SKYTERRA COMMUNICATIONS INC
Form 10-Q/A
November 14, 2005

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

FORM 10-Q/A
Amendment No. 1

/x/ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the period ended March 31, 2005, or

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

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 Identific

19 West 44th Street, Suite 507 New York, New York	10036
(Address of principal executive offices)	(Zip Code)

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

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

Yes /x/ No / /

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes / / No /x/

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

Yes / / No /x/

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 9, 2005, 8,718,309 shares of the registrant's voting common

stock and 8,990,212 shares of the registrant's non-voting common stock were outstanding.

EXPLANATORY PARAGRAPH

The purpose of this Amendment No. 1 to the Quarterly Report on Form 10-Q of SkyTerra Communications, Inc. (the "Company"), filed with the Securities and Exchange Commission on May 16, 2005, is to amend and restate the Company's condensed consolidated financial statements and related notes as of and for the three months ended March 31, 2005. This amendment and restatement includes changes to Part I, Items 1 and 2, and no other information included in the original Form 10-Q is amended hereby. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the original filing has been amended to contain currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Chief Executive Officer and Chief Financial Officer are attached to this Form 10 Q/A as exhibits 31.1, 31.2, 32.1 and 32.2. Except for the aforementioned changes, this Form 10-Q/A does not modify or update any disclosure in the Company's Form 10-Q, including the nature and character of such disclosure to reflect events occurring after the initial filing date of the Company's Form 10-Q.

This amendment reflects the restatement of the Company's condensed consolidated financial statements as of and for the three months ended March 31, 2005 and the condensed consolidated balance sheet as of December 31, 2004 to properly reflect, solely within the equity section of the condensed consolidated balance sheets, the accounting for the dividends paid on its Series A redeemable convertible preferred stock and the accretion of the carrying amount of the Series A redeemable convertible preferred stock up to its $100 per share face redemption amount. These dividends represent (i) the dividend paid quarterly in additional shares of Series A securities from the issuance of the Series A redeemable convertible preferred stock in June 1999 through June 2004 and in cash subsequent to June 2004 and (ii) the deemed dividend relating to the beneficial conversion feature of the Series A redeemable convertible preferred stock and pay-in kind dividends recorded in 1999 and 2000. Cumulative dividends and accretion totaling $111.5 million as of March 31, 2005, including $2.5 million recorded for the three months ended March 31, 2005, and $109.0 million as of December 31, 2004 were previously reported on the condensed consolidated balance sheets as increases in accumulated deficit. The condensed consolidated balance sheets have been restated to reflect these amounts as decreases in accumulated paid in capital. This restatement had no impact on the Company's net income (loss) available to common stockholders, total assets or cash flows.

This amendment also reflects the restatement of the Company's condensed consolidated financial statements as of and for the three months ended March 31, 2005 to properly reflect the accounting for its proportionate share of the non-cash stock compensation expense recorded by Mobile Satellite Ventures LP (the "MSV Joint Venture"), including the effects of a restatement of the unaudited interim financial statements of the MSV Joint Venture. As previously reported, for the three months ended March 31, 2005, the MSV Joint Venture recognized $0.6 million of stock compensation expense. The Company previously reported its proportionate share of this amount in the equity in the loss of Mobile Satellite Ventures LP on the condensed consolidated statements of operations. Subsequent to the issuance of the Company's condensed consolidated financial statements as of and for the three months ended March 31, 2005, the Compensation Committee of the MSV Joint Venture's Board of Directors determined that a change in control of the MSV Joint Venture, as defined in the MSV Joint

Venture's Unit Incentive Plan, had occurred during the three months ended March 31, 2005. This change in control triggered the immediate vesting of all of the MSV Joint Venture's then outstanding unit options that were subject to accelerated vesting and recognition of $3.8 million of deferred compensation expense associated with these options. As restated, for the three months ended March 31, 2005, the MSV Joint Venture recognized $4.4 million of stock compensation expense. The condensed consolidated financial statements have been restated to reflect the Company's proportionate share of the restated net loss of the MSV Joint Venture and its proportionate share of the MSV Joint Venture's restated stock compensation expense as an increase in additional paid in capital.

SKYTERRA COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)
(unaudited)

	March 2005 (R
Assets	
Current assets:	
Cash and cash equivalents	$
Short-term investments	
Total cash, cash equivalents and short-term investments	
Accounts receivable, net	
Prepaid expenses	
Deferred transaction costs	
Other current assets	
Total current assets	
Property and equipment, net	
Investment in Mobile Satellite Ventures LP	
Investments in affiliates	
Other assets	
Total assets	$1
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	
Accrued liabilities	
Deferred revenue	
Total current liabilities	
Commitments and contingencies	
Minority interest	

Series A Redeemable Convertible Preferred Stock, $.01 par value, net of unamortized discount of $31,490 and $32,589, respectively	
Stockholders' equity:	
Preferred stock, $.01 par value. Authorized 10,000,000 shares; issued 1,199,007 shares as Series A Redeemable Convertible Preferred Stock at March 31, 2005 and December 31, 2004	
Common stock, $.01 par value. Authorized 200,000,000 shares; issued and outstanding 8,414,809 shares at March 31, 2005 and 8,384,809 shares at December 31, 2004	
Non-voting common stock, $.01 par value. Authorized 100,000,000 shares; issued and outstanding 8,990,212 shares at each of March 31, 2005 and December 31, 2004	
Additional paid-in capital	4
Accumulated other comprehensive income (loss)	
Accumulated deficit	(4
Total stockholders' equity	
Total liabilities and stockholders' equity	$1

See accompanying notes to condensed consolidated financial statements.

