SKYTERRA COMMUNICATIONS INC
Form 10-K
March 02, 2009

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act

of 1934 for the fiscal year ended December 31, 2008, or

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

of 1934 for the transition period from to

Commission file number 000-13865

SKYTERRA COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**23-2368845** (I.R.S. Employer Identification Number)
10802 Parkridge Boulevard	
Reston, VA 20191 (Address of principal executive offices)	**20191** (Zip Code)

Registrant’s telephone number, including area code: (703) 390-1899

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.01 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes o No x

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Act).

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o	Smaller reporting company o

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

Yes o No x

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, as of June 30, 2008, was $256,882,543. As of February 18, 2009, there were 48,822,787 shares of our voting common stock and 59,958,499 shares of our non-voting common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement intended to be filed by Registrant with the Commission prior to April 30, 2009 are incorporated by reference into Part III of this Report.

SKYTERRA COMMUNICATIONS INC.

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PART I

Forward-Looking Statements

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. 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. Because our business is subject to numerous risks, uncertainties and other factors, our actual results could differ materially from those anticipated in the forward-looking statements. These risks and uncertainties include those set forth below under “Item 1. Business,” “Item 1A. Risk Factors,” “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report. Actual results may differ from the forward looking statements in this report, 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 factors set forth below under “Item 1. Business,” “Item 1A. Risk Factors,” “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other cautionary statements made in this report should be read and understood as being applicable to all related forward-looking statements wherever they appear in this report.

Information about Exhibits Included in this Form 10-K

In reviewing the agreements included or incorporated by reference as exhibits to this Form 10K, please remember they are intended to provide you with information regarding their terms and are not to provide any other factual or disclosure information about the Company or the other parties thereto. Certain of the agreements contain representations and warranties by the parties named therein. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

• should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one or more of the parties if those statements prove to be inaccurate;

• have been qualified by disclosures that were made to the other party or parties in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

• may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

• were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Form 10-K and the Company’s other public filings, which are available without charge through the SEC’s website at http://www.sec.gov. Please also see the section entitled “Available Information” in Part 1, Item 1 of this report.

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Item 1. Business

Name Change of SkyTerra Subsidiaries

On December 8, 2008 the names of all SkyTerra subsidiaries that used "Mobile Satellite Ventures" in any part of their name were changed to replace the "Mobile Satellite Ventures" portion of the name with "SkyTerra," including those listed in the table below which indicates the previous and current name of each subsidiary:

Former Name:	New Name:
Mobile Satellite Ventures GP Inc.	SkyTerra GP Inc.
Mobile Satellite Ventures LP	SkyTerra LP
Mobile Satellite Ventures (Canada) Inc.	SkyTerra (Canada) Inc.
Mobile Satellite Ventures Holdings (Canada) Inc.	SkyTerra Holdings (Canada) Inc.
MSV Finance Co.	SkyTerra Finance Co.

In this Form 10-K, unless otherwise stated or the context otherwise requires, references to "we," "us," "our," the "Company" and similar references refer to SkyTerra Communications, Inc. (SkyTerra) and its directly or indirectly owned subsidiaries, including SkyTerra LP and its subsidiaries. SkyTerra LP holds a 46.4% effective interest in SkyTerra (Canada) Inc. ("SkyTerra Canada") through its 20% interest in SkyTerra Canada and a 33% interest in SkyTerra Holdings (Canada) Inc, which is the parent company of SkyTerra Canada. SkyTerra LP has determined that it is the primary beneficiary of SkyTerra Canada as a result of its obligation, by contract, to fund the operations of SkyTerra Canada, and as a result of a rights and services agreement and a capacity lease agreement between SkyTerra LP and SkyTerra Canada. As such, and in accordance with FASB Interpretation No. 46, *Variable Interest Entities* (FIN 46), SkyTerra Canada has been consolidated into the financial results of SkyTerra LP. SkyTerra Canada is Canadian owned and controlled within the meaning of the Telecommunications Act (Canada) and the Radiocommunication Regulations (Canada). Unless otherwise stated, references to "our satellites," "our spectrum," "our authorizations," "our network" and similar references refer to the satellites, spectrum, authorizations and networks of SkyTerra LP and SkyTerra Canada.

SkyTerra Communications

SkyTerra has five officers and no other employees. All SkyTerra officers are full-time employees of SkyTerra LP. Through SkyTerra LP and other of the Company's subsidiaries and affiliates, the Company is pursuing plans to develop, build and operate a next generation mobile satellite system complemented by an ancillary terrestrial component. Ancillary terrestrial component (ATC) permits the use of its L-band satellite frequencies in the operation of an advanced, integrated satellite and terrestrial hybrid network capable of providing wireless broadband on a fixed, portable and fully mobile basis in the United States. The Company's subsidiaries and affiliates operate in the United States and Canada. The Company was incorporated in Delaware in 1985 as International Cogeneration Corporation.

Over the past several years the Company has consummated a series of transactions to acquire additional interests in SkyTerra LP, its principal operating subsidiary, from SkyTerra LP's other limited partners in exchange for shares of SkyTerra voting and non-voting common stock. As a result, SkyTerra now owns 100% of SkyTerra LP. In addition to SkyTerra LP, SkyTerra owns 11.1% of TerreStar Networks Inc. (TerreStar Networks).

SkyTerra LP Exchange Transactions

On September 25, 2006, the Company issued 39.6 million shares of its voting and non-voting common stock to TerreStar Corporation and other partners in SkyTerra LP in exchange for limited partnership interests in SkyTerra LP (the "2006 SkyTerra LP Exchange Transactions"), resulting in SkyTerra owning 59% of SkyTerra LP as of the closing. Pursuant to the terms of these transactions, TerreStar Corporation agreed to use commercially reasonable efforts to distribute the 25.5 million shares of the Company's common stock that it received to its common stockholders. Prior to any such distribution these shares were non-voting. TerreStar Corporation was also given the right to exchange its remaining limited partnership interests of SkyTerra LP for shares of the Company's non-voting common stock at a predefined ratio.

Notwithstanding the legal form of the transactions, the 2006 SkyTerra LP Exchange Transactions were accounted for as a reverse acquisition, with SkyTerra LP being treated as the accounting acquirer of SkyTerra. Accordingly, the historical financial statements of the Company prior to September 25, 2006 are the historical financial statements of SkyTerra LP. The

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consolidated financial statements of SkyTerra LP were retroactively adjusted to reflect the recapitalization of SkyTerra LP with the 39.6 million shares of SkyTerra common stock issued to SkyTerra LP equity holders in the 2006 SkyTerra LP Exchange Transactions.

On January 5, 2007, the Company acquired all of the equity interests in SkyTerra LP owned by BCE Inc. (BCE) through the purchase of a BCE wholly-owned subsidiary, TMI Communications Delaware Limited Partnership (TMI Delaware). The Company issued 22.5 million shares of non-voting common stock in exchange for limited partnership interests in SkyTerra LP (the “BCE Exchange Transaction”). These shares of non-voting common stock are exchangeable for a like number of shares of voting common stock upon a sale by BCE in the open market or to a person who will not beneficially own 10% or more of the Company’s voting common stock. In addition, the Company issued 176,250 shares of common stock to Winchester Development LLC, a company beneficially owned by a former director of SkyTerra LP. Such shares were issued in exchange for $0.4 million in cash and limited partnership interests of SkyTerra LP. This transaction, together with the BCE Exchange Transaction, resulted in the Company owning 81% of SkyTerra LP.

On February 12, 2007, the Company issued 14.4 million shares of common stock to TerreStar Corporation as a result of TerreStar Corporation exercising its option to exchange a portion of its remaining limited partnership interests in SkyTerra LP. As a result, the Company’s ownership of SkyTerra LP increased to 95%. On November 30, 2007, the Company issued 4.4 million shares of common stock to TerreStar Corporation as a result of TerreStar Corporation exercising its option to exchange the remaining limited partnership interests in SkyTerra owned by it. As a result, the Company’s ownership of SkyTerra LP increased to 99.3%.

On December 10, 2008, the Company issued 736,209 shares of voting common stock to the remaining minority limited partners and acquired all of the remaining limited partnership interests in SkyTerra LP it did not already own. As a result, the Company’s ownership of SkyTerra LP increased to 100%.

SkyTerra and SkyTerra LP Unit Option Exchange

On August 6, 2008 the Company completed an offer to all SkyTerra LP option holders as of that date, to grant them new options, generally in exchange for surrender and termination of their SkyTerra LP options (the “Option Exchange”). All participating U.S. SkyTerra LP option holders received options to purchase shares of SkyTerra common stock pursuant to the terms of the Option Exchange at a ratio of 2.82 SkyTerra options for each SkyTerra LP option terminated, with an exercise price equal to the exercise price of the SkyTerra LP options terminated divided by 2.82. All participating Canadian SkyTerra LP option holders received the right to exchange SkyTerra LP options for SkyTerra options on the same terms in the future. Sale of all shares subject to the options received upon exchange is subject to restriction until May 1, 2010, with certain exceptions that could result in earlier termination of the restrictions. Upon the release of these restrictions, Canadian SkyTerra LP option holders participating in the Option Exchange will have three business days to complete the exchange of their respective SkyTerra LP options for SkyTerra options, or their SkyTerra LP options will become unexercisable.

Upon consummation of the Option Exchange, 11 million SkyTerra options were issued in exchange for SkyTerra LP options held by U.S. SkyTerra LP option holders. Additionally, Canadian SkyTerra LP option holders received rights to receive 1.7 million SkyTerra options if they exchange their respective SkyTerra LP options for SkyTerra options in the future.

SkyTerra LP

Next Generation Network

SkyTerra LP is developing an integrated satellite and terrestrial communications network to provide ubiquitous wireless broadband services, including internet access and voice services, in the United States and Canada. SkyTerra LP plans to launch two new satellites, SkyTerra-1 and SkyTerra-2 (formerly MSV-1 and MSV-2), that will serve as the core of its next generation network. The Company is working closely with Boeing, the satellite manufacturer of both SkyTerra-1 and SkyTerra-2, to carefully track, monitor and support the progress of the satellite construction program. Based on Boeing’s most recent estimates, SkyTerra-1 will be available for launch in very late 2009. To ensure the availability of a launch window for SkyTerra-1, and accounting for the possibility of potential future construction or other delays that have occurred on other complex spacecraft, SkyTerra has selected a launch window that provides scheduled launch assurance in case the manufacturer’s construction schedule is delayed.

Specifically, SkyTerra has contracted for a launch window for SkyTerra-1 that opens in March of 2010 and continues through May 2010. This date was selected carefully, to account for the possibility of future manufacturer construction delays as mentioned above. If SkyTerra-1 construction does not deviate from its current schedule, SkyTerra may seek an earlier

launch date from the launch service provider, including late 2009. While there can be no guarantee of the availability of such earlier launch time, SkyTerra believes the launch service provider will work in good faith to accommodate an earlier launch.

The launch of SkyTerra-2 is currently expected to occur in the fourth quarter of 2010 or the first quarter of 2011 and, similar to SkyTerra-1, within all regulatory milestones.

The Company's current and next generation satellite systems are licensed by either the United States or Canadian governments to operate in the 1.5 - 1.6 GHz frequency band (the "L-band") using spectrum that SkyTerra LP and SkyTerra Canada have coordinated for their use. This spectrum is positioned between the frequencies used by terrestrial wireless providers. SkyTerra LP and SkyTerra Canada have coordinated approximately 30 MHz of this spectrum throughout the United States and Canada and this coordinated spectrum covers a total population of over 330 million**.** The Company plans to use its spectrum for both satellite and terrestrial service in operating its next generation integrated network.

SkyTerra LP holds an ATC authorization that permits the use of its L-band satellite frequencies in the operation of an advanced, integrated satellite and terrestrial hybrid network capable of providing wireless broadband on a fixed, portable and fully mobile basis in the United States. Deployment of an ATC network has not yet begun, and development is in process. SkyTerra LP was the first mobile satellite service ("MSS") provider to receive a license to operate an ATC network from the Federal Communications Commission ("FCC") and was a major proponent of the FCC's February 2003 and February 2005 ATC and ATC Reconsideration Orders, both of which were adopted on a bipartisan, 5-0 basis.

With access to spectrum that is conducive for mobile and fixed broadband wireless services, the Company believes it is well positioned to support an extensive wireless business plan. The next generation integrated network may create the opportunity to use the Company's United States and Canadian nationwide spectrum, in its current configuration, to establish a strong position within the wireless industry. Using an all-Internet Protocol, open architecture, the Company believes its network will provide significant advantages over existing wireless networks. Such potential advantages include higher data speeds, lower costs per bit, flexibility to support a range of custom IP applications and services, and added communications flexibility in the event terrestrial services are unavailable or interrupted. The Company's current business plan envisions a "carrier's carrier" wholesale model whereby strategic partners and other wholesale customers can use the Company's network to provide differentiated broadband services to their subscribers. The Company's planned open network, in contrast to legacy networks currently operated by incumbent providers, will allow distribution and other strategic partners to have open network access to create a variety of custom applications and services for consumers.

The Company believes the changing dynamics of the telecommunications industry have created a compelling market opportunity for its next generation network. Increased competition, industry consolidation, wireless substitution for wireline services and the general convergence of media and telecommunications have led major service providers to attempt to offer consumers a bundle of video, broadband data, voice and mobile wireless services. However, incumbent wireless providers may be constrained by certain factors, such as their spectrum positions and legacy second generation ("2G") and 3G circuit-switched network architectures, as the demand for an advanced bundle has increased. Wireless carriers may also be pursuing different market strategies based upon their existing networks and customers rather than offering new services like those we plan to provide using next generation integrated technology. New technologies are emerging to deliver advanced broadband wireless services and applications to a potentially wide range of devices at price points we believe will be lower than those offered by incumbents' legacy networks.

The Company anticipates that our United States and Canadian nationwide spectrum holdings and strategy to deploy a wireless, all-IP network will, through wholesale customers and other strategic distribution partners, have the potential to provide superior connectivity to an array of devices, satisfy the evolving needs of the industry and capture a greater percentage of the consumer's total spending on communications services. The potential market opportunity may include participation from large enterprises that have limited access to the wireless services business (potentially including content companies, video service providers, web services firms, consumer electronics companies, enterprise service providers, device and chipset vendors and Internet service providers). Those enterprises have large, loyal customer bases and are exploring opportunities to incorporate broadband wireless connectivity to differentiate and expand their core service offerings.

While the Company has been focused on a wholesale, "carriers carrier" business model, conversations have nonetheless taken place with strategic partners who view the Company's assets, including access of up to a potential 46 MHz of spectrum and the ability to provide a differentiated, integrated satellite-terrestrial service, as a very attractive platform for the delivery of 4G services using traditional models for the distribution of services and content. Such traditional business models include potential exclusive relationships with existing operating partners and/or new entrants.

Current Generation Network

SkyTerra LP offers a range of mobile satellite services using two nearly identical geostationary satellites that support the delivery of data, voice, fax and dispatch radio services. SkyTerra LP offers services to a number of vertical markets in the United States and Canada. Penetration is highest in markets where terrestrial wireless infrastructure is cost-prohibitive or non-existent, where point-to-multipoint services such as voice dispatch are essential for ongoing operations, or where network availability is a critical requirement for service.

SkyTerra LP provides wholesale satellite capacity to customers who implement their own networks. These customers typically purchase specified amounts of bandwidth and power. The bandwidth and power are dedicated to the customer and are not subject to other sale, or to preemption except for emergency purposes as provided in our authorizations from the FCC and Industry Canada. A majority of these customers access the network for fleet management and asset tracking services.

SkyTerra LP markets satellite telephony services through dealers in the United States and on a wholesale basis in the United States and Canada. The basic service is two-way circuit switched voice, facsimile and data at up to 4.8 kbps. A range of satellite handset configurations is available to address the particular communications needs of select markets. User equipment can be installed on trucks, ships, and airplanes or at a fixed location. Customers can use the phones for standard voice communication, including value added services such as call forwarding, call waiting, and conference calling, as well as for file transfers, faxes and e-mail. Many of these users are federal, state and local agencies involved in public safety and security that depend on the Company’s network for redundant and ubiquitous wireless services during daily operations and in the case of emergencies.

In addition to circuit switched service, SkyTerra LP provides satellite-delivered “dispatch” service. Dispatch service provides the wide-area equivalent of push-to-talk two-way radio service among users in customer defined groups. Each user can belong to as many as 15 groups, and each group can have up to 9,999 members. Group members can operate anywhere in the United States and Canadian coverage area. Dispatch service facilitates team-based group operations and is highly suited for emergency communications.

Circuit switched users are charged both fixed access and variable usage fees. Dispatch users pay a fixed access fee for unlimited usage; however, the fee varies with the coverage available. Monthly fees for satellite voice users range from $25 for certain public safety and emergency applications to over $100 for high volume users.

Packet data services is distributed through a reseller channel and provides the capability to transmit data in an “always-on” fashion (circuit switched service requires establishment of a dedicated connection for every new data transaction). Common applications include fleet and load management, credit card verification, e-mail, vehicle position reporting, mobile computing, and data message broadcasting.

SkyTerra LP currently sells a mobile transceiver for use with our telephony and dispatch services. This device provides integrated Global Positioning Satellite (“GPS”) capability. The Company offers a PSTN telephony interface box manufactured by Link Communications, Inc. The interface allows customers to use SkyTerra LP’s MSAT-G2 voice and push-to-talk services using a conventional analog cordless phone. For packet data services, the Company uses terminal equipment from EMS technologies. The EMS PDT-100 is an integrated vehicle mounted antenna and transceiver unit that is used with a variety of user interface devices. The network terminates calls from its telephony services via both the AT&T and Sprint networks in the United States and via Bell Canada in Canada.

Competition

SkyTerra LP’s current products and services compete with a number of communications services, including existing satellite services offered by Iridium, Globalstar LLC and Inmarsat, terrestrial air-to-ground services, and terrestrial land-mobile and fixed services and may compete with new technologies in the future. Iridium and Globalstar provide voice, data, and paging services via constellations of Low Earth Orbiting satellites that cover the globe. The Iridium and Globalstar systems are more complex and expensive than the Company’s satellite network and offer some advantages over the Company’s voice services such as smaller handheld telephones, global coverage, and in certain circumstances, reduced transmission delay. However, neither company currently offers a commercial satellite dispatch service. Inmarsat’s primary offerings consist of maritime voice, facsimile and data services. The Inmarsat system has higher per minute charges than those charged by the Company for comparable service. Inmarsat’s current generation of satellites, Inmarsat-4, are more powerful than the Company’s current operating satellites. One of Inmarsat’s current generation satellites covers most of North America and is used to provide Inmarsat’s new Broadband Global Area Network service in addition to traditional Inmarsat services.

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Spectrum Improvement – Agreement with Inmarsat

To improve our spectrum assets, in December 2007, SkyTerra, SkyTerra LP, and SkyTerra Canada (together the “SkyTerra Parties”) and Inmarsat Global Limited (“Inmarsat”) entered into a Cooperation Agreement relating to the use of L-band spectrum for both MSS and ATC services in North America. The Cooperation Agreement addresses a number of regulatory, technology and spectrum coordination matters involving L-band spectrum, including:

- Coordination of the parties’ respective next generation satellite systems covering North America;
- Provisions for re-banding the parties’ L-band spectrum in North America that provide each party with increased contiguous spectrum bandwidth for their operations. This increased contiguity will occur in a phased approach, with certain phases dependent on the payment of designated amounts to Inmarsat by the SkyTerra Parties, and upon the occurrence of various financial, regulatory and other governmental actions;
- Provisions for increased flexibility in system operations and system enhancements that will result in greater protection from harmful interference for all relevant systems operations, and that progressively increases flexibility and supports more robust MSS/ATC operations, from the onset of the Cooperation Agreement through the various options that the SkyTerra Parties may exercise;
- Provisions for increased reuse of a substantial segment of North American L-band spectrum to support the deployment of new services and to provide increased innovation and customer service to all users throughout North America;
- Settlement of outstanding regulatory disputes regarding the operation of certain L-band MSS and MSS/ATC services; and
- Pre-negotiated financial and operational terms for an option for the SkyTerra Parties to obtain additional spectrum and technical flexibility for the deployment and operation of a 4G ATC network.

In addition, upon the achievement of certain events, including regulatory approvals and coordination among the other L-band operators, SkyTerra LP and SkyTerra Canada, would, over time, have the potential for coordinated access for up to 2 x 23 MHz of L-band spectrum (including large blocks of contiguous channels).

