# *ICO North America, Inc.*

*Consolidated Balance Sheets as of December 31, 2008 and 2007, and Related Consolidated Statements of Operations and Comprehensive Loss, Cash Flows and Changes in Stockholders' Equity (Deficiency in Assets) for the Years Ended December 31, 2008, 2007 and 2006 and the Period From May 16, 2000 (Inception) to December 31, 2008 (Development Stage Period)*

# ICO NORTH AMERICA, INC.

## 2008 Annual Report

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
ICO North America, Inc. and Subsidiaries
Bellevue, Washington

We have audited the accompanying consolidated balance sheets of ICO North America, Inc. and subsidiaries (a development-stage enterprise) (a majority-owned subsidiary of ICO Global Communications) (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations and comprehensive loss, cash flows, and changes in stockholders' equity (deficiency in assets) for each of the three years in the period ended December 31, 2008, and for the period from May 16, 2000 (inception) to December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The Company's consolidated financial statements for the period from May 16, 2000 (inception) through December 31, 2003, were audited by other auditors whose reports, dated April 22, 2002 and March 30, 2005, expressed unqualified opinions on those statements with emphasis of a matter paragraphs regarding the entity's ability to continue as a going concern. The consolidated financial statements for the period from May 16, 2000 (inception) through December 31, 2003, reflect total revenues and a net loss of $82,992,000 and $17,671,000, respectively, of the related totals for the period from May 16, 2000 (inception) through December 31, 2008. The other auditors' reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such prior periods, is based solely on the reports of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, and for the period from May 16, 2000 (inception) to December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company is a development stage enterprise engaged in developing next-generation mobile satellite services. As discussed in Note 2 to the consolidated financial statements, the deficiency in working capital at December 31, 2008 and the Company's operating losses since inception raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

As discussed in Note 3 to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements*, on January 1, 2008, and Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109,* on January 1, 2007.

/s/ DELOITTE & TOUCHE LLP

Seattle, Washington
March 30, 2009

# ICO NORTH AMERICA, INC.
## (A Development Stage Enterprise)

### Consolidated Balance Sheets

**(In thousands, except share data)**

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 11,459 | $ 143,708 |
| Investments — available-for-sale securities | 5,961 | 14,704 |
| Receivable from affiliates | 750 | 207 |
| Prepaid expenses and other current assets | 8,143 | 860 |
| Total current assets | 26,313 | 159,479 |
| Property in service — net of accumulated depreciation of $779 and $416, respectively | 511 | 623 |
| Satellite system under construction | 544,514 | 409,209 |
| Investments — available-for-sale securities | 29,214 | — |
| Investments — trading securities | 34,210 | — |
| Debt issuance costs — net of accumulated amortization of $24,225 and $16,281, respectively | 5,333 | 13,277 |
| Other assets | 5,136 | 14,000 |
| Total | $ 645,231 | $ 596,588 |
| **LIABILITIES AND STOCKHOLDERS' DEFICIENCY IN ASSETS** | | |
| Current liabilities: | | |
| Accounts payable | $ 172 | $ 419 |
| Accrued satellite system construction payable | 8,973 | 9,067 |
| Deferred satellite performance incentives | 1,680 | — |
| Accrued interest | 22,575 | — |
| Working capital facility | 43,722 | — |
| Convertible debt — net of discount of $5,824 | 700,488 | — |
| Other current liabilities | 2,545 | 2,264 |
| Total current liabilities | 780,155 | 11,750 |
| Convertible debt — net of discount of $14,196 | — | 635,804 |
| Accrued interest | — | 20,719 |
| Deferred satellite performance incentives | 9,204 | — |
| Other | 3,200 | — |
| Total liabilities | 792,559 | 668,273 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' deficiency in assets: | | |
| Class A common stock, $.0001 par value — 799,990,000 shares authorized; 323,000 shares issued and outstanding | — | — |
| Class B convertible common stock, $.001 par value — 400,000,000 shares authorized; 200,000,000 issued and outstanding | 200 | 200 |
| Additional paid-in capital | 71,491 | 71,878 |
| Accumulated other comprehensive income | 8,051 | 8,122 |
| Deficit accumulated during the development stage | (227,070) | (151,885) |
| Total stockholders' deficiency in assets | (147,328) | (71,685) |
| Total | $ 645,231 | $ 596,588 |

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

# ICO NORTH AMERICA, INC.
## (A Development Stage Enterprise)

### Consolidated Statements of Operations and Comprehensive Loss
### (In thousands)

| | Year ended December 31, 2008 | 2007 | 2006 | May 16, 2000 (inception) to December 31, 2008 (development stage period) |
|---|---|---|---|---|
| Revenues from affiliates | $ - | $ - | $ - | $ 88,304 |
| Operating expenses: | | | | |
| General and administrative | 29,459 | 20,210 | 14,803 | 172,555 |
| Research and development | 4,736 | 5,959 | 6,528 | 17,793 |
| Impairment of property under construction | - | - | - | 15,219 |
| Loss on disposal of assets | 17 | - | - | 10,313 |
| Total operating expenses | 34,212 | 26,169 | 21,331 | 215,880 |
| Operating loss | (34,212) | (26,169) | (21,331) | (127,576) |
| Interest income | 4,070 | 10,961 | 18,366 | 42,670 |
| Interest expense | (37,408) | (32,762) | (42,158) | (133,728) |
| Other expense | (7,660) | (47) | (163) | (7,526) |
| Loss before income taxes | (75,210) | (48,017) | (45,286) | (226,160) |
| Income tax benefit (expense) | 25 | 290 | - | (910) |
| Net loss | (75,185) | (47,727) | (45,286) | (227,070) |
| Other comprehensive loss: | | | | |
| Unrealized gain on investments — net of $0 tax | - | 18 | 57 | - |
| Cumulative translation adjustments | (71) | (8) | 165 | 8,051 |
| Comprehensive loss | $ (75,256) | $ (47,717) | $ (45,064) | $ (219,019) |

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

# ICO NORTH AMERICA, INC.
## (A Development Stage Enterprise)

### Consolidated Statements of Cash Flows
### (In thousands)

| | Year ended December 31, 2008 | 2007 | 2006 | May 16, 2000 (inception) to December 31, 2008 (development stage period) |
|---|---|---|---|---|
| Operating activities: | | | | |
| Net loss | $ (75,185) | $ (47,727) | $ (45,286) | $ (227,070) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | | |
| Stock-based compensation | 5,803 | 4,211 | 4,026 | 14,343 |
| Depreciation | 383 | 232 | 151 | 4,366 |
| Non-cash interest expense | 17,957 | 14,533 | 10,296 | 47,264 |
| Unrealized foreign exchange (gains) losses | (362) | 10 | 158 | (2,952) |
| Losses on disposal of assets | 17 | - | - | 10,313 |
| Deferred income tax benefit | - | (103) | - | (103) |
| Impairment of property under construction | - | - | - | 15,219 |
| Realized losses on sale of investment securities | 2,634 | - | - | 2,634 |
| Unrealized losses on investment securities | 12,297 | - | - | 12,297 |
| Fair value adjustment for ARS Put Option | (5,132) | - | - | (5,132) |
| Changes in: | | | | |
| Income tax receivable | - | - | 172 | (1,530) |
| Prepaid expenses and other current/non-current assets | (6,806) | (211) | (142) | (5,408) |
| Accrued interest income | 203 | 3,016 | 1,206 | 106 |
| Accounts payable | (247) | 224 | (214) | (7,340) |
| Accrued interest payable | 19,341 | (30,521) | (16,888) | (11,146) |
| Other accrued expenses | 287 | (490) | 1,637 | (64) |
| Net cash used in operating activities | (28,810) | (56,826) | (44,884) | (154,203) |
| Investing activities: | | | | |
| Purchases of satellite system under construction | (64,706) | (45,465) | (212,143) | (437,442) |
| Purchases of property in service | (298) | (492) | (189) | (1,336) |
| Purchases of other assets | - | - | (14,000) | (14,000) |
| Purchases of investment securities | (126,850) | (545,452) | (536,270) | (1,544,914) |
| Maturities and sales of investment securities | 57,375 | 606,507 | 753,419 | 1,460,374 |
| Purchases of restricted investments | - | (50) | (650) | (94,283) |
| Maturities and sales of restricted investments | - | 46,270 | 48,035 | 94,305 |
| Proceeds from sale of assets | - | - | - | 10,124 |
| Net cash provided by (used in) investing activities | (134,479) | 61,318 | 38,202 | (527,172) |
| Financing activities: | | | | |
| Cash contributed at inception | - | - | - | 52,409 |
| Capital contribution from ICO Parent | - | - | - | 23,912 |
| Proceeds from issuance of common stock | - | - | 1,373 | 1,373 |
| Proceeds from sales of stock options | - | - | 8,547 | 8,547 |
| Proceeds from working capital facility | 40,000 | - | - | 40,000 |
| Working capital facility — debt issuance costs | (2,461) | - | - | (2,461) |
| Proceeds from issuance of convertible notes | - | - | - | 650,000 |
| Convertible notes — debt issuance costs | - | - | - | (29,558) |
| Payments to affiliates | (7,080) | (1,819) | (16,710) | (54,317) |
| Net cash provided by (used in) financing activities | 30,459 | (1,819) | (6,790) | 689,905 |
| Effect of foreign exchange rate changes on cash | 581 | (16) | (220) | 2,929 |
| Net increase (decrease) in cash and cash equivalents | (132,249) | 2,657 | (13,692) | 11,459 |
| Cash and cash equivalents — beginning of period | 143,708 | 141,051 | 154,743 | - |
| Cash and cash equivalents — end of period | $ 11,459 | $ 143,708 | $ 141,051 | $ 11,459 |

(Continued)

# ICO NORTH AMERICA, INC.
## (A Development Stage Enterprise)

### Consolidated Statements of Cash Flows (Continued)
### (In thousands)

| | Year ended December 31, 2008 | 2007 | 2006 | May 16, 2000 (inception) to December 31, 2008 (development stage period) |
|---|---|---|---|---|
| Supplemental disclosures: | | | | |
| Income taxes paid | $ 366 | $ 28 | $ 139 | $ 2,711 |
| Interest paid | 207 | 48,750 | 48,750 | 97,707 |
| Capitalized interest | 43,161 | 33,074 | 19,778 | 97,450 |
| Supplemental disclosure of non-cash activities: | | | | |
| Increase (decrease) in accrued satellite system construction payable, net of liquidated damages | (94) | 9,024 | (27,552) | 8,973 |
| Settlement of receivable from ICO Parent | - | - | - | 19,689 |
| Distribution payable to ICO Parent | - | - | - | 9,920 |
| Transfer of assets to affiliate | - | - | - | 50 |
| Interest payment on convertible debt in the form of additional notes | 56,312 | - | - | 56,312 |

(Concluded)