SKYTERRA COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share data)
(unaudited)

	Three Months End
	2005
	(Restated - see Note 3)
Revenues	$197
Costs of revenues	199
Gross margin	(2)
Expenses:	
Selling, general and administrative	2,574
Depreciation and amortization	55
Total expenses	2,629
Loss from operations	(2,631)
Interest income, net	541
Equity in loss of Mobile Satellite Ventures LP	(4,588)
Loss on investments in affiliates	(1,456)
Other income, net	41
Minority interest	918
Net (loss) income	(7,175)
Cumulative dividends and accretion of convertible preferred stock to	

liquidation value	(2,493)
Net loss attributable to common stockholders	$(9,668)
Basic and diluted loss per share	$(0.56)
Basic weighted average common shares outstanding	17,401,685

See accompanying notes to condensed consolidated financial statements.

SKYTERRA COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Month
	2005
	(Restated - see Note 3)
Cash flows from operating activities:	
Net (loss) income	$(7,175)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	55
Equity in loss of Mobile Satellite Ventures LP	4,588
Loss on investments in affiliates	1,456
Minority interest	(918
Gain on sale of property and equipment	(49
Non-cash compensation expense	699
Non-cash charge for issuance of warrants by consolidated subsidiary	53
Changes in assets and liabilities:	
Accounts receivable, net	(24
Prepaid expenses, deferred transaction costs and other assets	(2,019
Accounts payable, accrued and other liabilities	885
Deferred revenue	(21
Net cash used in operating activities	(2,470
Cash flows from investing activities:	
Sales of short-term investments	39,404
Purchases of short-term investments	(12,080
Cash paid for investments in affiliates	(375
Sales of property and equipment	74
Purchases of property and equipment	(9
Net cash provided by (used in) investing activities	27,014
Cash flows from financing activities:	
Payment of dividend on preferred stock	(1,394
Proceeds from issuance of common stock in connection with the exercise of options	77

Net cash (used in) provided by financing activities	(1,317
Effect of exchange rate changes on cash and cash equivalents	29
Net increase (decrease) in cash and cash equivalents	23,256
Cash and cash equivalents, beginning of period	34,759
Cash and cash equivalents, end of period	$58,015

See accompanying notes to condensed consolidated financial statements.

SKYTERRA COMMUNICATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Description of the Business

SkyTerra Communications, Inc. (the "Company") operates its business through a group of complementary companies in the telecommunications industry. These companies include: (i) the Mobile Satellite Ventures LP joint venture ("MSV Joint Venture"), a joint venture which provides mobile digital voice and data communications services via satellite; (ii) Electronic System Products, Inc. ("ESP"), a product development and engineering services firm and (iii) AfriHUB, LLC ("AfriHUB"), an early stage company that provides a limited amount of satellite based Internet access and domestic and international calling services through exclusive partnerships with certain Nigerian based universities while it actively pursues opportunities to provide technical training in the Nigerian market. Further, in April 2005, the Company completed its acquisition of 50% of the equity interests of Hughes Network Systems, LLC ("HNS"), a leading provider of broadband satellite networks and services to the enterprise market and satellite Internet access to the North American consumer market. Following the acquisition, the Company serves as the managing member of HNS.

The Company is headquartered in New York, New York.

(2) Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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 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, 2004 which are contained in the Company's Annual Report on Form 10-K/A (Amendment No. 1) filed with the Securities and Exchange Commission. The results of the three months ended March 31, 2005 are not necessarily indicative of the results to be expected for the full year. Certain prior year amounts in the accompanying condensed

consolidated financial statements have been reclassified to conform to the current year's presentation.

(3) Restatement

Subsequent to the issuance of the Company's condensed consolidated financial statements as of and for the three months ended March 31, 2005, the Company determined that it would restate its condensed consolidated financial statements to properly reflect the accounting for the dividends paid on its Series A redeemable convertible preferred stock and the accretion of the carrying amount of the Series A redeemable convertible preferred stock up to its $100 per share face redemption amount. These dividends represent (i) the dividend paid quarterly in additional shares of Series A securities from the issuance of the Series A redeemable convertible preferred stock in June 1999 through June 2004 and in cash subsequent to June 2004 and (ii) the deemed dividend relating to the beneficial conversion feature of the Series A redeemable convertible preferred stock and pay-in kind dividends recorded in 1999 and 2000. Cumulative dividends and accretion totaling $111.5 million as of March 31, 2005, including $2.5 million recorded for the three months ended March 31, 2005, and $109.0 million as of December 31, 2004 were previously reported on the accompanying condensed consolidated balance sheets as increases in accumulated deficit. The accompanying condensed consolidated balance sheets have been restated to reflect these amounts as decreases in accumulated paid in capital. This restatement had no impact on the Company's net income (loss) available to common stockholders, total assets or cash flows.

The Company has also restated its condensed consolidated financial statements for the three months ended March 31, 2005 to properly reflect the accounting for its proportionate share of the non-cash stock compensation expense recorded by the MSV Joint Venture, including the effects of a restatement of the unaudited interim financial statements of the MSV Joint Venture. As previously reported, for the three months ended March 31, 2005, the MSV Joint Venture recognized $0.6 million of stock compensation expense. The Company previously reported its proportionate share of this amount in the equity in the loss of Mobile Satellite Ventures LP on the accompanying condensed consolidated statements of operations. Subsequent to the issuance of the Company's condensed consolidated financial statements as of and for the three months ended March 31, 2005, the Compensation Committee of the MSV Joint Venture's Board of Directors determined that a change in control of the MSV Joint Venture, as defined in the MSV Joint Venture's Unit Incentive Plan, had occurred during the three months ended March 31, 2005. This change in control triggered the immediate vesting of all of the MSV Joint Venture's then outstanding unit options that were subject to accelerated vesting and recognition of $3.8 million of deferred compensation expense associated with these options. As restated, for the three months ended March 31, 2005, the MSV Joint Venture recognized $4.4 million of stock compensation expense. The accompanying condensed consolidated financial statements have been restated to reflect the Company's proportionate share of the restated net loss of the MSV Joint Venture and its proportionate share of the MSV Joint Venture's restated stock compensation expense as an increase in additional paid in capital.

