SKYTERRA COMMUNICATIONS INC
Form 10-K
March 16, 2007
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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, 2006, or

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

of 1934 for the transition period from to

Commission file number 000-13865

SKYTERRA COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

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

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. ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

Yes ¨ No x

The aggregate market value of the voting common stock held by non-affiliates of the registrant, as of June 30, 2006, was $113,353,994. No shares of non-voting voting common stock were held by non-affiliates of the registrant as of June 30, 2006.

As of March 9, 2007, 33,819,318 shares of our voting common stock and 68,592,958 shares of our non-voting common stock were 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, 2007 are incorporated by reference into Part III of this Report.

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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 and 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, including 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 those reflected in these statements, and the differences could be substantial. We disclaim any obligation to publicly update these statements, or disclose any difference between our actual results and those reflected in these statements. The information constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The 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.

Item 1. Business

In this Form 10-K, unless otherwise stated or the context otherwise requires, references to we, us, our, the Company and similar references refe to SkyTerra Communications, Inc. and its directly or indirectly owned subsidiaries, including Mobile Satellite Ventures LP, or MSV, and its subsidiaries. In addition, and unless otherwise stated or the context otherwise requires, references in this Form 10-K to our satellites , our spectrum , our authorizations , our network and similar references refer to the satellites, spectrum, authorizations and networks of MSV and Mobile Satellite Ventures (Canada) Inc., or MSV Canada.

Overview

We operate our business through our subsidiary, MSV, a company with a ten year operating history of providing mobile digital voice and data communications services via satellite in North America. We have two satellites in service, with approximately 200,000 units generating approximately $35 million in annual revenue and a customer base served thru both direct and indirect sales channels consisting of federal, state and local government agencies, fleet management providers, maritime, and bulk capacity customers. We are licensed by the United States and Canadian governments to operate in the L-band spectrum. We currently have coordinated approximately 30 MHz of spectrum throughout the United States and Canada.

In addition to our existing mobile satellite services (MSS) business, we have contracted with Boeing Satellite Services Inc. (Boeing) for the design and construction of our next generation satellites, MSV-1 and MSV-2, the first of which is expected to be launched in 2009. The development of our next generation satellites is a part of our plans for the development of 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. Using an all-IP, open architecture, we believe our network will provide significant advantages over existing wireless networks. Such potential advantages include higher data speeds, lower costs per bit and flexibility to support a range of custom IP applications and services. Our current business plan envisions a carrier s carrier wholesale model whereby our strategic partners and other wholesale customers can use our network to provide differentiated broadband services to their subscribers. We believe our 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. We plan to support our next generation network with our intellectual property, which is predominantly held by our wholly-owned subsidiary, ATC Technologies LLC.

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We have access to a Canadian L-band license held by MSV Canada, a corporation in which MSV holds combined direct and indirect ownership interests of 46.7%, through a capacity lease and other contractual rights. Our United States L-band spectrum license and satellite authorization, as well as the FCC licenses related to use in the United States of the Canadian licensed frequencies held by MSV Canada are held by a wholly-owned subsidiary, Mobile Satellite Ventures Subsidiary LLC. We also wholly-own three subsidiaries organized for the purpose of pursuing future international and domestic business opportunities, which have no material current activity.

We currently offer a range of MSS using two geostationary satellites that support the delivery of data, voice, fax and dispatch radio services. Approximately 35% of our revenue for the year ended December 31, 2006 was attributable to bulk satellite capacity sales while the rest was generated by managed services which include retail voice (17%), circuit switched (11%), dispatch (7%) and packet data (7%). Wireless Matrix Corporation accounted for 8.1% of our revenues in 2006. No other customer accounted for more than 10% of our revenues in 2006. In operating our next generation integrated satellite-terrestrial network, we plan to allocate the use of our spectrum between satellite and terrestrial service. Our spectrum footprint covers a total population of nearly 330 million. Our spectrum occupies a portion of the L-band and is positioned between the frequencies used today by terrestrial wireless providers in the United States and Canada. We were the first MSS provider to receive a license to operate an ATC network from the FCC. We were a major proponent of the FCC s February 2003 and February 2005 ATC and ATC Reconsideration Orders, both of which were adopted on a unanimous, bi-partisan, 5-0 basis. These ATC licenses permit 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.

Over the course of the past twelve months, we have consummated a series of transactions in which we acquired additional interests in MSV from its other limited partners in exchange for shares of our non-voting and/or voting common stock, resulting in us currently owning, through MSV Investors, LLC, or MSV Investors, 95% of the outstanding limited partnership interests of MSV and 100% of Mobile Satellite Ventures GP, or MSV GP, MSV s general partner:

On September 25, 2006, we acquired an additional 14.2 million limited partnership interests of MSV and 2,072.78 shares of the common stock of MSV GP, from Motient Corporation, or Motient, and other limited partners of MSV, resulting in our owning 52% of MSV on a fully diluted basis and 78% of MSV GP. As a result of the MSV Exchange Transactions in September 2006, MSV was 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 MSV.

On January 5, 2007, we also acquired from BCE Inc., or BCE, all the equity interests in TMI Delaware Limited Partnership, or TMI Delaware, the wholly-owned subsidiary of BCE through which it owns its interest in MSV, resulting in our owning 72% of MSV on a fully diluted basis and 100% of MSV GP.

