ICO Global Communications (Holdings) LTD
Form 10-Q
May 11, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2009

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 001-33008

ICO GLOBAL COMMUNICATIONS

(HOLDINGS) LIMITED

(Exact name of registrant as specified in its charter)

Delaware	**98-0221142**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

Plaza America Tower I, 11700 Plaza America Drive, Suite 1010, Reston, Virginia 20190

(Address of principal executive offices including zip code)

(703) 964-1400

(Registrant s telephone number, including area code)

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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x.

As of May 1, 2009, the registrant had 154,407,549 shares of Class A common stock and 53,660,000 shares of Class B common stock outstanding.

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ICO GLOBAL COMMUNICATIONS (HOLDINGS) LIMITED

FORM 10-Q

For the three months ended March 31, 2009

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Condensed Consolidated Balance Sheets

(In thousands, except share data, unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,117	$ 29,261
Investments available-for-sale securities	2,170	5,961
Investments trading securities	4,340	
Prepaid expenses and other current assets	2,859	8,890
Total current assets	32,486	44,112
Property in service-net of accumulated depreciation of $1,055 and $953, respectively	970	1,059
Satellite system under construction	548,236	544,514
Investments available-for-sale securities	25,382	29,214
Investments trading securities	27,923	34,210
Debt issuance costs-net of accumulated amortization of $26,323 and $24,225, respectively	3,235	5,333
Other assets	4,776	5,522
Total	$ 643,008	$ 663,964
LIABILITIES AND STOCKHOLDERS DEFICIENCY IN ASSETS		
Current liabilities:		
Accounts payable	$ 2,786	$ 556
Accrued satellite system construction payable	8,017	8,973
Accrued expenses	23,023	21,503
Deferred satellite performance incentives	1,396	1,680
Accrued interest	26,655	39,171
Working capital facility	43,722	43,722
Convertible debt net of discount of $3,549 and $5,824, respectively	732,727	700,488
Current portion of capital lease obligations	16,287	15,624
Total current liabilities	854,613	831,717
Capital lease obligations, less current portion	583	1,296
Income tax	10,883	11,058
Deferred satellite performance incentives	9,292	9,204
Other	3,200	3,200
Total liabilities	878,571	856,475
Commitments and contingencies (Note 8)		
Stockholders deficiency in assets:		

Preferred stock, $.01 par value, 75,000,000 shares authorized, no shares issued or outstanding		
Class A common stock, $.01 par value, 900,000,000 shares authorized, 212,505,449 and 212,005,449 shares issued, and 154,407,549 and 154,006,103 shares outstanding	2,125	2,120
Class B convertible common stock, $.01 par value, 150,000,000 shares authorized, 84,663,382 shares issued and 53,660,000 shares outstanding	847	847
Additional paid-in capital	2,792,510	2,790,967
Treasury stock, 58,097,900 and 57,999,346 shares of Class A common stock and 31,003,382 shares of Class B convertible common stock	(877,616)	(877,545)
Accumulated other comprehensive income	8,285	6,695
Deficit accumulated during the development stage	(2,161,714)	(2,115,595)
Total stockholders deficiency in assets	(235,563)	(192,511)
Total	$ 643,008	$ 663,964

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Condensed Consolidated Statements of Operations

(In thousands, except share and per share data, unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008	February 9, 2000 (inception) to March 31, 2009 (development stage period)
Operating expenses:			
General and administrative	$ 17,014	$ 17,287	$ 691,044
Research and development	1,544	1,606	83,692
Contract settlements			(74,955)
Impairment of property under construction			1,438,304
Loss on disposal of assets			11,117
Total operating expenses	18,558	18,893	2,149,202
Operating loss	(18,558)	(18,893)	(2,149,202)
Interest income	421	1,793	138,145
Interest expense	(22,323)	(9,242)	(253,133)
Other expense	(5,369)	(3,843)	(4,081)
Loss before income taxes	(45,829)	(30,185)	(2,268,271)
Income tax benefit (expense)	(290)	(533)	116,289
Net loss before cumulative effect of change in accounting principle	(46,119)	(30,718)	(2,151,982)
Cumulative effect of change in accounting principle			(1,944)
Net loss	$ (46,119)	$ (30,718)	$ (2,153,926)
Basic and diluted loss per share:			
Loss before cumulative effect of change in accounting principle	$ (0.22)	$ (0.15)	$ (11.05)
Cumulative effect of change in accounting principle			(0.01)
Basic and diluted loss per share	$ (0.22)	$ (0.15)	$ (11.06)
Weighted average shares outstanding used to compute basic and diluted loss per share	207,439,060	198,424,189	194,748,869