The following is a summary of the significant effects of the restatements on the accompanying condensed consolidated balance sheets:

	March 31, 2005	Dece
	(in thousands	
Investment in Mobile Satellite Ventures LP, as previously reported	$ 46,375	$

Impact of restatement of the operating results of the MSV Joint Venture	143	
Investment in Mobile Satellite Ventures LP, as restated	$ 46,518	$
Minority interest, as previously reported	$ 9,229	$
Impact of restatement of the operating results of the MSV Joint Venture	28	
Minority interest, as restated	$ 9,257	$
Additional paid in capital, as previously reported	$ 585,345	$
Impact of restatement of dividends and accretion	(111,464)	
Impact of restatement of the operating results of the MSV Joint Venture	808	
Additional paid in capital, as restated	$ 474,689	$
Accumulated deficit, as previously reported	$ (548,566)	$
Impact of restatement of dividends and accretion	111,464	
Impact of restatement of the operating results of the MSV Joint Venture	(693)	
Accumulated deficit, as restated	$ (437,795)	$

The following is a summary of the significant effects of the restatements on the accompanying condensed consolidated statements of operations:

	Three Months Ended
	As Previously Reported
	(in thousan
Equity in loss of Mobile Satellite Ventures LP	$(3,723)
Minority interest	746
Net loss	(6,482)
Net loss attributable to common stockholders	(8,975)
Basic and diluted loss per share	(0.52)

(4) Interest in the MSV Joint Venture

The Company's 80% owned MSV Investors, LLC subsidiary (the "MSV Investors Subsidiary") owns approximately 23% of the limited partnership interests (on an undiluted basis) of the MSV Joint Venture, a joint venture that also includes TMI Communications, Inc. ("TMI"), Motient Corporation ("Motient") and certain other investors (the "Other MSV Investors"). The Company accounts for its interest in the MSV Joint Venture under the equity method and, accordingly, records its proportionate share of the net income (loss) of the MSV Joint Venture, subject to certain adjustments. These adjustments relate primarily to the amortization of the excess of the Company's carrying amount over its proportionate share of the MSV Joint Venture's net assets on the date of conversion. This excess is being amortized over the remaining useful life of certain MSV Joint Venture long-lived assets on a straight line basis. As of March 31, 2005, the Company's book investment exceeded its proportionate share

of the MSV Joint Venture's net assets by approximately $1.5 million.

The following table presents summarized consolidated financial information for the MSV Joint Venture for the periods indicated:

	March 31, 2005
	(in t
Consolidated balance sheet information:	
Current assets	$129,476
Noncurrent assets	102,246
Current liabilities	11,899
Noncurrent liabilities	22,570
Minority interest	237
Partners' equity	197,016

	Three Months Ended March 31, 2005
	(in thousands)
Consolidated statement of operations:	
Revenues	$7,190
Loss from operations	(21,360)
Net loss	(19,981)

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

In December 2004, the MSV Joint Venture issued rights (the "TerreStar Rights") to receive all of the shares of common stock of TerreStar Networks Inc. ("TerreStar"), then a wholly-owned subsidiary of the MSV Joint Venture, to the limited partners of the MSV Joint Venture, pro rata in accordance with each limited partner's percentage ownership. TerreStar was formed by the MSV Joint Venture to develop business opportunities related to the proposed receipt of certain licenses in the 2 GHz band. The TerreStar Rights were to automatically be exchanged for shares of TerreStar common stock on May 20, 2005. In connection with the distribution of the TerreStar Rights, TerreStar issued warrants to purchase shares of its common stock representing 3% of the outstanding equity for an exercise price of $0.21 per share to certain of the Other MSV Investors. These warrants were exercised in March 2005. On May 11, 2005, TerreStar raised $200.0 million in cash by selling common stock to

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

In connection with the TerreStar Private Placement, the minority shareholders of TerreStar, including the Company's MSV Investors Subsidiary, TMI and the Other MSV Investors, entered into certain agreements with TerreStar and Motient providing the MSV Investors Subsidiary (and the other minority shareholders) with certain protections, including tag along rights, pre-emptive rights and representation on the TerreStar Board of Directors. In addition, the TerreStar shares held by the minority shareholders, including the MSV Investors Subsidiary, under certain conditions, may be subject to drag along rights of Motient. In connection with the TerreStar Private Placement, the MSV Joint Venture licensed TerreStar certain intellectual property and agreed to provide TerreStar with certain services. Also, in connection with the transaction, Motient agreed, subject to satisfaction of certain conditions, to waive certain rights in order to facilitate a transaction in which one of the minority shareholders in TerreStar acquires all of the interests in the MSV Joint Venture held by the other minority shareholders in TerreStar, resulting in control of the MSV Joint Venture being held by such party. The minority shareholders have not agreed to such a transaction or committed to consummate such a transaction. There can be no assurance that any such discussions will take place among the minority shareholders or otherwise result in a definitive binding agreement.

(5) Business Transactions

(a) Interest in Hughes Network Systems

In April 2005, the Company completed its acquisition of 50% of the equity interests of HNS from Hughes Network Systems, Inc. ("HNSI"), a wholly owned subsidiary of The DIRECTV Group, Inc. ("DIRECTV"), for $50.0 million in cash and 300,000 shares of the Company's common stock. The acquisition occurred pursuant to an agreement among the Company, DIRECTV, HNSI and HNS, dated December 3, 2004, as amended. Immediately prior to the acquisition, HNSI contributed substantially all of the assets and certain liabilities of its very small aperture terminal, mobile satellite and carrier businesses, as well as the certain portions of its SPACEWAY Ka-band satellite communications platform that is under development, to HNS, which at the time was a wholly-owned subsidiary of HNSI. In consideration for the contribution of assets by HNSI, HNS paid HNSI $190.7 million of cash. This payment represents the $201.0 million stated in the agreement less an estimated purchase price adjustment of $10.3 million, which is subject to further adjustment depending principally upon the closing value of HNS' working capital (as defined in the agreement). Concurrently, HNS incurred $325.0 million of term indebtedness and obtained a $50.0 million revolving credit facility. The Company and HNSI have each granted a security interest in their respective equity interest in HNS to secure the obligations of HNS under the term indebtedness. Following the acquisition, the Company serves as the managing member of HNS. The Company will account for its interest in HNS under the equity method in accordance with Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R"), as HNS is a variable interest entity as defined in FIN 46R and the Company is not the primary beneficiary as defined in FIN 46R.