On February 12, 2007, Motient exercised its option to acquire 14,407,343 shares of our non-voting common stock, in exchange for delivery to us of an additional 5,108,986.88 limited partnership interests in MSV, increasing our stake in MSV to 95% on an undiluted basis and 88% on a fully diluted basis. See The Exchange Transactions.

In addition, we own approximately 12% of TerreStar Networks, Inc., or TerreStar, or 10.2% on a fully diluted basis, which is also pursuing plans to develop, build and operate a next generation satellite system complemented by an ATC in the 2 GHz band or S-band, in addition to 13.1 % of its affiliate TerreStar Networks Global Ltd., or 11.3% on a fully diluted basis, which is pursuing international opportunities for TerreStar.

Historically, we have operated our business through a group of complementary companies in the telecommunications industry. These companies have historically included: (i) MSV, (ii) Hughes Network Systems, LLC, or HNS, a leading developer, manufacturer, installer and provider of advanced satellite based networking solutions and services for businesses, governments and consumers worldwide; (iii) Electronic System

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Products, Inc., formerly a product development and engineering services firm which is currently focusing on maximizing the license revenues from its intellectual property portfolio and (iv) AfriHUB, LLC, an early stage company that provides a limited amount of satellite based Internet access and domestic and international calling services through exclusive partnerships with certain Nigerian-based universities while it actively pursues opportunities to provide technical training in the Nigerian market. On February 21, 2006, we completed the distribution (the Distribution), of all of the common stock of Hughes Communications, Inc., or Hughes, formerly a wholly-owned subsidiary, which held our interests in Hughes Network Systems, LLC, Electronic System Products and AfriHUB, among other things, to our security holders.

Mobile Satellite Ventures

Current Business

We currently provide switched and packet data service to approximately 30,000 units in service through a retail sales channel that includes a direct sales force, dealers and resellers. Many of these users are federal, state and local agencies involved in public safety and security that depend on our system for redundant and ubiquitous wireless services during daily operations and in the case of emergencies.

In addition to offering managed services to our core direct customer base, we also sell bulk capacity on a wholesale basis to service provider partners for special purpose networks. We provide service to approximately 170,000 more units in service through these indirect channels. A majority of these indirect users access our network for fleet management and asset tracking services through companies including Geologic Solutions, Inc., Wireless Matrix Corporation, Transcore Holdings, Inc. and SkyBitz, Inc.

We provide service in North America using two nearly identical satellites. The first satellite is located at 101° WL. The second satellite, formerly owned by an affiliate of BCE and now owned by MSV Canada, is located at 106.5° WL.

Primary Markets and Distribution Strategy

We offer services to a number of vertical markets in North America. Additionally, we currently have resellers in Mexico and Colombia. Our penetration has been 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. In addition to distributing select retail services through a dealer network, we sell satellite capacity primarily on a wholesale basis to service providers, resellers, and private communication networks to address the maximum number of markets with its portfolio of services.

Satellite Telephony and Dispatch Services

We market satellite telephony services directly 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 kb/s. 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. Users 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.

In addition to circuit switched service, we were a leader in the development of 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 10,000 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.

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

Bulk Satellite Capacity

We provide wholesale satellite capacity to customers who implement their own networks. These customers typically purchase channels of specified bandwidth and power. The channels are dedicated to the customer once purchased and paid for, 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.

Packet Data Services

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

Equipment and Supplier Relationships

We recently began offering for sale a new mobile transceiver for use with our Satellite Telephony and Dispatch Service manufactured by HNS. This new device will also provide an integrated GPS capability. For the Packet Data services, we use 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.

Our system 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

Our current products and services compete with a number of communications services, including existing satellite services offered by Iridium, Globalstar LLC and Inmarsat PLC, terrestrial air-to-ground services, and terrestrial land-mobile and fixed services and may compete with new technologies in the future.

Inmarsat s primary offerings consist of maritime voice, facsimile and data services. The Inmarsat system has per minute charges higher than those charged by us for comparable service. While less powerful than our next generation system architecture under construction, Inmarsat s next generation of satellites, Inmarsat-4, are more powerful than our current operating business. One of Inmarsat s next generation satellites is currently in orbit over North America and is used to provide Inmarsat s new Broadband Global Area Network service in addition to traditional Inmarsat services.

Iridium and Globalstar provide voice, data, and paging services via constellations of LEO satellites that cover the globe. The Iridium and Globalstar systems are more complex and expensive than our satellite network and offer some advantages over our 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.

Intellectual Property

As an integral part of the process of conceiving, designing, and developing our next generation integrated network, we have prepared and filed over 100 patent applications representing over 4,000 claims related to the commercialization and development of a satellite terrestrial integrated network. The applications have been filed

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in both the United States and in several key countries abroad. It is our belief that a next generation integrated network cannot effectively and efficiently be implemented on a commercially viable basis without the benefits of our patent portfolio. We are committed to vigorously enforcing and defending the rights afforded to us through our patents.

In addition to the patents that we own and the patent applications we have filed, we currently, and expect to continue to, incorporate licensed patents and unpatented technology and software into our existing and planned networks. Certain agreements between us and third parties, such as Boeing, include provisions pursuant to which we have 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 our existing and planned networks. We expect to enter into additional agreements in the normal course and with strategic partners that will include licenses to third party intellectual property as we develop our next generation integrated network. We believe our intellectual property rights and license are sufficient in scope and duration for the operation of our business.

