ICO Global Communications (Holdings) LTD
Form 10-Q
May 12, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission File Number 000-52006

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 ý No o.

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

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller	Smaller reporting company o

reporting company)

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

As of May 1, 2008, the registrant had 145,431,083 shares of Class A common stock and 53,660,000 shares of Class B common stock outstanding.

ICO GLOBAL COMMUNICATIONS (HOLDINGS) LIMITED

FORM 10-Q

For the three months ended March 31, 2008

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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, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,972	$ 146,657
Restricted cash	825	825
Available-for-sale investments	3,050	14,704
Prepaid expenses and other current assets	11,687	1,823
Total current assets	33,534	164,009
Property in service-net of accumulated depreciation of $587 and $452, respectively	1,146	1,221
Satellite system under construction	454,884	409,209
Available-for-sale investments	93,041	
Debt issuance costs-net of accumulated amortization of $18,202 and $16,281, respectively	11,356	13,277
Other assets	14,417	14,417
Total	$ 608,378	$ 602,133
LIABILITIES AND STOCKHOLDERS' DEFICIENCY IN ASSETS		
Current liabilities:		
Accounts payable	$ 3,150	$ 827
Accrued satellite system construction payable	21,388	9,067
Accrued expenses	25,576	22,803
Accrued interest	16,134	14,838
Current portion of capital lease obligations	15,956	15,573
Total current liabilities	82,204	63,108
Capital lease obligations, less current portion	2,600	2,687
Accrued interest	7,199	20,719
Income tax liability	11,010	10,480
Convertible long-term debt-net of discount of $12,207 and $14,196, respectively	665,362	635,804
Total liabilities	768,375	732,798
Commitments and contingencies (Note 7)		
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, 203,399,975 and 203,348,323 shares issued, and 145,431,083 and 145,379,431 shares outstanding	2,034	2,033
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	2,754,771	2,752,269

	March 31, 2008	December 31, 2007
Treasury stock, 57,968,892 shares of Class A common stock and 31,003,382 shares of Class B convertible common stock	(877,489)	(877,489)
Accumulated other comprehensive income	2,976	4,093
Deficit accumulated during the development stage	(2,043,136)	(2,012,418)
Total stockholders' deficiency in assets	(159,997)	(130,665)
Total	$ 608,378	$ 602,133

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

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, 2008	Three months ended March 31, 2007 (restated)	February 9, 2000 (inception) to March 31, 2008 (development stage period)
Operating expenses:			
General and administrative	$ 17,287	$ 9,765	$ 636,546
Research and development	1,606	2,149	78,674
Contract settlements			(74,955)
Impairment of property under construction			1,438,304
Loss on disposal of assets			11,100
Total operating expenses	18,893	11,914	2,089,669
Operating loss	(18,893)	(11,914)	(2,089,669)
Interest income	1,793	3,389	134,714
Interest expense	(9,242)	(9,129)	(198,987)
Other income (expense)	(3,843)	(38)	1,620
Loss before income taxes	(30,185)	(17,692)	(2,152,322)
Income tax benefit (expense)	(533)	(173)	118,918
Net loss before cumulative effect of change in accounting principle	(30,718)	(17,865)	(2,033,404)
Cumulative effect of change in accounting principle			(1,944)
Net loss	$ (30,718)	$ (17,865)	$ (2,035,348)
Basic and diluted loss per share:			
Loss before cumulative effect of change in accounting principle	$ (0.15)	$ (0.09)	$ (10.51)
Cumulative effect of change in accounting principle			(0.01)
Basic and diluted loss per share	$ (0.15)	$ (0.09)	$ (10.52)
Weighted average shares outstanding used to compute basic and diluted loss per share	198,424,189	198,056,342	193,429,466

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

ICO Global Communications (Holdings) Limited
(A Development Stage Enterprise)

Condensed Consolidated Statements of Comprehensive Income (Loss)
(In thousands, unaudited)

	Three months ended March 31, 2008	Three months ended March 31, 2007 (restated)	February 9, 2000 (inception) to March 31, 2008 (development stage period)
Net loss	$ (30,718)	$ (17,865)	$ (2,035,348)
Other comprehensive income (loss):			
Unrealized gain on investments, net of tax		18	
Cumulative translation adjustments	(1,117)	(237)	2,976
Comprehensive loss	$ (31,835)	$ (18,084)	$ (2,032,372)