Possible Merger and Acquisition of Inmarsat - Master Agreement with Harbinger

In July 2008, the Company, SkyTerra LP and SkyTerra Subsidiary LLC entered into a Master Contribution and Support Agreement (the “Master Agreement”) and certain other agreements with Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Partners Special Situations Fund L.P., Harbinger Capital Partners Fund I, L.P., and Harbinger Co-Investment Fund, L.P. (together "Harbinger"). The Master Agreement provides for the possible combination of the Company and Inmarsat plc ("Inmarsat"), a UK public listed company and a leading provider of global mobile satellite services. Harbinger owns approximately 28.8% of the issued and outstanding ordinary shares of Inmarsat. Pursuant to the Master Agreement, the proposed business combination of the Company and Inmarsat would be structured as an offer by the Company for all of the issued and outstanding shares of Inmarsat not owned by Harbinger, and would be subject to the receipt of required regulatory and antitrust clearances.

On August 22, 2008, pursuant to the Master Agreement, Harbinger and the Company submitted applications to the FCC seeking consent for transfer of control of the Company to Harbinger and consent for the possible business combination between the Company and Inmarsat. The applications also sought a declaratory ruling approving a range of possible foreign ownership levels associated with Harbinger’s ownership of up to 100% of the Company.

On August 22, 2008, the Company filed a notice with the U.S. Department of Justice's Antitrust Division under the Hart-Scott-Rodino Act in connection with the possible offer by the Company for Inmarsat. On September 22, 2008, the 30-day Hart-Scott-Rodino waiting period expired without any action from the U.S. Department of Justice’s Antitrust Division. No second request was issued.

The Company and Harbinger expect the FCC approval process to take approximately 12 to 18 months from the July 2008 announcement. The Company is continuing to work cooperatively with Harbinger with respect to the possible offer for Inmarsat, including obtaining all required regulatory approvals for the business combination.

Assuming an acceptable conclusion to the regulatory approval process and Harbinger’s determination to proceed with the transaction, the proposed business combination with Inmarsat is expected to be structured as an offer by SkyTerra to acquire all issued and to be issued shares of Inmarsat not owned by Harbinger (the "Offer"), on terms to be determined by

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Harbinger and in accordance with the Master Agreement. Harbinger has not yet proposed the formal terms or structure of a possible Offer to SkyTerra or Inmarsat. Harbinger may terminate the Master Agreement at any time and is not obligated to proceed with any business combination transaction involving SkyTerra and Inmarsat.

If Harbinger decides to proceed with the Offer following the receipt of required regulatory approvals, Harbinger would arrange for committed equity and debt financing to fund the Offer. SkyTerra would undertake to use its best efforts to assist Harbinger in obtaining debt financing. To provide equity financing for the Offer, Harbinger may purchase newly issued shares of SkyTerra voting common stock for $2.4 billion in cash or such other amount as Harbinger may determine. The per share purchase price for the newly issued shares will be $10 per share subject to an adjustment ratchet relating to the successful Offer price paid for each Inmarsat share. If the Offer price for each Inmarsat share is greater or lower than 535 British Pence Sterling then the purchase price for the newly issued SkyTerra shares will increase or decrease proportionately (adjustment ratchet). The 535 British Pence Sterling per share and $10 per share prices are reference prices for the purposes of the Master Agreement and the arrangements between Harbinger and SkyTerra. The 535 British Pence Sterling per share does not constitute a term or reference price for the Offer. No Offer pricing discussion has taken place with the board of Inmarsat and no determination has been made by SkyTerra or Harbinger as to any appropriate Offer price. SkyTerra shareholders other than Harbinger may participate in the equity financing for the Offer through a rights offering of voting common stock of up to $100 million.

If the Offer is completed, Harbinger would contribute to SkyTerra 132 million ordinary shares in Inmarsat and $37.6 million in aggregate principal value of 1.75% convertible bonds issued by Inmarsat and due in 2017, in each case currently owned by Harbinger and its affiliates. In exchange for such contributions, SkyTerra would issue to Harbinger new shares of voting common stock at $10 per share subject to the adjustment ratchet. The issuance of new voting and non-voting shares of SkyTerra common stock will be subject to SkyTerra shareholder approval.

Qualcomm Satellite Enabled Mobile Chipsets for Next Generation Network

In September 2008, SkyTerra LP entered into a 15-year agreement with Qualcomm Incorporated (Qualcomm) for the provision by Qualcomm of satellite-enabled mobile chipsets and satellite base station components built upon Qualcomm-adapted EV-DO technology to facilitate the development of mobile devices and network systems for use with the Company’s planned next generation network. A broad range of Qualcomm chipsets, to be available on a mass-market basis, will include satellite and L-band capabilities. Under this agreement, SkyTerra LP and Qualcomm have completed the detailed specifications for the first release of the technology, which will be sufficient to support voice and data services in an integrated, dual mode manner over SkyTerra’s satellites and terrestrial networks, including L-band ATC.

The agreement with Qualcomm also contemplates that other operators (together with SkyTerra LP, each an Operator) may enter into similar arrangements with Qualcomm. The termination by one Operator of its agreement with Qualcomm does not affect the agreement of any other Operator. The Company has been advised that ICO Satellite Services G.P. (ICO) and TerreStar Networks have entered into a similar agreement with Qualcomm. Each Operator will fund a portion of the related non-recurring expenses (NRE) incurred in connection with the agreements, which will result in a further sharing of NRE if and when additional Operators (in addition to SkyTerra LP, ICO, and TerreStar) enter into similar agreements with Qualcomm. The SkyTerra LP portion of the NRE to be paid to Qualcomm is expected to be in an amount not to exceed $10 million, subject to reduction based on the participation of other Operators with Qualcomm.

In connection with entering into the Qualcomm agreement, SkyTerra LP and ICO have entered into a mutual non-assertion agreement with ICO with respect to relevant aspects of their respective patent portfolios as well as certain other agreements related to the Qualcomm development effort.

EV-DO Compatible Base Transceiver Subsystems

The Company is currently in negotiations with several vendors for the procurement of EV-DO compatible transceiver subsystems. The Company expects that it will enter into a material definitive contract for those subsystems during the first half of 2009.

Financing

On July 24, 2008, SkyTerra, SkyTerra LP, and SkyTerra Finance Co. entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with affiliates of Harbinger, pursuant to which SkyTerra LP and SkyTerra Finance Co. agreed to issue Harbinger up to $500 million aggregate principal amount of 18% Senior Unsecured Notes due July 1, 2013 in four tranches. The proceeds of this funding commitment are expected to fund the Company’s business plan through the third quarter of 2010. As amended, the Securities Purchase Agreement provides that the 18% Senior Unsecured Notes bear interest at a rate of 18% per annum, and that, in conjunction with the issuance of the 18% Senior

Unsecured Notes

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pursuant to the Securities Purchase Agreement, SkyTerra will issue to Harbinger warrants to purchase up to an aggregate of 32.5 million shares of voting or non-voting common stock of SkyTerra (at the option of the holder) at an exercise price of $0.01 per share of common stock. Harbinger's purchase of the 18% Senior Unsecured Notes is not conditioned upon the commencement or consummation of a business combination with Inmarsat, as described elsewhere in this document. Harbinger may not be required to purchase the 18% Senior Unsecured Notes under certain circumstances, including upon the occurrence of a material adverse effect.

On January 7, 2009 the Company issued the first of the four issuances of the 18% Senior Unsecured Notes to Harbinger under the Securities Purchase Agreement, in an aggregate principal amount of $150 million. In addition, at this closing the Company issued Harbinger ten-year warrants to purchase 7.5 million shares of the Company's voting or non-voting common stock, at an initial exercise price of $0.01 per share. The remaining $350 million of 18% Senior Unsecured Notes is scheduled to be issued to Harbinger in three tranches of $175 million, $75 million and $100 million on April 1, 2009, July 1, 2009, and January 4, 2010, respectively.

The Company is actively pursuing incremental financing alternatives to continue to increase the amount of capital available to fund current operations and development of the next generation network. The Company is considering means to raise capital, including strategic partnerships, vendor financing, sale of its interest in TerreStar Networks, and additional debt or equity financing, among others. There is no assurance that the Company can raise sufficient capital, or raise sufficient capital with terms that are favorable to the Company, and/or permitted under the terms of existing financing agreements, to complete the next generation network and realize an ATC build-out.

Intellectual Property

SkyTerra LP has prepared and filed a significant number of patent applications representing significant depth and breadth of claims related to the commercialization and development of a satellite and terrestrial integrated network. The applications have been filed in both the United States and in several key countries abroad. The Company believes that a next generation integrated network cannot effectively and efficiently be implemented on a commercially viable basis without the benefits of the patent portfolio it holds rights to. The Company is committed to vigorously enforcing and defending the rights afforded through its patents.

The Company currently, and expects to continue to, incorporate licensed patents and unpatented technology and software into existing and planned networks. Certain agreements between the Company and third parties include provisions pursuant to which the Company has or will receive a non exclusive license to developments including, among other things, technology and related software created by such third parties for use in existing and planned networks. The Company expects to enter into additional agreements in the normal course of business and with strategic partners that will include licenses to third party intellectual property as the next generation network is developed. The Company believes the intellectual property rights and licenses are sufficient in scope and duration for the operation of the business.

TerreStar Networks Inc.

The Company owns 11.1% of TerreStar Networks, which was established to develop, build and operate a next generation satellite system complemented by an ATC in the 2 GHz MSS band ("S-band"). Prior to September 12, 2008, TerreStar Corporation, the majority parent of TerreStar Networks, owned 29,926,074 millions shares of the Company.

On September 12, 2008, the Company entered into a Transfer and Exchange Agreement with TerreStar Corporation. Pursuant to the agreement future transferees of the TerreStar Networks shares held by the Company (but not the Company itself) will have the right until May 15, 2014 to exchange shares of TerreStar Networks for shares of TerreStar Corporation common stock at an exchange ratio of 4.37 shares of TerreStar Corporation common stock per TerreStar Networks share. The agreement also provides for SkyTerra's waiver of TerreStar Corporation's obligation in the Exchange Agreement among SkyTerra, TerreStar Corporation and Motient Ventures Holding Inc. (a subsidiary of TerreStar Corporation), dated May 6, 2006, to use its commercially reasonable efforts to distribute 29,926,074 shares of non-voting common stock of SkyTerra (the "SkyTerra Shares") to TerreStar Corporation's stockholders.

Employees

As of December 31, 2008, the Company and its consolidated subsidiaries had 175 employees. The Company believes its relationship with employees is good, and no employees are represented by a union. Generally, employees are retained on an at-will basis. The Company has entered into employment agreements with certain key employees. Certain employees have non-competition agreements that prohibit them from competing with the Company for various periods following termination of their employment.

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Government Regulation

The mobile satellite communications business of SkyTerra LP is subject to extensive government regulation in the United States and Canada. We are also subject to the securities laws and regulations applicable to all publicly owned companies and laws and regulations applicable to businesses generally.

Overview

The operation of our satellite system and our development of a nationwide ATC network is subject in the United States to the rules and regulations of the FCC and in Canada to the rules and regulations of Industry Canada and, to a lesser extent, the Canadian Radio-television and Telecommunications Commission, or CRTC. The FCC acts under authority established by the Communications Act and related federal laws. Among other things, the FCC allocates portions of the radio frequency spectrum to certain services and grants licenses to and regulates individual entities using that spectrum. The FCC also ensures that communications devices comply with technical requirements for minimizing interference and human exposure to radio frequency emissions. Industry Canada acts pursuant to the Radiocommunication Act (Canada) and the Telecommunications Act (Canada). Industry Canada manages the use and allocation of radio spectrum in Canada through the issuance of radio and spectrum licenses. Our satellite system's access to spectrum is in part also subject to treaty obligations of the United States and Canadian governments, including those contained in the International Radio Regulations of the International Telecommunication Union.

Beginning in January 2001, the Company filed the first ATC application and was a leader in the effort to demonstrate the public interest benefits of permitting substantial flexibility in the deployment and operation of ATC facilities. In 2003, the FCC in a bi-partisan, 5-0 decision adopted rules that permit the Company to provide broadband wireless service. The Company was then granted the first-ever ATC license in November 2004. In February 2005, the FCC followed its earlier decision with another 5-0 decision to further liberalize the technical and operational rules for ATC, enabling us to deploy a more competitive wireless broadband service. Industry Canada has adopted a similarly flexible regime for the provision of an integrated satellite terrestrial service.

Authority to Operate ATC in the United States

In February 2003, the FCC adopted a unanimous ATC Order, giving MSS operator's broad authority to use their assigned spectrum to operate an ancillary terrestrial component and providing MSS operators with ability to deploy cell sites using the same spectrum authorized for satellite operations. In February 2005, the FCC, on another unanimous vote, adopted its ATC Reconsideration Order, which substantially relaxed the technical restrictions for ATC in the L-band. These decisions establish a set of preconditions (sometimes called "gating criteria") and technical requirements for ATC operations, as well as an application process for an ATC license. With the February 2005 order, we believe the Company achieved a number of substantial, material improvements to the rules for ATC operations and, as such, gained the opportunity to deploy an ATC network with technical parameters substantially similar to those in other wireless bands, including the PCS spectrum band. The February 2005 order also gave us the opportunity to apply for certain additional flexibilities not permitted in some other wireless bands including the ability to pursue a TDD ATC configuration. The Cooperation Agreement (see Government Regulation—L-band Coordination) provides substantial additional flexibility.

Inmarsat asked the FCC to reconsider the ATC Reconsideration Order and requested the FCC to tighten the technical restrictions on L-band ATC base stations, further define the coordination obligations of L-band operators deploying ATC base stations, and limit the number of ATC terminals that can transmit simultaneously in the 1626.5-1645.5 and 1646.5-1660.5 MHz band. We opposed Inmarsat's requests. Pursuant to the Cooperation Agreement (see Government Regulation - L-band Coordination), Inmarsat has since withdrawn this filing.

L-band Coordination

The spectrum we use for communication between user terminals and our satellites is known as the "L-band." Our existing satellite system is authorized to operate its service links in a portion of two 33 MHz wide bands known as the MSS L-band. The specific allocation is 1525-1544 and 1545-1559 MHz for space-to-Earth transmissions and 1626.5-1645.5 and 1646.5-1660.5 MHz for Earth-to-space transmissions. The spectrum is allocated both internationally and domestically for MSS.

We share L-band spectrum internationally with several other MSS systems, pursuant to the Radio Regulations of the ITU. Since our system became operational in 1996, spectrum access has been governed by a multilateral five-administration agreement referred to as the "Mexico City MoU" and by bilateral agreements. The Mexico City MoU agreement provides for yearly spectrum sharing agreements, or SSAs, among the five systems that operate in North America: SkyTerra LP, SkyTerra

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Canada, Inmarsat, and, to a lesser extent, Russian and Mexican systems. In addition, a new Japanese system operates with some overlap with our satellites, requiring limited ongoing coordination.

The Company is currently in a formal process to coordinate its next generation satellites (SkyTerra-1 and SkyTerra-2) with the Mexican administration.

Spectrum availability, particularly in the L-band, is a function of not only how much spectrum is assigned to SkyTerra LP by the FCC, but also the extent to which the same L-band frequencies are used by our and other satellite systems in the North American region, and the manner of such use. All spectrum use is required to be coordinated with other parties that are providing, or plan to provide, mobile satellite based communications in the same geographical region using the same spectrum.

As described above, on December 20, 2007, SkyTerra, SkyTerra LP, SkyTerra Canada, and Inmarsat entered into the Cooperation Agreement, which includes coordination of the current and next generation satellites of the parties' satellite systems and the Company's ATC system. Pursuant to the Cooperation Agreement, the Company has withdrawn all of its filings asking the FCC to refrain from authorizing access to Inmarsat's new or relocated satellites and the Company's interference complaints with the FCC regarding those satellites. SkyTerra Canada has withdrawn its interference complaints to Industry Canada regarding these satellites and has requested that Industry Canada withdraw similar complaints that were filed by the government of Canada with the ITU and the administration of the United Kingdom. Similarly, Inmarsat has since withdrawn its challenges to the ATC Order on Reconsideration, the Company's ATC license, its pending ATC license modification application, and the FCC's determination that the Company met its initial milestones for its next generation satellites.

Under the 1999 SSA, spectrum is divided among the five L-band operators. In some cases, the spectrum assigned to the five operators is in broadband, contiguous frequency segments; in other cases, the spectrum is in narrow and non-contiguous frequency segments. As part of this assignment framework, we believe that SkyTerra LP and SkyTerra Canada have sufficient spectrum to deploy a variety of broadband wireless air interfaces including Wi-MAX, W-CDMA, CDMA EVDO and Flash-OFDM. The Cooperation Agreement provides SkyTerra LP and SkyTerra Canada access to wider and more contiguous frequency segments than the assignments that they currently have pursuant to the 1999 SSA. SkyTerra LP and SkyTerra Canada have been able to coordinate access to spectrum but additional coordination will enhance the contiguity of our spectrum. We believe it is unlikely that international coordination would result in a decrease of spectrum available to us. Other L-band MSS operators and their Administrations may have coordination goals that conflict with ours. While we believe we ultimately will achieve our coordination goals, there is no guarantee we will be able to do so.

Gating Criteria for ATC Operations

The gating criteria for ATC operations are intended to ensure that MSS spectrum continues to be used for satellite service. The primary requirements are:

- continuous satellite coverage of all fifty states, Puerto Rico, and the United States Virgin Islands;
- provision of a substantial commercial satellite service; and
- an "integrated service" offering.

The requirement for an "integrated service offering" can be met if every user device the licensee makes available permits users to communicate both through the satellite system and through the terrestrial network. The FCC has also stated that uniform pricing of satellite and terrestrial service may satisfy the integration requirement.

The rules also require us to maintain a spare satellite on the ground within one year of commencing operations and to launch it into orbit during the next commercially reasonable launch window following a satellite failure. In 2007, the FCC granted our request for waiver of this requirement.

The rules preclude the use of all spectrum by the terrestrial network if such use would be to the exclusion of any satellite service.

Technical Requirements

For each MSS band, the FCC has adopted specific technical requirements for ATC operations to prevent interference to other spectrum users. We believe that, as a practical matter, these requirements do not limit our network deployment or our ability to meet our business plans.

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We have also agreed to comply with requirements on our user terminals and base stations that we negotiated with the GPS industry to provide additional protection to GPS receivers, beyond existing mandatory limits. Our compliance with these limits is a condition of our ATC license. All of our broadband wireless system designs take into account these requirements and specifications. We believe that they do not materially limit our network deployment or our ability to achieve our business plan.

We believe that the technical requirements imposed in the L-band as a result of the 2005 ATC Reconsideration Order provide us with substantial flexibility to deploy a broadband, integrated wireless system. With the unanimous February 2005 order, we believe SkyTerra LP has achieved a number of substantial, material improvements to the technical requirements for ATC operations and has gained the ability to deploy an ATC network that is substantially similar to networks deployed in other wireless bands, including the PCS band. We believe SkyTerra LP has also achieved certain additional flexibility not available to licensees in some other wireless bands, including the opportunity to pursue a TDD or an FDD ATC configuration and the opportunity to pursue one of the multitude of state-of-the-art 3G and 4G wireless air interfaces.

Current ATC License

In November 2004, the FCC's International Bureau granted one of our wholly owned subsidiaries, SkyTerra Subsidiary LLC (formerly Mobile Satellite Ventures Subsidiary LLC) or SkyTerra Sub, an ATC license. The Bureau granted SkyTerra Sub various waivers of, or variances from, the FCC's rules, including authority to deploy ATC capable of supporting GSM, CDMA and WCDMA air interface protocols, to use a link-margin booster in conjunction with ATC terminals used with our current generation satellites, and to initiate ATC services without constructing a new satellite of the same design as the current generation in-orbit satellites to have as an on-ground spare.

The FCC permits ATC to be provided in the United States in conjunction with MSS satellites and spectrum that are licensed and coordinated by countries other than the United States, including Canada. SkyTerra Sub's ATC license in the United States permits the Company to provide ATC using the satellite and spectrum that are licensed to SkyTerra Sub using United States and Canadian coordination assignments. Inmarsat filed an Application for Review with the FCC regarding the Bureau's decision granting SkyTerra Sub's ATC license. Pursuant to the Cooperation Agreement (see - L-band Coordination), Inmarsat has since withdrawn this filing.