MSV s Strategy

Through MSV and MSV Canada we plan to develop, build and operate a next generation satellite system complemented by an ATC. Such a system would combine some of the advantages of satellite systems and of terrestrial wireless systems. While satellite systems can provide communications where it is difficult or impossible to provide communications coverage via terrestrial base stations, such as rural areas, such systems are susceptible to signal blockage in urban areas and inside buildings. By contrast, terrestrial systems do not serve significant remote areas, but function well in urban areas because of their ground network. We intend to operate a satellite system with an ATC, enabling it to reach rural areas via satellite and function in urban settings and indoors through the terrestrial component.

Incorporation of an ATC into our service offering will require significant planning and capital. Our development plan will require compliance with the parameters set forth by the FCC rulings, as described below. In addition, development plans will entail, at a minimum, finalizing technical specifications for satellites, handsets and signal repeater equipment and selecting manufacturers for these components, other than the satellites for which we have selected and contracted with Boeing Satellite Systems, Inc., or Boeing, as manufacturer. Moreover, other manufacturing, supply, launch and installation contracts will need to be negotiated and executed, and final development of network protocols and software will need to be completed.

Build out of an ATC enhanced network will require installation of a ground network in any given metropolitan area to enable in-building signal penetration. Because of the time and expense required to acquire and incorporate these components, we anticipate that an ATC will be phased in over time in various metropolitan areas. The FCC also requires geostationary orbit satellite systems like ours to maintain a spare satellite on the ground within one year of commencing ATC operations.

FCC s ATC Orders and Approval of MSV s Application

On February 10, 2003, the FCC released an order, or the February 2003 ATC Order, which greatly expanded the scope of our business by permitting the incorporation of an ATC into our mobile satellite network. In the February 2003 ATC Order, the FCC determined that it would serve the public interest to permit MSS providers to incorporate an ATC into their satellite systems in three frequency bands: Big LEO (where Globalstar and Iridium operate), L-band (where we and Inmarsat operate) and S-band (where ICO and TMI Communications and Company, Limited Partnership, or TMI Communications are licensed). Specifically, the February 2003 ATC Order allows MSS operators to seek authority to integrate an ATC into their satellite networks for the purpose of enhancing their ability to offer high-quality, affordable mobile services on land, in the air and over oceans without using any additional spectrum resources beyond spectrum already allocated and authorized by the FCC for MSS in these bands.

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The FCC s authorization of an ATC for these MSS bands was subject to conditions that are designed to ensure the integrity of the underlying MSS offering and to prevent these services from becoming stand-alone terrestrial offerings. Specifically, to include an ATC in their satellite systems, the FCC required that we and other MSS operators:

- launch (or have launched) and operate their own satellite facilities;
- provide substantial satellite service to the public;
- demonstrate compliance with geographic and temporal satellite coverage requirements;
- demonstrate that the satellite system s ATC will operate only within the licensee s core MSS spectrum;
- limit ATC operations only to the satellite system s authorized footprint;
- provide an integrated MSS and ATC service;
- not offer a terrestrial only service to consumers; and
- obtain handset certification for MSS ATC devices under the equipment authorization process in accordance with FCC rules.

Accordingly, under the February 2003 ATC Order, our ATC operations or ATC operations of other MSS providers were not permitted until we or such licensee, as applicable, has filed an application with the FCC demonstrating compliance with these requirements. Once the FCC approves such an application, terrestrial operations may commence. In November 2003, we submitted our application.

In November 2004, the FCC granted our application to operate an ATC in the L-band, subject to certain conditions, or the November 2004 Application Approval. The authorization was the first license for ATC operation granted by the FCC, allowing us to offer an ATC with its commercial service. In addition, the FCC approved several of our waiver requests, providing us more flexibility with respect to operating an ATC than previously provided in the February 2003 ATC Order. However, the FCC deferred ruling on certain of our other waiver requests until it acted on certain other pending petitions related to the February 2003 ATC Order. The FCC s order was subject to reconsideration and included various limitations and conditions necessary for the implementation of an ATC operation. Inmarsat has asked the FCC to review the November 2004 Application Approval. This challenge is pending.

In February 2005, the FCC released its new rules for the deployment and operation by us of an ATC for our service, which provided us with substantial additional flexibility in our system implementation, or the February 2005 Order. This additional flexibility provided by the FCC s decision is expected to allow us to offer users affordable and reliable voice service from virtually anywhere in the United States. In addition, we expect to be able to offer a cost effective high-speed data communications service in the United States and Canada through our integrated satellite/terrestrial service system.

The FCC s February 2005 Order rejected arguments that would have limited ATC flexibility. Instead, the FCC reaffirmed the fundamental underpinnings of the February 2003 ATC Order and removed many constraints that would have limited the spectral efficiency and communications efficacy of an ATC. The FCC s decision recognized the essential nature of an ATC in providing spectral efficiency to MSS users in populous areas, and that it can do so at an insignificant cost of interference potential to other systems. Inmarsat has filed a petition for reconsideration of the February 2005 order asking the FCC to adopt certain restrictions on the technical standards adopted for ATC. This challenge is pending.

In November 2005, we filed an application to modify our ATC license to reflect the revised rules governing ATC adopted in the FCC s February 2005 Order. Among other things, we requested authority to deploy an ATC based on Time Division Duplex, or TDD, technology. Inmarsat has opposed this application. This application is pending.

