SKYTERRA COMMUNICATIONS INC
Form 8-K/A
February 21, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K/A

(Amendment No. 2)

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported):

February 21, 2006 (December 30, 2005)

SkyTerra Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**000-13865**	**23-2368845**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification Number)

19 West 44th Street, Suite 507, New York, New York 10036

(Address of principal executive offices, including zip code)

(212) 730-7540

(Registrant s telephone number, including area code)

N/A

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Explanatory Paragraph

The undersigned registrant hereby amends and restates Section 9 of its current report on Form 8-K, originally filed with the Securities and Exchange Commission on January 3, 2006, as amended on January 4, 2006 (including such amendment, the Original 8-K), to include the requisite historical financial information of Hughes Network Systems (HNS) and the pro forma financial statements of the registrant. The complete text of Section 9 as amended and restated is as follows. This current report on Form 8-K also amends Item 2.01 of the Original 8-K to include information relating to a subsequent disposition of assets by the registrant as a result of the completion of the registrant s previously announced special dividend distribution.

Section 2 Financial Information

Item 2.01 Completion of Acquisition or Disposition of Assets

On February 21, 2006, SkyTerra Communications, Inc. (the Company) paid its previously announced special dividend, consisting of all the outstanding common stock of Hughes Communications, Inc. (Hughes), formerly the Company s wholly-owned subsidiary (the Distribution). To effect the Distribution, the Company distributed to each of its stockholders one-half of one share of Hughes common stock for each share of the Company s common or non-voting common stock held as of the close of business on February 13, 2006 (or, in the case of the Company s preferred stock and Series 1-A and 2-A warrants, in accordance with their terms, one-half of one share of Hughes common stock for each share of the Company s common stock issuable upon conversion or exercise of such preferred stock and warrants held as of the close of business on February 13, 2006).

Section 9 Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired.
The historical financial statements of HNS required in connection with the acquisition described in Item 2.01 were filed on February 10, 2006 as pages F-60 through F-100 of Amendment No. 4 to Registration Statement on Form S-1 for Hughes Communications, Inc. (File No. 333-130136) and are hereby incorporated herein by reference.

(b) Pro Forma Financial Information.
The following unaudited pro forma condensed consolidated statement of operations presents the Company s results of operations for the year ended December 31, 2004 and the nine months ended September 30, 2005 assuming the following occurred on January 1, 2004: (i) the acquisition of 50% of the Class A membership interests of Hughes Network Systems, LLC (HNS) from DTV Networks, Inc. (DTV Networks), a wholly owned subsidiary of The DIRECTV Group, Inc. (DIRECTV), on April 22, 2005, (ii) the acquisition of the remaining 50% of the Class A membership interests of HNS from DTV Networks on January 1, 2006 (the HNS Acquisition), (iii) the receipt of a $100.0 million loan from Apollo used to finance the purchase price of the HNS Acquisition, (iv) the conversion by MSV Investors, LLC (the MSV Investors Subsidiary), an 80% owned subsidiary of the Company, of the convertible promissory notes (the MSV Notes) of Mobile Satellite Ventures LP (the MSV Joint Venture) in the principal amount of approximately $51.1 million into limited partnership interests of the MSV Joint Venture on November 12, 2004 (the Conversion), (v) the issuance by the MSV Joint Venture of additional limited partnership units in exchange for $145.0 million in cash and the conversion (including the Conversion) or exchange of approximately $84.9 million of debt securities and accrued interest on November 12, 2004 (the MSV Joint Venture Financing) and (vi) the Distribution. The following unaudited pro forma condensed consolidated balance sheet presents the Company s financial position assuming that the following occurred on September 30, 2005: (i) the HNS Acquisition, (ii) the receipt of the $100.0 million loan from Apollo used to finance the purchase price of the HNS Acquisition and (iii) the Distribution.

The unaudited pro forma condensed consolidated financial statements include allocations of the purchase price in connection with the HNS Acquisition. These allocations are based on preliminary estimates of the fair value of the assets acquired and liabilities assumed, available information and management assumptions and may be revised as additional information becomes available. The final purchase price allocation is dependent on the finalization of asset and liability valuations. This final valuation will be based on the actual net tangible and intangible assets that exist on the closing date of the HNS Acquisition. Any adjustments to the fair value assigned to the assets and liabilities could result in a change to the unaudited pro forma condensed consolidated financial statements.