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

# ICO NORTH AMERICA, INC.
## (A Development Stage Enterprise)

### Consolidated Statements of Changes in Stockholders' Equity (Deficiency in Assets)
### (In thousands, except share data)

| | Common Stock Class A shares | Common Stock Class B shares | Common Stock Amount | Additional paid-in capital | Deferred stock-based compensation | Receivable from ICO Parent | Accumulated other comprehensive income (loss) | Income (deficit) accumulated during the development stage | Total stockholders' equity (deficiency in assets) |
|---|---|---|---|---|---|---|---|---|---|
| Initial capital contribution — May 16, 2000 | - | - | $ - | $ 37,277 | $ - | $ - | $ - | $ - | $ 37,277 |
| Other comprehensive income | - | - | - | - | - | - | 380 | - | 380 |
| Net income | - | - | - | - | - | - | - | 2,012 | 2,012 |
| Balance — December 31, 2000 | - | - | $ - | $ 37,277 | $ - | $ - | $ 380 | $ 2,012 | $ 39,669 |
| Other comprehensive loss | - | - | - | - | - | - | (465) | - | (465) |
| Net income | - | - | - | - | - | - | - | 2,137 | 2,137 |
| Balance — December 31, 2001 | - | - | $ - | $ 37,277 | $ - | $ - | $ (85) | $ 4,149 | $ 41,341 |
| Issuance of subsidiary common stock for cash | - | - | - | 14,578 | - | - | - | - | 14,578 |
| Other comprehensive income | - | - | - | - | - | - | 5,558 | - | 5,558 |
| Net loss | - | - | - | - | - | - | - | (25,876) | (25,876) |
| Balance — December 31, 2002 | - | - | $ - | $ 51,855 | $ - | $ - | $ 5,473 | $ (21,727) | $ 35,601 |
| Issuance of stock options | - | - | - | 141 | - | - | - | - | 141 |
| Other comprehensive income | - | - | - | - | - | - | 1,952 | - | 1,952 |
| Net loss | - | - | - | - | - | - | - | (5,890) | (5,890) |
| Balance — December 31, 2003 | - | - | $ - | $ 51,996 | $ - | $ - | $ 7,425 | $ (27,617) | $ 31,804 |

(Continued)

# ICO NORTH AMERICA, INC.
## (A Development Stage Enterprise)

### Consolidated Statements of Changes in Stockholders' Equity (Deficiency in Assets) (Continued)
### (In thousands, except share data)

| | Common Stock Class A shares | Common Stock Class B shares | Common Stock Amount | Additional paid-in capital | Deferred stock-based compensation | Receivable from ICO Parent | Accumulated other comprehensive income (loss) | Income (deficit) accumulated during the development stage | Total stockholders' equity (deficiency in assets) |
|---|---|---|---|---|---|---|---|---|---|
| Balance — December 31, 2003 | - | - | $ - | $ 51,996 | $ - | $ - | $ 7,425 | $ (27,617) | $ 31,804 |
| Issuance of common stock for cash | - | 200,000,000 | 200 | (199) | - | - | - | - | 1 |
| Other comprehensive income | - | - | - | - | - | - | 1,090 | - | 1,090 |
| Net loss | - | - | - | - | - | - | - | (10,244) | (10,244) |
| Balance — December 31, 2004 | - | 200,000,000 | $ 200 | $ 51,797 | $ - | $ - | $ 8,515 | $ (37,861) | $ 22,651 |
| Cash contribution from ICO Parent | - | - | - | 9,333 | - | - | - | - | 9,333 |
| Receivable from ICO Parent | - | - | - | - | - | (19,689) | - | - | (19,689) |
| Value of beneficial conversion feature associated with convertible long-term debt | - | - | - | 30,000 | - | - | - | - | 30,000 |
| Settlement of receivable from ICO Parent | - | - | - | (19,689) | - | 19,689 | - | - | - |
| Distribution payable to ICO Parent | - | - | - | (9,920) | - | - | - | - | (9,920) |
| Deferred stock-based compensation | - | - | - | 1,276 | (1,276) | - | - | - | - |
| Amortization of stock-based compensation | - | - | - | - | 162 | - | - | - | 162 |
| Other comprehensive loss | - | - | - | - | - | - | (625) | - | (625) |
| Net loss | - | - | - | - | - | - | - | (21,011) | (21,011) |
| Balance — December 31, 2005 | - | 200,000,000 | $ 200 | $ 62,797 | $ (1,114) | $ - | $ 7,890 | $ (58,872) | $ 10,901 |

(Continued)

# ICO NORTH AMERICA, INC.
## (A Development Stage Enterprise)

### Consolidated Statements of Changes in Stockholders' Equity (Deficiency in Assets) (Continued)
### (In thousands, except share data)

| | Common Stock Class A shares | Common Stock Class B shares | Common Stock Amount | Additional paid-in capital | Deferred stock-based compensation | Receivable from ICO Parent | Accumulated other comprehensive income (loss) | Income (deficit) accumulated during the development stage | Total stockholders' equity (deficiency in assets) |
|---|---|---|---|---|---|---|---|---|---|
| Balance — December 31, 2005 | - | 200,000,000 | $ 200 | $ 62,797 | $ (1,114) | $ - | $ 7,890 | $ (58,872) | $ 10,901 |
| Reclassification of deferred stock-based compensation recorded upon adoption of SFAS No. 123(R) | - | - | - | (1,114) | 1,114 | - | - | - | - |
| Issuance of Class A common stock | 323,000 | - | - | 1,373 | - | - | - | - | 1,373 |
| Sales of stock options | - | - | - | 8,547 | - | - | - | - | 8,547 |
| Stock-based compensation | - | - | - | 4,026 | - | - | - | - | 4,026 |
| Distribution to ICO Parent | - | - | - | (6,321) | - | - | - | - | (6,321) |
| Other comprehensive income | - | - | - | - | - | - | 222 | - | 222 |
| Net loss | - | - | - | - | - | - | - | (45,286) | (45,286) |
| Balance — December 31, 2006 | 323,000 | 200,000,000 | $ 200 | $ 69,308 | $ - | $ - | $ 8,112 | $ (104,158) | $ (26,538) |
| Value of beneficial conversion feature associated with convertible long-term debt, net of tax | - | - | - | 201 | - | - | - | - | 201 |
| Stock-based compensation | - | - | - | 4,211 | - | - | - | - | 4,211 |
| Distribution to ICO Parent | - | - | - | (1,842) | - | - | - | - | (1,842) |
| Other comprehensive income | - | - | - | - | - | - | 10 | - | 10 |
| Net loss | - | - | - | - | - | - | - | (47,727) | (47,727) |
| Balance — December 31, 2007 | 323,000 | 200,000,000 | $ 200 | $ 71,878 | $ - | $ - | $ 8,122 | $ (151,885) | $ (71,685) |

(Continued)

# ICO NORTH AMERICA, INC.
## (A Development Stage Enterprise)

### Consolidated Statements of Changes in Stockholders' Equity (Deficiency in Assets) (Continued)
### (In thousands, except share data)

| | Common Stock | | | Additional paid-in capital | Deferred stock-based compensation | Receivable from ICO Parent | Accumulated other comprehensive income (loss) | Income (deficit) accumulated during the development stage | Total stockholders' equity (deficiency in assets) |
|---|---|---|---|---|---|---|---|---|---|
| | Class A shares | Class B shares | Amount | | | | | | |
| Balance — December 31, 2007 | 323,000 | 200,000,000 | $ 200 | $ 71,878 | $ - | $ - | $ 8,122 | $ (151,885) | $ (71,685) |
| Stock-based compensation | - | - | - | 5,803 | - | - | - | - | 5,803 |
| Distribution to ICO Parent | - | - | - | (6,190) | - | - | - | - | (6,190) |
| Other comprehensive income | - | - | - | - | - | - | (71) | - | (71) |
| Net loss | - | - | - | - | - | - | - | (75,185) | (75,185) |
| Balance — December 31, 2008 | 323,000 | 200,000,000 | $ 200 | $ 71,491 | $ - | $ - | $ 8,051 | $ (227,070) | $ (147,328) |

(Concluded)

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

# ICO NORTH AMERICA, INC.
## (A Development Stage Enterprise)

## Notes to Consolidated Financial Statements

### 1. Organization and Business

The consolidated financial statements include the accounts of ICO North America, Inc. (“ICO North America”), a development stage enterprise, and its subsidiaries (collectively referred to as “Company”). ICO North America was formed on December 20, 2004 and is a 99.8% owned subsidiary of ICO Global Communications (Holdings) Limited (“ICO Parent”). On June 30, 2005, ICO Parent contributed all of the outstanding capital stock of three of its wholly owned subsidiaries, ICO Services Limited (“ISL”), ICO Satellite Services Limited (“SSL”) and ICO Global Communications (Canada) Inc. (“ICA”) to ICO North America as a capital contribution. ICO North America, ISL, SSL and ICA were all under the common control of ICO Parent. The consolidated results have been recast retroactively for the effects of the June 30, 2005 mergers with ISL, SSL and ICA, which were accounted for as common control mergers.

Accounting principles generally accepted in the United States of America require the merger of entities under common control to be accounted for in a manner similar to pooling-of-interests accounting. As a result, the assets, liabilities and stockholders’ equity for ISL, SSL and ICA are recorded at historical cost. The Company’s consolidated balance sheets have been prepared to reflect the historical assets and liabilities of ISL, SSL and ICA, in addition to the capital contribution made by ICO Parent as of June 30, 2005. The consolidated statements of operations, of comprehensive loss, of cash flows and of changes in stockholders’ equity (deficiency in assets) have been prepared to include the activity for ISL, SSL and ICA from May 16, 2000, the date of inception, through December 31, 2008. On May 16, 2000, ICO Parent acquired assets and assumed liabilities of an entity of which a portion of the purchase price has been allocated to the assets and liabilities of ISL and ICA based on their relative fair value. The initial capital contribution of $37,277 consisted of net assets acquired by ICO Parent, which included cash of $52,409.

The Company is a next-generation mobile satellite service (“MSS”) operator authorized by the U.S. Federal Communications Commission (“FCC”) to offer ubiquitous mobile satellite-terrestrial services 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.

In August 2005, the Company issued $650 million aggregate principal amount of convertible notes due in August 2009 (“2009 Notes”) to fund the development of the MSS/ATC System and, in February 2006, it sold 323,000 shares of Class A common stock and stock options to purchase an additional 3,250,000 shares of Class A common stock to certain holders of its 2009 Notes, resulting in net proceeds of $9.9 million.

In 2007, the Company began to develop its ICO Mobile Interactive Media (“ICO mim™”) service for use on its MSS/ATC System. ICO mim will combine 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. In 2008, the Company continued to develop its ICO mim service, and during the fourth quarter of 2008, began to conduct an alpha trial of its ICO mim service (“Alpha Trial”) in the Las Vegas, Nevada and Raleigh-Durham, North Carolina markets.

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. ICO G1 is initially being used by the Company to conduct an Alpha Trial as discussed above. On January 15, 2009, the FCC approved the Company’s application to integrate ATC into its MSS system.

## 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. ICO North America was formed on December 20, 2004; however, the development stage period used for the accompanying consolidated financial statements is from May 16, 2000 (inception) through December 31, 2008 to include the activity of ISL, SSL and ICA (see Note 1).

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 ICO mim service, fund its future working capital requirements, or achieve positive cash flow from operations. As of December 31, 2008, the Company had a working capital deficit (current liabilities exceeded current assets) of $754 million. This deficit is primarily due to the Company's 2009 Notes, the Company's $40 million working capital facility due in May 2009 ("2009 Credit Facility") and the Company's investments in student loan backed auction rate securities ("ARS") primarily recorded as long-term available-for-sale and trading investments in 2008 as described in Note 4. In order to fund the maturity of its short-term debt obligations, the Company plans to refinance the 2009 Credit Facility and 2009 Notes on or prior to their maturity dates of May 1, 2009 and August 15, 2009, respectively. 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. 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.

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.

As described in Note 4, the Company holds ARS that have become illiquid as a result of failed auctions. As of December 31, 2008, the Company held ARS with a par value of approximately $81.5 million and fair value of $69.4 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 December 31, 2008, the Company held Eligible ARS with a par value of approximately $39.7 million.