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Terrestrial wireless providers strenuously opposed the FCC s proposal to grant ATC, claiming, among other things, that the spectrum held by the MSS licensees is worth billions of dollars if authorized for exclusive terrestrial wireless use and, therefore, should be auctioned. Many of these same terrestrial wireless providers filed court challenges to the February 2003 ATC Order, which were later withdrawn. Inmarsat which offers mobile satellite service in the U.S. using the L-band spectrum, vigorously opposed the grant of ATC in the L-band claiming it would cause unacceptable interference to its satellites. However, Inmarsat reconsidered its position now that ATC has been authorized and has announced that it will seek approval to incorporate an ATC into its satellite service in the United States, which could further increase competition in the provision of satellite services incorporating an ATC.

In January 2006, we announced that we had entered into a contract with Boeing for the construction and delivery of its next generation L-band satellites. These satellites are expected to be among the most powerful commercial satellites ever built and, if successfully launched, to form an integral part of the advanced commercial telecommunications network being developed by us. The network will be based on our patented ATC technology.

The contract provides for the delivery of MSV-1 and MSV-2, which will replace and expand upon the current MSAT satellite system operated by MSV and MSV Canada. Like the MSAT satellites, the MSV-1 and MSV-2 satellites will cover Canada, the United States, including Alaska, Hawaii, Puerto Rico, the Virgin Islands, and the Caribbean Basin, as well as Mexico. The spacecraft will also be equipped with a qualified digital channelizer that maximizes spectrum allocation. With the constellation of MSV-1 and MSV-2, Boeing will provide the technology that will enable us to offer our customers advanced mobile services using small, handheld terminals interoperable with terrestrial terminals. The satellites are expected to be launched beginning in 2009 and 2010. We have received authorization to construct, launch, and operate the MSV-1 satellite from the FCC. In addition to a petition for clarification that we filed, one party has filed a petition for reconsideration of the FCC s decision to authorize MSV-1. This challenge is pending. The FCC has ruled that we are compliant with its initial milestone requirement for MSV-1. Inmarsat has challenged this finding. This challenge is pending. In June 2006, we surrendered our FCC authorization for a satellite that was planned to provide service to South America.

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

TerreStar Networks, Inc.

TerreStar was established as a wholly-owned subsidiary of MSV in February 2002 to develop business opportunities related to the proposed receipt of certain licenses in the 2 GHz band, or S-band. TMI Communications, a subsidiary of BCE, holds the approval issued by Industry Canada for a 2 GHz space station authorization and related spectrum licenses for the provision of MSS in the 2 GHz band, as well as an authorization from the FCC for the provision of MSS in the 2 GHz band. In November 2001, TMI Communications agreed to transfer its Industry Canada authorization to an entity that is eligible under Canadian law to hold that authorization and in which TerreStar and/or TMI Communications will have an interest, subject to obtaining the necessary Canadian regulatory approvals. TMI Communications also agreed that at TerreStar s election, TMI Communications will transfer the 2 GHz assets to the entity described above, subject to any necessary Canadian and United States regulatory approvals. In December 2002, TMI Communications and TerreStar jointly applied to the FCC for authority to transfer TMI Communications FCC authorization to TerreStar.

TMI Communications United States and Canadian authorizations are subject to FCC and Industry Canada milestones relating to the construction, launch, and operational date of the system. In order to satisfy the milestone requirements included within TMI Communications authorizations, TerreStar and TMI

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Communications entered into an agreement in which TerreStar agreed to enter into a non-contingent satellite procurement contract for the construction and delivery to TMI Communications of a satellite that is consistent with the Canadian and FCC authorizations. In August 2002, Industry Canada advised TMI Communications that this arrangement met the requirement that TMI Communications demonstrate that it is bound to a contractual agreement for the construction of a 2 GHz satellite. However, certain wireless carriers in the United States had urged the FCC to cancel TMI Communications MSS Authorization on the basis that it had not met a corresponding FCC requirement. A similar group also filed a petition in January 2003 asking the FCC to dismiss the application to transfer TMI Communications MSS Authorization to TerreStar. In February 2003, the FCC adopted an order canceling TMI Communications MSS Authorization due to an alleged failure to enter into a noncontingent satellite construction contract before the specified first milestone date.

In June 2004, the FCC agreed to waive aspects of the first milestone requirement applicable to TMI Communications MSS Authorization and, therefore, reinstated that authorization, along with the application to transfer TMI Communications MSS Authorization to TerreStar. The FCC also modified the milestone schedule applicable to TMI Communications MSS Authorization. TMI Communications has certified to the FCC its compliance with the second and third milestone under its MSS Authorization. The FCC is currently reviewing that certification for compliance with the requirements. The application to transfer TMI Communications MSS Authorization to TerreStar is still pending before the FCC.

In December 2004, MSV issued rights, or the TerreStar Rights, to receive all of the shares of common stock of TerreStar, then a wholly-owned subsidiary of MSV, to the limited partners of MSV, including MSV Investors, pro rata in accordance with each limited partner s percentage ownership. The TerreStar Rights were to automatically be exchanged for shares of TerreStar common stock on May 20, 2005. In connection with the distribution of the TerreStar Rights, TerreStar issued warrants to purchase shares of its common stock representing 3% of the outstanding equity for an exercise price of $0.21 per share to certain of the other MSV Investors. These warrants were exercised in March 2005. On May 11, 2005, the TerreStar Rights were exchanged for shares of TerreStar common stock in connection with the sale by TerreStar of $200.0 million of its common stock to Motient at a purchase price of $24.42 per share (the TerreStar Private Placement), increasing Motient s ownership of TerreStar to approximately 61% on an undiluted basis. Following these transactions, MSV Investors owned 5,303,315 shares of TerreStar common stock, or approximately 13% of TerreStar on an undiluted basis or 11% on a fully diluted basis.

