

ICO Global Communications (Holdings) LTD  
Form 10-12G  
May 15, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10**

GENERAL FORM FOR REGISTRATION OF SECURITIES

Pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

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**ICO GLOBAL COMMUNICATIONS  
(HOLDINGS) LIMITED**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

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

(Address of principal executive offices)

**98-0221142**

(IRS Employer Identification No.)

**20190**

(Zip Code)

**(703) 964-1400**

(Registrant's telephone number, including area code)

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

**None**

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

**Title of each class  
to be so registered**  
Class A common stock,  
par value \$0.01 per share

**Name of each exchange on which  
each class is to be registered**  
The Nasdaq National Market

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**DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS**

Some of the statements under Item 1. Business, Item 1A. Risk Factors, Item 2. Financial Information and elsewhere in this Form 10 constitute forward-looking statements. These statements relate to future events or our future financial performance, and are identified by words such as may, will, should, expect, scheduled, plan, intend, anticipate, believe, estimate, potential, or continue or the negative of similar words. You should read these statements carefully because they discuss our future expectations, and we believe that it is important to communicate these expectations to our investors. However, these statements are only anticipations. Actual events or results may differ materially. Factors that might cause or contribute to such a difference include, but are not limited to, those discussed under Risk Factors and elsewhere in this registration statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, we do not assume any responsibility for the accuracy or completeness of such statements in the future. Subject to applicable law, we do not plan to update any of the forward-looking statements after the date of this registration statement to conform such statements to actual results.

**Item 1. Business.**

**Overview**

ICO Global Communications (Holdings) Limited is a next-generation mobile satellite service (MSS) operator. We are authorized to operate a medium earth orbit (MEO) satellite system globally pursuant to regulations promulgated by the United Kingdom and by the International Telecommunication Union (ITU), an international organization within the United Nations system. We are also authorized to offer MSS services throughout the United States using a geostationary earth orbit (GEO) satellite. We have the opportunity in the future to seek authorization from the U.S. Federal Communications Commission (FCC) to integrate an ancillary terrestrial component (ATC) into our MSS system in order to provide integrated satellite and terrestrial services. Unlike satellite-only MSS systems, which have historically appealed to a niche market, we believe that integrated MSS/ATC services may be more likely to appeal to a mass market of consumers and businesses. At the present time, we are focusing most of our resources on developing our U.S. MSS system.

In this registration statement, we use the terms ICO, the Company, we, our and us to refer to ICO Global Communications (Holdings) Limited and its subsidiaries and, where the context indicates, its predecessor corporation. For various historical, operational and regulatory reasons, we have many subsidiaries through which we hold our assets and conduct our operations. For example, our U.S. operations are conducted through our over 99%-owned subsidiary, ICO North America, Inc. (ICO North America), and its subsidiaries. We have included a chart with a summary of our organizational structure near the end of this Item 1.

**History and Development of Our Business**

We were incorporated in the state of Delaware in 2000 in order to purchase the assets and assume certain liabilities of ICO Global Communication (Holdings) Limited, a Bermuda company (Old ICO). Our predecessor company, Old ICO, was established in 1995 to provide global, mobile communications services using a satellite network. Old ICO's original business plan was based on a global MEO satellite system designed to provide voice and data service to a wide-ranging customer base, including traditional mobile phone users, aeronautical and maritime vessels and semi-fixed installations.

On August 27, 1999, Old ICO filed for protection from its creditors under Chapter 11 of the United States Bankruptcy Code and commenced related bankruptcy proceedings in Bermuda and the Cayman Islands with respect to certain of Old ICO's subsidiaries. From its inception in 1995 through to May 16, 2000, Old ICO had recorded an aggregate net loss of \$592.6 million and had capitalized approximately \$2.6 billion of costs relating to the construction of its MEO satellites and ground station network.