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Condensed Consolidated Statements of Comprehensive Loss

(In thousands, unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008	February 9, 2000 (inception) to March 31, 2009 (development stage period)
Net loss	$ (46,119)	$ (30,718)	$ (2,153,926)
Other comprehensive loss:			
Cumulative translation adjustments	1,590	(1,117)	8,285
Comprehensive loss	$ (44,529)	$ (31,835)	$ (2,145,641)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Condensed Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008	February 9, 2000 (inception) to March 31, 2009 (development stage period)
Operating activities:			
Net loss	$ (46,119)	$ (30,718)	$ (2,153,926)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	1,424	2,378	42,871
Depreciation	102	134	4,354
Non-cash interest expense	4,978	3,910	52,242
Non-cash settlement of litigation matter			2,385
Unrealized foreign exchange (gains) losses	1,054	(503)	(7,429)
Loss on disposal of assets			11,117
Deferred income tax benefit			(103)
Impairment of property under construction			1,438,304
Gain on contract settlements			(74,955)
Gain on Nextel share-pledge derivative			(9,168)
Deferred tax credit			(121,928)
Realized losses on sale of investment securities	1,155		3,789
Unrealized losses on investment securities	2,462	4,509	15,448
Fair value adjustment for ARS Put Option	691		(4,441)
Amortization of capitalized SAN operator incentive			2,593
Cost of issuance of shares to distribution partners			37,440
Other			29,713
Other changes in certain assets and liabilities:			
Prepaid expenses and other current/non-current assets	5,302	(6,798)	46,832
Accrued interest income	7	79	109
Accounts payable	2,231	2,323	1,841
Accrued interest payable	17,262	5,142	74,610
Other accrued expenses	1,440	3,266	67,261
Net cash used in operating activities	(8,011)	(16,278)	(541,041)
Investing activities:			
Proceeds from launch insurance			225,000
Debtor in possession advance in relation to Old ICO			(275,000)
Acquisition of net assets of Old ICO			(117,590)
Cash received from Old ICO at acquisition			107,436
Restricted cash			(5,074)
Purchases of satellite system under construction	(3,974)	(26,753)	(414,533)
Purchases of property under construction			(497,890)
Purchases of property in service	(13)	(59)	(3,547)
Investment in unconsolidated subsidiaries			(2,373)
Purchases of other assets			(14,000)
Purchases of investment securities		(126,850)	(4,404,343)
Maturities and sales of investment securities	5,995	40,954	4,326,246

Purchases of restricted investments			(94,283)
Maturities and sales of restricted investments			94,305
Proceeds from contract amendments			44,434
Proceeds from sale of assets			12,106
Net cash provided by (used in) investing activities	2,008	(112,708)	(1,019,106)
Financing activities:			
Net proceeds from issuance of common stock			625,353
Proceeds from exercise of stock options			139
Net proceeds from issuance of convertible notes			620,442
Net proceeds from working capital facility			37,539
Proceeds from sales of subsidiary stock and stock options			9,920
Payment of withholding taxes from stock awards	(91)		(927)
Advances from affiliates			324,395
Repayment of advances from affiliates			(324,395)
Repayment of note payable to Eagle River			(37,500)
Repayment of operator financing			(5,727)
Proceeds from pledge of Nextel shares			351,600
Proceeds from loan from Teledesic LLC			20,000
Acquisition of ICO shares from minority interest stockholder			(30,868)
Net cash provided by (used in) financing activities	(91)		1,589,971
Effect of foreign exchange rate changes on cash	(50)	301	(6,707)
Net increase (decrease) in cash and cash equivalents	(6,144)	(128,685)	23,117
Cash and cash equivalents beginning of period	29,261	146,657	
Cash and cash equivalents end of period	$ 23,117	$ 17,972	$ 23,117

(continued)

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ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Condensed Consolidated Statements of Cash Flows (Continued)