In connection with the TerreStar Private Placement, the minority shareholders of TerreStar, including MSV Investors, TMI and the other investors, entered into certain agreements with TerreStar and Motient providing MSV Investors (and the other minority shareholders) with certain protections, including tag along rights, pre-emptive rights and representation on the TerreStar Board of Directors. In addition, the TerreStar shares held by the minority shareholders, including MSV Investors, under certain conditions, may be subject to drag along rights of Motient. In connection with the TerreStar Private Placement, MSV licensed TerreStar certain intellectual property and agreed to provide TerreStar with certain services.

The FCC released two public notices on June 29, 2005, the first announcing its intent to give ICO Satellite Services, or ICO, and TMI Communications 13 1/3 MHz of spectrum in the 2 GHz band and the second presenting three possibilities for the allocation of the remaining spectrum. These options included allocating the spectrum to ICO and TMI Communications, offering it to new MSS licensees, or reallocating it for a different use. Inmarsat, Globalstar, and numerous other parties lobbied against allocating the spectrum to ICO and TMI Communications. On December 9, 2005, the FCC issued two orders related to the 2 GHz band, the first of which modified the spectrum reservations of TMI Communications and ICO such that each is assigned a total of 20 MHz of spectrum, increasing TMI Communications spectrum from 13 1/3 MHz. The second order, filed in conjunction with the first order, dismissed a Petition for Declaratory Ruling submitted by Inmarsat. The availability of 20 MHz is expected to allow TMI Communications/TerraStar to better compete against existing wireless providers while affording them the ability to support next generation interfaces such as WiMax. The December 9, 2005 order reflects the FCC s determination of how to best allocate the 24 MHz of spectrum in the

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2 GHz band surrendered by Iridium, Celsat, and Boeing earlier in 2005. The FCC determined that it was in the best interest of the public to give ICO and TMI Communications the spectrum. While the orders were effective upon their release, petitions for reconsideration were filed by each of Globalstar and Inmarsat prior to a January 8, 2006 deadline. In addition, Globalstar has pending a Petition for Reconsideration of the FCC s decision denying its Application for Review of the decision of the FCC s International Bureau revoking its license for 2 GHz MSS spectrum for failing to satisfy the FCC s milestone requirements. If Globalstar s license is reinstated or the FCC grants the petitions for reconsideration of the December 9, 2005 order filed by Globalstar and Inmarsat, the amount of 2 GHz MSS spectrum licensed to ICO and TMI Communications will likely be reduced below 20 MHz.

For additional information on MSV refer to the consolidated financial statements and related notes thereto of MSV included in Item 15 of this Form 10-K. We were incorporated in Delaware in 1985 as International Cogeneration Corporation.

The Exchange Transactions

MSV Exchange Transactions

On May 6, 2006, we entered into definitive agreements with certain other partners in MSV and the minority stakeholders in MSV Investors that, upon closing, resulted in our owning the majority of MSV and controlling MSV GP, as well as our owning all of the equity interests in MSV Investors. At the initial closing, which occurred on September 25, 2006, we issued an aggregate of 39,596,432 shares of our voting and non-voting common stock to a wholly-owned subsidiary of Motient, other partners in MSV and the minority stakeholders in MSV Investors in exchange for approximately 14.2 million limited partnership interests of MSV, all of the common stock of MSV GP and all of the equity interests in MSV Investors held by these parties, resulting in us owning 52% of MSV on a fully diluted basis and 78% of MSV GP immediately thereafter. Pursuant to the terms of these transactions, Motient has agreed to use commercially reasonable efforts to take all steps necessary to distribute 25,478,273 shares of our common stock that it received to its common stockholders as soon as practicable following the initial closing. Prior to such distribution by Motient, these shares will be non-voting.Motient also has the right to exchange, until September 25, 2011, its remaining 6.7 million limited partnership interests of MSV for 18,855,144 shares of our non-voting common stock, which will be exchangeable for a like number of shares of our voting common stock upon the transfer in a sale by Motient in the open market pursuant to an effective registration statement or an exemption from registration or following such transfer, to a person who will not beneficially own 10% or more of our voting common stock.

On September 1, 2006, we agreed to allow Motient to distribute to BCE a portion of the shares of our non-voting common stock that it received in the initial closing in the event that BCE exchanges its shares of TerreStar common stock for shares of Motient common stock. To the extent that at the time of the distribution Motient and BCE have executed an agreement to exchange such shares of TerreStar for shares of Motient common stock, but such exchange has not been consummated, Motient will withhold from the distribution to Motient s common stockholders the number of shares of our non-voting stock sufficient to fulfill its agreement with BCE. Any shares of our common stock received by BCE pursuant to such arrangement will remain non-voting. On February 12, 2007, Motient exercised this option to acquire 14,407,343 shares of our non-voting common stock, in exchange for delivery to us of an additional 5,108,986.88 limited partnership interests in MSV. Subsequently, as a result of Motient s exercise of its option on February 12, 2007, we increased our ownership of MSV to 88% on a fully diluted basis and 95% on an undiluted basis. If Motient has not exchanged its remaining MSV interests prior to September 25, 2011, we have the right to require such interests to be exchanged for shares of our non-voting common stock at an exchange ratio reflecting the fair market value of such interests and our common stock on May 6, 2021.