On October 31, 1999, Eagle River Investments, LLC (Eagle River), executed a binding letter agreement with Old ICO. Pursuant to the binding letter agreement, Eagle River and several other investors advanced \$225 million to Old ICO under a debtor-in-possession credit agreement. From February 9 through May 16, 2000, an Eagle River affiliate, ICO Global Limited, advanced Old ICO an additional \$275 million under a separate debtor-in-possession credit agreement.

On May 3, 2000, the United States Bankruptcy Court approved Old ICO's plan of reorganization. We subsequently raised \$122.9 million from outside investors and \$577.1 million from Eagle River to fund our acquisition of the assets and assumption of certain liabilities of Old ICO. On May 17, 2000, when Old ICO's plan of reorganization became effective, the following transactions occurred:

- We acquired the assets and assumed certain liabilities from Old ICO in exchange for \$117.6 million in cash, 43 million shares of our Class A common stock (issued to Old ICO's former creditors and shareholders), warrants to purchase 20 million shares of our Class A common stock at \$30 per share

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(issued to Old ICO's former creditors) and warrants to purchase 30 million shares of our Class A common stock at \$45 per share (issued to Old ICO's former shareholders);

- The \$225 million in advances by Eagle River and the other investors were converted into 50 million shares of our Class A common stock; and
- The \$275 million in advances by ICO Global Limited were converted into 31 million shares of our Class B common stock.

Subsequent to May 17, 2000, a group of Old ICO sales and distribution partners received 1.8 million shares of our Class A common stock, and Old ICO's former creditors received 700,000 shares of our Class A common stock in connection with the bankruptcy settlement.

As a result of the events described above, following the reorganization, Eagle River, directly and indirectly through its control of ICO Global Limited, held a controlling interest in us. Effective November 28, 2001, one of our wholly-owned subsidiaries and ICO Global Limited merged with 0.93 shares of our capital stock exchanged for each outstanding share of ICO Global Limited capital stock. As a result of the merger, we issued 25,128,321 shares of our Class A common stock and 55,800,000 shares of our Class B common stock to the shareholders of ICO Global Limited, including Eagle River.

As of May 11, 2006, we had 143,194,992 shares of Class A common stock (which has one vote per share) and 54,886,500 shares of Class B common stock (which has ten votes per share) outstanding. Eagle River remains our controlling shareholder, beneficially owning approximately 34.4% of our total shares and 68.9% of the total voting power of our outstanding capital stock.

After the reorganization, we established a new management team who oversaw the construction of our MEO satellites and ground systems and developed our technical plan for the MEO system. Following one launch failure in March of 2000 as well as disagreements with the manufacturer and launch manager of our MEO satellites, which disagreements are the subject of litigation commenced in 2004, we significantly curtailed construction activity on our MEO system. Despite the curtailment of construction activity, we continue to explore the development of a new MEO business plan outside of North America that would utilize both our physical and regulatory MEO assets.

As we focused on our MSS strategy for the United States, we devised and introduced to the FCC the concept of using MSS spectrum for ancillary terrestrial use in order to address service coverage and economic limitations inherent to the MSS business plan. This concept would allow us full access to urban customers, overcoming signal blockage related to buildings or terrain, giving us greater flexibility to provide integrated satellite-terrestrial services.

In February 2003, the FCC issued an order establishing rules permitting MSS operators to seek authorization to integrate ATC into their networks. Additionally, in May 2005, the FCC granted our request to modify our reservation of spectrum for the provision of MSS in the United States using a GEO satellite system rather than a MEO satellite system. We believe this modification will greatly improve the economic viability of our business plan and proposed services. Finally, on December 8, 2005, the FCC increased the assignment to us of 2 GHz MSS spectrum from 8 MHz to 20 MHz, which we believe will allow us to provide more robust services in the United States. These FCC actions were in part due to the inability of six of the eight original MSS 2 GHz licensees to meet regulatory milestones and other matters.