## 3. Summary of Significant Accounting Policies

***Principles of Consolidation and Basis of Presentation***—The consolidated financial statements of the Company include its results of operations for the years ended December 31, 2008, 2007 and 2006 and the development stage period from May 16, 2000 (inception) to December 31, 2008. These consolidated financial statements include all of the assets, liabilities and results of operations of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. All information in these financial statements is in U.S. dollars. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

***Segment Information***—The Company operates in and reports on one segment (satellite telecommunications) based upon the provisions of SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information.* All of the Company's long-lived assets are located in the United States.

***Risks and Uncertainties***—The Company is subject to the risks and challenges of a company in the development stage, including dependence on key individuals, successful development and marketing of its products and services, competition from substitute products and services, having adequate access to funding during the development stage, and larger companies with greater financial, technical and marketing resources. As discussed in Note 2, the Company may be unable to obtain the funding necessary to repay its debt obligations due in 2009, which raises substantial doubt about its ability to continue as a going concern.

***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):

| | **December 31,** | |
|---|---|---|
| | **2008** | **2007** |
| Cash | $ 1,198 | $ 219 |
| Money market funds | 10,261 | 122,112 |
| Commercial paper | - | 21,377 |
| | $ 11,459 | $ 143,708 |

***Short-Term and Long-Term Investments***—As of December 31, 2008, the Company's short-term and long-term investments were held in ARS and classified as trading or available-for-sale. As of December 31, 2007, the Company's short-term investments were held in commercial paper and classified as available-for-sale. Trading securities are recorded at fair value with unrealized holdings gains and losses included in net income (loss) in the accompanying 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 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. 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. 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.

***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 years ended December 31, 2008, 2007 and 2006 was $43.2 million, $33.1 million and $19.8 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 December 31, 2008, other assets primarily consisted of a $5.1 million 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"). As of December 31, 2007, other assets consisted of a $14 million payment made to acquire first priority rights to use a desired orbital slot for ICO G1, which was reclassified as satellite system under construction in 2008 upon the successful launch of the Company's GEO satellite.

***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 during 2008, 2007, and 2006.

***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 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 consolidated statements of operations. Amortization of debt issuance costs for the years ended December 31, 2008, 2007 and 2006 was $9.6 million, $7.2 million and $6.7 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 December 31, 2008, the Company has accrued $10.9 million related to its contingent satellite performance incentives, of which $1.7 million has been classified as current and $9.2 million has been classified as long-term.

***Fair Value of Financial Instruments***—Financial instruments include cash and cash equivalents, available-for-sale securities, trading securities, 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.

As of December 31, 2008, the fair value of the Company's available-for-sale securities, trading securities and ARS Put Option was determined using Level 3 inputs (see Note 4). The fair value of the 2009 Notes and 2009 Credit Facility, for the purpose of disclosure, was also determined using Level 3 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.

***Accumulated Other Comprehensive Income***—As of December 31, 2008 and 2007, the Company's accumulated other comprehensive income consisted of cumulative translation adjustments of $8.1 million.

***Revenue Recognition***—The Company is a development stage enterprise and does not currently have any revenue from operations. However, in the past, the Company has recognized revenue from affiliates through services agreements. The Company recognized this revenue when earned.

***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, 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.

***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 transition method. 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 its respective share of ICO Parent 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 ICO Parent'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 ICO Parent'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 years ended December 31, 2008, 2007 and 2006, 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 consolidated statements of operations in the period in which they occur.

***Income Taxes***—The Company accounts for income taxes using the asset and liability method under SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded when it is more likely than not that the assets will not be realized. The Company's policy is to recognize interest and/or penalties related to unrecognized tax benefits as income tax expense. The Company accounts for its uncertain tax positions in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*.

***New Accounting Pronouncements***—In September 2006, the 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 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 159 which 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. In November 2008, the Company elected to apply the provisions of SFAS 159 to its ARS Put Option associated with the UBS settlement agreement (see Note 4). The Company did not make the fair value election for any other financial assets or liabilities.

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 to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. Early adoption is not permitted.

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 Company is currently evaluating the impact of the adoption of SFAS 161.

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 Opinion No. 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. Adoption of FSP APB 14-1 will not have a material impact on the Company's financial position, results of operations or cash flows.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset when the Market for That Asset Is Not Active* ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS 157, which the Company adopted in a market that is not active and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS 157. The Company has considered the guidance in FSP 157-3 in its determination of estimated fair values as of December 31, 2008, and the impact was not material to its financial position, results of operations or cash flows.

## 4. Investments

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

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 student loan backed ARS. As of December 31, 2008, the Company held ARS with a par value of approximately $81.5 million and fair value of $69.4 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 December 31, 2008, the Company had received cash proceeds of $5.8 million for ARS that have been called at par. In July 2008, the Company sold ARS with a par value of $15.4 million for $12.7 million of cash proceeds. The $2.7 million loss was recorded as other expense on the Company's consolidated statement of operations. In January 2009, the Company sold $7 million par value of its available-for-sale ARS for approximately $5.8 million of cash proceeds. The fair value of these ARS has been classified as short-term available-for-sale investments on the Company's consolidated balance sheet at December 31, 2008. The Company has classified all other ARS as long-term investments on its consolidated balance sheet at December 31, 2008 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 can 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. On November 14, 2008, the Company recorded $4 million as the fair value of the ARS Put Option, with a corresponding gain recorded as other income. The Company subsequently recorded a $1.1 million increase in the fair value of its ARS Put Option. As of December 31, 2008, the ARS Put Option is valued at $5.1 million and reflected in other assets on the 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 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. At the time of transfer, the unrealized loss on Eligible ARS was determined to be $4.3 million, which has been reflected as a pre-tax other-than-temporary impairment charge and recorded as other expense on the Company's consolidated statements of operations. Subsequently, the Company recognized an additional decline in fair value of $1.2 million on its Eligible ARS, which has also been recorded as other expense on the Company's consolidated statements of operations for the year ended December 31, 2008.

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 on the Company's consolidated statements of operations. 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.

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 as of December 31, 2008. 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 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 December 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 investments - available-for-sale securities | $ 5,961 | $ - | $ - | $ 5,961 |
| Long-term investments - available-for-sale securities | 29,214 | - | - | 29,214 |
| Long-term investments - trading securities | 34,210 | - | - | 34,210 |
| ARS Put Option | 5,132 | - | - | 5,132 |

The following table summarizes the change in fair value of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2008 (in thousands):

| | Investments | ARS Put Option |
|---|---|---|
| Fair value, January 1, 2008 | $ - | $ - |
| Purchases, issuances and settlements, net | 96,900 | 4,045 |
| Unrealized gains (losses) included in net loss | (12,297) | 1,087 |
| Realized losses included in net loss | (2,634) | - |
| Interest accretion on other-than-temporary impairment | 136 | - |
| Transfers out of Level 3 due to changes in observability of significant inputs | (12,720) | - |
| Fair value, December 31, 2008 | $ 69,385 | $ 5,132 |

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 available-for-sale investments for other-than-temporary impairment. As of December 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 was 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 available-for-sale ARS, the uncertainty in the global financial market, its assessment of the period until recovery and its liquidity needs during the period until recovery, the Company determined that the decline in the fair value of its available-for-sale ARS as of December 31, 2008 was other-than-temporary. For the year ended December 31, 2008, the Company recognized a pre-tax other-than-temporary impairment charge of $11.1 million, including impairment recorded on its Eligible ARS prior to being transferred to a trading classification, as other expense on its consolidated statements of operations. The Company did not record any unrealized gains or losses as a component of other comprehensive income (loss) relating to investments held at December 31, 2008.

## 5. Working Capital Facility

On March 27, 2008, the Company entered into a credit agreement with Jefferies & Company, Inc., among others, for a working capital facility of $40 million. The transaction closed on April 7, 2008 at which time the entire amount of the facility was drawn. The 2009 Credit Facility matures on May 1, 2009 and bears interest at a rate of 12.5% per year which is payable at maturity. On December 31, 2008, accrued interest on the 2009 Credit Facility was added to the outstanding principal balance in accordance with the terms of the credit agreement. The total amount due at maturity is expected to be $45.6 million. The 2009 Credit Facility is guaranteed by the Company and is collateralized by a first priority lien on substantially all of its assets. Proceeds from the 2009 Credit Facility are being used to provide necessary cash flow for operations.

The Company has the option of repaying the facility at a premium of 2.5% to face value if payment occurs within six months of the closing date, with the premium declining ratably thereafter to par at maturity. The Company will be required to prepay the facility in the event of any extraordinary receipts and certain asset sales, including 50% of the cumulative proceeds from the sale of ARS that exceed $57 million, with the proceeds of certain issuances of debt and capital stock, and in certain circumstances with insurance and condemnation proceeds.

The 2009 Credit Facility contains other terms, conditions and affirmative and negative covenants, including prohibitions or restrictions (subject to qualifications and exceptions) on the Company's ability to: (i) issue other first lien debt; (ii) declare dividends or make other distributions; (iii) issue capital stock; (iv) make loans or investments (including acquisitions); (v) incur additional indebtedness; (vi) grant liens; (vii) enter into sale-leaseback transactions; (viii) prepay or modify the terms of the 2009 Notes; (ix) modify the terms of certain other material agreements; (x) enter into new lines of business; (xi) recapitalize, merge, consolidate or enter into certain acquisitions; (xii) sell its assets; and (xiii) enter into certain transactions with its affiliates. In addition, the Company is required to maintain liquidity, which is defined as cash, cash equivalents and the market value of ARS, of $5 million. As of December 31, 2008, the Company was in compliance with this financial covenant included in the 2009 Credit Facility.

In addition, the agreement governing the 2009 Credit Facility requires the Company to file year-end financials with an audit opinion that shall not be qualified as to scope or contain any going concern or other qualification or exemption. The opinion from the Company's independent auditors on its 2008 consolidated financial statements contains an explanatory paragraph regarding substantial doubt about the Company's ability to continue as a going concern. This results in a default under the 2009 Credit Facility which, if not remedied before the end of the cure period, would result in an event of default that would allow the administrative agent or holders of a majority of the aggregate principal amount to declare the 2009 Credit Facility due and payable and to initiate remedies against the collateral unless the Company is able to obtain a waiver or amendment of this requirement from a majority of the holders of the 2009 Credit Facility. Such a declaration of default, in turn, would allow the trustee or holders of 25% or more of the 2009 Notes to declare the 2009 Notes due and payable and to initiate remedies against the collateral.

The aggregate fair value of the 2009 Credit Facility as of December 31, 2008 was approximately $39.9 million.

## 6. Convertible Debt

In August 2005, the Company completed the sale of $650 million aggregate principal amount of convertible notes to Qualified Institutional Buyers pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended, provided by Rule 144A thereunder. The net proceeds from the sale of the 2009 Notes are being used to develop the Company's MSS/ATC System and ICO mim service and to fund operating expenses.

The 2009 Notes mature in August 2009 and bear interest at a rate of 7.5% per year, payable semi-annually in arrears in cash on February 15 and August 15. Subject to certain exceptions, for the period from August 16, 2007 through August 15, 2009, the Company has the option of paying accrued interest due with additional notes in lieu of cash at an increased interest rate of 8.5% per annum. The Company elected to make its February 15, 2008 and August 15, 2008 interest payments of $27.6 million and $28.8 million, respectively, in the form of additional notes. Therefore, the rate used to accrue interest on the outstanding 2009 Notes has been adjusted to 8.5% per annum effective August 16, 2007. The Company anticipates making future interest payments in the form of additional notes as well which will result in $767.6 million due at maturity.