BCE Exchange Transaction

On January 5, 2007, we completed the acquisition from BCE of all the equity interests in TMI Delaware, the wholly-owned subsidiary of BCE through which it owned its interests in MSV and MSV GP, in exchange for

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21,393,355 shares of our non-voting common stock, which are exchangeable for a like number of shares of our voting common stock upon the transfer in a sale by BCE in the open market pursuant to an effective registration statement or an exemption from registration or following such transfer, to a person who will not beneficially own 10% or more of our voting common stock. In addition, in accordance with the terms of the BCE Exchange Transaction, in exchange for 1,140,390 shares of our non-voting common stock, we acquired an additional 404,393.96 limited partnership interests of MSV that BCE acquired from BCE or its subsidiary s employees who were current or former directors of MSV and/or MSV Canada who exercised options to purchase limited partnership interests of MSV. These shares of our non-voting common stock are also exchangeable for a like number of shares of our voting common stock upon the transfer in a sale by BCE in the open market pursuant to an effective registration statement or an exemption from registration or following such transfer, to a person who will not beneficially own 10% or more of our voting common stock.

Substantially concurrently with the BCE Exchange Transaction, we issued approximately 175,000 shares of our common stock to Winchester Development LLC, a Delaware limited liability company beneficially owned by a former director of MSV. Such shares were issued in exchange for approximately $400,000 in cash and approximately 50,000 limited partnership interests of MSV, obtained by the individual upon the exercise of outstanding options and subsequently transferred to Winchester Development LLC. This transaction, together with the BCE Exchange Transaction, resulted in our owning 73% of MSV on a fully diluted basis and 100% of MSV GP. Subsequently, as a result of Motient s exercise of its option on February 12, 2007, we increased our ownership of MSV to 95% or 88% on a fully diluted basis. We may acquire additional limited partnership interests of MSV if we negotiate and enter into exchange transactions with MSV option holders and/or any other holders of limited partnership interests of MSV. For a more detailed discussion, see MSV Exchange Transactions.

TerreStar Exchange Transactions

On May 8, 2006, Motient announced that it had executed agreements with affiliates of Columbia Capital and Spectrum Equity Investors pursuant to which on September 25, 2006, Motient issued 2.7 million shares of its common stock in exchange for 1.5 million shares of TerreStar common stock held by these parties and issued an additional 1.4 million shares of its common stock in exchange for 0.8 million shares of TerreStar common stock held by other TerreStar stockholders who exercised their right to tag along with these exchange agreements, resulting in Motient owning 61% of TerreStar on a fully diluted basis. In connection with these transactions, prior to the initial closing of the MSV Exchange Transactions, MSV Investors distributed the shares of TerreStar common stock that it held to its members. These parties had the right to exchange their TerreStar common stock for Motient common stock provided they met certain notice obligations prior to October 11, 2006 and all of the former holders of MSV Investors, other than us, participated in such exchange. We also had the right, but not the obligation, prior to October 11, 2006, to exchange our 4.2 million shares of TerreStar common stock for 7.5 million shares of Motient common stock, but we did not choose to participate in such exchange.

Employees

As of December 31, 2006, we and our consolidated subsidiaries had 132 employees. We believe our relationship with our employees is good, and none are represented by a union. Generally, our employees are retained on an at-will basis. We have entered into employment agreements, however, with certain of our key employees. Certain of our employees have non-competition agreements that prohibit them from competing with us for various periods following termination of their employment.

Government Regulation

Our mobile satellite communications business 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.

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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, we 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 us to provide broadband wireless service. We were 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. The Canadian government 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 operators 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 our case approximately 30 MHz of spectrum. 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 we have achieved a number of substantial, material improvements to the rules for ATC operations and as such we believe we have 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.

Inmarsat has 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 have opposed Inmarsat s requests.

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

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City MoU agreement provides for yearly spectrum sharing agreements, or SSAs, among the five systems that operate in North America: MSV, MSV 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.

Spectrum availability, particularly in the L-band, is a function of not only how much spectrum is assigned to us 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.

The process established by the Mexico City MoU has failed to produce a new SSA since the end of 1999. In the absence of a new SSA, we and other system operators must operate current and next generation satellites on a non-harmful interference basis and pursuant to our FCC and Industry Canada authorizations consistent with the 1999 SSA. In the proceedings pending before the FCC in which Inmarsat is seeking authority to provide service in the United States with its new satellites, Inmarsat has claimed that the absence of a new SSA means it can operate on frequencies MSV and MSV Canada loaned to Inmarsat in 1999 and 2003 but subsequently recalled. We expect the FCC to resolve this issue in acting on the pending applications to use Inmarsat s new satellites in the United States. Industry Canada is also determining how to best address this issue through its regulatory process.

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, MSV and MSV Canada have sufficient spectrum to deploy a variety of broadband wireless air interfaces including Wi-MAX, W-CDMA, CDMA EVDO and Flash-OFDM. If MSV and MSV Canada can coordinate access to wider and more contiguous frequency segments than the assignments that they currently have, we believe we will be able to further enhance and maximize our ability to deploy a system using high bandwidth standardized air interfaces for broadband services. To date, MSV and MSV Canada have been able to coordinate access to frequency segments sufficiently wide and contiguous to meet our broadband wireless system requirements, 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 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.