As of March 31, 2005 and December 31, 2004, the Company had incurred approximately $7.2 million and $5.0 million, respectively, of transaction

costs, including legal, accounting and other costs directly related to the transaction. These costs are included in deferred transaction costs on the accompanying condensed consolidated balance sheets. At closing of the acquisition, HNS paid $6.6 million of these costs directly and reimbursed the Company for the remaining $0.6 million.

(b) Interest in Navigauge

As of March 31, 2005, the Company owned approximately 39% of the outstanding equity interests of Navigauge, Inc. ("Navigauge") on an undiluted basis. Navigauge is a privately held media and marketing research firm that collects data on in-car radio usage and driving habits of consumers and intends to market the aggregate data to radio broadcasters, advertisers and advertising agencies in the United States. From January 2005 through March 2005, the Company purchased additional short-term promissory notes from Navigauge with an aggregate principal amount of approximately $0.4 million. As of March 31, 2005, the Company holds short-term promissory notes from Navigauge with an aggregate principal amount of approximately $0.9 million and, following the impairment discussed below, the promissory notes have no carrying amount on the accompanying condensed consolidated balance sheets.

Although Navigauge is a variable interest entity as defined in FIN 46R, the Company is not the primary beneficiary as defined in FIN 46R. Accordingly, prior to the impairment discussed below, this investment was included in investments in affiliates on the accompanying condensed consolidated balance sheets and was being accounted for under the equity method with the Company's share of Navigauge's loss being recorded in loss on investments in affiliates on the accompanying condensed consolidated statements of operations. For the three months ended March 31, 2005 and 2004, the Company's share of Navigauge's loss was $0.3 million and $0.2 million, respectively.

As Navigauge has been unsuccessful in raising the capital necessary to expand its service beyond the Atlanta market and in light of its prospects, as of March 31, 2005, the Company recognized a loss of $1.2 million relating to the impairment of the aggregate remaining carrying amount of its equity interest in Navigauge and the short-term promissory notes. This loss is included in loss on investments in affiliates on the accompanying condensed consolidated statements of operations.

(c) Interest in Miraxis

As of March 31, 2005, the Company owned approximately 40% of the ownership interests of Miraxis on an undiluted basis. Miraxis is a development stage company that has access to a Ka-band license so long as it implements its business plan to provide satellite based multi-channel, broadband data and video services in North America. The Company's President and Chief Executive Officer holds an approximate 1% interest in Miraxis. As Miraxis is a variable interest entity as defined in FIN 46R and the Company is the primary beneficiary as defined in FIN 46R, the operating results and financial position of Miraxis have been included in the condensed consolidated financial statements.

(6) Stock Option Plans

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

Company has elected to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure required by SFAS No. 123.

APB Opinion No. 25 does not require the recognition of compensation expense for stock options granted to employees at fair market value. However, any modification to previously granted awards generally results in compensation expense or contra-expense recognition using the cumulative expense method, calculated based on quoted prices of the Company's common stock and vesting schedules of underlying awards. As a result of the re-pricing of certain stock options, for the three months ended March 31, 2005 and 2004, the Company recognized compensation expense of approximately $0.4 million and $0.3 million, respectively.

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

	Three Months Ended
	2005
	(in thousands, exce data)
Net (loss) income, as reported	$(7,175)
Add: Stock-based employee compensation expense, as reported	418
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(213)
Pro forma net (loss) income	$(6,970)
Basic and diluted net loss attributable to common stockholders per share:	
As reported	$(0.56)
Pro forma	$(0.54)

For the three months ended March 31, 2005, the Company issued options to purchase 80,000 shares of common stock at a weighted average fair value of $17.77 using the Black-Scholes option pricing model. For the three months ended March 31, 2004, the Company issued options to purchase 145,000 shares of common stock at a weighted average fair value of $1.77 using the Black-Scholes option pricing model.

(7) Segment Information

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

explores opportunities to provide technical training in the Nigerian market. Parent and other includes the Company, other consolidated entities other than ESP and AfriHUB and eliminations.

The following table presents certain financial information on the Company's reportable segments as of or for the three months ended March 31, 2005. Since our 23% share of the results MSV Joint Venture's operations is already included in the Parent and Other column, the MSV Joint Venture Elimination column removes the results of the MSV Joint Venture shown in the MSV Joint Venture column.

	MSV Joint Venture	ESP	AfriHUB	Parent and Other
			(in thousands)	
Revenues	$7,190	$135	$62	$-
Operating expenses	(28,550)	(256)	(537)	(2,035)
Loss from operations	(21,360)	(121)	(475)	(2,035)
Interest income (expense), net	635	(15)	(14)	570
Equity in loss of Mobile Satellite Ventures LP	-	-	-	(4,588)
Loss on investments in affiliates	-	-	-	(1,456)
Other income (expense), net	738	52	(26)	15
Minority interest	6	-	-	918
Net (loss) income	$(19,981)	$(84)	$(515)	$(6,576)
Total assets	$231,722	$124	$631	$147,046

The following table presents certain financial information on the Company's reportable segments as of or for the three months ended March 31, 2004:

	ESP	Parent and Other	Consolidate
		(in thousands)	
Revenues	$817	$-	$81
Operating expenses	(1,076)	(1,451)	(2,52
Loss from operations	(259)	(1,451)	(1,71
Interest (expense) income, net	(17)	2,178	2,16
Loss on investments in affiliates	(75)	(76)	(15
Other income, net	19	17	3
Minority interest	-	(300)	(30
Net (loss) income	$(332)	$368	$3
Total assets	$582	$97,712	$98,29

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As of March 31, 2005 and December 31, 2004, all of the Company's long-lived assets were located in the United States, excluding $0.5 million located in Nigeria.