We formed a new subsidiary, ICO North America, to develop an advanced hybrid mobile satellite service/ancillary terrestrial component system (the MSS/ATC System), using a GEO satellite, designed to provide voice, data and Internet service throughout the United States to handsets similar to existing cellular phones. In August 2005, ICO North America issued \$650 million aggregate principal amount of convertible notes to fund the development of our MSS/ATC System, and, in February 2006, it sold to certain of its note holders 323,000 shares of Class A common stock (less than 1% of the outstanding shares).

of such stock) and stock options (exercisable at \$4.25 per share) to purchase an additional 3,250,000 shares of Class A common stock (approximately 1.5% on a fully diluted share basis).

*Acquisitions.* In July 2002, we agreed to purchase the stock of two companies to which the FCC had also allocated spectrum in the 2 GHz band. Each of the agreements was structured as a two-step stock purchase agreement, with an initial purchase of a minority interest in the entity and a second purchase of a controlling interest subject to the FCC's approval of the change in control of the holder of the 2 GHz MSS authorization. However, in January 2003, the FCC revoked each company's 2 GHz MSS authorization. As a result of the FCC action, which was upheld by the U.S. Court of Appeals for the District of Columbia upon the companies' appeals, we only acquired the initial minority interests in both companies and did not acquire the remaining interests.

### **Business Opportunity and Strategy**

We are a next-generation mobile satellite service operator. We are authorized to offer ubiquitous MSS throughout the United States and are developing an advanced hybrid satellite-terrestrial system. We also continue to explore the development of a business plan outside of North America that would utilize both our physical and regulatory MEO assets. We are a development stage company and do not plan to be in commercial service for any part of 2006 or the first half of 2007.

### *North America*

*Industry Overview.* The wireless communications sector has been among the strongest growth sectors in the communications industry in recent years. As a result of the growth of wireless traffic due to rapid subscriber growth, increasing usage of wireless voice services and accelerating adoption of mobile video, data and other high-bandwidth applications, we anticipate that existing and potential wireless service providers will need to significantly increase their network capacity.

MSS operators have historically struggled to gain mass-market penetration and profitability despite broad geographic coverage and emergency service capabilities. We believe that this has been due in part to limitations on MSS urban service coverage. Without ATC, it may be challenging for MSS systems to reliably serve densely populated areas because the satellite's signal may be blocked by high rise structures and may not penetrate into buildings. In order to create a more efficient use of satellite spectrum, encourage the broad deployment of advanced satellite services and provide for emergency services and broad rural wireless coverage, the FCC issued an order in February 2003 establishing rules permitting MSS operators, such as ourselves, to seek authorization to integrate ATC into their networks, and thus use their assigned MSS spectrum for both terrestrial and satellite use. On February 25, 2005, the FCC reaffirmed its earlier decision to permit the integration of ATC into the networks of MSS operators, and, in July 2005, a court appeal of the FCC's initial ATC decision was withdrawn. We believe these events reduced regulatory uncertainty concerning ATC policy and allow for the development of a combined satellite and terrestrial service.

We believe that MSS operators with the capability of integrating ATC into their networks can be a key factor in addressing certain needs of the U.S. wireless communications sector. For example, the ability to offer traditional cellular service together with satellite services, such as emergency capabilities when terrestrial networks are not functioning due to natural disasters, local service interruptions or acts of terrorism, will enable MSS operators and their potential partners to create real differentiation in their product and service offerings.