(In thousands, except share data, unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008	February 9, 2000 (inception) to March 31, 2009 (development stage period)
Supplemental disclosures:			
Income taxes paid	$	$ 366	$ 7,870
Interest paid	339	56	150,948
Capitalized interest	704	9,745	98,154
Supplemental disclosure of non-cash activities:			
Issuance of Class A common shares in respect of investment in Ellipso, Inc.			6,863
Issuance of Class B common shares in respect of investment in Ellipso, Inc.			74
Issuance of Class A common shares in respect of investment in Constellation Communications Holdings, Inc.			904
Issuance of Class A common shares for settlement of litigation matter			2,385
Issuance of Class A common shares for advisory services	125	125	1,653
Issuance of Class A common shares for stock-based compensation	107		3,715
Increase (decrease) in accrued satellite system construction payable, net of liquidated damages	(956)	9,177	8,017
Equipment acquired in capital lease agreements			42,096
Issuance of warrants for the repayment of debt			4,950
Interest payment on convertible debt in the form of additional notes	29,964	27,569	86,276
The following securities of ICO arose from the acquisition of Old ICO s net assets:			
93,700,041 Class A common shares and options to acquire Class A common shares issued			679,873
31,003,382 Class B common shares issued			275,000
1,600,000 Class A common shares issued to distribution partners			16,720
200,000 Class A common shares committed to distribution partners			2,090
50,000,000 warrants issued to acquire Class A common shares			180,000
			(concluded)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Organization and Business

ICO Global Communications (Holdings) Limited (ICO), along with its subsidiaries (collectively referred to as Company), is a next-generation mobile satellite service (MSS) operator. Through its majority owned subsidiary, ICO North America, Inc., along with its subsidiaries, (ICO North America), the Company is authorized by the U.S. Federal Communications Commission (FCC) to offer MSS throughout the United States using a geosynchronous earth orbit (GEO) satellite. The Company is currently developing an advanced next-generation hybrid mobile satellite service/ancillary terrestrial component system (MSS/ATC System) combining both satellite and terrestrial communications capabilities. The MSS/ATC System will allow the Company to provide wireless voice, video, data and/or Internet service throughout the United States on mobile and portable devices. The Company also continues to explore the development of a business plan outside of North America which would use its medium earth orbit (MEO) physical and regulatory assets.

On April 14, 2008, the Company successfully launched its first GEO satellite (ICO G1) and, on May 9, 2008, certified to the FCC that its MSS system was operational, satisfying its final milestone. On May 30, 2008, the Company received its 2 GHz authorization and was granted its spectrum selection in the 2 GHz band, 2010 2020 MHz and 2180 2190 MHz frequency bands. On January 15, 2009, the FCC approved the Company s application to integrate ATC into its MSS system in order to provide integrated satellite and terrestrial services.

ICO North America is currently using ICO G1 to conduct an alpha trial of its ICO Mobile Interactive Media (ICO mim) service in the Las Vegas, Nevada and Raleigh-Durham, North Carolina markets (Alpha Trial). ICO mim combines the Company s unique interactive satellite capability with terrestrial network coverage to deliver mobile video services including live television content, navigation and enhanced roadside assistance.

2. Development Stage Enterprise and Liquidity Issues

The Company is a development stage enterprise as defined in Statement of Financial Accounting Standards (SFAS) No. 7, *Accounting and Reporting by Development Stage Enterprises* (SFAS 7), and will continue to be so until it commences commercial operations. The development stage is from February 9, 2000 (inception) through March 31, 2009.

The Company is not currently generating revenue from operations and it may be unable to obtain the funding necessary to repay its debt obligations due in 2009, complete the construction of its MSS/ATC System and development of its ICO mim service, fund its future working capital requirements, or achieve positive cash flow from operations. As of March 31, 2009, the Company had a working capital deficit (current liabilities exceeded current assets) of $822 million. This deficit is primarily due to the Company s $40 million working capital facility due in May 2009 (2009 Credit Facility), the Company s $650 million aggregate principal amount of convertible notes due in August 2009 (2009 Notes) and the Company s investments in student loan backed auction rate securities (ARS) primarily recorded as long-term available-for-sale and trading investments as described in Note 4.