Pending ATC Modification Application

Because SkyTerra Sub's current ATC license was granted prior to the ATC Reconsideration Order, it does not allow SkyTerra Sub to operate in accordance with the significantly relaxed technical restrictions adopted in the ATC Reconsideration Order. Accordingly, in November 2005, SkyTerra Sub filed an application to modify its ATC license to take advantage of these relaxed technical restrictions. Among other things, SkyTerra Sub sought authority to deploy ATC using a variety of additional air interfaces using the FDD and TDD protocols, other than GSM, CDMA and WCDMA as well as waivers of, or variances from, some of the Commission's ATC rules. Inmarsat opposed our modification application. Pursuant to the Cooperation Agreement (see L-band Coordination), Inmarsat has since withdrawn this filing. Until our modification application is granted, we must operate in accordance with the technical restrictions in SkyTerra Sub's current ATC license. In December 2008, SkyTerra Sub amended the ATC modification application pursuant to the flexibility accorded in the Cooperation Agreement. Inmarsat has agreed to support this amendment. The FCC has not yet placed the amendment on public notice for comment, and we do not know whether it will be opposed.

Additional Regulatory Approvals Required

Before SkyTerra LP can provide ATC on a commercial basis, it must receive additional regulatory approvals, such as an FCC blanket license for its user terminals, FCC certification for its user terminals and base stations, local zoning approval for base stations, and certification from State Public Utility Commissions in some states. Similar additional regulatory approvals are required for commencement of service in most other wireless and satellite bands, and we believe that we should be able to fulfill the conditions required for such regulatory approvals. We will also need to coordinate the operation of certain of our base stations with wireless operators, aeronautical telemetry stations, and Search and Rescue Satellite-aided Tracking (SARSAT) earth stations.

Satellite Operations

Our ATC operations are dependent on the continued operation of our satellite system, their integration with the satellite system, and the satellite system's access to spectrum.

SkyTerra Sub holds a license issued by the FCC to operate an L-band satellite, MSAT-2, at the nominal 101 ° WL orbital location to provide MSS to the fifty states, Puerto Rico, the Virgin Islands, and United States coastal areas up to 200

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miles. The FCC also permits United States licensed satellites such as MSAT-2 to provide service in foreign territories without obtaining additional approval from the FCC.

The license for MSAT-2 will expire in August 2010. We anticipate that the FCC will allow us to operate the satellite for its entire useful life if after the launch of SkyTerra-1 we can identify a suitable orbit location to which MSAT-2 could be relocated. SkyTerra Sub also holds a number of earth station licenses to operate with MSAT-2 with varying expiration dates. We anticipate that these licenses will be renewed in due course.

L-band Service Links

The L-band satellite license allows us to operate our United States licensed satellite (MSAT-2) throughout a portion of the 1525-1544 and 1545-1559 MHz (space-to-Earth) and 1626.5-1645.5 and 1646.5-1660.5 MHz (Earth-to-space) band, up to at least 10 MHz x2 of United States coordinated spectrum. The original license gave SkyTerra Sub access only to what is known as the upper L-band, but the FCC modified the license in 2002 to allow us to access spectrum in both the upper and lower L-bands. In this decision, the FCC also reduced the amount of United States coordinated L-band spectrum SkyTerra Sub could use on MSAT-2 from 14 MHz x2 to 10 MHz x2. The Company has pending a Petition for Clarification and Partial Reconsideration of this decision asking the FCC to allow SkyTerra Sub to use 14 MHz x2 of United States coordinated L-band spectrum. The Company has also asked the FCC to clarify that the spectrum coordinated by Industry Canada for SkyTerra Canada will not be attributed to SkyTerra Sub. The FCC has not imposed any limit on the amount of spectrum that can be used by SkyTerra Canada or MSAT-1.

Feeder Links

Feeder links are the frequencies that connect the satellites to large gateway earth stations that are typically interconnected with public networks or, in the case of large users, with private networks. SkyTerra-1 is authorized to use Appendix 30B Ku-band frequencies for feeder links: 10.75-10.95 GHz and 11.2-11.45 GHz (downlink); and 12.75-13.25 GHz (uplink). Our modification application to revise the authorized technical parameters for SkyTerra-1, including requesting authority to operate feeder link spot beams was granted in November 2008. The Company plans to operate four fixed earth stations, two in the United States and two in Canada, in conjunction with SkyTerra-1 and SkyTerra-2. In October 2008, the FCC granted two U.S. earth station applications submitted by SkyTerra Sub, and Industry Canada gave approval to two earth station applications submitted by SkyTerra Corp. The U.S. earth station licenses require that we construct the stations and certify to commencement of operations by May 2010 which coincides with the launch and operate milestone of SkyTerra-1.

In December 2003, the FCC issued a proposal pertaining to coordination procedures between new fixed earth stations in the Appendix 30B Ku-band and mobile Broadcast Auxiliary Services/Cable Television Relay Service (“BAS/CARS”) licensees that share the band. In this proceeding, the Society of Broadcast Engineers (“SBE”) has argued that it is not possible for an earth station using Appendix 30B Ku-band frequencies to protect mobile BAS/CARS operations in the band. As a solution, SBE proposed that the FCC restrict new earth stations using Appendix 30B Ku-band frequencies used for MSS systems to only areas outside 150 kilometers of the Top 100 TV markets. SkyTerra LP has opposed SBE’s proposal. SkyTerra Sub’s earth station licenses are conditioned on compliance with any earth station requirements adopted in this rulemaking proceeding.

TT&C

SkyTerra LP also relies on access to certain frequencies to control satellite operation. MSAT-2 is authorized to operate using certain telemetry, transfer, and control (“TT&C”) frequencies in the standard Ku-band. SES Americom operates a satellite at the 101° WL orbital location using standard Ku-band frequencies. SkyTerra LP and SES have an agreement covering MSAT-2 that may require SkyTerra LP to modify our operations or make certain payments to SES if SkyTerra LP’s operations cause interference to those of SES. We do not anticipate any interference in the operations of MSAT-2 and those of SES. Further, it is not anticipated that this agreement will be required in connection with the operation of SkyTerra-1 and SkyTerra-2.

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101 ° WL Replacement Satellite

SkyTerra Sub holds a license issued by the FCC to operate an L-band satellite, SkyTerra-1, on a non-common carrier basis at the nominal 101 ° WL orbital location to replace MSAT-2. The satellite is licensed to use up to 10 MHz x2 of United States coordinated L-band spectrum for service links and 500 MHz x2 of Appendix 30B Ku-band frequencies for feeder links, subject to successful coordination. The Company must comply with the following FCC milestones for this satellite:

- enter into a binding non-contingent construction contract (May 26, 2006);
- complete critical design review (May 26, 2007);
- begin construction of the satellite (May 26, 2008); and
- launch and operate the satellite (May 26, 2010).

Similar milestone requirements apply to most FCC satellite licensees. If the FCC concludes that SkyTerra LP has failed to satisfy a milestone set forth in our license, the FCC may declare the license for SkyTerra-1 null and void. In April 2006, the FCC's International Bureau found that we met the initial milestone for the SkyTerra-1 satellite. In June 2007, the FCC determined that the Company met the critical design review milestone requirement. In August 2007, the FCC determined that the Company met the begin construction milestone requirement.

In November 2008, the FCC granted our modification application to revise the authorized technical parameters for SkyTerra-1. We will need to apply for and receive approval from the FCC to the extent we seek to further modify the satellite parameters from those that we provided in the granted FCC application for SkyTerra-1. We plan to coordinate this satellite with other North American L-band operators.

In February 2008, we reached an agreement with all the satellite operators at the nominal 101° WL orbital location for the operation of MSAT-2 and SkyTerra-1 at 101.3° WL and we have since received FCC approval for such operations.

Relocation of MSAT Satellites

Prior to the launch and operation of our next generation satellites, MSAT-1 and MSAT-2 will need to be moved from their current orbital locations or de-orbited. The Company and SkyTerra Canada will need to obtain the necessary regulatory approvals, submit applicable ITU filings, and coordinate with affected satellite operators, if any.

L-Band Satellite to Serve South America

One of SkyTerra LP's subsidiaries held a license issued by the FCC to operate an L-band satellite, MSV-SA, at the 63.5° WL orbital location to provide MSS on a common carrier basis to South America. This subsidiary has surrendered the license for the satellite and requested the withdrawal and release of its $2.25 million satellite performance bond. That request is pending.

Other General Regulatory Issues

The Company's operation of an integrated satellite and ATC system in the L-band is subject to certain regulations in the United States and Canada. The Company is regulated to varying degrees at the federal, state (provincial in Canada), and local levels in both the United States and Canada. Various legislative and regulatory proposals under consideration from time to time by the United States Congress, Canadian Parliament, the FCC and Industry Canada have in the past materially affected and may in the future materially affect the telecommunications industry in general, and our wireless business and that of potential customers in particular. The following is a summary of significant laws, regulations and policies affecting the operation of our business. In addition, many aspects of regulation at the federal, state and local level currently are subject to judicial review or are the subject of administrative or legislative proposals to modify, repeal, or adopt new laws and administrative regulations and policies.

The Company operates pursuant to various licenses granted by the FCC and Industry Canada. As a matter of general regulation by the FCC and Industry Canada, we are subject to, among other things, payment of regulatory fees and restrictions on the level of radio frequency emissions of our system's satellites, user terminals, and base stations, just like other licensees. Any of these regulations may have an adverse impact on the conduct of our business.

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Transfers of Control—FCC

The Communications Act and the FCC's rules require that we obtain the consent of the FCC prior to any change in the legal or actual control of the Company or over the spectrum for which we are licensed. Traditionally, the FCC has determined whether a licensee retains actual control on a case-by-case basis by considering the following factors, among others:

- use of facilities and equipment;
- control of daily operations;
- control and execution of policy decisions, such as preparation and filing of applications with the Commission;
- control of hiring, supervision, and dismissal of personnel;
- control over membership of a corporate Board of Directors;
- control of payment of financial obligations, including expenses arising out of operation; and
- receipt of monies and profits from the operations of the facilities.

There is no assurance that present or future shareholders have not acquired or will not acquire additional shares in the Company, or that such persons or entities have not or will not take actions which may be viewed as evidence of exercising control over the Company or the spectrum for which we are licensed. If we are found to have relinquished actual control without approval from the FCC, we may be subject to fines, forfeitures, or revocation of our licenses.

Just like other licensees, our ability to enter into funding or partnering arrangements may be limited by the requirement that we maintain actual control of the spectrum for which we are licensed. In October 2008, in a decision involving Globalstar, the FCC adopted an order clarifying its policy for the leasing of ATC spectrum and rejecting arguments that it should focus on the considerations identified above in assessing actual control of a license. The policy parallels the policy the FCC established in 2003 for leases by terrestrial wireless carriers. Under this policy, the licensee is considered to retain control of spectrum it leases if the licensee remains responsible for ensuring the lessee's compliance with the Communications Act and all applicable policies and rules directly related to the use of the spectrum. This responsibility must include maintaining reasonable operational oversight over the leased spectrum so as to ensure that the spectrum lessee complies with all applicable technical and service rules, including safety guidelines relating to radiofrequency radiation. In addition, the licensee must retain responsibility for meeting all frequency coordination obligations and resolving interference-related matters, and must retain the right to inspect the lessee's operations and terminate the lease to ensure compliance. The licensee must also be responsible for all interactions with the Commission, including notification about the spectrum leasing arrangement and all Commission filings required under the license authorization and applicable service rules that are directly related to the use of the leased spectrum.

Common Carrier Regulation by the FCC

We received approval in 2008 to modify our license for our SkyTerra-1 satellite to offer L-band satellite capacity on a non-common carrier basis.

SkyTerra is regulated as a common carrier to the extent we provide service directly to end users for profit and for interconnection with the public switched telephone network. To the extent that is the case, we would be required to offer service at just and reasonable rates on a first-come, first-served basis, without any unjust or unreasonable discrimination, and we would be subject to the FCC's complaint process. The FCC has forborne from applying numerous common carrier provisions of the Communications Act to wireless carriers. In particular, wireless carriers are not subject to traditional public utility rate-of-return regulation and are not required to file tariffs with the FCC.

Universal Service Fund—FCC

As a provider of interstate telecommunications services, SkyTerra LP is required to contribute to the FCC's universal service fund, which supports the provision of affordable telecommunications to high-cost areas, and the provision of advanced telecommunications services to schools, libraries, and rural health care providers. Under the FCC's current rules, SkyTerra LP is required to contribute a percentage of the end-user telecommunications revenues it derives from the retail sale of interstate telecommunications services. Currently excluded from a carrier's universal service contribution base are end-user revenues derived from the sale of information and other non-telecommunications services and wholesale revenues derived from the sale of telecommunications. Current rules also do not require that SkyTerra LP imputes to its contribution base retail revenues derived when SkyTerra LP uses its own transmission facilities to provide a service that includes both information service and telecommunications components. The FCC is currently conducting a proceeding which may reform the USF contribution methodology. There can be no assurances that the FCC will retain the exclusions described herein or its

current policy regarding the scope of a carrier's contribution base. We may also be required to contribute to state universal service programs.

In two separate proceedings related to USF, the Commission is considering whether a telecommunications service provided over satellite facilities should be eligible for high cost universal service support and whether recipients of high cost universal service support should be required to offer broadband Internet access, and whether such Internet access could be provided by satellite. An adverse decision in either proceeding could affect our ability and the ability of our potential customers to offer certain services.

Customer Proprietary Network Information ("CPNI")

As is any other telecommunications services provider, we are subject to FCC regulations requiring us to protect CPNI. The FCC has recently begun to audit compliance with CPNI regulations. While we believe we are in compliance with these regulations, there can be no guarantee that the FCC will not conclude otherwise, in which case we could be subject to fines or other penalties. In addition, existing and contemplated CPNI rules could impose significant new costs on us.

Communications Assistance for Law Enforcement Act ("CALEA")

Where CALEA applies, we must ensure that United States law enforcement agencies can intercept certain communications transmitted over our networks as is required from any other telecommunications services provider. We also must ensure that law enforcement agencies are able to access certain call-identifying information relating to communications over our networks. The Company has entered into an agreement with the Federal Bureau of Investigation, Department of Justice, and Department of Homeland Security ("Team Telecom") regarding United States law enforcement agency access to our network. In October 2008, the Company and Team Telecom executed an amendment to the existing CALEA agreement that permits the Company to continue routing traffic through its earth stations in Canada for its next generation system. CALEA requirements could affect the ability of our potential customers to offer applications via our hybrid system. The Company is required to comply with similar lawful access rules in Canada as a condition of our authorizations from Industry Canada.

Foreign Ownership

The Communications Act restricts the foreign ownership of common carrier radio licenses, which include some of our FCC licenses: (1) the license may not be held by a corporation of which more than 20% of the capital stock is directly owned of record or voted by non-U.S. citizens or entities or their representatives and (2) the license may not be held by a corporation controlled by another corporation ("indirect ownership") if more than 25% of the controlling corporation's capital stock is owned of record or voted by non-U.S. citizens or entities or their representatives, if the FCC finds that the public interest would be served by the refusal or revocation of such licenses. With the implementation of the Basic Telecommunications Agreement, which was negotiated under the auspices of the World Trade Organization ("WTO"), the FCC presumes that indirect ownership interests in FCC licensees in excess of 25% by non-U.S. citizens or entities from WTO-member countries will serve the public interest. In a September 2006 decision, the FCC granted SkyTerra LP authority to slightly exceed the 25% indirect foreign ownership limit. To comply with the amount of indirect foreign ownership approved by the FCC, we must monitor the extent to which our stock is owned or voted by non-U.S. citizens. The foreign ownership restrictions limit our ability to be owned by non-U.S. citizens absent prior FCC approval. In March 2007, we filed a Petition for Declaratory Ruling with the FCC seeking approval for a new level of indirect foreign ownership for the Company. On January 11, 2008, Harbinger tendered a petition to the FCC seeking expedited action on a declaratory ruling to permit Harbinger to raise their interest in the Company through open market share acquisitions to a level in excess of that previously approved by the FCC. On January 29, 2008, Harbinger tendered to the FCC a petition seeking permanent authority to make the level of acquisitions specified in their January 11 petition. On March 7, 2008, the FCC issued an order granting the March 2007 and January 11, 2008 petitions. The grant of those petitions was without prejudice to any enforcement action by the FCC for the Company's possible non-compliance with the foreign ownership rules prior to the grant. The FCC did not act on Harbinger's January 29, 2008 request for permanent authority. We cannot predict when the FCC will do so or whether it will grant the request. There is also no assurance that foreign persons or entities have not acquired or will not acquire additional shares in the Company that may result in our exceeding the level of foreign ownership approved by the FCC and could result in the Company being subject to fines, forfeitures, or revocation of our FCC licenses.

Priority and Preemptive Access

SkyTerra LP's operations in the L-band are required by the FCC and Industry Canada to be capable of providing priority and preemptive access for Aeronautical Mobile Satellite (Route) Service traffic in the upper L-band and for Global Maritime Distress and Safety Service traffic in the lower L-band. If we are unable to meet these requirements, the FCC or

Industry Canada could authorize and give priority spectrum access to one or more additional satellite systems in the L band that meet the specified requirements.

Enhanced 911 (“E911”) Service

The FCC is currently studying the feasibility of requiring MSS providers to offer E911, including the ability to automatically locate the position of all transmitting user terminals. SkyTerra LP has not traditionally supported automatic location information with its current generation L-band satellite system. Further, like all commercial mobile wireless service providers, we will be required to offer E911 services on our terrestrial component. We are currently exploring the design and implementation of systems required supporting automatic location information with our current and next generation L-band system and ATC operations without adding to the cost of our mobile equipment or reconfiguring our communications ground segment software. Moreover, there can no be assurance that we can meet any E911 requirement for our next generation integrated network without cost or impact to our network deployment.

Hearing Aid Compatibility (“HAC”)

The FCC is currently studying the feasibility of requiring providers of MSS (including ATC operations) to offer mobile handsets that are compatible with hearing aids. There can no be assurance that hearing aid compatibility requirements will not be imposed on existing or future MSS or ATC handsets, or that compliance with such requirements can be done without cost or impact to our network deployment.

700 MHz Proceeding

In an order issued August 10, 2007, establishing service and auction rules governing wireless licensees in the 700 MHz band, the FCC imposed the requirement that the winner of the 700 MHz D Block license would be required to operate a joint broadband network with the nationwide licensee of the public safety broadband spectrum. Among other obligations, the D Block licensee would be required to make available to public safety users at least one handset that includes a seamlessly integrated satellite solution. That handset must be capable of operating both on the 700 MHz public safety spectrum and on the satellite frequency bands and/or systems of the satellite service providers with which the nationwide licensee of the public safety broadband spectrum has contracted for satellite service. The auction, which concluded in 2008, did not result in the licensing of the D Block spectrum. Since then, the FCC has twice invited comments on the requirements applicable to the D Block license, including the satellite handset requirement. We cannot predict whether the FCC will retain this requirement or what impact this decision may have on our business.

Regulatory Framework in Canada

Use of radio spectrum to provide wireless telecommunications services is subject to licensing by Industry Canada under the Radiocommunication Act (Canada). Under this legislation, Industry Canada is authorized to issue radio licenses, to plan the allocation and use of the radio spectrum and to perform other duties to ensure the orderly development and efficient operation of radiocommunication in Canada. With respect to spectrum licensing, Industry Canada has the authority to revoke a license for non-compliance with terms and conditions or failure to pay associated spectrum license fees. However, revocation is rare and licenses are usually renewed year to year upon payment of the applicable fee.

SkyTerra Canada is authorized by Industry Canada to operate the MSAT-1 satellite at the 106.5 ° WL orbital location for the purposes of providing MSS in Canada. The MSAT-1 satellite will remain in this orbital position until 2010, at which point in time we intend to move it to a new orbital position.

Spectrum is coordinated for the MSAT-1 satellite by Industry Canada pursuant to the Mexico City MOU and this coordination is subject to the same policies and procedures as described above for the MSAT-2 satellite. On December 20, 2007, the SkyTerra Parties and Inmarsat entered into a Cooperation Agreement that includes coordination of the current and next generation satellites of the parties’ satellite systems and the SkyTerra LP ATC system. Pursuant to the Cooperation Agreement, SkyTerra Canada has withdrawn all of its filings asking Industry Canada to refrain from authorizing access to Inmarsat’s new or relocated satellites. SkyTerra Canada has also withdrawn its interference complaints to Industry Canada regarding these satellites and has requested that Industry Canada withdraw similar complaints that were filed by the government of Canada with the ITU and the administration of the United Kingdom.