(8) Discontinued Operations

From 1998 through the third quarter of 2001, the Company's principal business was conducted through Rare Medium, Inc., which developed Internet e-commerce strategies, business processes, marketing communications, branding strategies and interactive content using Internet-based technologies and solutions. As a result of the weakening of general economic conditions that caused many companies to reduce spending on Internet-focused business solutions and in light of their performance and prospects, a decision to discontinue Rare Medium, Inc.'s operations, along with those of its LiveMarket, Inc. subsidiary ("LiveMarket"), was made at the end of the third quarter of 2001. As of March 31, 2005, cash of approximately $14,000 (excluding the $0.3 million of cash collateralizing a letter of credit) was the remaining asset of Rare Medium, Inc. and LiveMarket. The liabilities of these subsidiaries totaled approximately $2.3 million, consisting of accounts payable and accrued expenses. Included in the total liabilities of these subsidiaries is $1.0 million related to a lease obligation which is guaranteed by the Company. The total maximum potential liability of this guarantee is approximately $3.7 million, subject to certain defenses by the Company. Rare Medium, Inc. holds $0.3 million of cash in a certificate of deposit which is maintained as collateral for a letter of credit supporting the lease obligation. For the three months ended March 31, 2005 and 2004, the Company did not recognized any gains or losses as a result of the settlement of Rare Medium, Inc. liabilities at amounts less than or greater than their recorded amounts.

(9) Related Party Transactions

During the three months ended March 31, 2005 and 2004, ESP recognized revenues totaling approximately $11,000 and $0.4 million, respectively, for certain services provided to Navigauge and the MSV Joint Venture.

(10) Contingencies

Litigation

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

and discovery commenced. Following the completion of discovery, the Company filed a motion for summary judgment on July 30, 2004. Plaintiffs opposed the motion (the "Plaintiffs' Opposition"), and the Company responded.

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

The Company and certain of its subsidiaries (along with the Engelhard Corporation) are parties to an arbitration relating to certain agreements that existed between or among the claimant and ICC Technologies, Inc., the Company's former name, and the Engelhard/ICC ("E/ICC") joint venture arising from the desiccant air conditioning business that the Company and its subsidiaries sold in 1998. The claimant has sought $8.5 million for (1) its alleged out of pocket losses in investing in certain of E/ICC's technology; (2) unjust enrichment resulting from the reorganization of E/ICC in 1998; and (3) lost profits arising from the fact that it was allegedly forced to leave the air conditioning business when the E/ICC joint venture was dissolved. The Company intends to vigorously dispute this action.

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

Company and Rare Medium, Inc. will receive releases from certain individuals and the certain individuals will each receive an immaterial settlement payment. Should the settlement agreement not be finalized, the Company and Rare Medium, Inc. intend to vigorously dispute this action.

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

(11) Subsequent Events

On April 22, 2005, the Company completed its acquisition of 50% of the equity interests of HNS from HNSI, a wholly owned subsidiary of DIRECTV, for $50.0 million in cash and 300,000 shares of the Company's common stock. The acquisition occurred pursuant to an agreement among the Company, DIRECTV, HNSI and HNS, dated December 3, 2004, as amended. Immediately prior to the acquisition, HNSI contributed substantially all of the assets and certain liabilities of its very small aperture terminal, mobile satellite and carrier businesses, as well as the certain portions of its SPACEWAY Ka-band satellite communications platform that is under development, to HNS, which at the time was a wholly-owned subsidiary of HNSI. In consideration for the contribution of assets by HNSI, HNS paid HNSI $190.7 million of cash. This payment represents the $201.0 million stated in the agreement less an estimated purchase price adjustment of $10.3 million, which is subject to further adjustment depending principally upon the closing value of HNS' working capital (as defined in the agreement). Concurrently, HNS incurred $325.0 million of term indebtedness and obtained a $50.0 million revolving credit facility. The Company and HNSI have each granted a security interest in their respective equity interest in HNS to secure the obligations of HNS under the term indebtedness. Following the acquisition, the Company serves as the managing member of HNS. The Company will account for its interest in HNS under the equity method in accordance with FIN 46R, as HNS is a variable interest entity as defined in FIN 46R and the Company is not the primary beneficiary, as defined in FIN 46R.

On May 11, 2005, TerreStar raised $200.0 million in cash by selling common stock to Motient at a purchase price of $24.42 per share (the "TerreStar Private Placement"), raising Motient's ownership of TerreStar to approximately 61% on an undiluted basis (see Note 4). In connection with the TerreStar Private Placement, the TerreStar Rights were exchanged for shares of TerreStar common stock. Following these transactions, the Company's MSV Investors Subsidiary owns 5,303,315 shares of TerreStar common stock, or approximately 17% of TerreStar on an undiluted basis, and will account for its interest in TerreStar under the cost method.

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," "estimate," "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.

The following discussion has been amended to reflect the impact of the restatement of our financial statements for the three months ended March 31, 2005 as discussed in Note 3 to the unaudited condensed consolidated financial statements included elsewhere herein.

Overview

We operate our business through a group of complementary companies in the telecommunications industry, including the MSV Joint Venture, ESP and AfriHUB. Consistent with this approach, in April 2005, we acquired a 50% interest in HNS, a leading provider of broadband satellite networks and services to the enterprise market and satellite Internet access to the North American consumer market. Furthermore, we are currently engaged in a number of other separate and unrelated preliminary discussions concerning possible joint ventures and other transactions. We are in the early stages of such discussions and have not entered into any definitive agreements with respect to any material transaction, other than what has been described in this Form 10-Q. Prior to consummating any transaction, we will have to, among other things, initiate and satisfactorily complete a due diligence investigation, negotiate the financial and other terms (including price) and conditions of such transaction, obtain appropriate board of directors', regulatory and other necessary consents and approvals and secure financing, to the extent deemed necessary.