Inmarsat currently operates satellites over North America that have not been coordinated with other L-band operators, including a new satellite that was launched in November 2005. MSV and MSV Canada are undertaking to reach a coordination agreement with Inmarsat with respect to these satellites, but have thus far been unsuccessful. MSV and MSV Canada have asked the FCC to refrain from authorizing Inmarsat s new satellite for service in the United States until MSV and MSV Canada reach a coordination agreement with Inmarsat. The FCC has permitted Inmarsat to use its new satellite for existing and new services in the United States on a temporary, non-interference, and unprotected basis. Absent a coordination agreement covering these Inmarsat satellites, our operations may be subject to harmful interference. If Inmarsat is unable to reach a coordination agreement covering its satellites, its operations and services may be limited in scope given the FCC mandate.

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.

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The requirement for an integrated service offering can be met by the licensee making available a single device that 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. We have the option to procure such a satellite from Boeing.

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.

We have also agreed to comply with requirements on our user terminals and base stations that we negotiated with the Global Positioning Satellite (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 do not have reason to believe that they will 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 we have achieved a number of substantial, material improvements to the technical requirements for ATC operations and have 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 we have 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, Mobile Satellite Ventures Subsidiary LLC or MSV Sub, an ATC license. The Bureau granted us 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 by Canada. Our ATC license in the United States permits us to provide ATC using the satellite and spectrum that are licensed to us using United States and Canadian coordination assignments. Inmarsat has pending an Application for Review with the FCC of the Bureau s decision granting our ATC license.

Pending ATC Modification Application

Because our current ATC license was granted prior to the ATC Reconsideration Order, it does not allow us to operate in accordance with the significantly relaxed technical restrictions adopted in the ATC Reconsideration Order. Accordingly, in November 2005, we filed an application to modify its ATC license to take advantage of

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these relaxed technical restrictions. Among other things, we are seeking 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 has opposed our modification application. Until our modification application is granted, we must operate in accordance with the technical restrictions in our current ATC license.

Additional Regulatory Approvals Required

Before we can provide ATC on a commercial basis, we must receive additional regulatory approvals, such as an FCC blanket license for our user terminals, FCC certification for our 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 Inmarsat, wireless operators, aeronautical telemetry stations, and 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.

MSV Sub holds a license issued by the FCC to operate an L-band satellite, MSAT-2, at the nominal 101 º WL orbital location to provide MSS to the fifty states, Puerto Rico, the Virgin Islands, and United States coastal areas up to 200 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. We also hold 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. Our original license gave us 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 we could use on MSAT-2 from 14 MHz x2 to 10 MHz x2. We have pending a Petition for Clarification and Partial Reconsideration of this decision asking the FCC to allow us to use 14 MHz x2 of United States coordinated L-band spectrum. We have also asked the FCC to clarify that the spectrum coordinated by Industry Canada for MSV Canada will not be attributed to MSV Sub. The FCC has not imposed any limit on the amount of spectrum that can be used by MSV 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. We are 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). We have submitted a modification application to revise the authorized technical parameters for MSV-1, including requesting authority to operate feeder link spot beams. This application is pending. Our ability to deploy gateways in the future using Appendix 30B Ku-band frequencies with our current or next generation satellites may be limited. The FCC has a policy of limiting the number of gateways that can operate using these frequencies to facilitate sharing with terrestrial users. Moreover, in December 2003, the FCC issued a proposal pertaining to coordination procedures between new fixed earth stations in the Appendix 30B

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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. We have opposed SBE s proposal. Moreover, at the World Radiocommunication Conference 2007 (WRC 2007), proposals will be considered to revise the Appendix 30B Ku-band assignments among ITU member nations. While we have submitted filings with the ITU for the feeder link frequencies for the next-generation satellites of MSV and MSV Canada, these proposals, if adopted, could potentially limit the ability of MSV and MSV Canada to use these frequencies. We are working with the United States and Canadian governments and within the ITU to ensure that our ability to use Appendix 30B Ku-band frequencies on the next-generation satellites will not be limited if these proposals are adopted.

TT&C

We also rely on access to certain frequencies to control satellite operation. We are 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 º WL orbital location using standard Ku-band frequencies. We and SES have an agreement covering MSAT-2 that may require us to modify our operations or make certain payments to SES if our operations cause interference to those of SES. We do not anticipate any interference in the operations of MSAT-2 and those of SES.

101 º WL Replacement Satellite

MSV Sub holds a license issued by the FCC to operate an L-band satellite, MSV-1, on a common carrier basis at the nominal 101 º 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. We must comply with the following remaining FCC milestones for this satellite:

- complete critical design review (May 23, 2007);
- begin construction of the satellite (May 23, 2008); and
- launch and operate the satellite (May 23, 2010).

Similar milestone requirements apply to most FCC satellite licensees. We have submitted to the FCC its binding non-contingent construction contract for MSV-1. In April 2006, the FCC s International Bureau found that we met this initial milestone for the MSV-1 satellite. In May 2006, Inmarsat asked the International Bureau to reconsider its decision and to declare the license for MSV-1 null and void. This challenge is pending. If the FCC concludes that we have failed to satisfy this or any other milestone set forth in our license, the FCC may declare the license for MSV-1 null and void.

We have submitted a modification application to revise the authorized technical parameters for MSV-1, which is pending. 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 MSV-1. We plan to coordinate this satellite with other North American L-band operators.