MSS operators in the United States have traditionally offered satellite-only services to a small number of users. As a result of the limited demand generated by this niche market, mass production of handsets and user devices has not occurred. The latest generation of satellites, however, allows for the use of smaller user devices than has historically been possible. Advances have been made in the design and construction

of satellites, particularly with respect to the size of the satellite reflector (antenna), which transmits signals to, and receives signals from, the user. Such advances have generally allowed for satellites to communicate with smaller devices, and, in particular, with smaller device antennas. We expect this development will allow for devices whose size and functionality fits more with the mass market demand of consumers and businesses today. We therefore believe we have the ability, on a stand-alone basis or together with a terrestrial partner, to offer integrated satellite and terrestrial solutions in the 2 GHz band to a mass market customer base. Because the 2 GHz band is contiguous with the advanced wireless services ( AWS ) band and near the existing cellular system personal communications service ( PCS ) band, we believe device manufacturers should be able to develop devices in a cost-effective manner for use in the 2GHz spectrum band. These devices could include traditional cellular phone type devices, car kits and antennas to provide mobile broadcast video and/or wireless data to automobiles, notebook computer Network Interface Cards, or other broadband or narrowband data modems and antennas.

*Our Strategy.* We intend to capitalize on the rapid growth of the wireless sector in the United States by building a hybrid satellite-terrestrial system to offer ubiquitous satellite and terrestrial wireless service throughout the United States. For the remainder of 2006 and 2007, we plan to continue the development of our MSS/ATC System. These activities will include the continuation of construction of our GEO satellite by our contractor, Space Systems/Loral, Inc. ( Loral ), and the associated ground systems. We recently procured launch services on an Atlas V launch vehicle for our GEO satellite, with a launch period commencing on May 31, 2007. We will also continue our development expenditures for the terrestrial network and user devices that will work with our MSS/ATC System. We also expect to increase the number of employees focused on technical, engineering, legal, finance and administrative functions.

Our MSS/ATC System is being designed to utilize the 20 MHz of nationwide spectrum in the 2 GHz band that the FCC has assigned to us. We believe our 20 MHz of nationwide spectrum will allow us to provide more robust services to our future U.S. customers, as well as public safety agencies.

Our position in the 2 GHz spectrum band is advantageous for several reasons, including the fact that it is contiguous to the existing AWS band and near the existing PCS band, which may facilitate integration with existing PCS and future AWS networks and systems. In addition, no other service providers are interleaved within the band, substantially reducing the potential for interference and the need for guard bands to protect from this interference. We anticipate that we will be the first to offer integrated MSS/ATC services in the 2 GHz band, which we expect will be important to attracting strategic partners.

Our MSS/ATC System is being designed to be capable of supporting a full set of mass-market service offerings to urban and rural U.S. customers, including voice, video, Internet and telematics (vehicle tracking), while addressing growing national security and public safety service needs by providing a service offering to supplement existing terrestrial networks. Our GEO satellite architecture is flexible and is expected to be compatible with widely-used, existing radio protocols, including W-CDMA, GSM, CDMA and OFDM, and to be able to support communications with handsets similar in size to existing cellular phones. This system architecture should provide us with many options for the creation of integrated MSS/ATC offerings.

We believe that our MSS/ATC System should be able to leverage the following strengths to capitalize on the growing demand for wireless services. The system is being designed to:

- support a full portfolio of mass-market wireless services, including traditional voice, text messaging, e-mail and other narrowband and broadband data applications;
- provide a nationwide integrated satellite-terrestrial service enabling ubiquitous coverage;
- utilize handsets similar in size to current cellular phones;

- support a wide variety of radio protocols, such as CDMA, GSM or OFDM, allowing for the integration of a wide variety of services and devices; and
- leverage the proximity to the PCS and AWS spectrums with a flexible network architecture facilitating integration with terrestrial partners.

*Business Model and Potential Customers.* We are in the process of having our GEO satellite and the associated ground systems constructed. Our GEO satellite is scheduled to be launched by July 1, 2007, and we expect to certify our MSS system as operational by July 17, 2007 in compliance with FCC milestones under the authorization. We currently expect that we will develop the infrastructure required for our MSS/ATC System either alone or together with one or more strategic partners.