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Approval in Principle for SkyTerra-2 Satellite

On April 5, 2005, Industry Canada issued an approval in principle to SkyTerra Canada to operate the SkyTerra-2 satellite at the 107.3 ° WL orbital position. This approval in principle requires SkyTerra Canada to meet three important milestones:

- submission of final design specifications for the SkyTerra-2 satellite for Industry Canada approval by December 15, 2006, which occurred on July 5, 2006;
- signature of contracts for the construction and launch of the SkyTerra-2 satellite by March 15, 2007 which contracts were filed with Industry Canada on February 22, 2007 and confirmed as compliant by Industry Canada on October 28, 2008; and
- placement of the SkyTerra-2 satellite into its assigned orbital position by March 31, 2011.

We anticipate that SkyTerra Canada will likely satisfy its remaining milestone requirement on or before the March 31, 2011 milestone deadline. Consistent with Industry Canada's policies for the licensing of MSS operators, SkyTerra Canada's approval in principle from Industry Canada also requires it to make fair and reasonable efforts to provide MSS to all regions of Canada and to provide service to public institutions in Canada to an amount reflecting 2% of its adjusted gross revenues from the lifetime operation of the satellite.

Authority to Operate ATC in Canada

In May 2004, the Canadian government adopted a policy allowing authorized MSS operators in the L-band, S-band, and Big LEO bands to provide ATC on a no-protection, non-interference basis. The Canadian ATC policy contains gating criteria similar to those of the FCC and requires, among other things, that a service provider's ATC network be operated as an integral and indefeasible part of an MSS service and that the spectrum it uses for ATC service does not constrain the growth of MSS service offerings. Industry Canada has stated that it intends to develop other technical and operational details applicable to ATC systems in future Radio Standard Specifications and Standard Radio System Plans and Radio Standards Specifications. Industry Canada has also stated that it intends to establish license fees for ATC operators through a separate process. SkyTerra Canada has filed an ATC application with Industry Canada, but it does not yet have authority to operate ATC in Canada. SkyTerra Canada will apply to amend its ATC application to Industry Canada pursuant to the flexibility contemplated in the Cooperation Agreement (see L-band Coordination). Inmarsat has agreed to support this amendment.

Foreign Ownership Restrictions and Transfers of Control - Canada

SkyTerra Canada is required by its authorization from Industry Canada to comply with certain restrictions on non-Canadian ownership that are set out in the Telecommunications Act (Canada) and the Radiocommunication Regulations (Canada). These restrictions require that, among other things:

- at least 80% of the voting equity of SkyTerra Canada be held by Canadians;
- at least 80% of the board of directors of SkyTerra Canada be resident Canadians;
- at least 66 2/3% of the voting equity of any parent corporation of SkyTerra Canada be held by Canadians; and
- SkyTerra Canada cannot be otherwise controlled in fact by non-Canadians.

As at the date hereof, SkyTerra Canada is "Canadian owned and controlled" within the meaning of the Telecommunications Act (Canada) and the Radiocommunication Regulations (Canada). SkyTerra Corp., a wholly-owned subsidiary of SkyTerra LP organized under the laws of Nova Scotia, is not required to comply with these restrictions on non-Canadian ownership because it does not operate facilities in Canada that would make it subject to these rules.

Neither SkyTerra Canada nor SkyTerra Corp. may transfer their Industry Canada authorizations without the prior approval of Industry Canada. In addition, the prior approval of Industry Canada is required for any material change in the ownership or control of SkyTerra Canada.

CRTC—Regulation of Telecommunications Services

Companies that own or operate transmission facilities in Canada that are used to provide telecommunications services to the public for compensation are classified as "telecommunications common carriers" under the Telecommunications Act (Canada) and are subject to the regulatory authority of the CRTC.

The CRTC has the discretionary power to forbear from exercising certain of its regulatory powers over Canadian carriers where it finds that a telecommunications service or class of services is, or will be, subject to competition sufficient to protect the interests of users. Some Canadian carriers, such as the incumbent local exchange carriers, are classified by the

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CRTC as "dominant" in the provision of certain services because of their market power and control over the supply of local telephone services and certain other services. Carriers classified as "non-dominant" by the CRTC are subject to less regulation than dominant carriers and include mobile wireless providers, such as SkyTerra Canada, facilities based long distance providers, and competitive local exchange carriers.

Canada's Universal Service or "Contribution" Regime

The CRTC has established a revenue based regime for the payment of "contribution." (Contribution payments are used, in effect, to subsidize local telephone services in high-cost areas of Canada.) Under this regime, all telecommunications service providers ("TSPs") are required to pay contribution based on a percentage (a rate of 0.87% was applied by the CRTC on a final basis for 2008 and renewed at this level on an interim basis for 2009) of their total "contribution eligible revenues" for the previous year—that is, their total Canadian telecommunications service revenues ("CTSR"), less certain permitted deductions. These permitted deductions include revenues generated from the sale or rental of terminal equipment, revenues from paging services and inter carrier payments for services purchased from other telecommunications service providers. The CRTC has established a minimum revenue threshold that will trigger the obligation to pay contribution. If the annual CTSR of a TSP and all of its affiliates are less than Cdn $10.0 million, then contribution is not payable in the following year.

International Licensing Regime

Under the Telecommunications Act (Canada), all providers of basic international telecommunications services in Canada are required to hold and keep current a basic international telecommunications service license issued by the CRTC. The CRTC has the authority to suspend or revoke an international telecommunications service license if it believes that the licensee has contravened the Telecommunications Act (Canada), the regulations there under or any condition of its license. Both SkyTerra Canada and SkyTerra Corp. hold valid international licenses from the CRTC.

Available Information

The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information in the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file with the SEC at http://www.sec.gov. The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those reports, are also available free of charge through our internet website at http://www.skyterra.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

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Item 1A. Risk Factors

You should carefully consider the risks described below in evaluating our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us may also impair our operations and business, and in particular SkyTerra LP. If we do not successfully address any of the risks described below, there could be a material adverse effect on our financial condition, operating results and business, and the trading price of our common stock may decline. We cannot assure you that we will successfully address these risks.

Risks Associated with Our Next Generation Business Plan

If we fail to obtain additional financing necessary to develop and construct our next generation integrated network on a timely basis, or if our current financing sources do not provide the Company with previously committed funding and we are unable to obtain alternative financing, we may not be able to continue as a going concern.

The remaining cost of carrying out our business plan will be significant, and is significantly more than our currently available and committed resources. Our cost could be greater than our current estimates. For example, if we elect to further defer payments under our satellite construction contract, and/or if we exercise certain options to buy additional satellites or other equipment or services, our costs for the satellite component of our network will increase, possibly significantly. The cost to develop devices could be greater, perhaps significantly, than our current estimates, depending on our ability to attract distribution partners in both the satellite and terrestrial spaces.

In addition, we will require significant funds to construct the terrestrial component of our integrated network. We plan to pursue, with a partner, a top 50 market terrestrial footprint and have estimated that the total deployment of the terrestrial portion of our network could be a multi-billion dollar undertaking depending on the implementation of air interface technology, the scope of the terrestrial build within each market and the targeted service offering (limited mobile, portable or fully mobile). The cost to build the terrestrial component of the network could be greater, perhaps significantly, than our current estimates, depending on changing costs of supplies, market conditions, and other factors over which we will have no control.

We will actively pursue financing alternatives to continue to increase the amount of capital available to fund our current operations and development of our next generation network, including constructing SkyTerra-1 and SkyTerra-2, the satellite component of the network. We are considering means to raise capital, including strategic partnerships (for example, a technology partnership carrying a capital investment), vendor financing, sale of our interest in TerreStar Networks, and debt or equity financing, among others. We are actively evaluating various strategic alternatives as they arise, and weigh capital needs against technology commitments or other potentially limiting factors. There is no assurance that we can raise sufficient capital, or raise sufficient capital with terms that are favorable to us, under these various financing alternatives to continue to operate our business or complete our network.

Our projections assume that a portion of the remaining costs associated with constructing the satellite and terrestrial components of our next generation integrated network will be borne in part by one or more technology and strategic partners. If we are not able to enter into agreements with third parties to cover such costs, or if such funding sources are not able to cover such costs, our funding requirements will be significantly greater than we currently anticipate. We have not entered into any such agreements, and entering into such agreements in the future is not assured.

In addition, a delay in the implementation of a satellite air interface technology could result in a reduction in our near-term revenue projections, which would increase our overall financing need. Likewise, implementation of an air interface technology that is not consistent with the strategic plans of potential telecommunications partners could adversely affect our ability to attract strategic capital and partnerships.

Pursuant to the Securities Purchase Agreement, Harbinger agreed to purchase up to $500 million in aggregate principal amount of 18% Senior Unsecured Notes in four tranches. The proceeds of such notes are expected to fund the Company’s business plan through the third quarter of 2010. On January 7, 2009 the Company issued the first of the four issuances of the 18% Senior Unsecured Notes to Harbinger under the Securities Purchase Agreement, in an aggregate principal amount of $150 million. In addition, at this closing the Company issued Harbinger ten-year warrants to purchase 7.5 million shares of the Company's voting or non-voting common stock, at an initial exercise price of $0.01 per share. The remaining $350 million of 18% Senior Unsecured Notes is scheduled to be issued to Harbinger in three tranches of $175.0 million, $75 million and $100 million on April 1, 2009, July 1, 2009, and January 4, 2010, respectively. Under the Securities Purchase Agreement, we are required to satisfy certain conditions to funding prior to each funding date, including material compliance with our covenants under the

Master Agreement, the absence of a material adverse effect (as defined in the Securities Purchase Agreement) and the accuracy of the representations and warranties made by us in the Securities Purchase

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Agreement. If we fail to satisfy any condition to funding, Harbinger will not be obligated to purchase the 18% Senior Unsecured Notes.

The U.S. and worldwide financial markets have recently experienced unprecedented volatility, particularly in the financial services sector. No assurance can be given that Harbinger will satisfy its obligations under the Securities Purchase Agreement and purchase the 18% Senior Unsecured Notes in a timely manner, or at all. If Harbinger does not satisfy its obligations to purchase the 18% Senior Unsecured Notes, we may be unable to find alternative financing sources, particularly in light of the current turmoil in the U.S. and worldwide financial markets.

The terms of our current indebtedness and the Securities Purchase Agreement include significant limitations on additional debt, including amount, terms, access to security, duration, among other factors, and impose limitations on the structure of strategic transactions. In addition, the Master Agreement as amended includes significant limitations on the issuance by the Company of additional debt and equity securities.

In addition to the contractual limitations described above, there currently is limited trading in shares of our common stock, which limits our ability to raise funding through public equity issuances. The recent turmoil in global credit markets and the weakening global economy could negatively impact our ability to access the capital markets and fund our operations if Harbinger does not purchase the 18% Senior Unsecured Notes. Furthermore, our ability to sell our 11.1% ownership stake in TerreStar Networks, which represents a potential source of capital, on favorable terms, or at all, is not assured given recent capital market volatility and the overall decline in the stock price of its parent, TerreStar Corporation.

If we fail to obtain necessary additional financing on a timely basis, or if our current financing sources do not provide the Company with previously committed funding, our satellite construction, launch, or other events necessary to conduct our business could be materially delayed, or our costs could materially increase; we could default on our commitments to our satellite construction or launch contractors, creditors or other third parties, leading to termination of construction or inability to launch our satellites; we may not be able to launch our next generation integrated network as planned and may have to discontinue operations or seek a purchaser for our satellite business or assets. The Company could lose its FCC or Industry Canada licenses or its international rights if it fails to achieve required performance milestones. We may not be able to continue as a going concern if we fail to receive previously committed funding and we are unable to obtain alternative financing or if we fail to obtain additional necessary financing on a timely basis.

Our substantial debt obligations could impair our liquidity and financial condition.

We are a highly leveraged company and have significant amounts of long-term debt. Our ability to make payments on our debt and to fund operations and significant planned capital expenditures will depend on our ability to generate cash in the future. The Company has not generated cash flow from operations and makes significant cash investments in capital items.

Our substantial indebtedness and debt service obligations could have important consequences, including the following:

- limiting our ability to borrow money or sell stock to fund working capital, capital expenditures, debt service requirements or other purposes;
- making it more difficult for us to make payments on our indebtedness;
- increasing our vulnerability to general economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business or the industry;
- reducing the amount of cash available for other purposes by requiring us to dedicate a substantial portion of our cash flow from operations to the payment of principal of, and interest on, our indebtedness; and
- placing us at a competitive disadvantage to competitors who are less leveraged than we are.

In March 2006, SkyTerra LP issued Senior Secured Discount Notes with an aggregate principal amount of $750 million at maturity, and generated gross proceeds of $436 million. Interest on the notes will accrete from the issue date at a rate of 14.0% per annum, until they reach full principal amount at April 1, 2010 (the “Senior Secured Discount Notes”). Following April 1, 2010, interest will be payable semi-annually in arrears in cash at a rate of 14% per annum, with the first such payment of $52.5 million being due on October 1, 2010. The Senior Secured Discount Notes will mature on April 1, 2013. The Senior Secured Discount Notes are secured by substantially all of our and our subsidiaries’ assets.

In January 2008, SkyTerra LP issued notes to Harbinger, in an aggregate principal amount of $150 million (the “Harbinger Notes”). The Harbinger Notes bear interest at a rate of 16.5%, payable in cash or in-kind, at SkyTerra LP’s option through December 15, 2011, and thereafter payable in cash. The Harbinger Notes mature on May 1, 2013.

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In January 2009, SkyTerra LP issued $150.0 million of 18% Senior Unsecured Notes to Harbinger. The 18% Senior Unsecured Notes bear interest at a rate of 18.0% per annum, payable in cash or in-kind, at SkyTerra LP's option through January 1, 2011, and thereafter payable in cash.

A significant portion of any future additional financing may consist of debt securities. As a result, we may be even more highly leveraged. If additional funds are raised through the incurrence of indebtedness, we may incur significant interest charges and become subject to various restrictions and covenants that could limit our ability to respond to market conditions, provide for unanticipated capital investments or take advantage of business opportunities.

The market for our planned service is new and unproven and the success of our next generation business will depend on market acceptance.

Other than satellite radio, we are not aware of any integrated (i.e., combined satellite and terrestrial) wireless service in commercial operation. Neither we, nor any other company, have developed an integrated next generation network. Our business plan contemplates that a significant portion of our revenues will be derived from strategic partners. To date, neither we nor SkyTerra LP have entered into any strategic partnerships with respect to distribution of our next generation integrated network. As a result, we can estimate only with a partial level of certainty the potential demand for such services and the degree to which we will meet that demand. Furthermore, there may not be sufficient demand to enable SkyTerra LP, or there may be additional costs that do not allow SkyTerra LP, to earn sufficient revenues, achieve sufficient cash flow or record a profit. Among other things, end user acceptance of our next generation integrated service will depend upon:

- whether we provide integrated wireless services consistent with market demand;
- the relative attractiveness of our service offerings to our anticipated partners;
- the cost and availability of user equipment whose form factor is little different from standard wireless devices, but incorporates the new technology required to operate on our network;
- federal, state, local and international regulations affecting the operation of satellite networks and wireless systems;
- whether competitors develop new and alternative next generation technologies; and
- general and local economic conditions.

If we cannot gain market acceptance for our planned products and services, our business will be significantly harmed. We have made, and will continue to make, significant capital investments to generate demand for SkyTerra LP's services. Accordingly, any material miscalculation with respect to our operating strategy or business plan will harm our business.

We will depend on one or more third parties to incorporate our next generation technology into their consumer offerings, and such third parties may not be successful or effective in their use of our next generation technology.

We do not plan to manufacture or sell next generation end-user devices to consumers. The success of our network will depend on partnerships with third parties that incorporate our next generation technology into their service and product offerings. In particular, we will not produce next generation wireless devices for sale to wireless consumers but instead will need to work with our future, not yet identified partners and customers to apply our next generation technology to standard wireless devices that they in turn market. If these future partners are not successful in incorporating our next generation technology or marketing devices compatible with our network, our revenues would be less than expected, and our business would suffer.

We will depend on one or more third party contractors to construct the terrestrial base station component of our next generation integrated network.

We currently plan to contract with one or more third parties to construct the terrestrial component of our next generation integrated network. Our success in implementing our next generation integrated network and in penetrating our targeted vertical markets will depend, to a large extent, on the efforts of these third party vendors. The development and rollout of the terrestrial network by these third parties may be subject to unforeseen delays, cost overruns, regulatory changes, engineering and technological changes and other factors, some of which may be outside of our control. If we are not able to enter into contracting relationships and construct the terrestrial component of our next generation integrated network, we may not be able to implement our business plan.

Failure to develop and supply end-user devices to customers in a timely manner will negatively impact our revenues.

We will rely on third party manufacturers and their distributors to manufacture and distribute next generation devices. Next generation devices are not yet available, and we and third party vendors may be unable to develop and produce enough affordable next generation devices in a timely manner to permit the widespread introduction of service. If we, our customers or our manufacturers fail to develop devices that are available for timely commercial sale at affordable prices, the launch of our next generation service would be delayed, our revenues would be less than expected, and our business would suffer. Furthermore, progress by these third-parties may be hindered by our strategic decisions or determinations to delay selections, with respect to technologies for various aspects of the network and end-user products, some of which may depend upon or be modified based on strategic partnerships that have not yet been entered into. Delays in those decisions will have a direct impact on the time to market for our next-generation services, our transition plans for current customers and our revenues.

Our current customers may migrate away from our service in advance of our termination of existing service. Our current customers may not migrate to our next generation devices and services.

To fully transition to our next generation services, all current revenue generating services may terminate in the future. We currently expect all current revenue generating services to terminate in 2012. We may modify this expectation to an earlier date, or later date, in the future. In advance of termination of current services, our customers may migrate away from our current and future services. Upon termination of service our customers will be forced to select new services. There is no assurance that our next generation services will be selected by our customers.

Our integrated wireless network will depend on the development and integration of complex technologies in a satellite configuration that might not work.

Our next generation integrated network will require new applications of existing technology, complex integration of different technologies and the development of new technologies. We will have to integrate a number of sophisticated satellite and other wireless technologies that typically have not been integrated in the past, and some of which are not yet fully developed, before we can begin offering our next generation service. In order for our service to be received by traditional consumer devices, additional components and software will need to be added to such devices to adjust for the L-band frequencies as well as satellite communications. Although we intend to test the components of our next generation integrated network, we cannot confirm the ability of the system to function until we have deployed a substantial portion of our next generation integrated network.

There could also be delays in the planned development, integration and operation of the components of our next generation integrated network. If the technological integration of our next generation integrated network is not completed in a timely and effective manner, our business would be harmed. In our next generation integrated network, we will seek to develop and deploy network management techniques so that mobile devices used on our network will be able to seamlessly transition between satellite mode and terrestrial mode. We intend to develop such techniques primarily by adapting existing techniques used in PCS/cellular systems and digital/analog systems. However, such techniques have not been deployed before in a combined satellite/terrestrial two-way mobile communications system, and there can be no assurances that we will be successful in developing such techniques or deploying them in its next generation integrated network in a cost effective or timely manner. If we are not able to develop or deploy such techniques, mobile devices used on our network may not be able to seamlessly transition between satellite and terrestrial modes, and this may make our next generation integrated network less attractive to potential partners and end-user customers.

Our next generation satellites are subject to possible construction and delivery delays, the occurrence of which could materially and adversely affect our business.

Our next generation satellites are subject to possible construction and delivery delays. The manufacture of such satellites is technically complex, and delays could result from a variety of causes. Such causes could include failure of third-party vendors to perform as anticipated and changes in the technical specifications of the satellite, including increases in weight or mass that could limit our ability to utilize our primary launch alternative resulting in delays if our alternative provider does not have schedule availability during our desired launch window. Alternatively, such changes to technical specifications could limit our ability to move to an alternate launch provider if our primary provider experiences material schedule delays.

There can be no assurance that delivery of our next generation satellites will be timely, which may hinder the introduction of our planned next generation integrated network. Any delay could also make it more difficult for us to secure desired distribution partnerships.