The 2009 Notes are convertible, at the option of the holder, into the Company's Class A common stock. The initial conversion price of the 2009 Notes was $4.25 per share, subject to adjustment pursuant to the indenture. The conversion price was subsequently adjusted to $4.06 per share as explained below. Additionally, the 2009 Notes will automatically convert into shares of the Company's Class A common stock upon a qualifying private offering or sale, a qualifying public offering of the Company's common stock or upon written consent of holders owning two-thirds of the 2009 Notes. If all of the 2009 Notes were converted into the Company's Class A common stock, ICO Parent's ownership interest in the Company would be reduced to approximately 52%. Holders of the 2009 Notes also have the right of first offer on any equity securities of the Company subject to certain exemptions and conditions.

The 2009 Notes contain embedded beneficial conversion features contingent upon the occurrence, or non-occurrence, of certain future events, including lack of completion by the Company of a qualified public offering by August 15, 2007, the issuance of the Company's Class A common stock and the issuance of options or warrants to purchase the Company's Class A common stock. The Company has accounted for these beneficial conversion features in accordance with Emerging Issues Task Force ("EITF") Issue No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios* and EITF Issue No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*. The value of the embedded beneficial conversion feature associated with the lack of completion by the Company of a qualified public offering was initially measured and recognized at the commitment date, August 15, 2005. The value of all other embedded beneficial conversion features of the 2009 Notes will be measured at the time such events occur, if at all.

The value of the embedded beneficial conversion feature associated with the lack of completion by the Company of a qualified public offering was initially calculated based on a 2% premium on the fully diluted shares outstanding as of

August 15, 2005. This beneficial conversion feature resulted in a reduction to the conversion price of the 2009 Notes from $4.25 per share to $4.06 per share. The total value of the beneficial conversion feature was determined to be approximately $30 million, which was recorded as a reduction in the 2009 Notes and an increase to additional paid-in capital at August 15, 2005, and is being recognized as interest expense over the life of the 2009 Notes using the effective interest method. In accordance with EITF Issue No. 05-8, *Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature,* the Company recorded a deferred tax liability of $10.2 million in 2005 related to the tax treatment of this beneficial conversion feature, and reduced its valuation allowance by an offsetting amount. As of August 15, 2007, the Company had not completed a qualifying public offering. The non-occurrence of this event triggered re-measurement of the value of the embedded beneficial conversion feature associated with the lack of completion by the Company of a qualified public offering. This re-measurement resulted in additional value to the beneficial conversion feature equal to approximately $304,000, with a related income tax effect of $103,000. The $103,000 was recorded as a reduction to additional paid-in capital and as an income tax benefit for the year ended December 31, 2007.

The 2009 Notes have a registration rights agreement whereby a majority of the holders of the 2009 Notes can demand at any time, starting on August 15, 2008, that the Company register its shares. If the Company fails to register its shares within 60 days of a demand, or the registration of the Company's shares has not been declared effective by the U.S. Securities and Exchange Commission within 120 days, the interest rate on the 2009 Notes increases by 1% every 90 days up to a maximum of 13.5%. This additional interest would be required to be paid in cash. As of February 28, 2009, the maximum amount of additional interest expense the Company could incur if it failed to register its shares would be approximately $2.5 million through the maturity of the 2009 Notes. No demand for registration has been made to date, and the Company currently believes that it is not probable it will be required to remit any additional interest to the holders of the 2009 Notes for failing to obtain an effective registration statement.

The 2009 Notes also contain covenants including, but not limited to, restrictions on the Company's future indebtedness and the payment of dividends. In addition, all of the Company's stock is pledged and all of its existing and future assets are held as collateral for the 2009 Notes. As of December 31, 2008, the Company was in compliance with all of the financial covenants included in the 2009 Notes.

The aggregate fair value of the 2009 Notes as of December 31, 2008 and 2007 was approximately $293.5 million and $637 million, respectively.

**7. Commitments and Contingencies**

***Purchase Commitments***—The Company has an agreement with Space Systems/Loral, Inc. ("Loral") to design, develop, manufacture, test and deliver ICO G1 and to develop, test and implement a ground-based beam forming system ("GBBF") related to the operation of the satellite. ICO G1 was delivered in February 2008 and was successfully launched on April 14, 2008. Loral has completed the satellite in-orbit testing and space segment in-orbit testing (GBBF working with ICO G1), and on December 23, 2008, the Company accepted the space segment. The Company may be obligated to make future in-orbit performance incentive payments over the design life of ICO G1 under its agreement with Loral. These satellite performance incentives are payable in future periods dependent on the continued satisfactory performance of ICO G1.

The Company has an agreement with Hughes Network Systems, LLC ("HNS") to provide gateway equipment and services for the Company's MSS/ATC System including the design, manufacture, delivery and test of the radio frequency subsystem, the gateway system controller, the gateway control network and the gateway system interconnections. The gateway is located at the HNS facility in North Las Vegas, Nevada. The Company retains an option through May 2009 to purchase a diverse site radio frequency terminal along with an associated diverse site facility. The Company also has an agreement with HNS to develop user equipment and a GEO Mobile Radio Interface ("GMR") satellite base station for use in its Alpha Trial.

The Company has an agreement with Lucent Technologies, Inc. ("Alcatel-Lucent") to provide certain architecture and technical design services to develop and manufacture equipment for its ICO mim service, including repeaters, satellite headend and gateway core equipment. Alcatel-Lucent is responsible for the delivery, installation and testing of this equipment which is an integral part of the Company's ICO mim service.

On April 15, 2008, the Company entered into an agreement with Delphi Automotive Systems LLC ("Delphi") to assist with development of equipment compatible with the Company's ICO mim service that is capable of being manufactured for sale to original equipment manufacturers and aftermarket users as well as to provide the Company with consultation regarding technical issues related to the advancement of its ICO mim service.

On September 18, 2008, the Company entered into an agreement with Qualcomm Incorporated ("Qualcomm") whereby Qualcomm will integrate satellite and cellular communication technology in select multi-mode mobile baseband chips and include S-band capabilities in select radio frequency chipsets. This agreement will enable manufacturers of cellular devices to build products that operate in the S-band frequencies where the Company operates, both terrestrially and with the satellite. In connection with this agreement, the Company and SkyTerra Communications Inc. ("SkyTerra," formerly Mobile Satellite Ventures), another MSS provider, have entered into a mutual non-assertion agreement related to relevant aspects of their respective patent portfolios.

As of December 31, 2008, the Company had purchase commitments of approximately $56.8 million related to the agreements described above as well as other secondary agreements related to the development of its MSS/ATC System and ICO mim service. Approximately $31.9 million of this amount, the majority of which relates to the achievement of certain construction, delivery and deployment milestones related to the development of the MSS/ATC System and the completion of certain agreed-upon services associated with the Company's ICO mim service, is payable from 2009 to 2011. Additional payments of $24.9 million, including interest, related to in-orbit satellite performance incentives associated with ICO G1, are payable from 2009 through 2023.

As of December 31, 2008, future minimum payments under the Company's purchase commitments were as follows (in thousands):

| | Purchase commitments |
|---|---|
| 2009 | $ 29,590 |
| 2010 | 2,629 |
| 2011 | 4,116 |
| 2012 | 1,015 |
| 2013 | 1,118 |
| Thereafter | 18,372 |
| | $ 56,840 |

***Satellite System Operating Commitments*—**The Company has agreements with Intelsat, Ltd. ("Intelsat") to provide satellite operational services to support the telemetry, tracking and control ("TT&C") system of ICO G1. Under this agreement, the Company is obligated to pay Intelsat a recurring, monthly fee associated with TT&C and other satellite support services. The Company also has an agreement with HNS to provide operations, maintenance and hosting services for its GEO gateway located in North Las Vegas, Nevada.

As of December 31, 2008, the Company had satellite system operating commitments of approximately $19.1 million related to the agreements described above as well as other secondary agreements related to the operation of its MSS/ATC System.

As of December 31, 2008, future minimum payments under the Company's satellite system operating commitments were as follows (in thousands):

| | Satellite system operating commitments |
|---|---|
| 2009 | $ 2,428 |
| 2010 | 1,808 |
| 2011 | 1,541 |
| 2012 | 1,187 |
| 2013 | 1,116 |
| Thereafter | 11,054 |
| | $ 19,134 |

***Litigation***—In June 2008, Sprint Nextel filed an action in the U.S. District Court in the Eastern District of Virginia seeking a court order requiring the Company to reimburse Sprint Nextel for current and estimated future spectrum clearing costs up to $100 million. The FCC's rules establish the circumstances under which Sprint Nextel may seek reimbursement of clearing costs from MSS entrants such as the Company. On August 29, 2008, the court granted the Company's motion to stay on primary jurisdiction grounds, stayed the case pending further FCC action, and removed the case from the court's active docket. The Company believes the FCC's rules do not require payment under the existing circumstances, which have arisen because of Sprint Nextel's failure to meet its clearing obligation. The Company believes that Sprint Nextel's claims are without merit and intends to vigorously defend itself against Sprint Nextel. The Company currently believes that this lawsuit will not have a material adverse effect on its financial condition, results of operations or cash flows; however, the outcome is uncertain.

In the opinion of management, except for those matters described above, to the extent so described, litigation, contingent liabilities and claims against the Company in the normal course of business are not expected to involve any judgments or settlements that would be material to the Company's financial condition, results of operations or cash flows.

## 8. Common Stock

The Company's Amended and Restated Certificate of Incorporation authorizes two classes of common stock, Class A and Class B. The rights of the holders of shares of Class A common stock and Class B common stock are identical, except with respect to conversion. The Class B common stock is convertible at any time at the option of its holder into shares of Class A common stock. Each share of Class B common stock is convertible into one share of Class A common stock.

## 9. Share-Based Payment

The Company records stock-based compensation on its respective share of ICO Parent stock options and restricted stock awards issued to employees, directors and consultants in accordance with SFAS 123(R), which requires measurement of all share-based payment awards 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 estimates its forfeiture rate for stock options and restricted stock awards based on the Company's historical rate of forfeitures due to terminations and the fact that the Company has a limited number of employees, many of whom are critical to the Company, and expectations for forfeitures in the future.

As of December 31, 2008, the Company has not issued stock options or restricted stock awards for its own common stock. However, the Company records its share of stock-based compensation expense on stock options and restricted stock awards issued in the stock of ICO Parent. Stock options by default vest and become exercisable over a four year period, with 25% vesting after one year and 1/48th vesting each month thereafter. Generally, stock options have been granted on a vesting schedule of 25% per year. Stock options generally expire 10 years after the date of grant or up to 90 days after termination of employment, whichever occurs earlier. Restricted stock awards vest over the corresponding service term, generally between two and three years. The Company's share of stock-based compensation expense is based on its respective share of service provided by each individual. For years ended December 31, 2008, 2007 and 2006, the Company recognized non-cash stock-based compensation expense of $5.8 million, $4.2 million and $4 million, respectively. Stock-based compensation is included in general and administrative expenses in the Company's consolidated statements of operations.

At December 31, 2008, the balance of stock-based compensation cost to be expensed in future years related to the Company's respective share of unvested share-based awards, as adjusted for expected forfeitures, is as follows (in thousands):

| | |
|---|---|
| 2009 | $ 4,805 |
| 2010 | 2,416 |
| 2011 | 1,150 |
| 2012 | 268 |
| | $ 8,639 |

The weighted average period over which the unearned stock-based compensation expense is expected to be recognized is approximately 1.4 years.