Given our MSS/ATC System's potential for ubiquitous nationwide mobile service combined with a terrestrial network, and the FCC's assignment to us of 20 MHz of spectrum in the 2 GHz band, we anticipate that a significant number of companies can be our potential strategic partners. We are currently in discussions with strategic partner candidates, including current or potential telecommunications service providers who would be able to complement our MSS offerings. These partners, together with us, could augment their current system capacity, expand their network footprint and offer other value-added satellite-based solutions and/or introduce wireless capability to their product portfolio. We currently expect that those companies will generally fall under the broad categories of cellular and PCS providers, satellite radio providers, cable TV service providers, satellite TV service providers and wireless broadband providers. In addition, we anticipate that international telecommunication companies seeking a U.S. operation may be potential partners.

We may also commence operations without a strategic partner. In that event, we would be required to develop additional capabilities in areas such as customer service and billing, marketing, and customer fulfillment. In addition, depending upon the services offered, we may need to commence construction of a terrestrial network, including the leasing of towers, the installation of radio equipment and the provisioning of a ground network to connect the terrestrial network. If we were to commence operations without a strategic partner, it would require substantial additional capital.

*Competition.* There are currently six companies, including us, who are authorized by the FCC to offer MSS services in the three ATC-eligible MSS spectrum bands, the 2 GHz band, the L-band (1.6 GHz band) and the Big LEO (low earth orbit) band (1.6 / 2.4 GHz band). These spectrum bands exhibit marked differences in frequency location, bandwidth and interference issues.

There are currently two operators, TerreStar/TMI and us, authorized to offer MSS services in the 2 GHz band, each with 20 MHz of spectrum. TerreStar/TMI has announced plans to launch a satellite system with coverage of the United States and Canada that is expected to communicate with handsets similar to mobile devices, and it may also seek to form partnerships with companies in the telecommunications industry. Under FCC rules, the first of us or TerreStar/TMI to launch a satellite may select which of the two 10 MHz blocks in each of the 2 GHz uplink and downlink frequency bands that it will use to provide MSS. We believe that we are positioned to be the first to launch a satellite for the 2 GHz band.

There are currently two entities that have U.S. authorization to provide MSS services in the L-band, Mobile Satellite Ventures and Inmarsat Global Ltd. To date, Mobile Satellite Ventures is the only MSS provider in the L-band to have received ATC authorization. Mobile Satellite Ventures currently provides MSS using two GEO satellites, and has announced plans to develop an integrated satellite and terrestrial service. Inmarsat operates a global MSS system and has announced that it intends to file for ATC authorization for a satellite that will eventually have geographic coverage of the United States.

Globalstar LLC and Iridium Satellite LLC are both licensed and operational in the Big LEO band; however, to date, only Globalstar has applied for and received ATC authorization. Both Globalstar and

Iridium provide voice and data services using dozens of LEO satellites. Iridium's coverage is nearly global, and Globalstar covers numerous countries.

We expect that the competition for MSS customers and strategic partners will increase as the entities described above continue with their respective business plans. We believe that competition will be based in part on the ability to support a full set of satellite and terrestrial service offerings, time to market and product offerings, including handset sizing, as well as the ability to use spectrum in the most efficient manner.

#### ***Outside of North America***

We are authorized to operate a MEO satellite system globally outside of the United States (with the exception of two Middle Eastern countries) in the 2 GHz band pursuant to regulations promulgated by the United Kingdom and by the ITU. We are presently the only company authorized to operate in the 2 GHz band in Europe. We have in orbit one MEO satellite, which currently provides data gathering services. We have ten additional MEO satellites in storage, most of which are in advanced stages of completion. We are currently using one gateway ground station equipped with five antennas, located in the United States, to monitor the MEO satellite in orbit.

In recent years the wireless communications sector has been among the strongest growth sectors in the communications industry globally. In many markets, the amount of wireless traffic has grown at rates greater than in the United States. We anticipate that existing and potential wireless service providers will likely need to significantly increase their network capacity in order to maintain quality voice and data services while at the same time satisfying the growing consumer demand for enhanced and combined mobile and satellite service offerings.