In November 2004, the FCC granted the MSV Joint Venture's application to operate an ancillary terrestrial component ("ATC") in the L-Band, subject to certain conditions. This authorization was the first license for ATC operation granted by the FCC, allowing the MSV Joint Venture to offer an ATC with its commercial service. In February 2005, the FCC issued an order (the "February 2005 Order") which set forth new rules for the deployment and operation of an ATC and provided the MSV Joint Venture with substantial additional flexibility in its system implementation. Furthermore, the February 2005 Order allows the MSV Joint Venture to significantly lower the cost of deploying an ATC and increases the capacity of the MSS/ATC hybrid system. This additional flexibility provided by the FCC's decision is expected to allow the MSV Joint Venture to offer users affordable and reliable voice and high-speed data communications service from virtually anywhere on the North American continent.

As a result of the FCC's authorizations, the value of our stake in the MSV Joint Venture has significantly increased; however, even with ATC authority, the ability of the MSV Joint Venture to succeed is subject to significant risks and uncertainties, including the ability of the MSV Joint Venture to raise the capital necessary for the implementation of the next generation satellite system including ATC or to identify and reach an agreement with one or more strategic partners. Additional risks include the ability of the MSV Joint Venture to attract and retain customers, the increased potential competition from other satellite and wireless service providers, as well as the uncertainty with respect to the outcome of the court challenges to the FCC's ATC orders.

During 2004, our consolidated revenues were primarily derived from fees generated from services performed by ESP. During the fourth quarter of 2004, ESP

experienced a significant decline in demand for its services, including from its existing customers. As a result, in January 2005, ESP reduced its workforce from 21 employees to four employees to compensate for the reduced cash inflows. ESP is still performing services for a limited number of clients, including the MSV Joint Venture and Navigauge; however, it is no longer seeking new client engagements and is instead focusing on exploiting its intellectual property portfolio.

In April 2004, we acquired a controlling interest in AfriHUB. AfriHUB's plan was to provide instructor led and distance based technical training and satellite based broadband Internet access and domestic and international calling services through exclusive partnerships with certain Nigerian based universities. While establishing centers which provide these services on two university campuses during the fourth quarter of 2004, AfriHUB experienced significant unanticipated delays and costs in opening these facilities, as well as greater price sensitivity within the university communities. As a result, AfriHUB has suspended its planned roll out of service to additional campuses and is actively pursuing other opportunities to provide technical training in the Nigerian market.

Since October 2004, Navigauge has been attempting to raise capital to expand its data measurement capabilities beyond the Atlanta market. Other than an aggregate of $1.0 million of short-term promissory notes purchased by us from October 2004 through April 2005 and an aggregate of $1.0 million of short-term promissory notes purchased by other existing investors during the same time period, Navigauge has been unsuccessful in raising such capital. Accordingly, in light of its prospects, Navigauge's board of directors is evaluating whether to cease the operations of the company. Accordingly, as of March 31, 2005, we recognized a loss of $1.2 million relating to the impairment of the aggregate remaining carrying amount of our equity interest in Navigauge and the short-term promissory notes. This loss is included in loss on investments in affiliates on the condensed consolidated statements of operations.

To execute its business plan, Miraxis needed to raise significant amounts of capital in order to launch several satellites. Other than an aggregate of $0.1 million of promissory notes purchased by us from January 2004 through March 2005, Miraxis has been unsuccessful in raising capital. Accordingly, Miraxis' board of directors is expected to dissolve the company in the near future. The dissolution of Miraxis would not have a material impact on our financial position or results of operations.

Following our April 2005 acquisition of a 50% interest in HNS, we will account for our interest in HNS under the equity method in accordance with FIN 46R, as HNS is a variable interest entity as defined in FIN 46R and we are not the primary beneficiary as defined in FIN 46R.

Results of Operations for the Three Months Ended March 31, 2005 Compared to the Three Months Ended March 31, 2004

Revenues

Revenues are derived primarily from fees generated from (i) contracts for product development, consulting and engineering services performed by ESP, including reimbursable travel and other out-of pocket expenses, (ii) licensing the right to use certain intellectual property owned by ESP and (iii) the sale of prepaid cards for Internet access and calling services by AfriHUB. Revenues from services performed by ESP are recognized using the percentage-of-completion method for fixed price contracts and as time is incurred for time and materials contracts, provided the collection of the resulting receivable is reasonably assured. Revenues from licensing the right to use intellectual property are recognized as the licensee manufactures products incorporating or using the licensed intellectual property. Licensees typically pay a nonrefundable license

issuance fee which is recognized as revenue upon receipt. Revenues from the sale of prepaid cards for Internet access and calling services are recognized as the customer utilizes the card or when the card expires.

Revenues for the three months ended March 31, 2005 decreased to $0.2 million from $0.8 million for the three months ended March 31, 2004, a decrease of $0.6 million. This decrease was due to a significant decline in demand for ESP's services in the fourth quarter of 2004, partially offset by revenues from license fees generated by ESP's intellectual property portfolio and services provided by AfriHUB at centers opened on two university campuses in Nigeria during the fourth quarter of 2004. As ESP is no longer seeking new client engagements and continues to focus on exploiting its intellectual property portfolio and AfriHUB has suspended its planned roll out of service to additional campuses, we expect revenues in the remaining quarters of 2005 to remain relatively unchanged.

Cost of Revenues

Cost of revenues includes the salaries and related employee benefits for ESP employees that provide billable product development, consulting and engineering services, as well as the cost of reimbursable expenses. Cost of revenues also includes the costs incurred by AfriHUB to provide Internet access and calling services. Cost of revenues for the three months ended March 31, 2005 decreased to $0.2 million from $0.7 million for the three months ended March 31, 2004, a decrease of $0.5 million. This decrease was due to the reduction in ESP's workforce in January 2005, partially offset by costs incurred by AfriHUB following the opening of two centers at two university campuses in Nigeria during the fourth quarter of 2004. As these costs relate to our current operations, we expect cost of revenues to remain relatively unchanged in future period as ESP has substantially completed the reduction in its workforce and AfriHUB has suspended its planned roll out of service to additional campuses.