During any period of delay, we would continue to have significant cash requirements that could materially increase the aggregate amount of funding we need. We may not be able to obtain additional financing on favorable terms, or at all, during periods of delay. A delay could also require rescheduling of the anticipated launch date, and another launch slot may not be available within a reasonable period of time. In addition, a delay in satellite system operations could also result in revocation of our regulatory approvals and our international rights.

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Our satellites could be damaged or destroyed during launch or deployment, fail to achieve their designated orbital location after launch or experience significant launch delays.

A percentage of satellites never become operational because of, among other factors, launch failure, satellite destruction or damage during launch, improper orbital placement and/or the failure of antennas to fully deploy. Launch failure rates vary depending on the particular launch vehicle and contractor. Even launch vehicles with good track records experience some launch failures, and there can be no assurance that we will be able to launch our satellites on vehicles with higher success rates. If one or more launches or deployments fail, we will suffer significant delays that will be damaging to our business, we will incur significant additional costs associated with the failed launches, and our revenue generating activities will be delayed. We cannot assure you that our satellite launches or deployments will be successful. The deployment of large antennas, such as the antennas on our next generation satellites, which are larger than most commercial satellites, pose additional risks during deployment. Even if launched into orbit, a satellite may fail to enter into its designated orbital location, or we may use more fuel than planned to place a satellite into its orbital location and, as a result, may reduce the overall useful life of the satellite. In addition, a delay in satellite system operations could also result in revocation of our regulatory approvals and our international rights.

Satellites have a limited useful life and premature failure of our satellites could damage our business.

During and after their launch, all satellites are subject to equipment failures, malfunctions and other problems. If one of our satellites were to fail prematurely, it likely would affect the quality of our service, substantially delay the commencement or interrupt the continuation of our service and harm our business and could impact our licenses. This harm to our business would continue until we either extend service to our customers on another satellite or build and launch additional satellites. Each of the MSAT-1 and MSAT-2 satellites has in the past experienced malfunctions and neither operates at full capacity. Our satellites could experience future malfunctions at any time, which could damage their ability to serve our customers, harm our reputation in the marketplace, reduce the expected useful life of the satellites and possibly adversely affect our government approvals. In addition, each of the MSAT-1 and MSAT-2 satellites is operating in inclined orbit, which may increasingly affect the service delivery, particularly to customers operating at the edge of the satellites respective coverage area. There can be no assurance that our existing satellites will remain operational until such time as we launch our next generation satellites. Any gap could have a material adverse effect on our business and could result in the loss of licenses.

Our ability to generate revenue depends on the lives of our existing and next generation satellites. Each satellite has a limited useful life. A number of factors could decrease the useful lives of our satellites to less than what is currently expected, including, without limitation:

- defects in construction;
- faster than expected degradation of solar panels;
- durability of component parts;
- loss of fuel on board;
- higher than anticipated use of fuel to maintain the satellite's orbital location or higher than anticipated use of fuel during orbit raising following launch;
- random failure of satellite components that are not protected by back-up units;
- electromagnetic storms; and
- collisions with other objects in space.

Limitations on our spectrum and services are included in current arrangements with partners and further limitations may be included in future arrangements with these and other partners.

Our arrangements with partners may constrain the quantity and type of current-generation devices that can be supported in the future. As a result, our current customers could be forced to transition to next-generation devices or terminate service with us, negatively impacting our revenues. Our arrangements with partners may place limits on the amount of spectrum available for next-generation satellite services that may negatively impact our revenues. Interference standards and frequency plans that could result from future arrangements with partners could adversely impact capacity on our next generation satellites, negatively impacting our revenues.

Damage to our satellites may not be fully covered by insurance.

We intend to purchase launch and in-orbit insurance policies for our next generation satellites from global space insurance underwriters. If certain material adverse changes in market conditions for full in-orbit insurance were to make it commercially unreasonable for us to maintain full in-orbit insurance, we could forego such insurance. Other adverse changes

in insurance market conditions may substantially increase the premiums we will have to pay for such insurance or may preclude us from fully insuring its loss. If the launch of our next generation satellite system is a total or partial failure, our insurance may not fully cover our losses, and these failures may also cause insurers to include additional exclusions in our insurance policies when they come up for renewal. There can be no assurance that additional financing will be available to construct, launch and insure a replacement satellite or, if available, will be available on terms favorable to us. We do not expect to buy insurance to cover, and would not have protection against, business interruption, loss of business or similar losses. Also, any insurance we obtain will likely contain certain customary exclusions and material change conditions that would limit our coverage. We do not have insurance with respect to the existing MSAT satellites.

Delays in deployment of our terrestrial network due to limited tower availability, local zoning approvals or adequate telecommunications transport capacity would negatively impact our revenues.

Our business strategy includes the deployment of a terrestrial network. Tower sites and authorizations in some desirable areas may be very costly and time intensive to obtain. If we are unable to obtain tower space, local zoning approvals or adequate telecommunications transport capacity to develop our network in a timely fashion, the launch of our next generation integrated network would be delayed, our revenues would be less than expected and our business would suffer.

Our planned terrestrial network or other ground facilities could be damaged by natural catastrophes or man-made disasters.

Since our planned terrestrial network will be attached to buildings, towers and other structures around the country, an earthquake, tornado, flood or other catastrophic event or other man-made disaster or vandalism could damage our network, interrupt our service and harm our business in the affected area. We will not have replacement or fully redundant facilities that can be used to assume the functions of our terrestrial network in the event of a catastrophic event. Any damage to our terrestrial network would likely result in degradation of our service for some subscribers and could result in complete loss of service in some affected areas. Temporary disruptions could also damage our reputation and the demand for our services.

We may be unable to achieve our business and financial objectives because the communications industry is highly competitive.

In seeking market acceptance for our next generation services, we will encounter competition from many sources, including:

- existing satellite services from other operators;
- conventional terrestrial wireless services;
- traditional wireline voice and high-speed data offerings;
- terrestrial land-mobile and fixed services; and
- next generation integrated services that may be offered in the future by other networks operating in the S-band, L-band or Big LEO band.

The communications industry includes major domestic and international companies, many of which have financial, technical, marketing, sales, distribution and other resources substantially greater than we do and which provide a wider range of services than will be provided by us. While we have stated that we believe our services will be complementary to terrestrial wireless services, we may be adversely affected by competition from companies that provide services using existing wireless technologies.

We may also face competition from companies using new technologies and new integrated networks in the future. For instance, the FCC has authorized ICO and TerreStar Networks to use radio frequencies for mobile satellite services within the S-band. Although these potential competitors currently have no commercial operations in this band, they are planning to launch integrated networks similar to those envisioned by us. Through SkyTerra LP's subsidiary, ATC Technologies LLC, SkyTerra LP has also granted TerreStar a license to use SkyTerra LP's intellectual property for the development of TerreStar's network. TerreStar has announced plans to launch an S-band satellite in June 2009 in advance of the estimated launch of SkyTerra-1 and SkyTerra-2, and ICO launched an S-band satellite in April 2008. Additionally, ICO received ATC authority in January 2008, and TerreStar has submitted an application for ATC authority. Failure to offer next generation integrated services that compete effectively with potential competitors such as TerreStar and ICO would have an adverse impact on our revenues, profitability and liquidity. We will also face competition with respect to entering into strategic partnerships.

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We and our partners must continue to identify, develop and market innovative products or enhance existing products on a timely basis to maintain our profit margins and our competitive position.

Our future growth may depend on our ability to gauge the direction of commercial and technological progress in key markets and on our ability to fund and successfully develop and market products and services. Our competitors may have access to technologies not available to us, which may enable them to provide communications services of greater interest to end users, or at a more competitive cost. We may not be able to develop new products or technology, either alone or with third parties, or license any additional necessary intellectual property rights from third parties on a commercially competitive basis. The satellite and wireless industries are both characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations and evolving industry standards. If we or our partners are unable to keep pace with these changes, our business may be unsuccessful. Products using new technologies, or emerging industry standards, could make our technologies obsolete. If we or our partners fail to keep pace with the evolving technological innovations in our markets on a competitive basis, our financial condition and results of operation could be adversely affected.

Demand for our services may not grow or be accepted in particular geographic markets, for particular types of services, or during particular time periods. A lack of demand could adversely affect our ability to sell our services, enter into strategic partnerships or develop and successfully market new services. In addition, demand patterns shift over time, and consumer preferences may not favor the services we plan to offer.

Economic downturns or declines in consumer spending could negatively affect our results of operations and our access to capital.

We expect the primary consumer of our next generation services will be customers of our distribution partners and customers within certain vertical markets (for example, public safety, fleet management and consumer telematics). If the United States or Canada experience further economic downturns or if spending by end customers declines in the future, our business may be negatively affected.

We may not be able to protect our proprietary information and intellectual property rights, which could limit the growth of our business and impact our ability to compete.

As of February 4, 2009, SkyTerra LP has filed a significant number of patent applications (each application being filed in the United States and in several countries abroad), and owns over 85 U.S. and numerous foreign patents covering the fundamental principles of our next generation integrated technology. There is no assurance that the patents for which SkyTerra LP has applied will be issued or, if issued, will be sufficient to fully protect our technology. In addition, there can be no assurance that any patents issued or licensed to SkyTerra LP will not be challenged, invalidated or circumvented.

We also rely upon unpatented proprietary technology and other trade secrets. While it is our policy to enter into confidentiality agreements with employees and third parties to protect our proprietary expertise and other trade secrets, these agreements may not be enforceable, or, even if legally enforceable, we may not have adequate remedies for breaches of such agreements. The failure of our patents or confidentiality agreements to protect our proprietary technology or trade secrets could result in significantly lower revenues, reduced profit margins or loss of market share.

We may be unable to determine when third parties are using our intellectual property rights without our authorization. The undetected or unremedied use of our intellectual property rights or the legitimate development or acquisition of intellectual property similar to ours by third parties could reduce or eliminate any competitive advantage we have as a result of our intellectual property, adversely affecting our financial condition and results of operations.

If we must take legal action to protect, defend or enforce our intellectual property rights, any suits or proceedings could result in substantial costs and diversion of our resources and our management’s attention and could have material adverse effect on our financial condition and results of operations, regardless of the final outcome of such legal action. Despite our efforts to safeguard and maintain our intellectual property rights, there can be no assurance that we will be successful in doing so or that our competitors will not independently develop or patent technologies equivalent or superior to our technologies. A failure to protect, defend or enforce our intellectual property rights could have an adverse effect on our business, financial condition and results of operations. We believe that third parties may infringe upon our intellectual property now and in the future.

Third parties may claim that our products or services infringe their intellectual property rights, which may cause us to pay unexpected litigation costs or damages, or prevent us from making, using, or selling our products.

Other parties may have patents or pending patent applications relating to integrated wireless technology that may later mature into patents. Although we do not intend to, we may infringe on the intellectual property rights of others. Such parties may bring suit against us for patent or other infringement of intellectual property rights. If our products or services are found to infringe or otherwise violate the intellectual property rights of others, we may need to obtain licenses from those parties or substantially re-engineer our products or processes in order to avoid infringement.

We may not be able to obtain the necessary licenses on commercially reasonable terms, if at all, or be able to re-engineer our products successfully. Moreover, if we are found by a court of law to infringe or otherwise violate the intellectual property rights of others, we could be required to pay substantial damages or be enjoined from making, using, or selling the infringing products or technology. We could also be enjoined from making, using, or selling the allegedly infringing products or technology, pending the final outcome of the suit.

Our business could be harmed if we cannot attract and retain key personnel.

Our success depends, in large part, upon the continuing contributions of our key technical, marketing, sales and management personnel. We generally do not enter into employment agreements with our employees for fixed terms and do not maintain "key-executive" insurance on any of our employees. The loss of the services of several key employees within a short period of time could harm our business and our future prospects. Our future success will also depend on our ability to attract and retain additional management and technical personnel required in connection with the growth and development of our business. Competition for such personnel is intense, and if we fail to retain or attract such personnel our business could suffer. We have entered into arrangements with certain executives which provide for payments upon a change of control, as defined in those agreements.

Regulatory Risks Associated with Our Business

We may not be able to coordinate successfully with other L-band satellite system operators to access and use the full amount of L-band spectrum we currently believe we will be able to utilize.

We are required to coordinate the use of our satellites as part of the satellite registration process of the International Telecommunication Union ("ITU"). With respect to the primary frequencies used by commercial GEOs, the ITU rules grant rights to member states (which are the national governments party to the ITU treaty) on a "first-in-time, first-in-right" basis and set forth a process for protecting earlier-registered satellite systems from interference from later-registered satellite systems. To comply with these rules, we must coordinate the operation of our satellites with other satellites. The coordination process may require us to modify our proposed coverage areas, or satellite design or transmission plans, in order to eliminate or minimize interference with other satellites or ground-based facilities. In addition, while the ITU's rules require later-in-time systems to coordinate their operations with us, we cannot guarantee that other operators will conduct their operations so as to avoid transmitting any signals that would cause harmful interference to the signals that we, or our customers, transmit.

Since the Company's system became operational in 1996, its spectrum access in North America has been governed by a multi-lateral agreement referred to as the Mexico City Memorandum of Understanding ("Mexico City MoU") and by bilateral agreements. Five national administrations, the United States, Canada, Mexico, Russia and the United Kingdom, are party to the Mexico City MoU. We operate our satellites under the auspices of the United States and Canada. Accordingly, we must coordinate with operators and their administrations to operate in the L-band and to reconfigure the L-band. Since 1999, there has been no new, comprehensive, spectrum sharing agreement among all the satellite system operators represented by the five administrations and we have not completed coordination of our new satellites. Our recent agreement with Inmarsat, which has been accepted in part by our Administrations, is a significant step to completing the coordination of our new satellites, providing substantial spectrum access, and creating additional flexibility for ancillary terrestrial operations. Additional approvals are required, however, before coordination of the satellite networks, under all phases specified in the Cooperation Agreement, will be complete. At the same time, the agreement with Inmarsat includes certain limitations on our system operations in order to facilitate spectrum reuse by Inmarsat; these limitations may have an adverse impact on the extent that we are technically able to provide certain satellite and terrestrial services and, as a result, the revenues we are able to generate from those services.

Additionally, the initial international frequency coordination of our system was done for narrowband services and air interfaces. Newer broadband services and air interfaces require larger blocks of contiguous spectrum. While some of our L-band spectrum is already in sufficiently large contiguous blocks to permit the offering of such new formats, we are trying to increase the extent to which our spectrum is contiguous. Our recent agreement with Inmarsat is a significant step in the process of rebanding to provide for additional contiguity. We would obtain further, substantial benefit from successful negotiations with the Mexican operator and Administration to further reconfigure the L-band spectrum. In the absence of an arrangement with the Mexican operator and Administration, we may pursue other means of further reconfiguring the L-band spectrum. It is uncertain whether we will be able to successfully complete such negotiations at a reasonable economic and technical price or be able to otherwise reconfigure the L-band spectrum. The failure to reconfigure the L-band into larger

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blocks of contiguous spectrum will prevent us from maximizing the efficiency and capacity of our next generation integrated network.

Moreover, we cannot guarantee that the ITU will not change its rules in the future in a way that could limit or preclude our use of some or all of our existing or future orbital locations or frequencies.

We may not be able to secure the return of certain spectrum we loaned to Inmarsat.

In 1999 and 2003, and consistent with the Mexico City MoU, SkyTerra LP and SkyTerra Canada loaned approximately 3 MHz of L-band spectrum to Inmarsat for its temporary use ("Original Loan"). Our recent agreement with Inmarsat addresses a dispute regarding the return of the loaned spectrum, including the possibility of arbitration under certain circumstances. In addition, pursuant to the recent agreement, we are temporarily loaning Inmarsat additional spectrum ("New Loan"). There is no assurance that we will receive the return of the Original Loan and/or New Loan, whether through arbitration or otherwise, and certain provisions of our recent agreement with Inmarsat provide that upon the occurrence of certain events the loaned spectrum would become integrated with the agreed upon band plans for operation and would not be separately subject to return.

Our service may cause or be subject to interference, and we may have to limit our services to avoid harmful interference

As a satellite provider and ATC system operator, we are required to provide our satellite and ATC service without causing harmful interference to other spectrum users and we must accept some interference from other spectrum users. This requirement may potentially hinder the operation, limit the deployment or add additional cost to our satellite and/or ATC system and may, in certain cases, subject our users to a degradation in service quality. Although we have agreements with certain spectrum users in neighboring spectrum bands and within the L-band to avoid harmful interference, there is no assurance that these agreements will be sufficient or that additional interference issues with other systems will not occur.

The ultimate resolution of pending FCC proceedings could materially affect our ability to develop and offer ATC services and have a material adverse effect on our next generation business plans.

Prior to entering into the Cooperation Agreement in December 2007, Inmarsat challenged two FCC orders that may impact our ability to maximize the efficiency of our ATC in the L-band: the November 2004 Application Approval, which granted SkyTerra LP's ATC license, and the February 2005 Order establishing revised rules for ATC. Inmarsat also objected to the Company's pending 2005 application for a modified ATC license to take advantage of the new ATC rules. Pursuant to the Cooperation Agreement (see Government Regulation—L-band Coordination), Inmarsat has filed a motion to withdraw these filings. The FCC granted the motion with respect to the November 2004 Application Approval but has not acted on the motion with respect to the February 2005 Order or granted SkyTerra LP's 2005 application for a modified ATC license. If the FCC acts unfavorably to us, it may impede or preclude our ability to deploy and operate our proposed next generation integrated network.

We need additional regulatory approvals before we can operate ATC.

Pursuant to the Cooperation Agreement, in December 2008 the Company filed an application with the FCC to provide authority for additional flexibility for operation of ATC. Inmarsat had opposed an earlier pending application by SkyTerra LP to modify its ATC authorization to provide additional flexibility. Pursuant to the Cooperation Agreement (see Government Regulation—L-band Coordination), Inmarsat has agreed to support this application. The FCC has not yet placed the amendment on public notice for comment, and we do not know whether it will be opposed. In addition, the Company will need further regulatory approvals before it can operate ATC, including a blanket license for its user terminals and FCC certification of its user terminals and base stations. Any difficulty in obtaining these approvals may delay the commencement of operation of our new system. SkyTerra Canada does not yet have authority from Industry Canada to operate an ATC in Canada. We cannot provide any assurance if or when we will obtain any of these approvals.

A 2002 decision could be construed to limit a portion of our operations to using no more than 20 MHz of L-band spectrum.

In a 2002 decision, the FCC granted our subsidiary, SkyTerra Sub, a license to use up to 20 MHz of L-band spectrum on MSAT-2. That decision also states that spectrum acquired under a future merger between our corporate predecessor and TMI Communications, which formerly held both the Industry Canada and FCC L-band authorizations associated with the MSAT-1 satellite, would be included within the 20 MHz limit. The Company filed a petition for clarification and partial reconsideration of that decision because SkyTerra Sub had already been established pursuant to an FCC order in 2001 that had authorized SkyTerra Sub to use TMI Communications' spectrum without imposing such spectrum limitations. Under the most recent SSA developed pursuant to the Mexico City MoU, SkyTerra LP was assigned less than 20 MHz of L-band

spectrum for the United States satellites. We believe that, even if limited to 20 MHz of spectrum on the United States satellites, we would continue to be able to use all of the coordinated spectrum (approximately 30 MHz) on SkyTerra Canada's satellite and on our integrated network, as well as up to 20 MHz of coordinated spectrum on SkyTerra LP's satellite. We cannot be sure how or when the FCC will dispose of the Company's petition, but subsequent FCC decisions suggest that spectrum licensed to SkyTerra Canada is not included within the 20 MHz limit. If the FCC decides adversely to the Company, our United States licensed L-band satellites (MSAT-2 and SkyTerra-1) could be limited to a maximum of 20 MHz, which could reduce our ability to offer certain new services.

Failure to comply with FCC and Industry Canada rules and regulations could damage our business.

FCC and Industry Canada rules and regulations, and the terms of our satellite authorizations and ATC license from the FCC, require us to meet certain conditions, such as satellite construction and launch milestones, maintenance of satellite coverage of all 50 states, Puerto Rico, Canada, and the United States Virgin Islands and the provision of an integrated service offering. Non-compliance by us with these or other conditions, including other FCC or Industry Canada gating criteria, could result in fines, additional license conditions, license revocation, or other adverse FCC or Industry Canada actions.