Despite curtailment of our previous MEO business plan, we continue to explore the development of a new MEO business plan outside of North America that would utilize both our physical and regulatory MEO assets. Such a business plan will likely involve coordination with global and/or regional wireless operators as distribution partners. We are in discussions with potential partners who could provide funding for the development of the MEO system or who could provide other strategic assets to complement our physical and regulatory MEO assets. In addition to pursuing the development of the global MEO satellite system, we may also pursue the integration of ATC-like components into our MEO satellite system to the extent permitted by applicable foreign regulatory authorities in the future.

#### **Regulation**

Our ownership and operation of satellite and wireless communication systems is subject to regulation from the FCC, the ITU, and the U.K. Office of Communications (Ofcom).

#### ***Federal Communications Commission***

The FCC generally regulates the construction, launch and operation of satellites, the use of satellite spectrum at particular orbital locations, the licensing of earth stations and mobile terminals, and the provision of satellite services in the United States. In 2001, the FCC authorized us to provide MSS in the United States using a MEO satellite system. In May 2005, the FCC granted our request to modify our reservation of spectrum for the provision of MSS in the United States using a GEO satellite system rather than a MEO satellite system. A network that combines satellite services with ATC will require a separate FCC ATC authorization and additional FCC authorizations to cover terrestrial facilities used to provide MSS/ATC services, including licenses and equipment certifications for the MSS/ATC handsets and other end-user equipment, as well as any gateway ground station located in the United States.



*MSS Authorization.* The FCC has allocated a total of 40 MHz of spectrum in the 2 GHz band for the provision of MSS. On December 8, 2005, the FCC increased the assignment of 2 GHz MSS spectrum to us from 8 MHz to 20 MHz, with geographic coverage of all 50 states in the United States, as well as Puerto Rico and the U.S. Virgin Islands.

FCC authorizations to provide MSS are subject to various regulatory milestones relating to the construction, launch, and operation of MSS satellites, which constitute the satellite system component of an integrated MSS/ATC network. The FCC milestone requirements are intended to ensure the rapid delivery of service to the public and to prevent the warehousing of spectrum. The FCC milestones that we must meet in order to preserve our FCC authorization to provide 2 GHz MSS include, among other requirements, the launching of a GEO satellite by July 1, 2007 and our certification of our MSS system as operational by July 17, 2007. Failure to comply with any of the FCC milestones could result in a cancellation of the 2 GHz MSS authorization, unless a milestone waiver or extension is obtained. To date, we have certified to the FCC that we have met the first five FCC milestones. We are required to meet seven additional FCC milestones. We have a particularly aggressive schedule for the construction and launch of our GEO satellite.

In addition, our use of the 2 GHz band is subject to successful relocation of incumbent broadcast auxiliary service, cable television relay service and local television transmission service (collectively BAS) users and other users in the band. The FCC's rules require new entrants to the 2 GHz band, including 2GHz MSS licensees, to relocate incumbent BAS users. Sprint Nextel, a new entrant in the 2 GHz band, is required to relocate incumbent BAS users in the 1990-2025 MHz band, which includes the 2 GHz MSS uplink band, and may be entitled to and has indicated that it intends to seek an as yet undetermined amount of reimbursement of eligible clearing costs from 2 GHz MSS licensees on a *pro rata* basis. 2 GHz MSS licensees also must relocate incumbent users in the 2 GHz MSS downlink band at 2180-2200 MHz or reimburse other parties for their costs of relocating those incumbent users. Relocation of incumbent users in the 2 GHz band remains a complex undertaking with the potential to delay the launch of commercial MSS operations.