As discussed in Notes 6 and 7, subsequent to March 31, 2009, ICO North America entered into a series of Forbearance Agreements in April 2009 and May 2009 with the administrative agent, the holders of the 2009 Credit Facility and the holders of a majority of the aggregate principal amount of the 2009 Notes (Majority Note Holders), among others, pursuant to which the administrative agent, the holders of the 2009 Credit Facility and the Majority Note Holders have agreed to temporarily forbear from exercising rights and remedies against ICO North America with respect to specified defaults under the 2009 Credit Facility and 2009 Notes. The forbearance agreements require ICO North America to obtain a commitment to fund the repayment of the 2009 Credit Facility or secure the no cost loans as outlined in the UBS ARS settlement agreement (described below) by May 15, 2009, in order to extend the forbearance periods through June 5, 2009. The Company is actively pursuing a refinancing of the 2009 Credit Facility and 2009 Notes in order to fund their maturity. Based on the current credit crisis and volatility in the capital markets, there is no assurance that this refinancing will be completed on terms acceptable to the Company, if at all. If the forbearance agreements terminate or if the debt is not refinanced, the 2009 Credit Facility and the 2009 Notes could be declared due and payable and remedies could be initiated against the collateral. The outcome of these events cannot be predicted at this time, which raises substantial doubt about the Company s ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability or classification of assets or the amounts or classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Subject to the successful refinancing of its debt obligations, the Company intends to fund its remaining working capital needs for the next 12 months with cash on hand, liquidity generated from liquidation of its ARS and settlement activity related to its ARS as discussed below. To the extent the liquidation of its ARS and the ARS settlement activity does not generate sufficient liquidity required by the Company s operating plan, or the Company does not secure additional funding, the Company plans to significantly reduce its operating and development expenditures, which would include, among others, capital expenditures for the terrestrial network development of its MSS/ATC System, related personnel and vendor support, and other overhead.

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As described in Note 4, the Company holds ARS that have become illiquid as a result of failed auctions. As of March 31, 2009, the Company held ARS with a par value of approximately $74.4 million and fair value of $59.8 million. On November 14, 2008, the Company entered into a settlement agreement with UBS Financial Services, Inc. (UBS) whereby UBS agreed to purchase ARS it sold to the Company prior to February 13, 2008 which the Company still held (Eligible ARS). Under the terms of the settlement, at the Company s option, the Company can require UBS to purchase Eligible ARS from the Company at par value during the period of June 30, 2010 through July 2, 2012 (ARS Put Option). Conversely, UBS has the right, at its discretion, to purchase or sell the Eligible ARS at any time until July 2, 2012, so long as the Company receives payment at par value upon any sale or disposition. UBS will also provide the Company with access to loans for a period until June 30, 2010 for an amount up to 75% of the market value of Eligible ARS, subject to certain restrictions in the indenture governing the Company s 2009 Notes and 2009 Credit Facility. In addition, in December 2008, UBS reimbursed the Company $1.8 million for losses incurred on the sale of Eligible ARS in July of 2008. As of March 31, 2009, the Company held Eligible ARS with a par value of approximately $39.7 million. In April 2009, the Company sold $7 million par value of its Eligible ARS for $4.3 million of cash proceeds and sold $3.5 million par value of its available-for-sale ARS for $2.2 million of cash proceeds. Losses incurred on the sale of Eligible ARS in April 2009 are not recoverable from UBS.

3. Summary of Significant Accounting Policies

Interim Financial Statements The financial information included in the accompanying condensed consolidated financial statements is unaudited and includes all adjustments, consisting of normal recurring adjustments and accruals, considered necessary for a fair presentation. Certain information and footnote disclosures have been condensed or omitted. The financial information as of December 31, 2008, is derived from the Company s audited consolidated financial statements and notes, included in Item 8 in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (2008 10-K), filed with the U.S. Securities and Exchange Commission (SEC) on March 31, 2009. The financial information included in this quarterly report should be read in conjunction with management s discussion and analysis of financial condition and results of operations and the consolidated financial statements and notes included in the Company s 2008 10-K. Operating results and cash flows for the interim periods presented are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009 or any other interim period.

Use of Estimates The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. Significant estimates are used when accounting for income taxes, contingencies, asset useful lives, valuation of ARS and valuation of stock-based compensation awards, among others. Actual results could differ from those estimates. Estimates are evaluated on an ongoing basis.