In a September 2006 decision, the FCC granted the Company authority to slightly exceed the 25% indirect foreign ownership limit specified in the Communications Act. To comply with the amount of indirect foreign ownership approved by the FCC, we must monitor the extent to which our stock is owned or voted by non-U.S. citizens. The foreign ownership restrictions limit our ability to be owned by non-U.S. citizens absent prior FCC approval. Exceeding the amount of foreign ownership approved by the FCC in the September 2006 decision without securing prior approval from the FCC may subject the Company to fines, forfeitures, or revocation of our FCC licenses. In March 2007, we filed a Petition for Declaratory Ruling with the FCC seeking approval for a new level of indirect foreign ownership for the Company. In October 2007, we provided additional information in response to the FCC's request for further ownership information regarding certain investors. On November 6 and 26, 2007, we amended that filing. On January 25 and 29, 2008, we further amended our filing to provide updated ownership information and to respond to informal staff requests. On January 11, 2008, Harbinger tendered a petition to the FCC seeking expedited action on a declaratory ruling to permit Harbinger to raise their interest in the Company through open market share acquisitions to a level in excess of that previously approved by the FCC. That petition was amended on January 16, 2008, and the Company joined in the petition in a further amendment submitted on January 17, 2008. On January 29, 2008, Harbinger tendered to the FCC a petition seeking permanent authority to make the level of acquisitions specified in their January 11 petition. On March 7, 2008, the FCC issued an order granting the March 2007 and January 11, 2008 petitions. The grant of those petitions was without prejudice to any enforcement action by the FCC for the Company's possible non-compliance with the foreign ownership rules prior to the grant. The FCC did not act on Harbinger's January 29, 2008 request for permanent authority. We cannot predict when the FCC will do so or whether it will grant the request. There is also no assurance that foreign persons or entities have not acquired or will not acquire additional shares in the Company that may result in our exceeding the level of foreign ownership approved by the FCC.

We may not be able to obtain the necessary regulatory consents for transfer of control of the Company to Harbinger or for a business combination between SkyTerra and Inmarsat.

On August 22, 2008, pursuant to the Master Agreement with Harbinger and certain of its affiliates, Harbinger and SkyTerra submitted applications to the FCC seeking consent for transfer of control of the Company to Harbinger and for a business combination between SkyTerra and Inmarsat. The applications also sought a declaratory ruling approving a range of possible foreign ownership levels associated with Harbinger's ownership of up to 100% of SkyTerra. We will need to submit additional filings and obtain approvals from other regulatory bodies before we can consummate the transactions contemplated by the Master Agreement. There can be no assurance that we will obtain all the necessary regulatory approvals for the proposed transactions. If we do not obtain all the required approvals, we may be unable to achieve our business and financial objectives.

If the supply of available mobile licensed spectrum increases, the value of our spectrum assets may decrease.

The FCC or Industry Canada could allocate large amounts of additional mobile licensed spectrum that could be used to compete with us, or that could decrease the perceived market value of our wireless capacity. The FCC in 2006, for example, auctioned 90 MHz of spectrum in the 1.7/2.1 GHz range. More recently, the FCC auctioned almost all of the available spectrum in the 698-806 MHz band (“the 700 MHz Band”). Industry Canada also conducted an auction of PCS and Advanced Wireless Spectrum, which concluded in July 2008 and further auctions in Canada are anticipated for the 700 MHz band as well as the 2.5 GHz band. Additional spectrum auctions may be scheduled in the future in both the United States and Canada. In addition, incremental allocations of spectrum may make it easier for new competitors to enter the market, and could further diminish the value of our spectrum assets.

Technical challenges or regulatory requirements may limit the attractiveness of our spectrum for providing mobile services.

We believe our L-band spectrum with ATC capability will be attractive to potential partners if our spectrum is at least functionally equivalent to PCS/cellular spectrum. The FCC and Industry Canada require us to provide substantial satellite service throughout the United States and Canada. This requirement may limit the availability of some of our spectrum for terrestrial service in some markets at some times. In addition, we must give priority and pre-emptive access to certain other users of the L-band, for example, for safety-related transmissions in the Global Maritime Distress and Safety System and the Aeronautical Mobile Satellite (Route) Service. PCS/cellular spectrum is not constrained by any such requirement. If we are not able to develop technology that allows our partners to use our spectrum in a manner comparable to PCS/cellular operators, we may not be successful in entering into partnership arrangements.

Our ability to offer a primarily fixed service may be limited by the policies of the FCC.

The FCC has permitted SkyTerra LP to provide fixed services on a non-interference basis, which means that such operations are not permitted to cause interference to various other users of the band and are not permitted to claim protection from such other users. The FCC also has required SkyTerra LP's fixed services to be offered on an "incidental or ancillary" basis, conditions which the FCC has not defined in this context.

We may face difficulties in obtaining regulatory approvals for provision of telecommunications services and may face changes in regulation, each of which could adversely affect our operations.

The provision of telecommunications services is highly regulated. We may be required to obtain additional approvals from national and local authorities in connection with the services that we currently provide or may wish to provide in the future, including in connection with services associated with our next generation integrated network. As a provider of communications services in the United States and Canada, we are subject to the regulatory authority of both the United States and Canada. Violations of laws or regulations may result in various sanctions including fines, loss of authorizations and the denial of applications for new authorizations or for the renewal of existing authorizations.

Moreover, we may be required to obtain additional approvals from national and local regulatory authorities in connection with the services that we currently provide or wish to provide in the future. From time to time, governmental entities may impose new conditions on our authorizations which could have an effect on our ability to generate revenue and conduct our current and next generation business as currently planned. Industry Canada has also stated that it intends to establish license fees for ATC operators. If we are required to pay such fees, we may be subject to substantially increased costs. The United States federal government is also currently considering whether to impose spectrum fees on the right to use frequencies for ATC and possibly satellite services. While we believe that adoption of such fees in the United States is not likely, if implemented and extended to the frequencies used by us, use of such frequencies may be subject to substantially increased costs.

Export control and embargo laws may preclude us from obtaining necessary satellites, parts or data or providing certain services in the future.

United States companies and companies located in the United States must comply with United States export control laws in connection with any information, products, or materials that they provide to SkyTerra LP relating to satellites, associated equipment and data and with the provision of related services. If these entities cannot or do not obtain the necessary export or re-export authorizations from the United States government, we will be required to obtain such authorizations. It is possible that, in the future, we may not be able to obtain and maintain the necessary authorizations, or existing authorizations could be revoked.

If we cannot obtain and maintain the necessary authorizations, this failure could adversely affect our ability to:

- procure new United States-manufactured satellites;
- control our existing satellites;
- acquire launch services;
- obtain insurance and pursue our rights under insurance policies; or
- conduct our satellite-related operations.

In addition, if we do not properly manage our internal compliance processes and violate United States export laws, the terms of an export authorization, or embargo laws, the violation could make it more difficult, or even impossible, to maintain or obtain licenses and could result in civil and criminal penalties.

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Our contractual relationship with potential partners that may operate ATC facilities in our next generation integrated network must comply with FCC and Industry Canada rules that require ATC to be integrated with the satellite service and require us, as a license holder, to control ATC operations.

We must ensure compliance with the ATC rules of the FCC and Industry Canada. This may require agreements with some partners that provide for a degree of control by SkyTerra LP and SkyTerra Canada in the operation of their businesses that may be difficult to negotiate.

In addition, the Communications Act and the FCC's rules require the Company to maintain legal as well as actual control over the spectrum for which it is licensed. Our ability to enter into partnering arrangements may be limited by the requirement that we maintain de facto control of the spectrum for which we are licensed. If the Company is found to have relinquished control without approval from the FCC, we may be subject to fines, forfeitures, or revocation of its licenses.

Rules relating to Canadian ownership and control of SkyTerra Canada are subject to interpretation and change.

SkyTerra Canada is subject to foreign ownership restrictions imposed by the Telecommunications Act (Canada) and the Radiocommunication Act (Canada) and regulations made pursuant to these Acts. Although we believe that SkyTerra Canada is in compliance with the relevant legislation, there can be no assurance that a future determination by Industry Canada or the Canadian Radio-television and Telecommunications Commission, or events beyond its control, will not result in SkyTerra Canada ceasing to comply with the relevant legislation. If such a development were to occur, the ability of SkyTerra Canada to operate as a Canadian carrier under the Telecommunications Act (Canada) or to maintain, renew or secure its Industry Canada authorizations could be jeopardized and our business could be materially adversely affected.

Risks Relating to Our Common Stock Generally

Fluctuations in our operating results could adversely affect the trading price of our common stock.

Our operating results may fluctuate as a result of a variety of factors, many of which are outside of our control, including:

- risks and uncertainties affecting the current and proposed business of SkyTerra LP and the mobile satellite services industry;
- increased competition in the mobile satellite services industry; and
- general economic conditions.

As a result of these possible fluctuations, period-to-period comparisons of our financial results may not be reliable indicators of future performance.

The price of our common stock has been volatile.

The market price of our common stock has been volatile, and is likely to continue to be. In recent years, the stock market has experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many companies in the technology sector. Future market movements may materially and adversely affect the market price of our common stock, particularly in light of the limited liquidity of our common stock.

Our common stock is quoted on the OTC Bulletin Board, which limits the liquidity and could negatively affect the value of our common stock.

Since January 30, 2003, following our delisting from the NASDAQ National Market, price quotations have been available on the OTC Bulletin Board. Delisting from the NASDAQ National Market resulted in a reduction in the liquidity of our common stock. This lack of liquidity may also make it more difficult for us to raise additional capital, if necessary, through equity financings.

We do not intend to pay dividends on shares of our common stock in the foreseeable future.

We currently expect to retain our future earnings, if any, for use in the operation and expansion of our business. We do not anticipate paying any cash dividends on shares of our common stock in the foreseeable future.

The issuance of preferred stock or additional common stock may adversely affect our stockholders.

Our board of directors has the authority to issue up to 10,000,000 shares of preferred stock and to determine the terms, including voting rights, of those shares without any further vote or action by our common stockholders. The voting and other

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rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. Similarly, our board may issue additional shares of common stock without any further vote or action by our common stockholders, which would have the effect of diluting common stockholders. An issuance could occur in the context of another public or private offering of shares of common stock or preferred stock or in a situation where the common stock or preferred stock is used to acquire the assets or stock of another company. The issuance of common stock or preferred stock, while providing desirable flexibility in connection with possible acquisitions, investments and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control.

Anti-takeover provisions could make a third-party acquisition of our company difficult.

We are a Delaware corporation. The Delaware General Corporation Law contains provisions that could make it more difficult for a third party to acquire control of our company. In addition, the holders of any preferred stock we may issue many certain rights which could prevent or impair the ability of a third party to acquire control of the company.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, have created some uncertainty for companies such as ours. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest reasonably necessary resources to comply with evolving standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from assisting SkyTerra LP in revenue-generating activities to compliance activities, which could harm our business prospects.

Harbinger and its affiliates beneficially own a significant portion of our outstanding shares of Voting Common Stock and a significant portion of our outstanding shares of Non-Voting Common Stock. Harbinger and its affiliates can take actions that may be adverse to the interests of other stockholders.

As of February 6, 2009 Harbinger and its affiliates collectively owned 23,452,480 shares of Voting Common Stock and 29,946,362 shares of Non-Voting Common Stock representing 48.0% of the voting common shares outstanding and 49.1% of the total common shares outstanding. Harbinger also has the right to an additional 9,984,270 common shares currently being held in escrow pending the FCC's decision on Harbinger's application to acquire control of the Company. The shares held in escrow represent 9.1% of the Company's total shares outstanding and include (i) 442,825 shares of voting common stock held in escrow by Akin Gump Strauss Hauer and Feld LLP and (ii) 7,906,737 shares of non-voting common stock and 1,634,422 shares of voting common stock held in escrow by Wells Fargo Bank. In addition, Harbinger has the right to acquire up to 20,024,818 common shares upon the exercise of warrants.

Pursuant to the Master Agreement, Harbinger may acquire a significant number of shares of our common stock if our combination with Inmarsat is successful, in order to fund such combination, or if the combination is not successful, pursuant to a shareholder rights offering. If the proposed business combination of SkyTerra and Inmarsat is completed, it is expected that Harbinger would own in excess of 85% of the outstanding Voting Common Stock of the combined entity.

The significant concentration of ownership of our common stock by Harbinger and its affiliates may adversely affect the trading price of our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Harbinger and its affiliates have the ability to exert substantial influence over all matters requiring approval by our stockholders, including the election and removal of directors, amendment of our certificate of incorporation, and any proposed merger, consolidation or sale of all or substantially all of our assets. In light of the foregoing, Harbinger can significantly influence the management of our business and affairs. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control, or impeding a merger or consolidation, takeover or other business combination that could be favorable to investors. There can be no assurance that the interests of Harbinger are aligned with other holders of our common stock.

Shares eligible for future sale could cause the price of our Voting Common Stock to decline.

The market price of our Voting Common Stock could decline as a result of future sales of substantial amounts of our common stock, or the perception that such sales could occur. In connection with the closing of the Exchange Transactions in September 2006 and the BCE exchange transaction in January 2007, we issued in excess of 41.4 million shares of our common stock which are covered by effective registration statements. The sale of such shares could have an adverse impact on our stock price. Furthermore, certain of the Harbinger entities have the right to require us to register certain shares of common stock that they hold as well as the shares of Voting Common Stock underlying the Series 1-A and 2-A warrants to facilitate their sale of shares in the public market. The Series 1-A and Series 2-A warrants are exercisable at any time and expire on June 4, 2009. The Series 1-A warrants are exercisable for 681,838 shares of our Voting Common Stock. The Series 2-A warrants are exercisable for 2,698,942 shares of our Voting Common Stock. Additionally, in connection with the $150 million of notes SkyTerra LP issued to Harbinger in January 2008, we issued ten year warrants to purchase 9,144,038 shares of our common stock, with an exercise price of $10 per share. In connection with the $150 million of 18% Senior Unsecured Notes SkyTerra LP issued to Harbinger in January 2009, we issued five year warrants to purchase 7,500,000 shares of our common stock, with an initial exercise price of $0.01 per share.

In July 2008, in connection with the Inmarsat combination and the Securities Purchase Agreement, as amended, we agreed to issue to Harbinger warrants to purchase up to an aggregate of 32.5 million shares of our common stock, upon the first, second and fourth issuances of the Additional Harbinger Notes (warrants for 7.5 million shares of common stock on January 7, 2009, 21.25 million shares of common stock on April 1, 2009 and 3.75 million shares of common stock on January 4, 2010) at an exercise price of $0.01 per share of common stock. Also, pursuant to a stock purchase agreement between SkyTerra and Harbinger, dated July 24, 2008 (the “Stock Purchase Agreement”) we entered into concurrently with the Master Agreement, Harbinger will be entitled to purchase new shares of our Voting Common Stock for up to $2.4 billion in cash, or such greater amount as Harbinger may determine. The Harbinger stockholders also have the right to require us to register the shares of common stock underlying the Harbinger warrants to facilitate their sale of shares in the public market. The future sale of substantial amounts of our common stock pursuant to any such registration statements could have an adverse impact on our stock price.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently lease facilities located in Reston, Virginia (70,000 square feet, lease expires February 28, 2011), Ottawa, Ontario (Canada) (22,400 square feet) lease will expire January 30, 2024 (occupying under a binding Offer to Lease and the final lease is pending signatures) and Calgary, Alberta (Canada) (150 square feet, lease expires June 30, 2010). We routinely evaluate our facilities for adequacy in light of our plans for the future.

Item 3. Legal Proceedings

Various legal actions, claims, assessments and other contingencies arising in the ordinary course of our business are pending against us and certain of our subsidiaries. We believe we have adequate legal defenses for each of the actions and claims. These matters are subject to uncertainty and it is possible that some of these matters ultimately could be decided, resolved or settled adversely. We have not recorded any material accruals as of December 31, 2008 for losses related to matters that we would consider to be probable and that could be estimated reasonably. We believe that the ultimate resolution of those matters will not result in a material adverse effect on our results and operations.

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

On November 7, 2008 the Company held a special meeting of holders of shares of voting and non-voting common stock of the Company, to consider and vote upon a proposal to adopt an amendment to the Company’s Restated Certificate of Incorporation to authorize an increase in the aggregate number of shares of non-voting common stock from 100,000,000 shares to 125,000,000 shares, and to authorize an increase in the aggregate number of shares of the Company’s capital stock from 310,000,000 shares to 335,000,000 shares. The proposal was approved by the shareholders. More specifically, there were 36,254,914 votes for the proposal, 67,676 votes against the proposal, 15,202 abstentions, and no broker non-votes.

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PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Since January 30, 2003, the Company's common stock has been listed on the OTC Bulletin Board. The Company's common stock trades under the symbol "SKYT". The following table sets forth, for the fiscal quarters indicated, the high and low sales prices per share as reported on the OTC Bulletin Board:

	High	Low
Year ended December 31, 2008		
First quarter	$7.80	$6.00
Second quarter	$8.75	$6.50
Third quarter	$6.25	$3.67
Fourth quarter	$3.35	$1.37
Year ended December 31, 2007		
First quarter	$11.75	$8.20
Second quarter	$9.20	$7.70
Third quarter	$9.35	$6.50
Fourth quarter	$7.80	$4.13

The above quotations reported by the OTC Bulletin Board reflect interdealer prices, which may not include retail mark-ups, mark-downs or commissions and may not necessarily represent actual transactions. On February 20, 2009, the last sale price for the Company's common stock as reported by the OTC Bulletin Board was $3.97 per share.

As of February 12, 2009, not including beneficial owners, the Company had approximately 397 recordholders of the Company's common stock. This number was derived from the Company's stockholder records, and does not include beneficial owners of the Company's common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers, and other fiduciaries. Holders of the Company's common stock are entitled to share ratably in dividends, if and when declared by the Company's board of directors.

The Company has not paid a cash dividend on its common stock for the years ended December 31, 2008 and 2007, and it is unlikely that the Company will pay any cash dividends on its common stock in the foreseeable future. The payment of cash dividends on the Company's common stock will depend on, among other things, the Company's earnings, capital requirements and financial condition, and general business conditions.

For information on securities authorized for issuance under the Company's equity compensation plans, see "Item 12 – Security Ownership of Certain Beneficial Owners and Related Stockholder Matters."

Performance Measurement Comparison

The following graph shows the total stockholder return through December 31, 2008 of an investment of $100 in cash on January 1, 2004 for SkyTerra common stock and an investment of $100 in cash on January 1, 2004 for (i) the NASDAQ Market Index and (ii) the Hemscott Group (Diversified Communication Services) Index (the "Hemscott Group Index"). Historic stock performance is not necessarily indicative of future stock price performance. All values assume reinvestment of the full amount of all dividends and are calculated as of the last day of each month:

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	Investment Balance as of December 31,					
	2003	**2004**	**2005**	**2006**	**2007**	**2008**
SkyTerra Communications, Inc.	$ 100	$ 1,783	$ 2,250	$ 768	$ 453	$ 119
Hemscott Group Index	$ 100	$ 152	$ 133	$ 144	$ 191	$ 93
NASDAQ Market Index	$ 100	$ 108	$ 111	$ 122	$ 134	$ 79

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Item 6. **Selected Financial Data**

The following selected financial data should be read in conjunction with the Company’s consolidated financial statements and related notes thereto and with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Form 10-K. The selected consolidated statements of operations data for the years ended December 31, 2008, 2007 and 2006 and the selected consolidated balance sheet data as of December 31, 2008 and 2007 are derived from the Company’s audited consolidated financial statements included elsewhere in this report.

On September 26, 2006, we completed the 2006 SkyTerra LP Exchange Transactions that resulted in our owning the majority of SkyTerra LP. This transaction has been accounted for as a “reverse acquisition” with SkyTerra LP being treated as the accounting acquirer of SkyTerra. As such, the Company’s historical financial statements prior to September 25, 2006 are the historical financial statements of SkyTerra LP. The consolidated financial statements of SkyTerra LP have been retroactively restated to reflect the recapitalization of SkyTerra LP with the 39.6 million shares of the Company’s common stock issued to SkyTerra LP equity holders in the 2006 SkyTerra LP Exchange Transactions.