*ATC Authorization.* ATC authorization enables the integration of a satellite-based service with terrestrial wireless services, resulting in a hybrid MSS/ATC system. The FCC regulates the ability to provide ATC-related services, and authorization for such use is predicated on compliance with and achievement of various regulatory milestones relating to the construction, launch and operation of the underlying MSS system. An MSS operator seeking to provide ATC must separately apply for ATC authorization and meet additional gating criteria related to the operation of its MSS system as a pre-condition to obtaining an ATC authorization, including the following:

- the MSS system must be capable of providing continuous satellite service;
- for GEO systems, MSS coverage must include all 50 states, Puerto Rico and the U.S. Virgin Islands, unless it is not technically possible;
- MSS must be commercially available (i.e., offered to the general public for a fee);
- ATC service may be provided using only the spectrum assigned to the MSS licensee;
- the operator is required to establish that its MSS and ATC services are fully integrated either by (i) offering dual-mode MSS/ATC user terminals to provide both MSS and ATC services or (ii) making a substantial showing demonstrating that the MSS operator will offer an integrated MSS/ATC service;
- for GEO systems, a spare satellite must be maintained on the ground within one year after commencing ATC service and must be launched into orbit during the next commercially reasonable launch window following a satellite failure; and

- ATC-only subscriptions are prohibited.

ATC applications generally will not be granted until all the gating criteria are met, although an MSS licensee can apply for ATC authorization prior to meeting all of the gating criteria. We believe that we will apply for ATC authorization in 2007.

To provide MSS/ATC services in the United States, we must also apply for separate FCC authorizations to cover terrestrial facilities used to provide the services, including licenses and equipment certifications for the MSS/ATC handsets and other end-user equipment.

#### ***International Telecommunication Union***

The ITU regulates on a global basis the use of radio frequency bands and orbital locations used by satellite networks to provide communications services. The use of spectrum and orbital resources by us and other satellite networks must be coordinated pursuant to the ITU's Radio Regulations in order to avoid interference among the respective networks. Under ITU rules, our MEO system is deemed to have been brought into use and therefore is entitled to international recognition and legal protection. By June 1, 2012, the ICO North America GEO system is required under ITU rules to be brought into use and coordinated with those national administrations whose satellite systems have superior ITU rights and who have communicated coordination requests to the ITU with respect to the ICO North America GEO system. If we fail to complete coordination with such administrations and systems prior to the launch of the ICO North America GEO system, the GEO system may be prohibited under ITU rules from providing coverage to countries with whom coordination requests are outstanding. We do not anticipate any issues in meeting these requirements.

#### ***U.K. Office of Communications***

Operations of our satellites are authorized by the United Kingdom through Ofcom and the U.K. Department of Trade and Industry. The MEO system was first authorized for filing at the ITU by the United Kingdom in 1994. Handsets to be used in the MEO system for the provision of MSS were authorized in a 1999 U.K. statute. In 2005, the ICO North America GEO system satellite was authorized for filing at the ITU by the United Kingdom, and the United Kingdom has formally requested coordination with other national administrations for the GEO system. Under United Nations treaties, only nations have full standing as ITU members, and therefore we must rely on the United Kingdom to represent our interests there, including regulatory filings and coordinating the orbital position of our satellite and spectrum with all other potentially affected satellite operators that are represented by their respective national administrations.

Ofcom submits and maintains ITU filings on our behalf pursuant to our continuing compliance with U.K. due diligence requirements, which include obligations to proceed with our business plans and to comply with Ofcom and ITU requirements related to filings made and activities undertaken on our behalf, which include European Commission rules and may also include Conference of European Posts and Telecommunications (CEPT) decisions as they are developed for the provision of MSS in the 2 GHz band. For example, we have certified that the MEO system has met seven of the eight milestones specified in the 1997 CEPT decisions that provisioned spectrum in Europe for 2 GHz MSS systems. U.K. due diligence obligations require that we meet the final milestone by providing commercial services in Europe, which may require the launch of additional MEO satellites. However, the precise requirements and timing that may be imposed by Ofcom in this regard are still to be determined. In addition, we must diligently participate in international coordination meetings arranged by Ofcom and coordinate with other national administrations in good faith.