Selling, General and Administrative Expense

Selling, general and administrative expense includes facilities costs, finance, legal and other corporate costs, as well as the salaries and related employee benefits for those employees that support such functions. Selling, general and administrative expense for the three months ended March 31, 2005 increased to $2.6 million from $1.8 million for the three months ended March 31, 2004, an increase of $0.8 million. This increase relates primarily to the recognition of non-cash expense in the three months ended March 31, 2005 for the following items:

- approximately $0.4 million of compensation expense related to the 2002 and 2001 repricing of certain options;
- approximately $0.3 million of compensation expense related to an option to purchase our common stock issued to a consultant in June 2004; and
- approximately $0.1 million of compensation expense related to warrants contingently issuable to certain employees of AfriHUB if certain operating and financial milestones are achieved.

For the three months ended March 31, 2004, we recognized $0.3 million of non-cash expense relating to the option repricing.

Other factors contributing to the increase include the approximately $0.4 million of expenses incurred by AfriHUB in the three months ended March 31, 2005 (excluding the non-cash expense related to the contingently issuable warrants described above), partially offset by a $0.2 million decrease in expenses incurred by ESP in the three months ended March 31, 2005 as compared to the three months ended March 31, 2004. As these costs relate to our current operations, we expect our selling, general and administrative expense, excluding

fluctuations arising from the non-cash items noted above, to decrease in future periods as ESP has significantly reduced the size of its operations and AfriHUB has suspended the planned roll out of its service to additional university campuses.

Depreciation and Amortization Expense

Depreciation and amortization expense consists of the depreciation of property and equipment and the amortization of the financing costs associated with the issuance of our Series A redeemable convertible preferred stock. Depreciation and amortization expense for the three months ended March 31, 2005 increased to approximately $55,000 from approximately $15,000 for the three months ended March 31, 2004, an increase of approximately $40,000. This increase is primarily the result of the capital expenditures made by AfriHUB to build the network infrastructure necessary for it to launch its service. Given the reduction in ESP's workforce and the suspension of AfriHUB's planned roll out to additional university campuses, we anticipate that our capital expenditures with respect to these two entities will remain nominal in future periods.

Interest Income, Net

Interest income, net for the three months ended March 31, 2005 is comprised primarily of the interest earned on our cash, cash equivalents, and short-term investments. Interest income, net for the three months ended March 31, 2004 is comprised primarily of the interest earned on our cash, cash equivalents, and short-term investments and on our notes receivable from the MSV Joint Venture, Verestar and Motient. Interest income, net for the three months ended March 31, 2005 decreased to $0.5 million from $2.2 million for the three months ended March 31, 2004, a decrease of $1.7 million. This decrease relates primarily to the conversion of our notes receivable from the MSV Joint Venture in November 2004 and the collection of all amounts due under the notes receivable from Motient and Verestar in 2004.

Equity in Loss of Mobile Satellite Ventures LP

In November 2004, our notes receivable from the MSV Joint Venture, held through our 80% owned MSV Investors Subsidiary, converted into approximately 23% of the outstanding limited partnership interests in the MSV Joint Venture. Following the conversion, we account for our interest in the MSV Joint Venture under the equity method and record expense relating to our proportionate share of the MSV Joint Venture's net loss. For the three months ended March 31, 2005, we recorded expense of approximately $4.6 million. We do not expect the MSV Joint Venture to be profitable in the near future.

Loss on Investment in Affiliates

For the three months ended March 31, 2005, we recorded a loss on investments in affiliates of approximately $1.5 million consisting of $1.2 million relating to the impairment of the aggregate remaining carrying value of our equity interest in Navigauge and short-term promissory notes purchased from Navigauge and $0.3 million relating to our proportionate share of Navigauge's net loss. For the three months ended March 31, 2004, recorded a loss on investments in affiliates of approximately $0.2 million relating to our proportionate share of Navigauge's net loss. We will continue to monitor the carrying value of our remaining investments in affiliates.

Minority Interest

For the three months ended March 31, 2005, we recorded minority interest of approximately $0.9 million relating to the equity in loss, primarily the equity in loss of the MSV Joint Venture, which is attributable to the group of unaffiliated third parties who own approximately 20% of our MSV Investors

Subsidiary. For the three months ended March 31, 2004, we recorded minority interest of approximately $0.3 million relating to the equity in earnings, primarily the interest income earned on the convertible notes from the MSV Joint Venture, which is attributable to the group of unaffiliated third parties who invested in our MSV Investors Subsidiary.

Net Loss Attributable to Common Stockholders

For the three months ended March 31, 2005, we recorded net loss attributable to common stockholders of approximately $9.7 million. For the three months ended March 31, 2004, we recorded a net loss attributable to common stockholders of approximately $2.4 million. Included in net loss attributable to common stockholders for each of the three months ended March 31, 2005 and 2004 was $2.5 million of dividends and accretion related to our Series A redeemable convertible preferred stock. Dividends were accrued related to amounts payable quarterly on our Series A redeemable convertible preferred stock and to the accretion of the carrying amount of the Series A redeemable convertible preferred stock up to its $100 per share face redemption amount over 13 years.

Liquidity and Capital Resources

We had approximately $90.4 million in cash, cash equivalents and short-term investments as of March 31, 2005. Cash used in operating activities was approximately $2.5 million for the three months ended March 31, 2005 and resulted primarily from cash used for general corporate overhead including payroll and professional fees.

For the three months ended March 31, 2005, cash used in investing activities, excluding purchases and sales of short-term investments, was $0.3 million and resulted primarily from the $0.4 million used to purchase investments in Navigauge. Other than the $50.0 million of cash consideration payable in connection with the HNS transaction, we do not have any future funding commitments with respect to any of our investments. However, we expect that the MSV Joint Venture, AfriHUB, Miraxis and Navigauge will require additional funding from time to time, and we may choose to provide additional funding, subject to our liquidity and capital resources at the time.