	2008	**2007**	**2006**	**2005**	**2004**
Consolidated statements of operations data:					
Total revenues	$ 34,485	$ 34,083	$ 34,854	$ 29,974	$ 29,597
Total operating expense	138,992	106,174	77,113	69,127	56,532)
Operating loss	(104,507)	(72,091)	(42,259)	(39,153)	(26,755)
Net loss	(204,935)	(123,556)	(57,100)	(40,955)	(33,455)
Net loss from continuing operations per share	(1.93)	(1.24)	(1.24)	(0.81)	(1.00)
Consolidated balance sheet data:					
Total assets	1,360,702	1,295,035	767,047	216,284	246,233
Senior secured discount notes, net	629,759	552,719	483,410	—	—
16.5% senior unsecured notes (related party), net	147,119	—	—	—	—
Vendor notes payable	60,940	52,047	—	—	—
Notes payable - other	372	1,282	470	696	916
Long-term deferred revenue, net of current portion	12,383	16,333	20,971	23,243	20,690
Stockholders’ equity (deficit)	$ 471,353	$ 616,218	$ (125,388)	$ 181,260	$ 212,964

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion 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 the Company's capital needs, business strategy, expectations and intentions. The Company urges 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 the Company's current views with respect to future events. Because the Company's business is subject to numerous risks, uncertainties and risk factors, the Company's actual results could differ materially from those anticipated in the forward-looking statements, including those set forth below under this "Item 7. 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. The Company disclaims any obligation to publicly update these statements, or disclose any difference between the Company's 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 of the Company's financial condition and results of operations should be read together with the Company's consolidated financial statements and the related notes thereto.

Overview

Name Change of SkyTerra Subsidiaries

On December 8, 2008 the names of all SkyTerra subsidiaries that used "Mobile Satellite Ventures" in any part of their name were changed to replace the "Mobile Satellite Ventures" portion of the name with "SkyTerra," including those listed in the table below which indicates the previous and current name of each subsidiary:

Former Name:	**New Name:**
Mobile Satellite Ventures GP Inc.	SkyTerra GP Inc.
Mobile Satellite Ventures LP	SkyTerra LP
Mobile Satellite Ventures (Canada) Inc.	SkyTerra (Canada) Inc.
Mobile Satellite Ventures Holdings (Canada) Inc.	SkyTerra Holdings (Canada) Inc.
MSV Finance Co.	SkyTerra Finance Co.

All SkyTerra Communications, Inc. (SkyTerra or the Company) operating and development activity is performed through its wholly owned consolidated subsidiary SkyTerra LP. SkyTerra LP holds a 46.4% effective interest in SkyTerra (Canada) Inc. (SkyTerra Canada) through its 20% interest in SkyTerra Canada and a 33% interest in SkyTerra Holdings Canada Inc., which is the parent company of SkyTerra Canada. SkyTerra LP has determined that it is the primary beneficiary of SkyTerra Canada as a result of its obligation, by contract, to fund the operations of SkyTerra Canada, and as a result of a rights and services agreement and a capacity lease agreement between SkyTerra LP and SkyTerra Canada. As such, and in accordance with FASB Interpretation No. 46R, *Variable Interest Entities* (FIN 46R), SkyTerra Canada has been consolidated into the financial results of SkyTerra LP. Although SkyTerra Canada is Canadian owned and controlled within the meaning of the Telecommunications Act (Canada) and the Radiocommunication Regulations (Canada), references to the "Company" or SkyTerra LP, include SkyTerra Canada.

Next Generation Network

SkyTerra LP is developing an integrated satellite and terrestrial communications network to provide ubiquitous wireless broadband services, including internet access and voice services, in the United States and Canada. SkyTerra LP plans to launch two new satellites, SkyTerra-1 and SkyTerra-2 (formerly MSV-1 and MSV-2), that will serve as the core of its next generation network. The Company is working closely with Boeing, the satellite manufacturer of both SkyTerra-1 and SkyTerra-2, to carefully track, monitor and support the progress of the satellite construction program. Based on Boeing's most recent estimates, SkyTerra-1 will be available for launch in very late 2009. To ensure the availability of a launch window for SkyTerra-1, and accounting for the possibility of potential future construction or other delays that have occurred on other complex spacecraft, SkyTerra has selected a launch window that provides scheduled launch assurance in case the manufacturer's construction schedule is delayed.

Specifically, SkyTerra has contracted for a launch window for SkyTerra-1 that opens in March of 2010 and continues through May 2010. This date was selected carefully, to account for the possibility of future manufacturer construction delays as mentioned above. If SkyTerra-1 construction does not deviate from its current schedule, SkyTerra may seek an earlier launch date from the launch service provider, including late 2009. While there can be no guarantee of the availability of such earlier launch time, SkyTerra believes the launch service provider will work in good faith to accommodate an earlier launch.

The launch of SkyTerra-2 is currently expected to occur in the fourth quarter of 2010 or the first quarter of 2011 and, similar to SkyTerra-1, within all regulatory milestones.

SkyTerra LP is licensed by either United States or Canadian governments to operate both current and next generation satellite systems in the 1.5 to 1.6 GHz frequency band (the “L-band”) spectrum that SkyTerra LP and SkyTerra Canada have coordinated for their use. This spectrum is positioned between the frequencies used by terrestrial wireless providers. SkyTerra LP and SkyTerra Canada have coordinated approximately 30 MHz of this spectrum throughout the United States and Canada and this coordinated spectrum covers a total population of over 330 million**.** The Company plans to use its spectrum for both satellite and terrestrial service in operating its next generation integrated network.

SkyTerra LP holds an ancillary terrestrial component (ATC) authorization that permits the use of its L-band satellite frequencies in the operation of an advanced, integrated satellite and terrestrial hybrid network capable of providing wireless broadband on a fixed, portable and fully mobile basis in the United States. Deployment of an ATC network has not yet begun, and development is in process. SkyTerra LP was the first MSS provider to receive a license to operate an ATC network from the Federal Communications Commission (“FCC”) and was a major proponent of the FCC’s February 2003 and February 2005 ATC and ATC Reconsideration Orders, both of which were adopted on a bipartisan, 5-0 basis. The Company’s ATC license permits the use of our L-band satellite frequencies in the operation of an advanced, integrated network capable of providing wireless broadband on a fixed, portable and fully mobile basis.

With access to spectrum that is conducive for mobile and fixed broadband wireless services, the Company believes it is well positioned to support an extensive wireless business plan. The next generation integrated network may create the opportunity to use the Company’s United States and Canadian nationwide spectrum, in its current configuration, to establish a strong position within the wireless industry. Using an all-Internet Protocol, open architecture, the Company believes its network will provide significant advantages over existing wireless networks. Such potential advantages include higher data speeds, lower costs per bit, flexibility to support a range of custom IP applications and services, and added communications flexibility in the event terrestrial services are unavailable or interrupted. The Company’s current business plan envisions a “carrier’s carrier” wholesale model whereby strategic partners and other wholesale customers can use the Company’s network to provide differentiated broadband services to their subscribers. The Company’s planned open network, in contrast to legacy networks currently operated by incumbent providers, will allow distribution and other strategic partners to have open network access to create a variety of custom applications and services for consumers.

The Company believes the changing dynamics of the telecommunications industry have created a compelling market opportunity for its next generation network. Increased competition, industry consolidation, wireless substitution for wireline services and the general convergence of media and telecommunications have led major service providers to attempt to offer consumers a bundle of video, broadband data, voice and mobile wireless services. However, incumbent wireless providers may be constrained by certain factors, such as their spectrum positions and legacy second generation (“2G”) and 3G circuit-switched network architectures, as the demand for an advanced bundle has increased. Wireless carriers may also be pursuing different market strategies based upon their existing networks and customers rather than offering new services like those we plan to provide using next generation integrated technology. New technologies are emerging to deliver advanced broadband wireless services and applications to a potentially wide range of devices at price points we believe will be lower than those offered by incumbents’ legacy networks.

The Company anticipates that its United States and Canadian nationwide spectrum holdings and strategy to deploy a wireless, all-IP network will, through wholesale customers and other strategic distribution partners, have the potential to provide superior connectivity to an array of devices, satisfy the evolving needs of the industry and capture a greater percentage of the consumer’s total spending on communications services. The potential market opportunity may include participation from large enterprises that have limited access to the wireless services business (potentially including content companies, video service providers, web services firms, consumer electronics companies, enterprise service providers, device and chipset vendors and Internet service providers). Those enterprises have large, loyal customer bases and are exploring opportunities to incorporate broadband wireless connectivity to differentiate and expand their core service offerings.

While the Company has been focused on a wholesale, “carriers carrier” business model, conversations have nonetheless taken place with strategic partners who view the Company’s assets, including access of up to a potential 46 MHz of spectrum and the ability to provide a differentiated, integrated satellite-terrestrial service, as a very attractive platform for

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the delivery of 4G services using traditional models for the distribution of services and content. Such traditional business models include potential exclusive relationships with existing operating partners and/or new entrants.

The Company is developing plans to offer a range of three broad services on its next generation network. First, the Company will facilitate the transition of its current customers to the next generation satellite and will continue to support current generation communications ground segments and mobile data system network terminals, which it expects will generate revenue through at least the end of 2012. Second, the Company plans to offer bandwidth and power to customers of the next generation system who will therefore have the opportunity to implement and operate their own networks, generating revenue after the launch of the next generation satellites which could continue until end of next generation system life. Finally, the Company plans to provide next generation wireless coverage that will be accessible on conventional handsets that enable interoperable, feature-rich voice and high-speed data services. Based on the integrated chipset development and production schedule required for such services, the Company does not currently expect to generate next generation wireless coverage revenues until some time after the next generation satellites have been launched and placed into service.

The Company continues to develop its current business plan for an integrated next generation MSS/ATC network in North America. The Company believes its planned open network, in contrast to legacy networks currently operated by incumbent providers, will allow distribution and other strategic partners to have open network access and create a wide variety of custom applications and services for consumers. To address the opportunities and challenges inherent in the development of the Company's next generation network, the Company continues to focus on initiatives related to:

- Monitoring of satellite and MSS ground-based network construction by the manufacturer.
- Evaluating and managing development and construction timelines as new components of the next generation network are added (chipsets, air-interfaces) to ensure integration and cost-effectiveness.
- Development of the infrastructure and technologies required to operate MSS services upon launch of next generation space-based network.
- Continued coordination of L-band spectrum with other operators.
- Arrangement of distribution partnerships for both MSS and ATC components of the next generation network.
- Support Harbinger in a potential offer for Inmarsat.
- Closing of subsequent funding commitments from Harbinger (April 1, 2009: $175 million, July 1, 2009: $75 million, January 4, 2010: $100 million).

While pursuing the integrated next generation MSS/ATC business plan, the Company nonetheless retains the opportunity to pursue other alternative business plans, including a greater emphasis on the provision of certain MSS-only rather than integrated MSS/ATC services.

Current Generation Network

SkyTerra LP offers a range of mobile satellite communications services ("MSS") using two nearly identical geostationary satellites that support the delivery of data, voice, fax and dispatch radio services. SkyTerra LP offers services to a number of vertical markets in the United States and Canada. Penetration is highest in markets where terrestrial wireless infrastructure is cost-prohibitive or non-existent, where point-to-multipoint services such as voice dispatch are essential for ongoing operations, or where network availability is a critical requirement for service.

Corporate Activity

Qualcomm Satellite Enabled Mobile Chipsets for Next Generation Network

In September 2008, SkyTerra LP entered into a 15-year agreement with Qualcomm Incorporated (Qualcomm) for the provision by Qualcomm of satellite-enabled mobile chipsets and satellite base station components built upon Qualcomm-adapted EV-DO technology to facilitate the development of mobile devices and network systems for use with the Company's planned next generation network. A broad range of Qualcomm chipsets, to be available on a mass-market basis, will include satellite and L-band capabilities. Under this agreement, SkyTerra LP and Qualcomm have completed the detailed specifications for the first release of the technology, which will be sufficient to support voice and data services in an integrated, dual mode manner over SkyTerra's satellites and terrestrial networks, including L-band ATC.

The agreement with Qualcomm also contemplates that other operators (together with SkyTerra LP, each an Operator) may enter into similar arrangements with Qualcomm. The termination by one Operator of its agreement with Qualcomm does not affect the agreement of any other Operator. The Company has been advised that ICO Satellite Services G.P. (ICO) has entered into a similar agreement with Qualcomm. Each Operator will fund a portion of the related non-recurring expenses (NRE) incurred in connection with the agreements, which will result in a further sharing of NRE if and when additional Operators (in addition to SkyTerra LP and ICP) enter into similar agreements with Qualcomm.

The SkyTerra LP portion of the NRE to be paid to Qualcomm is expected to be in an amount not to exceed $10 million, which amount will be reduced if other Operators enter into similar agreements with Qualcomm.

In connection with entering into the Qualcomm agreement, SkyTerra LP and ICO have entered into a mutual non-assertion agreement with ICO with respect to relevant aspects of their respective patent portfolios as well as certain other agreements related to the Qualcomm development effort.

EV-DO Compatible Base Transceiver Subsystems

The Company is currently in negotiations with several vendors for the procurement of EV-DO compatible transceiver subsystems. The Company expects that it will enter into a material definitive contract for those subsystems during the first half of 2009.

Possible Merger and Acquisition of Inmarsat - Master Agreement with Harbinger

In July 2008, the Company, SkyTerra LP and SkyTerra Subsidiary LLC entered into a Master Contribution and Support Agreement (the "Master Agreement") and certain other agreements with Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Partners Special Situations Fund L.P., Harbinger Capital Partners Fund I, L.P., and Harbinger Co-Investment Fund, L.P. (together "Harbinger"). The Master Agreement provides for the possible combination of the Company and Inmarsat plc ("Inmarsat"), a UK public listed company and a leading provider of global mobile satellite services. Harbinger owns approximately 28.8% of the issued and outstanding ordinary shares of Inmarsat. Pursuant to the Master Agreement, the proposed business combination of the Company and Inmarsat would be structured as an offer by the Company for all of the issued and outstanding shares of Inmarsat not owned by Harbinger, and would be subject to the receipt of required regulatory and antitrust clearances.

On August 22, 2008, pursuant to the Master Agreement, Harbinger and the Company submitted applications to the FCC seeking consent for transfer of control of the Company to Harbinger and consent for the possible business combination between the Company and Inmarsat. The applications also sought a declaratory ruling approving a range of possible foreign ownership levels associated with Harbinger's ownership of up to 100% of the Company.

On August 22, 2008, the Company filed a notice with the U.S. Department of Justice's Antitrust Division under the Hart-Scott-Rodino Act in connection with the possible offer by the Company for Inmarsat. On September 22, 2008, the 30-day Hart-Scott-Rodino waiting period expired without any action from the U.S. Department of Justice's Antitrust Division. No second request was issued.

The Company and Harbinger expect the FCC approval process to take approximately 12 to 18 months from the July 2008 announcement. The Company is continuing to work cooperatively with Harbinger with respect to the possible offer for Inmarsat, including obtaining all required regulatory approvals for the business combination.

Assuming an acceptable conclusion to the regulatory approval process and Harbinger's determination to proceed with the transaction, the proposed business combination with Inmarsat is expected to be structured as an offer by SkyTerra to acquire all issued and to be issued shares of Inmarsat not owned by Harbinger (the "Offer"), on terms to be determined by Harbinger and in accordance with the Master Agreement. Harbinger has not yet proposed the formal terms or structure of a possible Offer to SkyTerra or Inmarsat. Harbinger may terminate the Master Agreement at any time and is not obligated to proceed with any business combination transaction involving SkyTerra and Inmarsat.

If Harbinger decides to proceed with the Offer following the receipt of required regulatory approvals, Harbinger would arrange for committed equity and debt financing to fund the Offer. SkyTerra would undertake to use its best efforts to assist Harbinger in obtaining debt financing. To provide equity financing for the Offer, Harbinger may purchase newly issued shares of SkyTerra voting common stock for $2.4 billion in cash or such other amount as Harbinger may determine. The per share purchase price for the newly issued shares will be $10 per share subject to an adjustment ratchet relating to the successful Offer price paid for each Inmarsat share. If the Offer price for each Inmarsat share is greater or lower than 535

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British Pence Sterling then the purchase price for the newly issued SkyTerra shares will increase or decrease proportionately (adjustment ratchet). The 535 British Pence Sterling per share and $10 per share prices are reference prices for the purposes of the Master Agreement and the arrangements between Harbinger and SkyTerra. The 535 British Pence Sterling per share does not constitute a term or reference price for the Offer. No Offer pricing discussion has taken place with the board of Inmarsat and no determination has been made by SkyTerra or Harbinger as to any appropriate Offer price. SkyTerra shareholders other than Harbinger may participate in the equity financing for the Offer through a rights offering of voting common stock of up to $100 million.

If the Offer is completed, Harbinger would contribute to SkyTerra 132 million ordinary shares in Inmarsat and $37.6 million in aggregate principal value of 1.75% convertible bonds issued by Inmarsat and due in 2017, in each case currently owned by Harbinger and its affiliates. In exchange for such contributions, SkyTerra would issue to Harbinger new shares of voting common stock at $10 per share subject to the adjustment ratchet. The issuance of new voting and non-voting shares of SkyTerra common stock will be subject to SkyTerra shareholder approval.

Financing

On July 24, 2008, SkyTerra, SkyTerra LP, and SkyTerra Finance Co. entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with affiliates of Harbinger, pursuant to which SkyTerra LP and SkyTerra Finance Co. agreed to issue Harbinger up to $500 million aggregate principal amount of 18% Senior Unsecured Notes due July 1, 2013 (the “18% Senior Unsecured Notes”) in four tranches. The proceeds of this funding commitment are expected to fund the Company’s business plan through the third quarter of 2010. As amended, the Securities Purchase Agreement provides that the 18% Senior Unsecured Notes bear interest at a rate of 18% per annum, and that, in conjunction with the issuance of the 18% Senior Unsecured Notes pursuant to the Securities Purchase Agreement, SkyTerra will issue to Harbinger warrants to purchase up to an aggregate of 32.5 million shares of voting or non-voting common stock of SkyTerra (at the option of the holder) at an exercise price of $0.01 per share of common stock. Harbinger’s purchase of the 18% Senior Unsecured Notes is not conditioned upon the commencement or consummation of a business combination with Inmarsat, as described elsewhere in this document. Harbinger may not be required to purchase the 18% Senior Unsecured Notes under certain circumstances, including upon the occurrence of a material adverse change.

On January 7, 2009 the Company issued the first of the four issuances of the 18% Senior Unsecured Notes to Harbinger under the Securities Purchase Agreement, in an aggregate principal amount of $150 million. In addition, at this closing the Company issued Harbinger ten-year warrants to purchase 7.5 million shares of the Company's voting or non-voting common stock, at an initial exercise price of $0.01 per share. The remaining $350 million of 18% Senior Unsecured Notes is scheduled to be issued to Harbinger in three tranches of $175 million, $75 million and $100 million on April 1, 2009, July 1, 2009, and January 4, 2010, respectively.

The Company is actively pursuing other financing alternatives to continue to increase the amount of capital available to fund the development of the next generation network, including constructing SkyTerra-1 and SkyTerra-2, the satellite component of the network. The Company is considering means to raise capital, including strategic partnerships, vendor financing, sale of its interest in TerreStar Networks, and additional debt or equity financing, among others. There is no assurance that the Company can raise sufficient capital, or raise sufficient capital with terms that are favorable to the Company, to complete the next generation network and realize an ATC build-out.

Boeing Deferred Payment Schedule

On July 3, 2008, SkyTerra LP entered into an agreement with Boeing to amend its existing contract with respect to its satellite system procurement. The amendment provides for an additional $40 million of construction payment deferrals. The original construction payment deferral was in the amount of $76 million. The amendment provides that the original deferrals and the additional deferrals associated with the construction payments will be due and payable upon the earlier of December 20, 2010 or ten days prior to shipment of the SkyTerra-2 satellite, currently planned for the second half of 2010.

SkyTerra LP Exchange Transactions

On September 25, 2006, the Company issued 39.6 million shares of its voting and non-voting common stock to TerreStar Corporation and other partners in SkyTerra LP in exchange for limited partnership interests in SkyTerra LP (the “2006 SkyTerra LP Exchange Transactions”), resulting in SkyTerra owning 59% of SkyTerra LP as of the closing. Pursuant to the terms of these transactions, TerreStar Corporation agreed to use commercially reasonable efforts to distribute the 25.5 million shares of the Company’s common stock that it received to its common stockholders. Prior to any such distribution these shares were non-voting. TerreStar Corporation had the right to exchange its remaining limited partnership interests of SkyTerra LP for shares of the Company’s non-voting common stock at a defined ratio.