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

ICO Global Communications (Holdings) Limited
(A Development Stage Enterprise)

Condensed Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Three months ended March 31, 2008	Three months ended March 31, 2007 (restated)	February 9, 2000 (inception) to March 31, 2008 (development stage period)
Operating activities:			
Net loss	$ (30,718)	$ (17,865)	$ (2,035,348)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	2,378	1,371	35,362
Depreciation	134	44	3,865
Non-cash interest expense	3,910	3,437	33,217
Unrealized foreign exchange (gain) loss	(503)	32	(5,775)
Loss on disposal of assets			11,100
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)
Other-than-temporary loss on marketable securities available-for-sale	4,509		5,198
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 assets	(6,798)	(490)	41,700
Accrued interest income	79	(300)	(37)
Accounts payable	2,323	640	2,202
Accrued interest payable	5,142	(18,653)	41,408
Other accrued expenses	3,266	(1,092)	65,790
Net cash used in operating activities	(16,278)	(32,876)	(499,422)
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			(5,899)
Purchases of satellite system under construction	(26,753)	(985)	(372,606)
Purchases of property under construction			(497,890)
Purchases of property in service	(59)	(33)	(3,207)
Investment in unconsolidated subsidiaries			(2,373)
Purchases of other assets			(14,000)
Purchases of available-for-sale investments	(126,850)	(160,563)	(4,404,343)
Maturities and sales of available-for-sale investments	40,954	170,652	4,303,830
Purchases of restricted investments		(25)	(94,283)
Maturities and sales of restricted investments		23,015	94,305
Proceeds from contract amendments			44,434
Proceeds from sale of assets			12,106
Net cash provided by (used in) investing activities	(112,708)	32,061	(1,000,080)
Financing activities:			
Net proceeds from issuance of common stock			598,057
Proceeds from issuance of convertible notes			650,000

	Three months ended March 31,		February 9, 2000 (inception) to March 31, 2008 (development stage period)
Debt issuance costs			(29,558)
Proceeds from sales of subsidiary stock and stock options			9,920
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 financing activities			1,525,924
Effect of foreign exchange rate changes on cash	301	8	(8,450)
Net increase (decrease) in cash and cash equivalents	(128,685)	(807)	17,972
Cash and cash equivalents beginning of period	146,657	163,059	
Cash and cash equivalents end of period	$ 17,972	$ 162,252	$ 17,972

(continued)

ICO Global Communications (Holdings) Limited
(A Development Stage Enterprise)

Condensed Consolidated Statements of Cash Flows (Continued)

(In thousands, unaudited)

	Three months ended March 31, 2008	Three months ended March 31, 2007 (restated)	February 9, 2000 (inception) to March 31, 2008 (development stage period)
Supplemental disclosures:			
Income taxes paid	$ 366	$ 13	$ 7,831
Interest paid	56	24,375	150,458
Capitalized interest	9,745	7,412	64,034
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 advisory services	125	125	1,153
Increase in accrued satellite system construction payable, net of liquidated damages	9,177	2,357	18,244
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	27,569		27,569
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.

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 the "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"), ICO is authorized by the Federal Communications Commission ("FCC") to offer ubiquitous mobile satellite-terrestrial services throughout the United States using a geosynchronous earth orbit ("GEO") satellite. ICO also continues to explore the development of a business plan outside of North America which would use both its physical and regulatory medium earth orbit ("MEO") assets.

ICO North America 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. On April 14, 2008, the Company successfully launched its first GEO satellite ("ICO G1"). ICO G1 will initially be used by the Company to conduct an alpha trial of its ICO Mobile Interactive Media ("ICO mim ") service for use on its MSS/ATC System in the second half of 2008. ICO mim is intended as an interactive suite of services including mobile video, navigation, and emergency text and voice roadside assistance. ICO mim is being developed in conjunction with several telecommunications vendors, and during the alpha trial, the Company intends to offer 8-15 channels of mobile video, a fully interactive navigation mapping and guidance program and full interactivity for text messaging and voice service in the event roadside assistance is needed.