Notwithstanding the legal form of the Distribution, Hughes will be considered the divesting entity and treated as the accounting successor to the Company for financial reporting purposes in accordance with Emerging Issues Task Force Issue No. 02-11, Accounting for Reverse Spin-offs, (EITF 02-11) due to, among other things, (i) the businesses transferred to Hughes generated all of the Company s consolidated revenues for the year ended December 31, 2004 and for the nine months ended September 30, 2005 and constitute a majority of the book value of the Company s assets as of September 30, 2005 and (ii) the businesses transferred to Hughes include the Company s discontinued operating subsidiaries and all of the assets and liabilities relating to such subsidiaries. The Distribution will be accounted for pursuant to Accounting Principles Board, or APB, Opinion No. 29, Accounting for Non-monetary Transactions. Accordingly, the Distribution will be accounted for based upon the recorded amounts of the net assets to be divested. Following the Distribution, the Company will report the historical results of operations (subject to certain adjustments) of the assets of which it retains ownership and control in its consolidated financial statements.

The unaudited pro forma condensed consolidated financial statements set forth below should be read in conjunction with the historical financial statements, and the related notes thereto, of the Company, the MSV Joint Venture and HNS. The historical financial statements of HNS and the related notes thereto as of and for the year ended December 31, 2004 and as of and for the nine months ended September 30, 2005 are incorporated by reference in Item 9.01(a) of this current report on Form 8-K. The historical financial statements of each of the Company and the MSV Joint Venture and the related notes thereto as of and for the year ended December 31, 2004 and as of and for the nine months ended September 30, 2005 have been previously filed with the Securities and Exchange Commission. The unaudited pro forma condensed consolidated financial statements do not purport to represent what the Company s results of operations or financial condition would actually have been had the HNS Acquisition, the Distribution and the other transactions, as applicable, in fact occurred as of such date or to project our results of operations for any future period or as of any future date.

SKYTERRA COMMUNICATIONS, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2004					
	SkyTerra Historical	HNS Historical	Acquisition Adjustments	Subtotal	Distribution Adjustments	SkyTerra Pro Forma
	(in thousands, except share data)					
Revenues:						
Services	$ 2,127	$ 387,591	$	$ 389,718	$ (389,718)(10)	$
Hardware sales		401,759		401,759	(401,759)(10)	
Total revenues	2,127	789,350		791,477	(791,477)	
Operating costs and expenses:						
Cost of services	2,072	290,469	(575)(1)	274,472	(274,472)(10)	
			(15,494)(2)			
			(2,000)(3)			
Cost of hardware products sold		322,507	(1,251)(1)	286,070	(286,070)(10)	
			(35,699)(2)			
			513(4)			
Research and development		71,733	(1,515)(1)	54,952	(54,952)(10)	
			(15,266)(2)			
Sales and marketing		72,564	(195)(1)	71,542	(71,542)(10)	
			(827)(2)			
General and administrative	11,155	85,538	(2,972)(1)	90,700	(89,663)(10)	1,037
			(3,021)(2)			
Restructuring costs		10,993		10,993	(10,993)(10)	
SPACEWAY impairment provision		1,217,745		1,217,745	(1,217,745)(10)	
Asset impairment provision	755	150,300		151,055	(151,055)(10)	
Total operating costs and expenses	13,982	2,221,849	(78,302)	2,157,529	(2,156,492)	1,037
Operating (loss) income	(11,855)	(1,432,499)	78,302	(1,366,052)	1,365,015	(1,037)
Interest income (expense), net	10,548	(7,466)	(5,552)(5)	(38,341)	38,341(10)	
			(35,871)(6)			
Equity in loss of Mobile Satellite Ventures LP	(1,020)		(4,818)(7)	(5,838)		(5,838)
Loss on investment in affiliates	(1,336)			(1,336)	1,336(10)	
Other income (expense), net	21,045	6,481		27,526	(27,526)(10)	
Minority interest	(216)		2,074(8)	1,858		1,858
Income (Loss) before income tax benefit	17,166	(1,433,484)	34,135	(1,382,183)	1,377,166	(5,017)
Income tax benefit					1,906(11)	1,906
Net income (loss)	17,166	(1,433,484)	34,135	(1,382,183)	1,379,072	(3,111)
Cumulative dividends and accretion of convertible preferred stock to liquidation value	(9,918)			(9,918)		(9,918)
Net income (loss) attributable to common stockholders	$ 7,248	$ (1,433,484)	$ 34,135	$ (1,392,101)	$ 1,379,072	$ (13,029)
Basic earnings (loss) per common share	$ 0.48			$ (90.30)		$ (0.85)

Basic weighted average common shares outstanding	15,115,895	300,000(9)	15,415,895	15,415,895
Diluted earnings (loss) from per common share	$ 0.46		$ (90.30)	$ (0.85)
Diluted weighted average common shares outstanding	15,837,370		15,415,895	15,415,895

(1) Adjustment reflects elimination of rent and certain other direct costs associated with facilities retained by DIRECTV following the April 2005 acquisition by the Company of 50% of the Class A membership interests of HNS.

