
Purchase of investments	(92,584)	(36,130)
Proceeds from maturity of investments	78,998	64,785
Cash acquired in BCE Exchange Transaction	37,000	
Net cash (used in) provided by investing activities	(38,710)	19,508
<b>Financing activities</b>		
Proceeds from issuance of senior secured discount notes, net of debt issuance costs of \$13,118		423,120
Principal payment on note payable to Telesat Canada	(60)	(55)
Proceeds from exercise of stock options	562	
Proceeds from exercise of MSV unit options	564	258
Net cash provided by financing activities	1,066	423,323
Effect of exchange rates on cash and cash equivalents	65	27
Net (decrease) increase in cash and cash equivalents	(43,691)	437,635
Cash and cash equivalents, beginning of period	195,017	59,925
Cash and cash equivalents, end of period	\$ 151,326	\$ 497,560
<b>Supplemental information</b>		
Cash paid for interest	\$ 23	\$ 15

See accompanying notes.



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**SkyTerra Communications, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**1. Organization and Basis of Presentation**

Through Mobile Satellite Ventures LP (MSV), SkyTerra Communications, Inc. (SkyTerra or the Company) provides mobile satellite and communications services to individual and corporate customers in the United States and Canada via its own satellite and leased satellite capacity. The Company is also engaged in planning, developing, and constructing a next generation integrated 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. Uncertainties also exist regarding the Company's ability to raise additional debt and equity financing and the ultimate profitability of the Company's proposed next generation integrated network. The Company will require substantial additional capital resources to construct its next generation integrated network.

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 financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates affecting the consolidated financial statements include management's judgments regarding the allowance for doubtful accounts, reserves for inventory, the values of the Company's investment in MSV and TerreStar, useful lives of long lived assets, including satellites and next generation intellectual property, future cash flows expected from long-lived assets, accrued expenses, the fair value of assets acquired and liabilities assumed, and the fair value of the MSV's Limited Investor units, volatility, and expected term, for purposes of accounting for options, the fair value of Skyterra restricted stock units, and the estimates of