Notwithstanding the legal form of the transactions, the 2006 SkyTerra LP Exchange Transactions were accounted for as a reverse acquisition, with SkyTerra LP being treated as the accounting acquirer of SkyTerra. Accordingly, the historical financial statements of the Company prior to September 25, 2006 are the historical financial statements of SkyTerra LP. The consolidated financial statements of SkyTerra LP were retroactively adjusted to reflect the recapitalization of SkyTerra LP with the 39.6 million shares of SkyTerra common stock issued to SkyTerra LP equity holders in the 2006 SkyTerra LP Exchange Transactions.

On January 5, 2007, the Company acquired all of the equity interests in SkyTerra LP owned by BCE Inc. (BCE) through the purchase of a BCE wholly-owned subsidiary, TMI Communications Delaware Limited Partnership (TMI Delaware). In exchange for 8 million limited partnership interests in SkyTerra LP, the Company issued 22.5 million shares of non-voting common stock (the “BCE Exchange Transaction”). These shares of non-voting common stock are exchangeable for a like number of shares of voting common stock upon a sale by BCE in the open market or to a person who will not beneficially own 10% or more of the Company’s voting common stock.

Substantially concurrently with the BCE Exchange Transaction, the Company issued 176,250 shares of common stock to Winchester Development LLC, a Delaware limited liability company beneficially owned by a former director of SkyTerra LP. Such shares were issued in exchange for $0.4 million in cash and 50,226 limited partnership interests of SkyTerra LP. This transaction, together with the BCE Exchange Transaction, resulted in the Company owning 81% of SkyTerra LP.

On February 12, 2007, TerreStar Corporation exercised its option to exchange 5.1 million limited partnership interests in SkyTerra LP to acquire 14.4 million shares of the Company’s common stock. As a result, the Company’s ownership of SkyTerra LP increased to 95%. On November 30, 2007, TerreStar Corporation exercised its option to exchange its remaining interest in SkyTerra LP, or 1.6 million limited partnership interests, to acquire 4.4 million shares of the Company’s common stock. As a result, the Company’s ownership of SkyTerra LP increased to 99.3%.

On December 10, 2008, the Company acquired all of the limited partnership interests in SkyTerra LP owned by certain remaining minority limited partners. In exchange for 261,067 limited partnership interests in SkyTerra LP, the Company issued 736,209 shares of its voting common stock to these minority limited partners. As a result, the Company’s ownership of SkyTerra LP increased to 100%.

Critical Accounting Policies and Estimates

The Company’s discussion and analysis of its financial condition and results of operations are based upon the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of the Company’s consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities and equity and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates, particularly estimates relating to equity-based compensation, the valuation of the Company’s investment in TerreStar Networks, valuation of intangible assets, and the useful lives of long-lived assets, and judgments involved in evaluating asset impairments among others, have a material impact on the Company’s financial statements. The Company bases its estimates on historical experience and various other assumptions that it believes are reasonable, the results of which form the basis for making judgments about the carrying value of assets, liabilities and equity that are not readily apparent from other sources. Actual results and outcomes could differ from these estimates and assumptions.

SkyTerra and SkyTerra LP do not have any ownership interests in any special purpose or other entities that are not consolidated into the Company’s consolidated financial statements. SkyTerra and SkyTerra LP have related party transactions as defined under Statement of Financial Accounting Standards (“SFAS”) No. 57, “Related Party Disclosures” that are discussed in “Related Parties” below.

Investments

The Company’s investments include commercial paper, certificates of deposit, municipal bonds and securities issued by government agencies or guaranteed by government agencies. Interest income is recognized when earned. Realized gains and losses for marketable securities are derived using the specific identification method. The classification of investments is determined at the time of purchase and re-evaluated at each balance sheet date. The Company holds investments classified as “held-to-maturity” that are reported at amortized cost. The Company holds one investment classified as “available-for-sale” that is reported at fair value, with changes in fair value reported within equity as a component of other comprehensive income. The Company holds no investments that are classified as “trading securities”.

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In the event that the amortized cost of an investment exceeds its fair value, the Company evaluates, among other factors, the duration and extent to which the fair value is less than cost, the financial health and business outlook for the investee, and the Company's intent and ability to hold the investment. If a decline in fair value is considered to be other-than-temporary, the cost basis of the individual security is written down to fair value and included in results of operations.

During the second half of 2008 the credit markets came under severe pressure from a confluence of events including the collapse of the sub-prime debt market, deterioration in the credit default swap market, and the near-standstill of the commercial paper market. As a result of these market conditions, the Company made adjustments to its cash and investment position in an effort to reduce exposure to principal loss. Specifically, several securities previously classified as "held-to-maturity" were sold resulting in insignificant realized gains or losses on those securities during 2008.

The Company evaluated the fair value of its holdings using relevant and available indicators in order to determine if any of the Company's investments were other-than-temporarily impaired. As result of the Company's analysis it was determined that one commercial paper investment had become other-than-temporarily impaired in the amount of $1.6 million and was written down to its estimated fair value, with the impairment charge included in the statement of operations during 2008.

Investment in TerreStar Networks

The Company owns 11.1% of TerreStar Networks (a consolidated privately-held subsidiary of TerreStar Corporation) that it accounts for under the cost method. Prior to September 12, 2008, TerreStar Corporation owned 29,926,074 million shares of the Company.

The Company evaluates impairment of such investments in accordance with FSP FAS 115-1/124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. Accordingly, the Company considers both triggering events and tangible evidence that investments are recoverable within a reasonable period of time, as well as its intent and ability to hold investments that may have become temporarily or otherwise impaired.

On September 12, 2008, the Company entered into a Transfer and Exchange Agreement with TerreStar Corporation. Pursuant to the agreement, transferees (but not the Company itself) will have the right until May 15, 2014 to exchange shares of TerreStar Networks for shares of TerreStar Corporation common stock at an exchange ratio of 4.37 shares of TerreStar Corporation common stock per TerreStar Networks share. The Agreement also provides for SkyTerra's waiver of TerreStar Corporation's obligation in the Exchange Agreement among SkyTerra, TerreStar and Motient Ventures Holding Inc., dated May 6, 2006, to use its commercially reasonable efforts to distribute 29,926,074 shares of non-voting common stock of SkyTerra (the "SkyTerra Shares") to TerreStar Corporation's stockholders. Throughout 2008, the observable quoted market price of TerreStar Corporation common stock continually decreased. The decline in TerreStar Corporation's stock price indicated there may have been a decline in the fair value of the Company's investment in TerreStar Networks.

Upon the adoption of SFAS No. 157, effective January 1, 2008, the Company evaluated the various methods under which it had previously estimated the fair value of its investment in TerreStar Networks. Based on this assessment, the Company determined that its market based valuation approach (Market Method) that utilized observable quoted market inputs (Level 1 inputs) and observable other than quoted market inputs (Level 2 inputs), was at a higher level of the fair value hierarchy than other methods it had previously utilized. Accordingly, the Company used the Market Method to perform its assessment of impairment of the investment in TerreStar Networks at March 31, 2008, and June 30, 2008.

To perform its assessment of impairment as of September 30, 2008 and December 31, 2008, the Company updated its approach in light of the Transfer and Exchange Agreement with TerreStar Corporation and the exchange ratio agreed upon that would allow exchange of TerreStar Networks shares for TerreStar Corporation shares that are publicly traded (Exchange Method). The Company now uses that exchange ratio and the quoted market price of TerreStar Corporation common stock to determine the fair value of the TerreStar Networks shares. The Company believes that the previously used Market Method is a lower level in the fair value hierarchy due to the Exchange Method's direct, rather than indirect, link to the publicly traded securities of TerreStar Corporation. The privately held investment in TerreStar Networks, in certain circumstances, may be worth more than its "as-if-exchanged" value.

At December 31, 2008, the investment in TerreStar Networks valued under the Exchange Method described above was $7.4 million. As a result, the Company determined that the TerreStar Networks investment is other-than-temporarily impaired. The investment was written down to estimated fair value, resulting in total impairment charges of $70.7 million for the year ended December 31, 2008.

Intangible and Other Long-Lived Assets

The Company's intangible assets and goodwill arose as a result of acquisitions accounted for using the purchase method of accounting. At the time of the acquisitions, the Company allocated the purchase price to the assets acquired and liabilities assumed based on their respective estimated fair values. The identified intangible assets are spectrum assets, and intellectual property, and customer relationships. The Company's spectrum assets and intellectual property are being amortized over periods ranging from 16 to 20. Customer relationships are being amortized over periods ranging from 4.5 to 7 years.

The Company reviews long-lived assets, including intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded value of the asset. If an asset is impaired, the asset is written down by the amount by which the carrying value of the asset exceeds the related fair value of the asset. The Company has made significant investments in certain technology related to its next generation network, including development of a satellite air interface. If the Company were to utilize different technologies than those on which it has begun development work, it may realize significant impairment charges in the future.

Based on a deterioration in the economic environment and a goodwill impairment charge in November 2008, the Company evaluated its next generation long-lived assets to assess recoverability as of December 31, 2008. The Company's long-lived assets consist mainly of components of the Company's planned next generation network. As such, to evaluate impairment, the Company compared the net undiscounted cash flows estimated to be generated by the next generation network to the recorded value of the assets. The net undiscounted cash flows estimated to be generated exceeded the recorded value of the assets, resulting in no impairment as of December 31, 2008. The Company's estimates of net undiscounted cash flows were based upon historical results, projections of market and service growth, customer surveys, and market size estimates provided by industry experts. A 10% change in the estimated undiscounted cash flows would not have had an impact on impairment.

Goodwill

Goodwill is not amortized, but rather is tested for impairment at least annually. Goodwill impairment is determined using a two step process. The first step is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step of the impairment test is not necessary. However, if the carrying amount of a reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and measure the amount of impairment loss to recognize, if any. The second step compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied fair value of goodwill exceeds the carrying amount, then goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. The fair value of the reporting unit is allocated to all the assets and liabilities, including any previously unrecognized intangible assets, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

The Company performs its annual impairment assessment on November 30, however, the Company could be required to evaluate the recoverability of goodwill prior to the required annual assessment if the Company experiences indications of impairment. The Company has three reporting units, Current Generation, Next Generation and SkyTerra Corporate. As of the evaluation date, the Company carried goodwill of $10.4 million and $0.1 million at the Next Generation and Current Generation reporting units, respectively, as a result of SkyTerra LP's acquisition of satellite businesses in previous years. The SkyTerra Corporate reporting unit has no goodwill.

The Company estimated the fair value of its reporting units using discounted cash flow analyses. The cash flow estimates required various judgmental assumptions about sales, operating margins, growth rates and discount rates. Assumptions about sales, operating margins and growth rates are based on the Company's budgets, business plans, economic projections, and anticipated future cash flows.

The Current Generation reporting unit is a steady, long-term business that faces technological obsolescence and the retirement of its operating assets towards the end of 2010, when it plans to cease operations. To forecast cash flows of the Current Generation Reporting unit, the Company assumed operating margins in the next two years of network life consistent with or at lower levels then realized in the most current year due to expected customer defections as the current generation network approaches technological obsolescence and retirement. The Next Generation reporting unit has several different viable business plans that the Company is currently evaluating, including a plan that includes mobile satellite services only (and related costs), and a plan that includes both mobile satellite and ATC services (and related costs). For purposes of its goodwill impairment analysis, the Company utilized the business plan that includes mobile satellite services only. Within the mobile satellite services only business plan the Company assumed operating margins applicable to a significantly broader range of services that will be available on the next generation network.

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The Company compared the combined fair values of its reporting units with its market capitalization, adjusted for a control premium as demonstrated by large transactions in the Company's stock. The Company's estimated market value based on its average closing stock price over a relatively short period of time, plus control premium, approximated the combined fair values of its reporting units determined through discounted cash flow analysis.

The Company compared the estimated fair values of its reporting units with their carrying amounts, including goodwill. The estimated fair value the Current Generation reporting unit exceeded its carrying amounts that include goodwill of $0.1 million. As such, no goodwill impairment loss was recognized related to the Current Generation reporting unit. The estimated fair value the Next Generation reporting unit did not exceed its carrying amounts that include goodwill of $10.4 million. The fair value of the identifiable net assets of the Next Generation reporting unit, determined as if the reporting unit had been acquired in a business combination when compared to the fair value of the reporting unit, resulted in a determination that the implied fair value of goodwill was zero. As the $10.4 million carrying amount of Next Generation reporting unit goodwill exceeds the implied fair value of that goodwill (zero), an impairment loss was recognized in an amount equal to the full amount of goodwill carried in this reporting unit. Accordingly, at December 31, 2008 the remaining goodwill of $0.1 million relates to the Current Generation reporting unit.

Stock-based Compensation Expense

The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors based on estimated fair values in accordance with SFAS 123(R), *Share Based Payment*, which requires it to estimate the fair value of certain share-based payment awards on the date of grant using an option-pricing model. The Company's determination of fair value of stock option awards on the date of grant using the Black-Scholes option-pricing model is affected by assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. Changes in these underlying factors and assumptions may result in significant variability in the stock-based compensation costs the Company records, which makes such amounts difficult to accurately predict. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period.

On August 6, 2008 the Company completed an offer to all SkyTerra LP option holders as of that date, to grant them new SkyTerra options, generally in exchange for surrender and termination of their SkyTerra LP options (the "Option Exchange"). All participating U.S. SkyTerra LP option holders received options to purchase shares of SkyTerra common stock pursuant to the terms of the Option Exchange at a ratio of 2.82 SkyTerra options for each SkyTerra LP option terminated, with an exercise price equal to the exercise price of the SkyTerra LP options terminated divided by 2.82. All participating Canadian SkyTerra LP option holders received the right to exchange SkyTerra LP options for SkyTerra options on the same terms in the future. Sale of all shares subject to the options received upon exchange is subject to restriction until May 1, 2010, with certain exceptions that could result in earlier release of the restrictions. Upon the release of these restrictions, Canadian SkyTerra LP option holders participating in the Option Exchange will have three business days to complete the exchange of their respective SkyTerra LP options for SkyTerra options, or their SkyTerra LP options will become unexercisable.

Upon consummation of the Option Exchange, 11.1 million SkyTerra options were issued in exchange for SkyTerra LP options held by U.S. SkyTerra LP option holders. Additionally, Canadian SkyTerra LP option holders received rights to receive 1.7 million SkyTerra options if they exchange their respective SkyTerra LP options for SkyTerra options in the future.

The exchange of vested options held by U.S. SkyTerra LP option holders that were outstanding at September 25, 2006, the date of the 2006 SkyTerra LP Exchange Transactions, and had not been subsequently modified, have been accounted for as the acquisition of minority interest under the purchase method of accounting. The fair value of these SkyTerra options was determined using Monte Carlo simulations.

Options that were granted to SkyTerra LP U.S. employees subsequent to September 25, 2006, or granted prior to September 25, 2006 and subsequently modified after that date (before the exchange), and exchanged on August 6, 2008, have been accounted for as modifications, pursuant to SFAS 123(R), *Share-Based Payment*. The rights granted to SkyTerra LP Canadian employees to exchange their options in the future have also been accounted for as modifications, pursuant to SFAS 123(R), as those option holders continue to hold and have the ability to exercise their respective SkyTerra LP options. The Company determined that there was no incremental compensation cost as a result of these modifications, based on estimated fair values determined by Monte Carlo simulations.

The Company's determination of fair value of stock option awards on the date of the Option Exchange using Monte Carlo simulations was affected by its stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, judgments related to the lapse of transfer restrictions on options received in the Option Exchange, and

actual and projected employee stock option exercise behaviors. Changes in these underlying factors and assumptions may result in significant variability in the stock-based compensation costs the Company records, which makes such amounts difficult to accurately predict. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's Consolidated Statements of Operations.

Recently Issued Accounting Standards

In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in a business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R will be applied prospectively to business combinations that have an acquisition date on or after January 1, 2009. The impact of SFAS No. 141R on the Company's consolidated financial statements will depend on the nature and size of acquisitions, if any, subsequent to the effective date.

In March 2008, the FASB issued Statement No. 161, D*isclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 amends SFAS No. 133 by improving financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The provisions of SFAS No. 161 are effective for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company is in the process of evaluating the impact, if any, that SFAS No. 161 will have on disclosures in its consolidated financial statements.

In June 2008, the FASB ratified EITF Issue No. 07-5, *Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock* (EITF 07-5). EITF 07-5 applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative, as defined. If an instrument, or an embedded feature, is not considered indexed to the issuer's stock under EITF 07-5, that instrument is not eligible for equity classification and would be classified as an asset or liability and re-measured at fair value through earnings. The Company will be required to adopt EITF 07-5 on January 1, 2009. The consensus must be applied to all instruments outstanding on the date of adoption and the cumulative effect of applying the consensus must be recognized as an adjustment to the opening balance of retained earnings at transition. The Company has outstanding warrants to purchase common stock that have been preliminarily evaluated as ineligible for equity classification under EITF 07-05 because of certain provisions that may result in an adjustment to the exercise price of the warrants. Accordingly, the adjustment feature may cause the warrant to fail to be indexed solely to the Company's stock. The warrants would therefore be classified as liabilities and re-measured at fair value with changes in the fair value recognized in operating results. The Company has not completed its analysis of these instruments nor determined the effects of pending adoption, if any, on its financial statements.

Current Business

The Company's significant operating activity, providing mobile satellite communication services, is performed through its consolidated subsidiary SkyTerra LP. SkyTerra LP provides service in the United States and Canada using two nearly identical satellites. End users of SkyTerra LP's mobile satellite services operate at sea, on land and in the air, and customers use various services including satellite bandwidth and power capacity, telephony, data, and dispatch services. SkyTerra LP sells equipment for use on the network.

Comparison of the years ended December 31 2008, 2007 and 2006

The following tables detail the Company's consolidated financial results for the years ended December 31, 2008, 2007 and 2006 in the following segments: Next Generation (research, development, and implementation of a next generation network), Current Generation (current satellite services), and SkyTerra corporate activities.

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Year ended December 31, 2008

In Thousands

	Next Generation	**Current Generation**	**Total SkyTerra LP**	**SkyTerra Corporate**	**Eliminations**	**SkyTerra Consolidated**
Revenues:						
Services and related revenues	$ —	$ 28,571	$ 28,571	$ —	$ —	$ 28,571
Equipment sales	—	5,025	5,025	—	—	5,025
Other revenues	—	889	889	—	—	889
Total revenues	—	34,485	34,485	—	—	34,485
Operating expenses:						
Cost of equipment sold	—	4,165	4,165	—	—	4,165
Operations and cost of services (exclusive of depreciation and amortization)	16,243	16,067	32,310	—	—	32,310
Sales and marketing	4,508	3,944	8,452	—	—	8,452
Research and development (exclusive of depreciation and amortization)	15,557	—	15,557	—	—	15,557
General and administrative	16,009	7,843	23,852	11,579	—	35,431
Depreciation and amortization	30,083	2,605	32,688	—	—	32,688
Impairment of goodwill	10,389	—	10,389	—	—	10,389
Total operating expenses	92,789	34,624	127,413	11,579	—	138,992
Operating loss	(92,789)	(139)	(92,928)	(11,579)	—	(104,507)
Other income (expense):						
Interest income	6,660	—	6,660	484	(339)	6,805
Interest expense	(40,242)	—	(40,242)	(339)	339	(40,242)
Impairment of investment in TerreStar Networks	—	—	—	(70,730)	—	(70,730)
Other income, net	(1,011)	(468)	(1,479)	530	—	(949)
Loss before income taxes, minority interest and extraordinary gain	(127,382)	(607)	(127,989)	(81,634)	—	(209,623)
Benefit for income taxes	—	1,110	1,110	—	—	1,110
Minority interest in loss of subsidiary	—	—	—	—	572	572
Net income (loss) before extraordinary gain	(127,382)	$ 503	(126,879)	(81,634)	572	(207,941)
Extraordinary gain on acquisition of minority interest	3,006	—	3,006	—	—	3,006
Net income (loss)	$ (124,376)	503	$ (123,873)	$ (81,634)	$ 572	$ (204,935)

	Year ended December 31, 2007					
	In Thousands					
	Next Generation	Current Generation	Total SkyTerra LP	SkyTerra Corporate	Eliminations	SkyTerra Consolidated
Revenues:						
Services and related revenues	$ —	$ 27,754	$ 27,754	$ —	$ —	