EchoStar s Challenges

In November 2003, EchoStar filed an application for 300 MHz of Appendix 30B Ku-band frequencies at 101 º WL that we had applied to use for feeder links for MSV-1. Under the FCC s first-come, first serve licensing policies, we were first-in-line for 250 MHz of these frequencies and EchoStar was first-in-line for the remaining 50 MHz. In its application, EchoStar claimed that it could share these frequencies with us at 101 º WL. EchoStar s application was subsequently dismissed in February 2004, after which we filed for the remaining

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50 MHz for which we were not already first-in-line, thereby granting us first-in-line status for all 300 MHz of Appendix 30B Ku-band frequencies at 101 º WL that EchoStar had previously requested. EchoStar subsequently filed an application in February 2004 for the same 300 MHz, thereby giving it second-in-line status. Our February 2004 amendment was dismissed by the Bureau but then subsequently reinstated. After our application for MSV-1 was granted in May 2005, the Bureau denied EchoStar s February 2004 second-in-line application as mutually exclusive with our license for MSV-1. EchoStar has sought reconsideration of this decision.

We have opposed the EchoStar challenges. However, if one or more of EchoStar s challenges is successful, we may lose access to 50 MHz or 300 MHz of our 500 MHz of licensed ITU Appendix 30B Ku-band frequencies, or we may be required to share 300 MHz of these frequencies with EchoStar. Our ability to deploy and operate our proposed next generation integrated network may be adversely affected if we are required to relinquish frequencies to or share frequencies with EchoStar.

L-Band Satellite to Serve South America

One of MSV 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.

Other General Regulatory Issues

Our operation of an integrated satellite and ATC system in the L-band is subject to certain regulations in the United States and Canada. We are 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.

We operate 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.

Transfers of Control FCC

The Communications Act and the FCC s rules require us to maintain legal as well as actual control over the spectrum for which we are licensed. We need approval from the FCC prior to relinquishing legal or actual control of our spectrum. Traditionally, the FCC has determined whether a licensee retains actual control on a case-by-case basis by considering the following factors:

- 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 of payment of financial obligations, including expenses arising out of operation; and

receipt of monies and profits from the operations of the facilities.

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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. 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.

Common Carrier Regulation by the FCC

The license for our MSV-1 satellite requires us to offer L-band satellite capacity on a common carrier basis. As such, we must offer service at just and reasonable rates on a first-come, first served basis, without any unjust or unreasonable discrimination, and we are subject to the FCC s complaint processes. We have pending with the FCC an application to modify our license, for MSV-1 to be regulated on a private (non-common) carrier with respect to our satellite capacity on MSV-1. The FCC has granted a similar application we filed earlier to request private (non-common) carrier status with respect to MSAT-2.

We are 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. The FCC has forborne from applying numerous common carrier provisions of the Communications Act to wireless carriers. In particular, we are not subject to traditional public utility rate-of-return regulation and we are not required to file tariffs with the FCC.

Universal Service Fund FCC

As a provider of interstate telecommunications services, and as is any other interstate telecommunications services provider, we are 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, we are 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 we impute to our contribution base retail revenues derived when we uses our own transmission facilities to provide a service that includes both information service and telecommunications components. The FCC is currently conducting a proceeding which will 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.

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 affect our ability and the ability of our potential customers to offer certain services via our next generation integrated network.

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. We have entered into an agreement with the Federal Bureau of Investigation, Department of Justice, and Department of Homeland Security regarding United States law enforcement agency access to our network. We may need to modify this agreement for our next generation integrated network. There is no guarantee that we will be able to meet CALEA requirements and United States

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law enforcement agency demands without expense and impact on our network deployment plans. In addition, CALEA requirements could affect the ability of our potential customers to offer applications via our hybrid system. We are 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 includes our next generation L-band satellite, earth station, and ATC 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 us 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. Exceeding the amount of foreign ownership approved by the FCC in the September 2006 decision without securing prior approval from the FCC may subject us to fines, forfeitures, or revocation of our FCC licenses. We have recently filed a Petition for Declaratory Ruling with the FCC shortly which seeks approval for our current level of indirect foreign ownership.

Priority and Preemptive Access

Our 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. We currently anticipate we will be able to meet these requirements. 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. We have 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.

Rate Integration

The FCC enacted rate integration regulations pursuant to Section 254(g) of the Communications Act which requires that providers of interstate telecommunications services charge the same rates for these services in every state, including Puerto Rico and the United States Virgin Islands. We have opposed the imposition of this rate integration requirement on its mobile satellite services system, so that we may preserve the flexibility to charge more for service in areas covered by satellite beams that require more satellite power. The FCC has

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denied our request for a permanent exemption from its rate integration requirement, but has not yet ruled on MSV s request for a temporary waiver of a year or more. The FCC has granted us an interim waiver from its rate integration requirement until its decision on our temporary waiver request. In July 2000, the United States Court of Appeals for the District of Columbia Circuit vacated the FCC s decision that the rate integration provision of the Communications Act applies to commercial mobile radio services providers. The FCC has not yet acted in response to the court s ruling.

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.

MSV Canada is authorized by Industry Canada to operate the MSAT-1 satellite at the 106.5 º 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 it will be moved to the 107.3 º WL orbital position in accordance with an advance publication information filing that was submitted by Industry Canada with the ITU on April 23, 2004.

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.

Approval in Principle for MSV-2 Satellite

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

- submission of final design specifications for the MSV-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 MSV-2 satellite by March 15, 2007 which occurred on February 22, 2007, subject to Industry Canada confirmation; and
- placement of the MSV-2 satellite into its assigned orbital position by March 31, 2011.

We anticipate that MSV Canada will likely satisfy its remaining milestone requirement on or before the March 31, 2011 milestone deadline. MSV 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 public institution benefits in Canada reflecting 2% of its gross adjusted 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 netwo