2. Development Stage Enterprise

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, 2008.

The Company is not currently generating revenue from operations and it may be unable to obtain the funding necessary to complete the construction of its MSS/ATC System and ICO mim service, fund its future working capital requirements, or achieve positive cash flow from operations. As described in Note 4, during the first quarter of 2008 the Company used the proceeds from the sale and maturity of certain of its investments and cash and cash equivalents to purchase approximately $98 million of student loan backed auction rate securities ("ARS") that the Company held as of March 31, 2008. These ARS consist of variable rate bonds, with maturities ranging from 24 to 39 years, for which the interest rates are reset through a dutch auction each month. These monthly auctions have historically provided a liquid market for these ARS. The Company's ARS, which were purchased in accordance with the Company's investment policy, are AAA/Aaa rated and are collateralized by student loans. At March 31, 2008, on a weighted average basis, approximately 93% of the underlying student loan collateral was issued under the Federal Family Education Loan Program ("FFELP"). Student loans issued under the FFELP are currently 97% guaranteed by the U.S. government.

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

ICO Global Communications (Holdings) Limited
(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

2. Development Stage Enterprise (Continued)

amount of purchase orders. Therefore, cash from the sale of these ARS, which the Company anticipated would be available during 2008, may not be available in 2008 to sufficiently fund the Company's operating activities. To the extent the Company's ARS do not become liquid, or the Company does not secure funding beyond the working capital facility described below, 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. As described in Note 6, ICO North America obtained a $40 million working capital facility on March 27, 2008 ("2009 Credit Facility"). The transaction closed on April 7, 2008. The 2009 Credit Facility is collateralized by a first priority lien on substantially all of the assets of ICO North America. This facility will be utilized to provide necessary cash flow for operations during 2008.

At March 31, 2008, the Company had a working capital deficit (current liabilities exceeded current assets). This deficit is primarily due to the Company's reclassification of its ARS from current to long-term available-for-sale investments in the first quarter of 2008 due to the uncertainty surrounding the timing of generating liquidity from these investments. The Company intends to fund its working capital needs during 2008 with the funds provided by the 2009 Credit Facility. In addition, certain MEO satellite access node ("SAN") obligations of $48.2 million, which are classified as current liabilities due to their contractual commitments, are not anticipated to require significant cash payments during 2008.

In the event that the Company is not able to realize its assets in the ordinary course of business, and is forced to realize the assets by divestment, there is no assurance that the carrying value of the assets could be recovered.

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, 2007, 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, 2007, filed with the U.S. Securities and Exchange Commission ("SEC") on March 28, 2008 ("Form 10-K"). The financial information included in this Form 10-Q 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 Form 10-K. Operating results and cash flows for the interim period presented are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2008 or any other interim period.

Restatement of Prior Period Financial Information During the financial close process for the year ended December 31, 2007, the Company discovered certain errors in its previously issued consolidated financial statements pertaining to its accounting for an embedded beneficial conversion feature included within its $650 million aggregate principal amount of convertible notes due in August 2009 ("2009 Notes"). The Company determined its accounting for this embedded beneficial conversion feature, which was initially recognized in the condensed consolidated financial statements for the three

ICO Global Communications (Holdings) Limited
(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Summary of Significant Accounting Policies (Continued)

months ended September 30, 2007, should have been recognized in the three months ended September 30, 2005. For the three months ended March 31, 2007, these errors had a $1.1 million non-cash impact on interest expense in the Company's condensed consolidated statement of operations and a $1.7 million and $605,000 impact on non-cash interest expense and change in accrued interest payable, respectively, in the Company's condensed consolidated statement of cash flows. However, these errors did not have an impact on net cash from operating, investing or financing activities. In addition, capitalized interest has been adjusted by $605,000 in the supplemental disclosures to the Company's condensed consolidated statement of cash flows for the three months ended March 31, 2007. The condensed consolidated financial statements for the three months ended March 31, 2007 have been restated to reflect the effect of these adjustments.