***Stock Options***—ICO Parent has granted stock options to employees, directors and consultants in connection with their service to both ICO Parent and the Company. For the years ended December 31, 2008, 2007 and 2006, the Company recognized non-cash stock-based compensation expense of $4.6 million, $3.8 million and $3 million, respectively, related to stock options granted by ICO Parent on behalf of the Company.

The weighted average fair value of the Company's respective share of ICO parent stock options granted during the years ended December 31, 2008, 2007 and 2006 was estimated using the Black-Scholes Model with the following assumptions:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Weighted average expected volatility | 84% | 45% | 37% |
| Weighted average risk-free interest rate | 2.6% | 4.5% | 4.8% |
| Expected dividend yield | 0% | 0% | 0% |
| Weighted average expected term in years | 6.2 | 6.7 | 10 |
| Weighted average estimated fair value per option granted | $ 0.99 | $ 2.28 | $ 3.10 |

The expected volatility is based upon ICO Parent's historical stock price volatility as well as a review of the historical volatility of other entities similar to ICO Parent, which the Company believes is a reasonable indicator of expected volatility. The risk-free interest rate is based upon U.S. Treasury bond interest rates appropriate for the term of ICO Parent's employee stock options. The expected dividend yield is based on ICO Parent's history and expectation of dividend payments. The expected term has been estimated using the simplified method as described in Staff Accounting Bulletin ("SAB") No. 110 which permit entities, under certain circumstances, to continue to use the simplified method in developing estimates of the expected term of "plain-vanilla" share options beyond December 31, 2007, as was allowed under SAB No. 107.

The Company's respective share of ICO Parent stock option activity for the years ended December 31, 2008, 2007 and 2006 is summarized as follows:

| | Number of options | Weighted average exercise price | Weighted average remaining life (in years) | Aggregate intrinsic value (1) (in thousands) |
|---|---|---|---|---|
| Outstanding — December 31, 2005 | 3,250,000 | $ 4.25 | | |
| Granted | 2,040,875 | 5.60 | | |
| Outstanding — December 31, 2006 | 5,290,875 | 4.77 | | |
| Granted | 3,017,375 | 4.33 | | |
| Cancelled or expired (2) | (449,500) | 5.20 | | |
| Outstanding — December 31, 2007 | 7,858,750 | 4.58 | | |
| Granted | 1,859,500 | 1.43 | | |
| Cancelled or forfeited | (104,625) | 4.37 | | |
| Outstanding — December 31, 2008 | 9,613,625 | $ 3.97 | 8.03 | $ 99 |
| Exercisable — December 31, 2008 | 4,281,464 | $ 4.56 | 7.33 | $ - |
| Vested and expected to vest — December 31, 2008 | 9,266,473 | $ 3.98 | 8.01 | $ 94 |

(1) Aggregate intrinsic value represents total pretax intrinsic value (i.e., the difference between ICO Parent's closing stock price on the last trading day of 2008 and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their stock options on the last business day of the fiscal year.

(2) In 2007, ICO Parent elected to cancel 555,000 stock options, 437,000 of which were allocated to the Company, whose fair market value on the date of grant exceeded the exercise price of the respective option, and regrant stock options with identical terms of the cancelled stock options. This decision was made based upon the disadvantageous tax treatment that such option holders would otherwise be subject to under Section 409A of the Internal Revenue Code for option grants whose fair market value on the date of grant exceeded the exercise price of those options. Stock options granted during the year ended December 31, 2007, as disclosed above, include the Company's share of the regranted stock options.

The total fair value of stock options which vested during the years ended December 31, 2008, 2007 and 2006 was approximately $4.6 million, $3.3 million, and $2.4 million, respectively.

Since inception, the fair value of stock options issued and allocated to the Company is approximately $21.8 million.

The Company reimburses ICO Parent for the fair value of stock options issued and allocated to the Company, less capital contributions made to the Company by ICO Parent for stock options that ultimately failed to vest. As of December 31, 2008, the Company has paid ICO Parent approximately $20.9 million for its respective share of ICO Parent stock options.

The following table summarizes significant ranges of the Company's respective share of outstanding and exercisable stock options as of December 31, 2008:

| | Outstanding options | | | Exercisable options | |
|---|---|---|---|---|---|
| **Range of exercise prices** | **Number of options** | **Weighted average exercise price** | **Weighted average remaining life (in years)** | **Number of options** | **Weighted average exercise price** |
| $0.65 - $3.99 | 2,549,000 | $ 2.01 | 9.45 | 221,125 | $ 3.64 |
| $4.11 - $4.25 | 3,638,000 | 4.24 | 7.04 | 2,617,375 | 4.25 |
| $4.38 - $5.90 | 3,426,625 | 5.13 | 8.02 | 1,442,964 | 5.28 |
| | 9,613,625 | $ 3.97 | 8.03 | 4,281,464 | $ 4.56 |

***Restricted Stock Awards***—In November 2005, ICO Parent granted 600,000 shares of its restricted Class A common stock to certain employees and board members, of which 323,000 shares were allocated to the Company in consideration for services to be performed for the Company. The total compensation cost associated with these restricted stock awards allocated to the Company was $1.3 million and has been charged to expense over the requisite service periods. Restricted stock awards allocated to the Company by ICO Parent, equal to 257,666 shares, 32,667 shares and 32,667 shares vested on October 12, 2006, July 14, 2007 and July 14, 2008, respectively.

In October 2007, ICO Parent granted 580,000 shares of its restricted Class A common stock to certain employees and consultants, of which 445,775 shares were allocated to the Company in consideration for services to be performed for the Company. The restricted stock awards contain performance and service conditions to encourage the attainment of key performance targets and retention of employees. Individual employees and consultants have different amounts of restricted stock awards allocated to the various performance conditions dependent on their responsibilities. The portion of restricted stock awards allocated to a particular performance condition vest 50% when that condition is achieved. After the performance condition is achieved, 25% of shares allocated to that condition vest one year after the performance condition is achieved and the remaining 25% of shares allocated to that condition vest two years after the performance condition is achieved. The total compensation cost associated with these restricted stock awards allocated to the Company was $2 million and is being charged to expense over the requisite service periods. Restricted stock awards equal to 69,880 shares, 76,517 shares and 39,114 shares vested on May 9, 2008, December 23, 2008 and December 31, 2008, respectively, upon satisfaction of certain performance conditions.

In December 2008, ICO Parent granted 100,000 shares of its restricted Class A common stock to certain employees, of which 80,000 shares were allocated to the Company in consideration for services performed for the Company. These restricted stock awards had a grant date fair value of $86,000 and are being charged to expense over the requisite service period ending January 31, 2009.

For the years ended December 31, 2008, 2007 and 2006, the Company recognized non-cash stock-based compensation expense of $1.2 million, $433,000 and $1 million, respectively, related to its respective share of ICO parent restricted stock awards.

The Company's respective share of ICO Parent restricted stock award activity for the years ended December 31, 2008, 2007 and 2006 is summarized as follows:

| | Number of restricted stock awards | Weighted average fair value |
|---|---|---|
| Unvested — December 31, 2005 | 323,000 | $ 3.95 |
| Vested | (257,666) | 3.95 |
| Unvested — December 31, 2006 | 65,334 | 3.95 |
| Granted | 445,775 | 4.44 |
| Vested | (32,667) | 3.95 |
| Unvested — December 31, 2007 | 478,442 | 4.40 |
| Granted | 80,000 | 1.08 |
| Vested | (218,177) | 4.38 |
| Forfeited | (9,056) | 4.46 |
| Unvested — December 31, 2008 | 331,209 | $ 3.63 |

Since inception, the fair value of restricted stock awards issued by ICO Parent and allocated to the Company is approximately $3.4 million.

The Company reimburses ICO Parent for the fair value of restricted stock awards issued and allocated to the Company, less capital contributions made to the Company by ICO Parent for any restricted stock awards that ultimately fail to vest. As of December 31, 2008, the Company has paid ICO Parent approximately $3.4 million for its respective share of ICO Parent restricted stock awards.

## 10. Income Taxes

The Company's income tax (benefit) expense for the years ended December 31, 2008, 2007 and 2006 consists of the following (in thousands):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Federal — deferred | $ - | $ (103) | $ - |
| Foreign — current | (25) | (187) | - |
| | $ (25) | $ (290) | $ - |

The difference between the income tax benefit computed using the federal tax rate and the income tax benefit recorded is primarily the result of the valuation allowance recorded for each of the years ended December 31, 2008, 2007 and 2006. For the years ended December 31, 2008, 2007 and 2006 the valuation allowance increased by $26.7 million, $17.3 million and $15.7 million, respectively.

The significant components of the Company's net deferred tax assets and liabilities are as follows (in thousands):

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Deferred tax assets: | | |
| Net operating losses | $ 38,981 | $ 26,409 |
| Section 195 costs | 22,885 | 14,330 |
| Accrued expenses and other | 11,036 | 6,577 |
| | 72,902 | 47,316 |
| Valuation allowance | (67,203) | (40,480) |
| Net deferred tax assets | $ 5,699 | $ 6,836 |
| Deferred tax liabilities: | | |
| Embedded beneficial conversion feature within 2009 Notes | $ (2,050) | $ (4,958) |
| Property, plant and equipment | (3,649) | (1,878) |
| Net deferred tax liabilities | $ (5,699) | $ (6,836) |
| Net deferred tax assets (liabilities) | $ - | $ - |

At December 31, 2008 the Company had U.S. federal tax net operating loss carryforwards of approximately $109.3 million, which begin to expire in 2020. The Company also had California and Virginia net operating loss carryforwards of $13.6 million and $17.6 million, respectively. These net operating loss carryforwards begin to expire between 2015 and 2025.

Since the Company's utilization of deferred tax assets is dependent upon future taxable income that is not assured, a valuation allowance sufficient to reduce the deferred tax assets to an amount that is more likely than not to be realized has been provided.

No deferred U.S. federal income taxes have been provided for the basis difference in the Company's foreign subsidiaries. The Company has elected to reinvest its foreign earnings indefinitely. It is not practical to determine the amount of the additional tax that may be payable in the event these earnings are repatriated.

The Company's income tax return is filed as part of ICO Parent's income tax return in the U.S. federal jurisdiction and various states. In addition, the Company files income tax returns in foreign jurisdictions. The Company is no longer subject to income tax examinations by tax authorities for years prior to 2000.

## 11. Employee Benefits

Together with ICO Parent, the Company provides its employees with medical and dental benefits, insurance arrangements to cover death in service, long-term disability and personal accident, as well as a defined contribution retirement plan. For the years ended December 31, 2008, 2007 and 2006, the Company's portion of expense related to contributions made under the defined contribution retirement plan was $774,000, $535,000 and $336,000, respectively.

## 12. Related-Party Transactions

At December 31, 2008, the Company had net receivables from affiliates of $750,000 relating to transactions arising in the ordinary course of business, which are expected to be settled in the first quarter of 2009. At December 31, 2007, the Company had net receivables from affiliates of $207,000, which were settled in the third quarter of 2008.

