

SKYTERRA COMMUNICATIONS INC

Form 10-Q

November 09, 2006

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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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**x**      **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the period ended September 30, 2006, or**

**..**      **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**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 Number)

**19 West 44<sup>th</sup> Street, Suite 507**

**New York, New York**  
(Address of principal executive offices)

**10036**  
(Zip Code)

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

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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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 Exchange Act.): Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of November 6, 2006, 26,564,206 shares of the registrant's voting common stock and 37,696,716 shares of the registrant's non-voting common stock were outstanding.

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## SKYTERRA COMMUNICATIONS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	September 30, 2006	December 31, 2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 222,304	\$ 59,925
Investments	273,515	52,278
Restricted cash	31	1,664
Accounts receivable, net of allowance of \$62 and \$103, respectively	6,362	3,370
Receivable from Hughes Communications	480	
Management fee due from TerreStar Networks	139	769
Inventory	2,344	710
Prepaid expenses and other current assets	5,398	1,090
Total current assets	510,573	119,806
Investment in TerreStar Networks	128,674	
Restricted cash	2,350	4,600
Satellite under construction	50,782	
Property and equipment, net	8,047	10,600
Intangible assets, net	55,884	61,958
Goodwill	17,575	16,936
Debt issuance costs, net	12,474	
Other assets	2,980	2,884
Total assets	\$ 789,339	\$ 216,784
<b>Liabilities and Stockholders (Deficit) Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 10,280	\$ 6,974
Taxes payable	7,980	
Note payable to related party, current portion	241	225
Deferred revenue, current portion	5,840	4,538
Other current liabilities	137	74
Total current liabilities	24,478	11,811
Senior secured discount notes, net	466,892	
Note payable to related party, net of current portion	287	470
Deferred revenue, net of current portion	21,999	23,243
Total liabilities	513,656	35,524
<b>Commitments and contingencies</b>		
Minority interest	340,026	
<b>Stockholders (deficit) equity:</b>		
Preferred stock, \$0.01 par value. Authorized 10,000,000 shares; no shares issued or outstanding at September 30, 2006 and December 31, 2005		

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Common stock, \$0.01 par value. Authorized 200,000,000 shares; 26,563,585 and 14,118,159 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	266	141
Non-voting common stock, \$0.01 par value. Authorized 100,000,000 shares; 37,696,716 and 25,478,273 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	377	255
Additional paid-in capital	47,934	331,510
Deferred compensation		(4,420)
Accumulated other comprehensive loss	(994)	(1,123)
Accumulated deficit	(111,926)	(145,103)
Total stockholders' (deficit) equity	(64,343)	181,260
Total liabilities and stockholders' (deficit) equity	\$ 789,339	\$ 216,784

See accompanying notes to condensed consolidated financial statements.

## SKYTERRA COMMUNICATIONS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
<b>Revenues:</b>				
Services and related revenues	\$ 7,092	\$ 7,260	\$ 20,329	\$ 20,553
Equipment sales and other revenues	2,156	645	6,416	2,002
Total revenues	9,248	7,905	26,745	22,555
<b>Operating expenses:</b>				
Satellite operations and cost of services (exclusive of depreciation and amortization shown separately)	4,819	4,531	15,766	11,995
Next generation expenditures (exclusive of depreciation and amortization shown separately)	7,018	5,213	17,758	13,805
Sales and marketing	837	630	2,112	1,774
General and administrative	3,478	3,301	13,322	12,251
Depreciation and amortization	2,344	3,759	9,528	12,081
Total operating expenses	18,496	17,434	58,486	51,906
Loss from continuing operations before other income (expense)	(9,248)	(9,529)	(31,741)	(29,351)
<b>Other income (expense):</b>				
Interest income	6,586	991	14,201	2,388
Interest expense	(14,029)	(27)	(29,311)	(85)
Management fee from TerreStar Networks	216	1,839	1,276	2,439
Other income, net	329	16	643	24
Minority interest	1,092		1,092	
Loss from continuing operations before income tax provision	(15,054)	(6,710)	(43,840)	(24,585)
Income tax provision	(530)		(530)	
Loss from continuing operations	(15,584)	(6,710)	(44,370)	(24,585)
Loss from discontinued operations				(9,553)
Loss before cumulative effect of change in accounting principle	(15,584)	(6,710)	(44,370)	(34,138)
Cumulative effect of change in accounting principle				724
Net loss	\$ (15,584)	\$ (6,710)	\$ (44,370)	\$ (33,414)
<b>Basic and diluted loss per share:</b>				
Continuing operations	\$ (0.38)	\$ (0.17)	\$ (1.11)	\$ (0.62)
Discontinued operations				(0.24)
Cumulative effect of change in accounting principle				0.02
Net loss per share	\$ (0.38)	\$ (0.17)	\$ (1.11)	\$ (0.84)

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Basic and diluted weighted average shares outstanding	41,203,755	39,596,432	40,138,094	39,596,432
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See accompanying notes to condensed consolidated financial statements.

## SKYTERRA COMMUNICATIONS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2006	2005
<b>Operating activities</b>		
Net loss	\$ (44,370)	\$ (33,414)
Cumulative effect of change in accounting principle		(724)
Loss from discontinued operations		9,553
Loss from continuing operations	(44,370)	(24,585)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,528	12,081
Amortization of debt issuance costs and debt discount	29,269	
Equity-based compensation expense	9,288	7,870
Loss on forfeiture of performance bond	2,250	
Accretion on investments	(1,755)	234
Minority interest	(1,092)	
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts receivable	(3,090)	(106)
Management fee due from TerreStar Networks	807	(1,798)
Inventory	(1,633)	559
Prepaid expenses and other assets	(4,584)	(2,178)
Accounts payable and accrued expenses	1,679	1,952
Other current liabilities	62	9
Deferred revenue	(978)	(3,366)
Net cash used in continuing operations	(4,619)	(9,328)
Net cash provided by discontinued operations		166
Net cash used in operating activities	(4,619)	(9,162)
<b>Investing activities</b>		
Purchase of property and equipment and satellite under construction	(49,448)	(276)
Release (restriction) of cash	1,633	(6,115)
Purchases of investments	(303,493)	(65,629)
Maturities of investments	84,010	2,750
Cash acquired in acquisition	10,310	
Net cash used in investing activities	(256,988)	(69,270)
<b>Financing activities</b>		