Following is a summary of the effects of these errors on the Company's condensed consolidated statements of operations and comprehensive loss for the three months ended March 31, 2007 (in thousands):

	Three months ended March 31, 2007	
	As originally reported	As restated
Interest expense	$ (7,981)	$ (9,129)
Loss before income taxes	(16,544)	(17,692)
Net loss	(16,717)	(17,865)
Comprehensive loss	(16,936)	(18,084)
Basic and diluted loss per share	$ (0.08)	$ (0.09)

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 taxes, contingencies, asset useful lives, valuation of ARS and valuation of stock 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 is defined as short-term highly liquid investments with original maturities from the date of purchase of 90 days or less. Cash and cash equivalents is comprised of the following (in thousands):

	March 31, 2008	December 31, 2007
Cash	$ 7,275	$ 554
Money market funds	10,697	124,726
Commercial paper		21,377
	$ 17,972	$ 146,657

ICO Global Communications (Holdings) Limited
(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Summary of Significant Accounting Policies (Continued)

Restricted Cash As of March 31, 2008 and December 31, 2007, the Company had restricted cash of $825,000 related to a bond which is held pursuant to conditions of the Company's FCC authorization to operate in the MSS spectrum.

Available-for-Sale Investments As of March 31, 2008, the Company's available-for-sale investments were held in ARS. As of December 31, 2007, the Company's available-for-sale investments were held in commercial paper. These investments are classified as current and long-term available-for-sale investments and are reported at fair value. Available-for-sale 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. Investments that have maturity dates less than one year are classified as current assets while those with maturities greater than one year are classified as long-term assets. Realized gains and losses on investments sold are determined using the specific identification method. The Company recognizes realized losses when the fair value of its investments is below the cost basis and the decline is determined to be other-than-temporary. In determining whether a decline in fair value is other-than-temporary, the Company considers various factors including market price (when available), investment ratings, the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost basis and the Company's ability and intent to hold the investment until maturity or for a period of time sufficient to allow for any anticipated recovery in market value. If the Company determines that a decline in fair value is other-than-temporary, the investment is valued at the current estimated fair value and a realized loss equal to the decline is reflected in its consolidated statement of operations. The Company includes any unrealized gains or losses on its investments that are deemed to be temporary, net of tax, in stockholders' equity (deficiency in assets) as a component of accumulated other comprehensive income (loss). The Company does not hold any derivative financial instruments in its investment portfolio.

Property in Service Property in service primarily consists of computer equipment, software, furniture and fixtures and leasehold improvements. Property in service is stated at cost, net of accumulated depreciation, and is depreciated using the straight-line method. Computer equipment, software and furniture and fixtures are depreciated over their estimated useful lives ranging from three to five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the term of the 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 payments made and accrued for third-party construction and engineering costs incurred in the design, manufacture, test and launch of the MSS/ATC System, satellite launch insurance costs and costs incurred for the procurement of equipment and technology for use in the ICO mim service. Satellite system under construction will be classified as property in service when the 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.

Capitalized Interest The Company capitalizes interest costs associated with the construction of its MSS/ATC System and ICO mim service. Interest capitalized to satellite system under construction for the three months ended March 31, 2008 and 2007 was $9.7 million and $7.4 million, respectively.

ICO Global Communications (Holdings) Limited
(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Summary of Significant Accounting Policies (Continued)

Debt Issuance Costs Costs incurred in connection with the issuance of the 2009 Notes have been capitalized and are included in debt issuance costs in the condensed consolidated balance sheets. These costs 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, 2008 and 2007 was $1.9 million and $1.7 million, respectively.

Other Assets Other assets primarily consist of a $14 million payment made to acquire first priority rights to use a desired orbital slot for ICO G1. The Company is currently utilizing this slot for ICO G1 and will amortize this cost over the estimated useful life of ICO G1, currently anticipated to be approximately 15 years.

Fair Value of Financial Instruments Financial instruments include cash and cash equivalents, available-for-sale investments, accounts payable, convertible notes and certain other 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 that 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.

The fair value of the Company's available-for-sale investments is determined using Level 2 and Level 3 inputs (see Note 4). The fair value of the 2009 Notes, for the purpose of disclosure, is determined using Level 2 inputs. 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.