(2) Adjustment reflects the decrease in depreciation and amortization expense which resulted from the application of purchase accounting in connection with the HNS Acquisition.

(3) Adjustment reflects amortization of $2.0 million of the liability for unfavorable satellite capacity leases held by HNS which was recorded in connection with the application of purchase accounting as a result of the HNS Acquisition.

(4) Prior to the April 2005 acquisition, DIRECTV issued letters of credit to support certain contractual obligations of HNS. Following the April 2005 acquisition, HNS replaced certain of these letters of credit with new letters of credit issued under its revolving credit facility. The adjustment reflects the incremental fees related to letters of credit issued under HNS revolving credit facility. As these letters of credit primarily support certain property and equipment used in the production of HNS hardware, the fees associated with the letters of credit have been classified as cost of hardware products sold.

(5) Adjustment reflects elimination of interest earned on the MSV Notes.

(6) Reflects the following adjustments to interest income (expense), net (in thousands):

Interest expense on the term indebtedness and revolving credit facility (a)	$ (27,040)
Interest expense on the loan from Apollo (b)	(8,000)
Amortization of debt issuance costs (c)	(1,454)
Interest expense on debt repaid by DIRECTV (d)	623
	$ (35,871)

(a) In connection with the April 2005 acquisition, HNS obtained a first lien credit facility of $275.0 million, a second lien credit facility of $50.0 million and a revolving credit facility of $50.0 million. The adjustment reflects the net change in interest expense had HNS obtained the credit facilities on January 1, 2004. The pro forma interest expense was calculated using an interest rate of 7.625% on the first lien credit facility, 11.875% on the second lien credit facility and a 0.50% commitment fee on the revolving credit facility, reflecting the rates in effect as of September 30, 2005.

(b) Adjustment reflects interest expense accrued at 8.0% per annum on the $100.0 million loan from Apollo.

(c) Adjustment reflects amortization of capitalized debt issuance costs of $10.5 million over the term of the credit facilities obtained in April 2005.

(d) Adjustment reflects elimination of interest expense relating to debt repaid by DIRECTV in connection with the April 2005 acquisition.

(7) Adjustment reflects the Company s proportionate share of the MSV Joint Venture s net loss (as adjusted for the elimination of interest expense on the debt securities exchanged or converted as part of the MSV Joint Venture Financing) as accounted for under the equity method.

(8) Adjustment reflects the portion of the amounts included in footnotes (5) and (7) above which are attributable to the group of unaffiliated third parties that own approximately 20% of the MSV Investors Subsidiary.

(9) Adjustment reflects shares of the Company s common stock issued to DIRECTV in connection with the April 2005 acquisition of 50% of the Class A membership interests of HNS.

(10) In accordance with EITF 02-11, Hughes will be considered the divesting entity and treated as the accounting successor to the Company for financial reporting purposes. The adjustment reflects the elimination of the historical income and expenses of the Company, other than approximately $0.4 million related to its interest in the MSV Joint Venture and TerreStar Networks, Inc. (TerreStar) and an allocation of approximately $0.6 million of corporate overhead expenses. The allocation of corporate overhead expenses, which includes costs for functions such as executive management, accounting, legal, human resources, information systems and insurance, is based on an estimate of time spent by the Company s employees performing services related to the MSV Investors Subsidiary, including issues related to the MSV Joint Venture and TerreStar.

(11) Adjustment reflects the income tax benefit which would be received by the Company on a separate return basis using an estimated effective income tax rate of 38%.

SKYTERRA COMMUNICATIONS, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Nine Months Ended September 30, 2005					
	SkyTerra Historical	HNS Historical	Acquisition Adjustments	Subtotal	Distribution Adjustments	SkyTerra Pro Forma
	(in thousands, except share data)					
Revenues:						
Services	$ 661	$ 311,933	$	$ 312,594	$ (312,594)(10)	$
Hardware sales		266,845		266,845	(266,845)(10)	
Total revenues	661	578,778		579,439	(579,439)	
Operating costs and expenses:						
Cost of services	445	221,587	$ (380)(1)	222,188	(222,188)(10)	
			1,036(2)			
			(500)(3)			
Cost of hardware products sold		206,002	(537)(1)	189,102	(189,102	