Cash and Cash Equivalents Cash and cash equivalents are defined as short-term, highly liquid investments with original maturities from the date of purchase of 90 days or less. Cash and cash equivalents are comprised of the following (in thousands):

	March 31, 2009	December 31, 2008
Cash	$ 2,917	$ 2,334
Money market funds	20,200	26,927
	$ 23,117	$ 29,261

Short-Term and Long-Term Investments As of March 31, 2009 and December 31, 2008, the Company s short-term and long-term investments were held in ARS and classified as trading or available-for-sale. Trading securities are recorded at fair value with unrealized holdings gains and losses included in net loss in the accompanying condensed consolidated statements of operations. Available-for-sale securities are recorded at fair value, and any unrealized holding gains or losses are recorded, net of tax, in stockholders deficiency in assets as a component of accumulated other comprehensive income in the accompanying condensed consolidated balance sheets. The Company s investments are measured using quoted prices in active markets, or valued based on other observable and unobservable inputs within the hierarchy established in SFAS No. 157, *Fair Value Measurements* (SFAS 157), which the Company adopted on January 1, 2008. Unrealized losses on available-for-sale securities are charged against net income (loss) when the fair value is below the cost basis and the decline is determined to be other-than-temporary. Management reviews several factors to determine whether a loss is other-than-temporary, including the length of time a security is in an unrealized loss position, the extent to which fair value is less than amortized cost, the impact of changing interest rates in the short and long term, the financial condition and near-term prospects of the issuer, and the Company s ability and intent to hold the security until maturity or for a period of time sufficient to allow for any anticipated recovery in fair value. Realized gains and losses are accounted for using the specific identification method. Purchases and sales are recorded on a trade date basis. The Company does not currently hold any derivative financial instruments.

Prepaid Expenses and Other Current Assets Prepaid expenses and other current assets consist primarily of payments made for satellite in-orbit insurance and debt issuance costs incurred in connection with issuance of the 2009 Credit Facility. Upon completion of satellite system in-orbit testing in December 2008, the Company began amortizing satellite in-orbit insurance costs. These costs are being amortized using the straight-line method through April 2009.

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Property in Service Property in service consists primarily of computer equipment, software, furniture and fixtures and leasehold improvements. Property in service is recorded at cost, net of accumulated depreciation, and is depreciated using the straight-line method. Computer equipment and furniture and fixtures are depreciated over their estimated useful lives ranging from three to five years. Software is depreciated over the shorter of its contractual license period or three years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the respective lease. Significant additions and improvements to property in service are capitalized. Repair and maintenance costs are expensed as incurred.

Satellite System Under Construction Satellite system under construction includes third-party construction and engineering costs incurred in the design, manufacture, test and launch of the MSS/ATC System, satellite launch insurance costs, performance incentives expected to be paid to the Company s satellite manufacturer, costs incurred for the procurement of equipment and technology for use in the ICO mim service and capitalized interest associated with the construction of its MSS/ATC System and ICO mim service to the extent these assets have future benefits. Interest capitalized to satellite system under construction for the three months ended March 31, 2009 and 2008 was $704,000 and $9.7 million, respectively. Satellite system under construction will be classified as property in service when the respective assets are placed into service and will be depreciated using the straight-line method based on the anticipated useful lives of the assets ranging from 5 to 15 years.

Other Assets As of March 31, 2009 and December 31, 2008, other assets primarily consisted of an ARS Put Option associated with the UBS settlement agreement (see Note 4). The Company s ARS Put Option is a separate freestanding instrument, accounted for separately from the ARS. The Company has elected to measure the ARS Put Option at fair value under SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159).

Impairment of Long-Lived Assets Pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the carrying values of long-lived assets are reviewed whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Management considers whether specific events have occurred in determining whether long-lived assets are impaired at each balance sheet date or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The determination of whether impairment exists is based on any excess of the carrying value over the expected future cash flows. Any resulting impairment charge is measured based on the difference between the carrying value of the asset and its fair value, as estimated using undiscounted future cash flows expected to be generated by the assets. No impairment of long-lived assets was determined as a result of our analyses as of March 31, 2009 and December 31, 2008.

Debt Issuance Costs Costs incurred in connection with the issuance of the 2009 Credit Facility and 2009 Notes have been capitalized and are included in prepaid expenses and other current assets and debt issuance costs on the Company s condensed consolidated balance sheets. Debt issuance costs associated with the 2009 Credit Facility are being amortized using the effective interest method from April 2008 through maturity in May 2009. Debt issuance costs associated with the 2009 Notes are being amortized using the effective interest method from issuance in August 2005 through maturity in August 2009. Amortization of debt issuance costs is included in interest expense in the condensed consolidated statements of operations. Amortization of debt issuance costs for the three months ended March 31, 2009 and 2008 was $2.7 million and $1.9 million, respectively.