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 The Company's policy with respect to disputed contracts is to continue 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 will extinguish 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) "), using the modified prospective

ICO Global Communications (Holdings) Limited
(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

3. Summary of Significant Accounting Policies (Continued)

transition method, which requires measurement of all share-based payment awards made to employees, directors and consultants, based on the estimated fair value on the date of grant and 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 common stock on the date of grant. 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. 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 foreign 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 restated 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, 2008 and 2007, 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, 2008 and 2007, gains on intercompany foreign currency transaction of $4.7 million and losses on intercompany foreign currency transactions of $234,000, respectively, have been excluded from net loss and reported as a component of accumulated other comprehensive income (loss) due to their long-term investment nature.

Accumulated Other Comprehensive Income (Loss) As of March 31, 2008 and December 31, 2007, the Company's accumulated other comprehensive income consisted of cumulative translation adjustments of $3 million and $4.1 million, respectively.

Earnings (Loss) Per Share Basic earnings (loss) per share is calculated based on the weighted average number of shares that were outstanding during the period. Diluted earnings (loss) per share is calculated by dividing income or 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, stock options and warrants, the dilutive effect of which is calculated using the treasury stock method. Prior to satisfaction of all conditions of vesting, unvested restricted

ICO Global Communications (Holdings) Limited
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3. Summary of Significant Accounting Policies (Continued)

stock is considered contingently issuable consistent with SFAS No. 128, *Earnings Per Share*, and is excluded from weighted average common shares outstanding.

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,	
	2008	**2007**
		(restated)
Net loss	$ (30,718)	$ (17,865)
Weighted average common shares outstanding	199,054,189	198,156,342
Less: unvested restricted stock	(630,000)	(100,000)
Shares used for computation of basic and diluted loss per share(1)	198,424,189	198,056,342
Basic and diluted loss per share	$ (0.15)	$ (0.09)

(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. Anti-dilutive options and warrants totaled 16,134,433 and 13,296,933 as of March 31, 2008 and 2007, 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 55%.

New Accounting Pronouncements In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS 157. This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures on fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The FASB provided a one year deferral for the implementation of SFAS 157 for certain other nonfinancial assets and liabilities. The Company adopted SFAS 157 on January 1, 2008. The adoption of SFAS 157 for financial assets and financial liabilities did not have a material impact on the Company's financial position, results of operations or cash flows, but did require additional disclosures (see Note 4). The Company has not yet determined the impact that the implementation of SFAS 157 will have on its nonfinancial assets and liabilities; however, the Company does not anticipate implementation will have a material impact on its financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company did not make the fair value election for any of its financial assets or liabilities. The adoption of this statement did not have any impact on the Company's financial position, results of operations or cash flows.

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3. Summary of Significant Accounting Policies (Continued)

In December 2007, the 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 effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing guidance until January 1, 2009. The Company does not expect the adoption of this statement to have a material impact on its 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 Company does not expect the adoption of this statement to have a material impact on its financial position, results of operations or cash flows.

4. Available-for-Sale Investments

During the first quarter of 2008, the Company used the proceeds from the sale and maturity of certain of its investments and cash and cash equivalents to purchase approximately $98 million of student loan backed ARS that the Company held as of March 31, 2008. These ARS consist of variable rate bonds, with maturities ranging from 24 to 39 years, for which the interest rates are reset through a dutch auction each month. These monthly auctions have historically provided a liquid market for these ARS. The Company's ARS, which were purchased in accordance with the Company's investment policy, are AAA/Aaa rated and are collateralized by student loans. At March 31, 2008, on a weighted average basis, approximately 93% of the underlying student loan collateral was issued under the FFELP. Student loans issued under the FFELP are currently 97% guaranteed by the U.S. government. 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; or (iii) a liquid market develops for these ARS. These events may not occur for a period longer than one year. As of March 31, 2008, $5.1 million of the Company's ARS have been called at par, of which $2 million of cash proceeds had been received as of March 31, 2008, and $3.1 million was received subsequent to March 31, 2008. ARS for which formal call notifications had been received as of March 31, 2008, but for which cash settlement had not taken place, have been classified as current available-for-sale investments on the Company's condensed consolidated balance sheet.

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Notes to Condensed Consolidated Financial Statements (Continued)

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4. Available-for-Sale Investments (Continued)

Typically, the fair value of ARS investments approximate par value due to the frequent resets through the auction process. While the Company continues to earn interest on its ARS investments 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 investment in ARS as of March 31, 2008. The assumptions used in preparing the discounted cash flow model are both observable and unobservable and include estimates for interest rates, timing and amount of cash flows and expected holding periods of the ARS.