***Clearwire Corporation—***Eagle River Satellite Holdings, LLC ("ERSH") is the controlling stockholder of ICO Parent. Eagle River Holdings, LLC (which, like ERSH, is ultimately beneficially owned by Craig McCaw) is a significant stockholder of Clearwire Corporation ("Clearwire"). The Company has an agreement with Clearwire to explore ways to collaborate on offering Clearwire's broadband Internet offering in conjunction with the Company's ICO mim service, and building out and sharing a terrestrial network ("Cooperation Agreement"). Pursuant to leases in connection with the Cooperation Agreement, the Company will reimburse Clearwire for utility usage at certain of Clearwire's terrestrial towers and office space in Raleigh-Durham as part of the Company's Alpha Trial. Total payments made to Clearwire under this agreement for the year ended December 31, 2008 were $11,000.

***Davis Wright Tremaine—***A principal of Eagle River, Inc., who is also a board member of the Company, is the spouse of a partner at the law firm Davis Wright Tremaine LLP ("DWT") which provides the Company with ongoing legal services. Total payments made to DWT under this agreement for the years ended December 31, 2008, 2007 and 2006 were $51,000, $233,000, and $275,000, respectively.

## 13. Quarterly Financial Data (Unaudited)

The following tables contain selected unaudited statement of operations information for each quarter of the years ended December 31, 2008 and 2007. The quarterly financial data reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period. Unaudited quarterly results were as follows (in thousands):

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | March 31, | | June 30, | | September 30, | | December 31, | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Net loss | $ (19,863) | $ (11,409) | $ (22,546) | $ (11,719) | $ (17,659) | $ (12,131) | $ (15,117) | $ (12,468) |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and accompanying notes included elsewhere in this document.

### Special Note Regarding Forward-Looking Statements

With the exception of historical facts, the statements contained in this management's discussion and analysis are "forward-looking" statements. All of these forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those contemplated by the relevant forward-looking statements. Factors that might cause or contribute to such a difference include, but are not limited to, those discussed under "Risks and Uncertainties" below and elsewhere in this document. The forward-looking statements included in this document are made only as of the date of this report, and we undertake no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

### Overview

We are a next-generation MSS operator formed on December 20, 2004, as a majority owned subsidiary of ICO Parent. We are authorized to offer MSS throughout the United States using a GEO satellite. The FCC has authorized MSS operators, upon application and approval, to use MSS spectrum terrestrially to provide integrated satellite and terrestrial services. We are currently developing an advanced next-generation hybrid MSS/ATC System combining both satellite and terrestrial communications capabilities. Our MSS/ATC System will allow us to provide wireless voice, video, data, and/or Internet service throughout the United States on mobile and portable devices.

We have met all the FCC milestones necessary to maintain authorization to use our assigned MSS spectrum in the United States. On April 14, 2008, we launched ICO G1 and on May 9, 2008, we certified to the FCC that our MSS system was operational, satisfying our final milestone. On May 30, 2008, we received our 2 GHz license and were granted our spectrum selection in the 2 GHz band, 2010 – 2020 MHz and 2180 – 2190 MHz. We are initially using ICO G1 to conduct our Alpha Trial, which began in the fourth quarter of 2008. To provide commercial ATC service, we must receive separate authorization from the FCC and meet certain "gating criteria." In January 2009, we received authorization from the FCC to provide commercial ATC service, subject to meeting certain "gating criteria."

We have begun to demonstrate the operational status of our MSS system on a trial basis. Starting in 2007, and continuing in 2008, we began to: (i) sign agreements with vendors to more fully develop technology that would permit video and data multicasting and voice and data interactivity from the satellite, as well as related integrated services for the terrestrial segment; (ii) design and construct a terrestrial network, including the leasing of towers; and (iii) install radio equipment in the terrestrial network. During 2009, we plan to continue these activities; however, to the extent our investments in ARS do not become liquid or we do not secure additional financing as described below, we plan to reduce or delay our spending on these activities. In addition, the commencement of full scale commercial MSS/ATC service operations would require substantial additional capital. We may offer our services to strategic service providers who could incorporate our capabilities to offer integrated satellite and terrestrial services to their customers. Accordingly, we are meeting with potential strategic partners as well as exploring alternative sources of capital.

On September 18, 2008, we entered into an agreement with Qualcomm whereby Qualcomm will integrate satellite and cellular communication technology in select multi-mode mobile baseband chips and include S-band capabilities in select radio frequency chipsets. This agreement will enable manufacturers of cellular devices to build products that operate in the S-band frequencies where we operate, both terrestrially and with the satellite. As a result, mobile devices will have the ability to have ubiquitous mobile communications coverage from anywhere in North America, including areas where traditional cellular service is currently unavailable or unreliable. SkyTerra and TerreStar also entered into similar agreements with Qualcomm for this development work which will allow these multi-mode mobile baseband chips to operate in the L-band frequency where SkyTerra operates and allow TerreStar to access the aforementioned S-band capabilities. As a result of these agreements, satellite connectivity will be enabled in mass-market wireless handsets and devices. The same mobile chipsets that are integral to today's handsets and other mobile devices will enable handset vendors to produce satellite capable devices at comparable scale and cost.

We are a development stage enterprise as defined in SFAS 7, and will continue to be so until we commence commercial operations. We are not currently generating revenue from operations and we may be unable to obtain the funding necessary to repay our debt obligations due in 2009, complete the construction of our MSS/ATC System and ICO mim service, fund our future working capital requirements, or achieve positive cash flow from operations. In order to fund the maturity of our short-term debt obligations, we plan to refinance the 2009 Credit Facility and 2009 Notes on or prior to their maturity dates of May 1, 2009 and August 15, 2009, respectively. Based on the current credit crisis and volatility in the capital markets, there can be no assurance that this refinancing will be completed on terms acceptable to us, if at all. The outcome of these events cannot be predicted at this time, which raises substantial doubt about our ability to continue as a going concern.

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

During the first quarter of 2008, we used the proceeds from the sale and maturity of certain of our investments and cash and cash equivalents to purchase student loan backed ARS that have become illiquid due to failed auctions. As of December 31, 2008, we held ARS with a par value of approximately $81.5 million and fair value of $69.4 million. On November 14, 2008, we entered into a settlement agreement with UBS whereby UBS agreed to purchase Eligible ARS it sold to us prior to February 13, 2008. Under the terms of the settlement, at our option, we can require UBS to purchase Eligible ARS from us 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 we receive payment at par value upon any sale or disposition. UBS will also provide us 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 our 2009 Notes and 2009 Credit Facility. In addition, in December 2008, UBS reimbursed us $1.8 million for losses incurred on the sale of Eligible ARS in July of 2008. As of December 31, 2008, we held Eligible ARS with a par value of approximately $39.7 million.

Recent turmoil in the credit markets and the financial services industry may negatively impact our financial condition or liquidity. The credit markets and the financial services industry have been experiencing a period of unprecedented turmoil characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the U.S. federal government. While the ultimate outcome of these events cannot be predicted, such events may have a material adverse effect on our ability to refinance our debt obligations and accordingly, our liquidity and financial condition.

**Critical Accounting Policies and Estimates**

Critical accounting policies require difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The judgments and uncertainties affecting the application of these policies include significant estimates and assumptions made by us using information available at the time the estimates are made. Actual results could differ materially from those estimates. Our critical accounting policies involve judgments associated with our accounting for the fair value of financial instruments, other-than-temporary impairments, share-based payments, income taxes and contingencies, each of which is described below.

*Fair Value of Financial Instruments*. Effective with our adoption on January 1, 2008, we determine the fair value of our financial instruments based on the hierarchy established by SFAS 157. In November 2008, we elected the fair value option for our ARS Put Option as permitted by SFAS 159. Our ARS Put Option is a separate freestanding instrument accounted for separately from the ARS and is recorded at fair value.

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.

In valuing our ARS portfolio and ARS Put Option at December 31, 2008, we used a discounted cash flow model (Level 3). 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 carrying amounts of our ARS are adjusted to fair value quarterly.

*Other-Than-Temporary Impairment.* We recognize losses when declines in the fair value of our investments below their cost basis are judged to be other-than-temporary. In determining whether a decline in fair value is other-than-temporary, we consider 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 our 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.

*Share-Based Payment.* We record stock-based compensation in accordance with SFAS 123(R) using the modified prospective transition method. SFAS 123(R) requires measurement of all share-based payment awards 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.

We record stock-based compensation on our respective share of ICO Parent stock options and restricted stock awards issued to employees, directors and consultants. Determining the appropriate fair value model and calculating the fair value of share-based awards at the date of grant requires judgment. The fair value of stock options is estimated on the date of grant using the Black-Scholes Model based on the single option award approach. 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 is determined based on the number of shares granted and the quoted market price of ICO Parent's Class A common stock on the date of grant. 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.

Option pricing models, including Black-Scholes, require the use of input assumptions, including expected volatility, risk-free interest rate, expected dividend yield, expected term and expected forfeiture rates. The expected volatility is based upon ICO Parent's historical stock price volatility as well as a review of the historical volatility of other entities similar to ICO Parent, which the Company believes is a reasonable indicator of expected volatility. The risk-free interest rate is based upon U.S. Treasury bond interest rates appropriate for the term of ICO Parent's employee stock options. The expected dividend yield is based on ICO Parent's history and expectation of dividend payments. The expected term has been estimated using the simplified method as described in SAB No. 110 which permit entities, under certain circumstances, to continue to use the simplified method in developing estimates of the expected term of "plain-vanilla" share options beyond December 31, 2007, as was allowed under SAB No. 107. We estimate our forfeiture rate for restricted stock awards and stock options based on our historical rate of forfeitures due to terminations and the fact that we have a limited number of employees, many of whom are critical to us, and expectations for forfeitures in the future.

*Income Taxes.* We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, tax benefits and deductions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must record a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Since our utilization of our deferred tax assets is dependent upon future taxable income that is not assured, we have recorded a valuation allowance sufficient to reduce the deferred tax assets to an amount that is more likely than not to be realized. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would decrease in the period in which we determined that the recovery was more likely than not.

*Contingencies.* The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. SFAS No. 5, *Accounting for Contingencies*, requires that an estimated loss from a loss contingency such as a legal proceeding or claim should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial position, results of operations or cash flows.

**New Accounting Pronouncements**

In September 2006, the FASB issued SFAS 157 which 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. We 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 our financial position, results of operations or cash flows, but did require additional disclosures (see Note 4 to our consolidated financial statements). We have not determined the impact that the implementation of SFAS 157 will have on our nonfinancial assets and liabilities; however, we do not anticipate implementation will have a material impact on our financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS 159 which 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. In November 2008, we elected to apply the provisions of SFAS 159 to our ARS Put Option associated with the UBS settlement agreement (see Note 4 to our consolidated financial statements). We did not make a fair value election for any other financial assets or liabilities.

In December 2007, the FASB issued 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.

In March 2008, the FASB issued SFAS 161 which expands the disclosure requirements in 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. We are currently evaluating the impact of the adoption of SFAS 161.

In May 2008, the FASB issued FSP APB 14-1 which clarifies that convertible debt instruments that may be settled in cash upon conversion are not addressed by paragraph 12 of 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. Adoption of FSP APB 14-1 will not have a material impact on our financial position, results of operations or cash flows.

In October 2008, the FASB issued FSP No. 157-3 which clarifies the application of SFAS 157 in a market that is not active and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active and the use of market quotes when assessing the relevance of observable and unobservable data. FSP 157-3 is effective for all periods presented in accordance with SFAS 157. We considered the guidance in FSP 157-3 in our determination of estimated fair values as of December 31, 2008, and the impact was not material to our financial position, results of operations or cash flows.