Deferred Satellite Performance Incentives The Company has certain contracts with its satellite manufacturer that may require the Company to make future in-orbit performance incentive payments over the design life of ICO G1. These satellite performance incentives are payable in future periods ranging from one to 15 years dependent on the continued satisfactory performance of ICO G1. The Company records the net present value of these expected future payments as a liability and capitalizes these incentive payments as a component of the cost of the satellite. As of March 31, 2009 and December 31, 2008, the Company has accrued $10.7 million and $10.9 million related to its contingent satellite performance incentives, of which $1.4 million and $1.7 million has been classified as current and $9.3 million and $9.2 million has been classified as long-term, respectively.

Fair Value of Financial Instruments Financial instruments include cash and cash equivalents, available-for-sale securities, trading securities, ARS Put Option, accounts payable, the 2009 Credit Facility, the 2009 Notes and certain other assets and accrued liabilities. The Company determines the fair value of its financial instruments based on the hierarchy established by SFAS 157. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Quoted prices in active markets for similar assets and liabilities or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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As of March 31, 2009, the fair value of the Company s available-for-sale securities, trading securities and ARS Put Option was determined using Level 2 and Level 3 inputs (see Note 4). The carrying amounts of all other financial instruments are reasonable estimates of their fair values because they are equivalent to cash or due to their short-term nature.

Accumulated Other Comprehensive Income As of March 31, 2009 and December 31, 2008, the Company s accumulated other comprehensive income consisted of cumulative translation adjustments of $8.3 million and $6.7 million, respectively.

Revenue Recognition The Company is a development stage enterprise and does not currently have any revenue from operations.

Research and Development Costs Research and development costs, consisting of third-party engineering, consulting and development costs associated with technology being considered for use in the Company s MSS/ATC System and ICO mim service, as well as costs associated with an evaluation of the usability of the Company s MEO satellite system, are expensed as incurred. The Company reviews each of its research and development projects to determine if technological feasibility has been achieved, at which point, future development costs associated with that project are capitalized.

Contract Settlements With respect to disputed contracts, the Company continues to record expenses according to its contractual obligation until such contract is terminated. Upon termination, and prior to settlement, the Company continues to accrue estimated late payment fees and interest expense, as applicable. Upon reaching settlement, whereby the other party s claims are legally released, the Company extinguishes its recorded liability, resulting in the recognition of a gain or loss on contract settlement.

Share-Based Payment The Company records stock-based compensation in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). SFAS 123(R) requires measurement of all share-based payment awards based on the estimated fair value on the date of grant and the recognition of compensation cost over the requisite service period for awards expected to vest.

The Company records stock-based compensation on stock options and restricted stock awards issued to employees, directors and consultants. The fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model (Black-Scholes Model) based on the single option award approach. The fair value of restricted stock awards is determined based on the number of shares granted and the quoted market price of the Company s Class A common stock on the date of grant. The fair value of stock options is amortized to expense on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The fair value of restricted stock awards with performance conditions is amortized to expense over the requisite service period using the accelerated method of expense recognition. The fair value of share-based payment awards as determined by the Black-Scholes Model is affected by the Company s stock price as well as other assumptions. These assumptions include, but are not limited to, the expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. SFAS 123(R) requires forfeitures to be estimated at the date of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Foreign Currency Translation and Foreign Currency Transactions The reporting currency for the Company s operations is U.S. dollars. The Company translates the activities of its subsidiaries with functional currencies other than the U.S. dollar during the period at the average exchange rate prevailing during the period. Assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Translation adjustments resulting from these processes are recognized as a component of accumulated other comprehensive income (loss). The Company recognizes applicable cumulative translation adjustments as a component of operating income (loss) in the period in which a subsidiary is substantially liquidated. For the three months ended March 31, 2009 and 2008, there were no gains or losses resulting from the liquidation of subsidiaries.

Gains and losses on foreign currency transactions are recognized as a component of other income (expense) in the condensed consolidated statements of operations in the period in which they occur. For the three months ended March 31, 2009 and 2008, losses on intercompany foreign currency transactions of $5.8 million and gains on intercompany foreign currency transactions of $4.7 million, respectively, have been excluded from net loss and reported as a component of accumulated other comprehensive income due to their long-term investment nature.