The following table summarizes the fair value of the Company's investments by the different levels of inputs required by SFAS 157 as of March 31, 2008 (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 available-for-sale investments	$ 3,050	$	$ 3,050	$
Long-term available-for-sale investments	93,041			93,041

The following table summarizes the change in fair value of the Company's investments using significant unobservable inputs (Level 3) for the three months ended March 31, 2008 (in thousands):

	Available-for-sale investments
Balance, December 31, 2007	$
Purchases, issuances and settlements	97,550
Total losses included in earnings	(4,509)
Balance, March 31, 2008	$ 93,041

Consistent with the guidance provided in FASB Staff Position FAS 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, the Company evaluates its investments for other-than-temporary impairment. At March 31, 2008, individual securities with a fair value below the cost basis were evaluated to determine if they were other-than-temporarily impaired. In determining whether the decline in fair value is other-than-temporary, the Company considered various factors including market price (when available), investment ratings, the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost basis, and its intent and ability to hold the investment until maturity or for a period of time sufficient to allow for any anticipated recovery in market value.

Based on the Company's analysis of its portfolio of ARS, the uncertainty in the market, its assessment of the period until recovery and its liquidity needs during the period until recovery, the Company determined that the $4.5 million decline in the fair value of its ARS investments as of March 31, 2008 is other-than-temporary. The Company has recognized this loss as a pre-tax

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4. Available-for-Sale Investments (Continued)

other-than-temporary impairment charge and has recorded it as other expense on its condensed consolidated statement of operations for the three months ended March 31, 2008. The Company did not record any unrealized gains or losses as a component of other comprehensive income (loss) relating to investments held at March 31, 2008.

5. SAN Agreements and Contract Settlements

As part of the ground infrastructure for its MEO satellite system, the Company established SAN sites in eleven countries throughout the world. Prior to 2000, the Company entered into noncancellable agreements with certain vendors ("SAN Operators") that own and operate the Company's SAN sites. All of the agreements provide for varying levels of support required to operate the SAN sites ("SAN Operating Agreements"). Additionally, certain of the agreements require the repayment of certain up-front infrastructure costs incurred on the Company's behalf ("SAN Infrastructure Agreements") that represent capital leases payable with initial interest rates ranging from 8.5% to 20%.

Over the past several years, the Company significantly curtailed further construction on its MEO satellite system which increased the likelihood that many of these SAN sites would not be utilized in a timely fashion in the contemplated MEO satellite system. As a result, eight of the ten SAN Operators terminated their agreements with the Company from 2004 to 2006 and discontinued providing the requisite level of services. The Company accrues operating expenses until the related agreement is terminated and the SAN Operator has ceased providing services. Certain of the terminated agreements were settled in exchange for a nominal level of consideration, including cash and the transfer of certain SAN assets. Certain of the terminated agreements have not been settled and remain outstanding.

Subsequent to the date of termination, the Company has continued to accrue estimated late payment fees, if applicable, and the interest expense on the capital leases in effect pursuant to the SAN Infrastructure Agreements. Upon reaching settlement with the SAN Operator where the SAN Operator's claims are legally released, the Company has written off the liability, resulting in the recognition of a gain on contract settlement.

The following represents a summary of transactional activity with the various SAN Operators (in thousands):

	Three months ended March 31,	
	2008	2007
Total SAN liability, beginning of period	$ 49,193	$ 45,591
Expense recognized under SAN Operating Agreements	516	561
Interest expense related to SAN Infrastructure Agreements	962	791
Payments made to SAN Operators	(517)	(1,255)
Effect of changes in foreign currency exchange rates	631	278
Total SAN liability, end of period	$ 50,785	$ 45,966

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5. SAN Agreements and Contract Settlements (Continued)

The total SAN liability is comprised of the following amounts which are included in the following line items on the condensed consolidated balance sheets (in thousands):

	March 31, 2008	December 31, 2007
Accrued expenses	$ 16,095	$ 16,095
Accrued interest (current portion)	16,134	