**Results of Operations**

The following table is provided to facilitate the discussion of our results of operations for the years ended December 31, 2008, 2007 and 2006 (in thousands):

| | Year ended December 31, | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| General and administrative expenses | $ 29,459 | $ 20,210 | $ 14,803 |
| Research and development expenses | 4,736 | 5,959 | 6,528 |
| Loss on disposal of assets | 17 | - | - |
| Interest income | (4,070) | (10,961) | (18,366) |
| Interest expense | 37,408 | 32,762 | 42,158 |
| Other expense | 7,660 | 47 | 163 |
| Income tax benefit | (25) | (290) | - |

*General and Administrative Expenses*. General and administrative expenses are primarily comprised of personnel costs, stock-based compensation, third-party legal and professional fees, satellite system operating expenses and general office related costs.

General and administrative expenses increased $9.2 million for the year ended December 31, 2008 compared to the year ended December 31, 2007. This increase is primarily due to $3.8 million of higher personnel costs related to the hiring of additional employees to support the development of our MSS/ATC System and ICO mim service, a $1.7 million increase in consulting and other professional fees, $1.6 million of increased costs incurred in connection with our GEO gateway operations and other satellite support services and $1.6 million of incremental non-cash stock-based compensation expense. Since December 31, 2008, as part of our overall efforts to curtail expenditures, we have eliminated seven full-time employee positions.

General and administrative expenses increased $5.4 million for the year ended December 31, 2007 compared to the year ended December 31, 2006. This increase is primarily due to higher personnel costs related to the hiring of additional employees necessary to support the development of our MSS/ATC System and ICO mim service.

*Research and Development Expenses*. Research and development expenses principally consist of third-party engineering, consulting and development costs associated with technology being considered for use in our MSS/ATC System and ICO mim service.

Research and development expenses decreased $1.2 million for the year ended December 31, 2008 compared to the year ended December 31, 2007. This decrease is primarily due to costs incurred in 2007 associated with the development of a demonstration system to communicate with ICO G1 using the MSS 2 GHz spectrum, partially offset by an increase in design and development activities in 2008 related to our MSS/ATC System. Research and development expenses for the years ended December 31, 2007 and 2006 were comparable in all material respects.

*Interest Income*. Interest income is primarily attributable to interest earned on the investment of the proceeds of our 2009 Notes and 2009 Credit Facility

Interest income decreased $6.9 million for the year ended December 31, 2008 compared to the year ended December 31, 2007 and decreased $7.4 million for the year ended December 31, 2007 compared to the year ended December 31, 2006. These decreases are primarily due to a reduction in our cash, cash equivalents, and investment balances as we continue to develop our MSS/ATC System and ICO mim service.

*Interest Expense*. Interest expense is comprised of interest incurred and the amortization of debt issuance costs related to our 2009 Notes and 2009 Credit Facility and the amortization of debt discount allocated to the embedded beneficial conversion feature on our 2009 Notes. These expenses are partially offset by capitalized interest costs associated with the construction of our MSS/ATC System and ICO mim service.

Interest expense increased $4.6 million for the year ended December 31, 2008 compared to the year ended December 31, 2007. This increase is primarily the result of a higher interest rate used to accrue interest on the outstanding 2009 Notes in the current year, reflecting our election to make interest payments subsequent to August 15, 2007 in the form of additional notes in lieu of cash, and interest expense associated with the 2009 Credit Facility. This increase is partially offset by an increase in capitalized interest costs associated with the construction of our MSS/ATC System and ICO mim service during 2008.

Interest expense decreased $9.4 million for the year ended December 31, 2007 compared to the year ended December 31, 2006. This decrease is primarily the result of an increase in capitalized interest costs associated with the construction of our MSS/ATC System and ICO mim service during 2007.

*Other Expense.* Other expense for the year ended December 31, 2008 consisted primarily of net realized and unrealized losses associated with our ARS investments of $14.9 million, partially offset by $5.1 million of other income attributable to our ARS Put Option and a $1.8 million reimbursement from UBS for losses incurred on the sale of Eligible ARS. Other expense for the years ended December 31, 2007 and 2006 consisted primarily of losses on foreign currency transactions and was nominal for both periods.

*Income Tax Benefit*. Income tax benefit for the year ended December 31, 2008 was comprised of taxes on income of certain of our U.K. entities. Income tax benefit for the year ended December 31, 2007 was comprised of an income tax benefit recorded as the result of the remeasurement of the beneficial conversion feature within our 2009 Notes and foreign tax benefits from our U.K. entities. We did not have any income tax benefit or expense for the year ended December 31, 2006.

We are still in the development stage and continue to incur losses. The tax benefit for these losses will not be recognized until realization is more likely than not.

**Liquidity and Capital Resources**

*Overview*. Substantially all of our capital expenditures and liquidity requirements to date have been related to the development of our MSS/ATC System and ICO mim service. As described in more detail below under "Contractual Obligations," our primary expected cash needs for the next 12 months are for the final payments related to the construction of ICO G1, development costs for our ICO mim service, ongoing operating costs and repayment of the 2009 Credit Facility and 2009 Notes.

During the first quarter of 2008, we used the proceeds from the sale and maturity of certain of our investments and cash and cash equivalents to purchase student loan backed ARS that have become illiquid due to failed auctions. In July 2008, we sold ARS with a par value of $15.4 million for $12.7 million of cash proceeds. On November 14, 2008, we entered into a settlement agreement with UBS whereby UBS would purchase Eligible ARS it sold to us prior to February 13, 2008. Under the terms of the settlement, at our option, we can require UBS to purchase Eligible ARS from us 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 we receive payment at par value upon any sale or disposition. UBS will also provide us 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 our 2009 Notes and 2009 Credit Facility. In addition, in December 2008, UBS reimbursed us $1.8 million for losses incurred on the sale of Eligible ARS in July of 2008. As of December 31, 2008, we held Eligible ARS with a par value of approximately $39.7

million. As of December 31, 2008, we continue to hold ARS with a par value of approximately $81.5 million and fair value of $69.4 million.

On March 27, 2008, we obtained the 2009 Credit Facility which subsequently closed on April 7, 2008. The 2009 Credit Facility matures on May 1, 2009 and bears interest at a rate of 12.5% per year which is payable at maturity. In addition, the agreement governing the 2009 Credit Facility requires us to file year-end financials with an audit opinion that shall not be qualified as to scope or contain any going concern or other qualification or exemption. The opinion from our independent auditors on our 2008 consolidated financial statements contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. This results in a default under the 2009 Credit Facility which, if not remedied before the end of the cure period, would result in an event of default that would allow the administrative agent or holders of a majority of the aggregate principal amount to declare the 2009 Credit Facility due and payable and to initiate remedies against the collateral unless we are able to obtain a waiver or amendment of this requirement from a majority of the holders of the 2009 Credit Facility. Such a declaration of default, in turn, would allow the trustee or holders of 25% or more of the 2009 Notes to declare the 2009 Notes due and payable and to initiate remedies against the collateral.

As of December 31, 2008, we had a working capital deficit (current liabilities exceeded current assets) of $754 million. This deficit is primarily due to our 2009 Notes and 2009 Credit Facility coming due within one year and the majority of our investments in ARS being recorded as long-term available-for-sale and trading investments in 2008 as it is unlikely we will be able to liquidate these investments within one year. In order to fund the maturity of our short-term debt obligations, we plan to refinance the 2009 Credit Facility and the 2009 Notes on or prior to their maturity dates of May 1, 2009 and August 15, 2009, respectively. Based on the current credit crisis and volatility in the capital markets, there can be no assurance that this refinancing will be completed on terms acceptable to us, if at all. The outcome of these events cannot be predicted at this time, which raises substantial doubt about our ability to continue as a going concern.

We intend to fund our remaining working capital needs for the next 12 months with cash on hand, liquidity generated from liquidation of our ARS and settlement activity related to our ARS. To the extent the liquidation of our ARS and the ARS settlement activity does not generate sufficient liquidity required by our operating plan, or we do not secure additional funding, we plan to significantly reduce our operating and development expenditures, which would include, among others, capital expenditures for the terrestrial network development of our MSS/ATC System, related personnel and vendor support, and other overhead.

If we were to develop the incremental ATC portion of our MSS/ATC System and our ICO mim service, we would require substantial additional capital. We would likely seek this additional financing through offerings of equity or debt securities or funding agreements with strategic partners. The category of business or consumer market we choose to serve, the type and extent of ATC infrastructure necessary to serve such market and the geographic scope of our service area will affect the amount of capital needed for the terrestrial ATC portion of our MSS/ATC System. We expect that the additional funding needed for the type and scope of commercial service we would pursue without strategic partners would range from approximately $300 million to $800 million, depending on the business or consumer market we choose to serve, the type and extent of infrastructure necessary to serve such market and the geographic scope of our service area. It is possible that we will not be able to obtain this additional financing on acceptable terms, if at all. If we elect to commence commercial ATC service, within one year after doing so, the FCC's rules require us to maintain a spare satellite on the ground, which is estimated to cost between $200 million and $250 million. The spare satellite is not a requirement for the provision of MSS only services.

*Cash Flows.* The following table is provided to facilitate the discussion of our liquidity and capital resources for the years ended December 31, 2008 and 2007 (in thousands):

| | Year ended December 31, 2008 | Year ended December 31, 2007 |
|---|---|---|
| Net cash provided by (used in): | | |
| Operating activities | $ (28,810) | $ (56,826) |
| Investing activities | (134,479) | 61,318 |
| Financing activities | 30,459 | (1,819) |
| Effect of foreign exchange rate changes on cash | 581 | (16) |
| Net increase (decrease) in cash and cash equivalents | (132,249) | 2,657 |
| Cash and cash equivalents — beginning of period | 143,708 | 141,051 |
| Cash and cash equivalents — end of period | $ 11,459 | $ 143,708 |

Cash, cash equivalents and short-term available-for-sale investments were $17.4 million at December 31, 2008 compared to $158.4 million at December 31, 2007. The decrease in our liquidity during 2008 is primarily due to net purchases of available-for-sale and trading securities, the majority of which are classified as long term investments, and capital expenditures related to our MSS/ATC System, partially offset by funds provided by the 2009 Credit Facility.

For the year ended December 31, 2008, cash used in operating activities consisted primarily of our net loss of $75.2 million adjusted for various non-cash items. These non-cash items include: (i) $56.3 million of interest expense on our 2009 Notes paid in the form of additional notes; (ii) $43.2 million of capitalized interest costs associated with the construction of our MSS/ATC System and ICO mim service; (iii) $18 million of amortization of debt issuance costs related to our 2009 Notes and 2009 Credit Facility and amortization of debt discount allocated to the embedded beneficial conversion feature of our 2009 Notes; (iv) $14.9 million of realized and unrealized losses related to our ARS; (v) a $5.1 million gain related to our ARS Put Option; and (vi) stock-based compensation expense of $5.8 million. Cash used in operating activities for the year ended December 31, 2007 consisted primarily of our net loss of $47.7 million adjusted for various non-cash items including $33.1 million of capitalized interest costs, $14.5 million of amortization of debt issuance costs and debt discount allocated to the embedded beneficial conversion feature of the 2009 Notes and stock-based compensation expense of $4.2 million.

For the year ended December 31, 2008, the primary use of cash for investing activities was net purchases of available-for-sale and trading investment securities of $69.5 million and capital expenditures of $64.7 million associated with our MSS/ATC System and ICO mim service, a significant portion of which related to satellite launch insurance. Cash provided by investing activities for the year ended December 31, 2007 consisted primarily of $107.3 million of net sales and maturities of available-for-sale and restricted investment securities, partially offset by $45.5 million of capital expenditures related to our MSS/ATC System and ICO mim service.