Loss Per Share Basic loss per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by dividing loss allocable to common shareholders by the weighted average common shares outstanding plus dilutive potential common stock. Dilutive potential common stock includes unvested restricted stock awards, stock options and warrants, the dilutive effect of which is calculated using the treasury stock method. Prior to the satisfaction of vesting conditions, unvested restricted stock awards are considered contingently issuable consistent with SFAS No. 128, *Earnings Per Share*, and are excluded from weighted average common shares outstanding.

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The following table sets forth the computation of basic and diluted loss per share (in thousands, except share and per share data):

	Three months ended March 31, 2009	Three months ended March 31, 2008
Net loss	$ (46,119)	$ (30,718)
Weighted average common shares outstanding	207,757,516	199,054,189
Less: weighted average unvested restricted stock awards	(318,456)	(630,000)
Shares used for computation of basic and diluted loss per share(1)	207,439,060	198,424,189
Basic and diluted loss per share	$ (0.22)	$ (0.15)

(1) The effect of certain stock options and warrants was anti-dilutive, and they were not included in the calculation of diluted loss per share. As of March 31, 2009 and 2008, anti-dilutive stock options and warrants totaled 17,686,933 and 16,134,433, respectively.

If the 2009 Notes were converted into Class A common stock of ICO North America, the Company s future earnings would be diluted as the Company s ownership interest in ICO North America would be reduced to approximately 52%.

New Accounting Pronouncements In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)). The new standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires transaction costs to be expensed as incurred; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. Early adoption is not permitted. The adoption of this statement did not have a material impact on the Company s financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB Statement No. 51* (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The adoption of this statement did not have a material impact on the Company s financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 expands the disclosure requirements in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), about an entity s derivative instruments and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this statement did not have a material impact on the Company s financial position, results of operations, cash flows or disclosures.

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1). FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon conversion are not addressed by paragraph 12 of APB 14, *Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants* (APB 14). Additionally, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of this statement did not have a material impact on the Company s financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what SFAS

157 states is the objective of fair value measurement to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. FSP FAS 157-4 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company plans to adopt the provisions of this FSP during the second quarter of 2009 and is currently assessing the impact on its financial position, results of operations and cash flows.

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In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 requires disclosures of qualitative and quantitative information about fair value for any financial instruments that are not currently reflected on the balance sheet of companies on a quarterly basis. FSP FAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company plans to adopt the provisions of this FSP during the second quarter of 2009 and is currently assessing the impact on its financial statement disclosures.

In April 2009, the FASB issued FSP FAS 115-2 and FSP FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 amends other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The Company plans to adopt the provisions of this FSP during the second quarter of 2009 and is currently assessing the impact on its financial position, results of operations, cash flows and disclosures.

4. Investments

As of March 31, 2009 and December 31, 2008, all of the Company s investments were held in ARS, of which approximately $27.6 million and $35.2 million were classified as available-for-sale securities and $32.3 million and $34.2 million were classified as trading securities, respectively. The Company s ARS are reflected at their estimated fair value on the condensed consolidated balance sheets.

As of March 31, 2009, the Company held ARS with a par value of approximately $74.4 million and fair value of $59.8 million. These ARS consisted of variable rate bonds, with maturities ranging from 22 to 39 years, for which the interest rates normally reset through a dutch auction each month. As a result of the impact of the current conditions in the global financial markets, these ARS have experienced multiple failed auctions as the amount of securities submitted for sale has exceeded the amount of purchase orders. Therefore, the ARS cannot be liquidated until: (i) a successful auction occurs; (ii) the issuers of the ARS call the ARS at par; (iii) a liquid market develops for these ARS; or (iv) settlements by financial institutions which underwrote these securities become effective. These events may not occur for a period longer than one year. As of March 31, 2009, the Company had received cash proceeds of $6 million for ARS that have been called at par. In addition, the Company sold ARS with a par value of $15.4 million for $12.7 million of cash proceeds in July 2008 and sold ARS with a par value of $7 million for $5.8 million of cash proceeds in January 2009. In April 2009, the Company sold $10.5 million par value of its ARS for cash proceeds of $6.5 million. The fair value of the ARS sold in April 2009 has been classified as short-term available-for-sale and short-term trading investments on the Company s condensed consolidated balance sheet at March 31, 2009. The Company has classified all other ARS as long-term investments on its condensed consolidated balance sheet at March 31, 2009 as it is unlikely the Company will be able to liquidate these investments within one year.