Hughes Network System Transaction

On April 22, 2005, we completed the acquisition of 50% of the equity interests of HNS for $50.0 million in cash and 300,000 shares of the Company's common stock. Immediately prior to the acquisition, HNSI, a wholly-owned subsidiary of DIRECTV, contributed substantially all of the assets and certain liabilities of its very small aperture terminal, mobile satellite and carrier businesses, as well as the certain portions of its SPACEWAY Ka-band satellite communications platform that is under development, to HNS, which at the time was a wholly-owned subsidiary of HNSI. In consideration for the contribution of assets by HNSI, HNS paid HNSI $190.7 million of cash. This payment represents the $201.0 million stated in the agreement less an estimated purchase price adjustment of $10.3 million, which is subject to further adjustment depending principally upon the closing value of HNS' working capital (as defined in the agreement). Concurrently, HNS incurred $325.0 million of term indebtedness and obtained a $50.0 million revolving credit facility. We and HNSI have each granted a security interest in our respective equity interest in HNS to secure the obligations of HNS under the term indebtedness. Following the acquisition, we serve as the managing member of HNS. We will account for our interest in HNS under the equity method in accordance with FIN 46R, as we will not be the primary beneficiary, as defined in FIN 46R, of HNS.

Series A Redeemable Convertible Preferred Stock Dividend

In accordance with the terms of our preferred stock, the holders are

entitled to receive quarterly cash dividends commencing on July 1, 2004. The quarterly payment of approximately $1.4 million, for the three months ended December 31, 2004, was declared and paid on January 13, 2005. The quarterly payment of approximately $1.4 million, for the three months ended March 31, 2005, was declared on April 18, 2005 and paid on April 22, 2005. The aggregate annual dividend payment will be approximately $5.6 million through the mandatory redemption on June 30, 2012 or such earlier time as the terms of the preferred stock are renegotiated.

Recently Issued Accounting Standards

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS No. 123R"), a revision of SFAS No. 123. SFAS No. 123R requires entities to recognize compensation expense for all share-based payments to employees, including stock options, based on the estimated fair value of the instrument on the date it is granted. The expense will be recognized over the vesting period of the award. SFAS No. 123R is effective for annual periods beginning after June 15, 2005 and provides entities two transition methods. Under the modified prospective method, compensation expense is recognized beginning with the effective date for all awards granted to employees prior to the effective date that are unvested on the effective date. The modified retrospective method is a variation of the modified prospective method, except entities can restate all prior periods presented or prior interim period in the year of adoption using the amounts previously presented in the pro forma disclosure required by SFAS No. 123. As we currently account for share-based payments using the intrinsic value method as allowed by APB Opinion No. 25, the adoption of the fair value method under SFAS No. 123R will have an impact on our results of operations. However, the extent of the impact cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. Had we adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net (loss) income and loss per share in Note 6 to our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

As of March 31, 2005, we had $90.4 million of cash, cash equivalents and short-term cash investments. These cash, cash equivalents and short-term cash investments are subject to market risk due to changes in interest rates. In accordance with our investment policy, we diversify our investments among United States Treasury securities and other high credit quality debt instruments that we believe to be low risk. We are averse to principal loss and seek to preserve our invested funds by limiting default risk and market risk.

Foreign Currency Risk

Through March 31, 2005, our results of operations, financial condition and cash flows have not been materially affected by changes in the relative value of non-U.S. currencies to the U.S. dollars. Financial statements of AfriHUB's Nigerian operations are prepared using the Nigerian Naira as the functional currency. As we do not use derivative financial instruments to limit our exposure to fluctuations in the exchange rate with the Naira, we may experience gains or losses in future periods. The impact of a hypothetical 10% adverse change in exchange rates on the fair value of Naira denominated assets and liabilities would be an estimated loss of $0.1 million as of March 31, 2005.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the first quarter of 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

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

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

sheets.

We and certain of our subsidiaries (along with the Engelhard Corporation) are parties to an arbitration relating to certain agreements that existed between or among the claimant and ICC Technologies, Inc., our former name, and the Engelhard/ICC ("E/ICC") joint venture arising from the desiccant air conditioning business that we and our subsidiaries sold in 1998. The claimant has sought $8.5 million for (a) its alleged out of pocket losses in investing in certain of E/ICC's technology, (b) unjust enrichment resulting from the reorganization of E/ICC in 1998, and (c) lost profits arising from the fact that it was allegedly forced to leave the air conditioning business when the E/ICC joint venture was dissolved. We intend to vigorously dispute this action.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

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

Exhibit Number	Description

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10.1	-	Stockholders Agreement, dated as of May 11, 2005, by and among TerreStar Networks, Inc., MSV Investors, LLC, et al., which was filed as exhibit 10.1 to the Company's Form 10-Q for the period ended March 31, 2005 and is hereby incorporated by reference.
10.2	-	Parent Transfer/Drag Along Agreement, dated as of May 11, 2005, by and among TerreStar Networks, Inc., the Company, et al., which was filed as exhibit 10.2 to the Company's Form 10-Q for the period ended March 31, 2005 and is hereby incorporated by reference.
10.3	-	Conditional Waiver and Consent Agreement, dated as of May 11, 2005, by and among the Company, Motient Corporation, et al., which was filed as exhibit 10.3 to the Company's Form 10-Q for the period ended March 31, 2005 and is hereby incorporated by reference.
31.1	-	Certification of Jeffrey A. Leddy, Chief Executive Officer and President of SkyTerra Communications, Inc., required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	-	Certification of Craig J. Kaufmann, Controller and Treasurer of SkyTerra Communications, Inc., required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	-	Certification of Jeffrey A. Leddy, Chief Executive Officer and President of SkyTerra Communications, Inc., Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	-	Certification of Craig J. Kaufmann, Controller and Treasurer of SkyTerra Communications, Inc., Pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Date: November 10, 2005 By: /s/ JEFFREY A. LEDDY

Jeffrey A. Leddy
Chief Executive Officer and President
(Principal Executive Officer and
Principal Financial Officer)

Date: November 10, 2005 By: /s/ CRAIG J. KAUFMANN

Craig J. Kaufmann
Controller and Treasurer
(Principal Accounting Officer)