For the year ended December 31, 2008, the primary source of cash provided by financing activities was $37.5 million in net proceeds from our 2009 Credit Facility, partially offset by payments to affiliates of $7.1 million. For the year ended December 31, 2007, cash used in financing activities consisted entirely of payments to affiliates.

*Contractual Obligations*. Our primary contractual obligations include our 2009 Notes and 2009 Credit Facility as well as payments and other obligations associated with the development of our MSS/ATC System and ICO mim service. In the table below, we set forth our contractual obligations as of December 31, 2008 (in millions):

| | | Years ending December 31, | | | |
|---|---|---|---|---|---|
| | **Total** | **2009** | **2010-2011** | **2012-2013** | **2014 and Thereafter** |
| Debt obligations, including interest (1)(2) | $ 813.2 | $ 813.2 | $ - | $ - | $ - |
| Purchase obligations (3) | 56.8 | 29.6 | 6.7 | 2.1 | 18.4 |
| Satellite system operating obligations (4) | 19.1 | 2.4 | 3.3 | 2.3 | 11.1 |
| Total | $ 889.1 | $ 845.2 | $ 10.0 | $ 4.4 | $ 29.5 |

(1) In August 2005, we completed the sale of $650 million aggregate principal amount of convertible notes which mature in August 2009. The 2009 Notes bear interest at a rate of 7.5% per year, payable semiannually in arrears in cash on February 15 and August 15. Subject to the satisfaction of certain conditions and certain exceptions, for the period from August 16, 2007 through August 15, 2009, we have the option of paying interest with additional notes in lieu of cash at an increased rate of 8.5% per annum. We elected to make our February 15, 2008 and August 15, 2008 interest payments in the form of additional notes and currently anticipate we will elect to make our future interest payments in the form of additional notes as well. Therefore, the rate used to accrue interest on the outstanding 2009 Notes has been adjusted to 8.5% per annum effective August 16, 2007.

The 2009 Notes also contain covenants, including, but not limited to, restrictions on our future indebtedness and the payment of dividends. In addition, all of our stock is pledged and all of our existing and future assets are held as collateral for the 2009 Notes. As of December 31, 2008, we were in compliance with all of the financial covenants of the 2009 Notes.

(2) In March 2008, we entered into a credit agreement for a working capital facility of $40 million. The transaction closed on April 7, 2008 at which time the entire amount of the facility was drawn. The 2009 Credit Facility matures on May 1, 2009 and bears interest at a rate of 12.5% per year which is payable at maturity. The total amount due at maturity is expected to be $45.6 million.

We have the option of repaying the facility at a premium of 2.5% to face value if repayment occurs within six months of the closing date, with the premium declining ratably thereafter to par at maturity. We will be required to prepay the facility in the event of any extraordinary receipts and certain asset sales, including 50% of the cumulative proceeds from the sale of ARS that exceed $57 million, with the proceeds of certain issuances of debt and capital stock, and in certain circumstances with insurance and condemnation proceeds.

The 2009 Credit Facility contains other terms, conditions and affirmative and negative covenants. The agreement governing the 2009 Credit Facility requires us to file year-end financials with an audit opinion that shall not be qualified as to scope or contain any going concern or other qualification or exemption. The opinion from our independent auditors on our 2008 consolidated financial statements contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. This results in a default under the 2009 Credit Facility which, if not remedied before the end of the cure period, would result in an event of default that would allow the administrative agent or holders of a majority of the aggregate principal amount to declare the 2009 Credit Facility due and payable and to initiate remedies against the collateral unless we are able to obtain a waiver or amendment of this requirement from a majority of the holders of the 2009 Credit Facility. Such a declaration of default, in turn, would allow the trustee or holders of 25% or more of the 2009 Notes to declare the 2009 Notes due and payable and to initiate remedies against the collateral. In addition, we are required to maintain liquidity, which is defined as cash, cash equivalents and the market value of ARS, of $5 million. As of December 31, 2008, we were in compliance with this financial covenant of the 2009 Credit Facility.

(3) We have an agreement with Loral to design, develop, manufacture, test and deliver ICO G1 and to develop, test and implement a GBBF system related to the operation of ICO G1. ICO G1 was delivered in February 2008 and was successfully launched on April 14, 2008. Loral has completed the satellite in-orbit testing and space segment in-orbit testing (GBBF working with ICO G1), and on December 23, 2008, we accepted the space segment. We may be obligated to make future in-orbit performance incentive payments over the design life of ICO G1 under our agreement with Loral. These satellite performance incentives are payable in future periods dependent on the continued satisfactory performance of ICO G1.

We have an agreement with HNS to provide gateway equipment and services for our MSS/ATC System, including the design, manufacture, test and delivery of the radio frequency subsystem, the gateway system controller, the gateway control network and the gateway system interconnections. The gateway is located at the HNS facility in North Las Vegas, Nevada. We retain an option through May 2009 to purchase a diverse site radio frequency terminal along with an associated diverse site facility. We also have an agreement with HNS to develop user equipment and a GMR satellite base station for use in our Alpha Trial.

We have an agreement with Alcatel-Lucent to provide certain architecture and technical design services to develop and manufacture equipment for our ICO mim service, including repeaters, satellite headend and gateway core equipment. Alcatel-Lucent is responsible for the delivery, installation and testing of this equipment which is an integral part of our ICO mim service.

On April 15, 2008, we entered into an agreement with Delphi to assist with development of equipment compatible with our ICO mim service that is capable of being manufactured for sale to original equipment manufacturers and aftermarket users as well as to provide us with consultation regarding technical issues related to the advancement of ICO mim.

On September 18, 2008, we entered into an agreement with Qualcomm whereby Qualcomm will integrate satellite and cellular communication technology in select multi-mode mobile baseband chips and include S-band capabilities in select radio frequency chipsets. This agreement will enable manufacturers of cellular devices to build products that operate in the S-band frequencies where we operate, both terrestrially and with the satellite. As a result, mobile devices will have the ability to have ubiquitous mobile communications coverage from anywhere in North America, including areas where traditional cellular service is currently unavailable or unreliable. In connection with this agreement, we have entered into a mutual non-assertion agreement with SkyTerra related to relevant aspects of our respective patent portfolios.

As of December 31, 2008, we had purchase obligations of approximately $56.8 million related to the agreements above as well as other secondary agreements related to the development of our MSS/ATC System and ICO mim service. Approximately $31.9 million of this amount, the majority of which relates to the achievement of certain construction, delivery and deployment milestones related to the development of the MSS/ATC System and the completion of certain agreed-upon services associated with our ICO mim service, is payable from 2009 to 2011. Additional payments of $24.9 million, including interest, related to in-orbit satellite performance incentives associated with ICO G1, are payable from 2009 through 2023.

(4) We have an agreement with Intelsat to provide operational services to support the TT&C system of ICO G1. Under this agreement, we are obligated to pay Intelsat a recurring, monthly fee associated with TT&C and other satellite support services. We also have an agreement with HNS to provide operations, maintenance and hosting services for our GEO gateway located in North Las Vegas, Nevada. As of December 31, 2008, we had satellite system operating commitments of approximately $19.1 million related to these agreements as well as other secondary agreements related to the operation of our MSS/ATC System.

Under the terms of the indenture governing the 2009 Notes and the 2009 Credit Facility, we are required to obtain launch insurance and maintain in-orbit insurance coverage, each in an amount equal to the full replacement cost of ICO G1. In February 2008, we procured launch and in-orbit insurance coverage, and when combined with the launch guarantee policy we procured from Lockheed Martin Commercial Launch Services, provided for up to $344 million during the launch phase and up to $278 million during the in-orbit phase. The cost of these insurance policies, including brokerage fees, was approximately $44 million. Prior to the end of this initial launch and in orbit insurance policy on

April 14, 2009, we intend to procure an in orbit insurance policy for ICO G1 for an additional year. As a result, this amount has not been included in our table of contractual obligations above.

**Risks and Uncertainties**

Certain risks and uncertainties that could materially affect our future results of operations or liquidity include, but are not limited to, the following matters:

- The 2009 Credit Facility and the 2009 Notes must be repaid in May 2009 and August 2009, respectively. The total amounts due at maturity are expected to be $45.6 million and $767.6 million, respectively. As a development stage company, we do not currently generate any operational cash flow nor do we expect to generate sufficient cash flow in the future to be able to repay the 2009 Credit Facility and 2009 Notes at maturity. Failure to repay our 2009 Credit Facility would constitute an event of default under the 2009 Notes. In addition, the agreement governing the 2009 Credit Facility requires us to file year-end financials with an audit opinion that shall not be qualified as to scope or contain any going concern or other qualification or exemption. The opinion from our independent auditors on our 2008 consolidated financial statements contains an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern. This results in a default under the 2009 Credit Facility which, if not remedied before the end of the cure period, would result in an event of default that would allow the administrative agent or holders of a majority of the aggregate principal amount to declare the 2009 Credit Facility due and payable and to initiate remedies against the collateral unless we are able to obtain a waiver or amendment of this requirement from a majority of the holders of the 2009 Credit Facility. Such a declaration of default, in turn, would allow the trustee or holders of 25% or more of the 2009 Notes to declare the 2009 Notes due and payable and to initiate remedies against the collateral. We plan to refinance the 2009 Credit Facility and 2009 Notes. 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 us, if at all. The outcome of these events cannot be predicted at this time, which raises substantial doubt about our ability to continue as a going concern.

- There are many risks inherent to maintaining a satellite. We have obtained one year of in-orbit insurance coverage, and intend to maintain such in-orbit coverage in the future. We have obtained insurance containing customary satellite insurance exclusions and/or deductibles and material change limitations. As is common in the industry, we are not insuring against business interruption, lost revenues or delay of revenues in the event of a total or partial loss of the communications capacity or life of our satellite. Depending on our space insurance coverage, we may or may not be covered in our policy for any potential loss of our back-up master locator oscillators. The amount of insurance we may receive through the policy may not cover the cost to launch a replacement satellite. Accordingly, we would not be fully insured for all of the potential losses that may be incurred in the event of a satellite system malfunction.

- We may seek potential strategic partners to assist us in developing the ATC portion of our MSS/ATC System. If we choose to complete our MSS/ATC System and ICO mim service without partners, we would need to raise substantial additional funding through equity and/or debt offerings. The category of business or consumer market we choose to serve, the type and extent of ATC infrastructure necessary to serve such market and the geographic scope of our service area will affect the amount of capital needed for the ATC portion of our MSS/ATC System. We expect that the additional funding needed for the type and scope of commercial service we would pursue without strategic partners would range from approximately $300 million to $800 million.

- During the first quarter of 2008, we used the proceeds from the sale and maturity of certain of our investments and cash and cash equivalents to purchase student loan backed ARS that have become illiquid due to failed auctions. As of December 31, 2008, we held ARS with a par value of approximately $81.5 million and fair value of $69.4 million. Excluding our short-term debt obligations, we intend to fund our remaining working capital needs for the next 12 months with cash on hand, liquidity generated from liquidation of our ARS and settlement activity related to our ARS. To the extent the liquidation of our ARS and the ARS settlement activity does not generate sufficient liquidity required by our operating plan, or we do not secure additional funding, we plan to significantly reduce our operating and development expenditures, which would include, among others, capital expenditures for the terrestrial network development of our MSS/ATC System, related personnel and vendor support, and other overhead.

**Inflation**

The impact of inflation on our consolidated financial condition and results of operations was not significant during any of the periods presented.

**Off-Balance Sheet Arrangements**

We do not have any off-balance-sheet arrangements.