On November 14, 2008, the Company entered into a settlement agreement with UBS whereby UBS would purchase Eligible ARS it sold to the Company prior to February 13, 2008. Under the terms of the settlement, at the Company s option, the Company may require UBS to purchase Eligible ARS from the Company at par value during the period of June 30, 2010 through July 2, 2012. Conversely, UBS has the right, at its discretion, to purchase or sell the Eligible ARS at any time until July 2, 2012, so long as the Company receives payment at par value upon any sale or disposition. The Company has elected to apply the provisions of SFAS 159 to its ARS Put Option and record the ARS Put Option at fair value with changes in fair value recorded in earnings each period. As of March 31, 2009 and December 31, 2008, the ARS Put Option was valued at $4.4 million and $5.1 million, respectively, and is reflected in other assets on the condensed consolidated balance sheet. The Company expects that future changes in the fair value of the ARS Put Option will approximate the fair value movements in the underlying ARS.

Prior to entering into the UBS settlement agreement, the Company recorded its Eligible ARS as available-for-sale investments. In connection with acceptance of the UBS settlement agreement in November 2008, the $39.7 million par value of Eligible ARS were transferred to a long-term trading classification on the condensed consolidated balance sheets and are being recorded at fair value with unrealized gains and losses recorded in earnings each period. The transfer to trading securities reflects management s intent to exercise its ARS Put Option during the period June 30, 2010 to July 3, 2012. Prior to the Company s agreement with UBS, management s intent was to hold the Eligible ARS until the market recovered. The Company recognized a decline in the fair value of its Eligible ARS of $1.9 million in the first quarter of 2009, which has been recorded as other expense on the Company s condensed consolidated statements of operations.

In addition, per the settlement agreement, UBS agreed to reimburse the Company for any losses incurred on the sale of Eligible ARS during a specified period. In December 2008, UBS reimbursed the Company $1.8 million for losses incurred on the sale of Eligible ARS in July of 2008. This reimbursement was recorded as other income (expense) on the Company s consolidated statements of operations for the year ended December 31, 2008. As part of the settlement agreement, UBS will also provide the Company with access to loans for a period until June 30, 2010 for an amount up to 75% of the market value of Eligible ARS, subject to certain restrictions in the indenture governing the Company s 2009 Notes and 2009 Credit Facility.

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Typically, the fair value of ARS approximate par value due to the frequent resets of interest rate through the auction process. While the Company continues to earn interest on its ARS at the maximum contractual rate, these investments are not currently trading and therefore do not currently have a readily determinable market value. Accordingly, the estimated fair value of ARS no longer approximates par value. As such, the Company has used a discounted cash flow model to determine the estimated fair value of its ARS classified as long-term investments at March 31, 2009. The assumptions used in preparing the discounted cash flow model are Level 3 inputs. Some of the inputs are unobservable in the market and have a significant effect on the valuation. The observable and unobservable inputs include, but are not limited to, periodic coupon rates, market required rates of return and the expected term of each security. The coupon rate was estimated using implied forward rate data on U.S. treasuries and interest rate swaps and limited, where necessary, by any contractual maximum rate paid under a scenario of continuing auction failures. In making assumptions of the market required rates of return, the Company considered historical credit spreads and applied an illiquidity premium to the credit spreads. The expected term for the ARS was based on a weighted probability-based estimate of the time the principal will become available to the Company. The estimated fair value of the Company s ARS classified as short-term investments at March 31, 2009 was determined based upon actual proceeds received from the sale of these investments on April 2, 2009.

The following table summarizes the fair value of the Company s investments and ARS Put Option by the different levels of inputs required by SFAS 157 as of March 31, 2009 (in thousands):

		Fair value measurement using:		
	Total fair value	Quoted market prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Short-term investments available-for-sale securities	$ 2,170	$	$ 2,170	$
Short-term investments trading securities	4,340		4,340	
Long-term investments available-for-sale securities	25,382			25,382
Long-term investments trading securities	27,923			27,923
ARS Put Option				