## Our Planned Systems and Operations

### *MSS/ATC System*

We are working closely with several industry-leading vendors to design and build our MSS/ATC System. To date, we have certified that we have met the first five FCC milestones. These milestones are designed to measure our progress toward having our MSS system certified as operational by July 17, 2007 in accordance with the milestone schedule.

Our MSS/ATC System infrastructure is expected to include the following:

- one orbiting GEO satellite, which will utilize a bent pipe architecture, where the satellite reflects the signals between the end-user equipment and the gateway ground station;
- ground-based beam forming ( GBBF ) equipment that is expected to be located at the gateway ground station;
- a land-based transmitting/receiving station utilizing large gateway feederlink antennas, with the gateway ground station connecting to our network through high-speed interconnection links and providing the interface between the satellite and the network;
- a core switching/routing segment, consisting of equipment used to route voice and data traffic between our network and the public data, telephone, Internet and mobile network, and integrated with the satellite and ATC segments;
- an ancillary terrestrial component that will provide terrestrial wireless communications services that will be fully integrated with the satellite segment to provide ubiquitous national coverage to end users; and
- end-user equipment capable of supporting satellite-only and dual-mode (satellite/terrestrial) services.

*GEO Satellite.* On May 24, 2005 the FCC granted our request to modify our reservation of spectrum for the provision of MSS service in the United States using a GEO satellite system, rather than a MEO satellite system. In anticipation of this approval, on January 10, 2005, we entered into a contract with Loral for construction of our GEO satellite with the contract mirroring the prescribed milestone dates set by the FCC, including completion of the GEO satellite in May 2007 and availability for launch by July 1, 2007. We amended and restated the contract on November 29, 2005, to incorporate the construction and integration with the GEO satellite of the GBBF equipment for the gateway segment. Loral completed the satellite critical design review in May 2005, and physical construction of the satellite is currently underway.

Our GEO satellite design is based on a Loral 1300 standard satellite platform that has been optimized for GEO MSS/ATC communications requirements. It features an expected 15-year service life and a 12-meter unfurlable reflector (antenna) that focuses the 2 GHz signals on North America. On March 10, 2006, we entered into an agreement with Lockheed Martin Commercial Launch Services, Inc. to provide launch services on an Atlas V launch vehicle, with a launch period commencing on May 31, 2007.

The GEO satellite is designed to enable us to provide continuous service coverage primarily in all 50 states in the United States, as well as Puerto Rico and the U.S. Virgin Islands. If appropriate regulatory approval is granted by other countries, the GEO satellite is capable of providing service outside of the United States, throughout many parts of North America.

The FCC has authorized us to operate our GEO satellite at 91° west longitude. This orbital slot could present coordination challenges with other GEO satellites operated at or near 91° west longitude. We have submitted an ITU filing for operation at the 93° west longitude orbital slot, and recently negotiated with the party who formerly held the first-priority rights to use that orbital location, for purposes of the ITU



rules, in order to allow us to have first-priority rights to use an orbital slot at or near 93° west longitude. We have a pending FCC application to modify our 2 GHz MSS authorization to change the orbital location of our GEO satellite from 91° west longitude to 92.85° west longitude. We anticipate that this change should ease international coordination efforts.

The FCC will require us to maintain a spare satellite on the ground within one year after commencing ATC service. The spare satellite must be launched into orbit during the next commercially reasonable launch window following a satellite failure. The spare satellite is not a requirement for the provision of MSS-only services.

*Ground-Based Beam Forming Equipment.* GBBF equipment is expected to be located at the gateway ground station. GBBF is a method of processing the communication signals at the gateway in a manner such that the satellite can dynamically form up to 250 spot beams of varying sizes throughout our coverage area.

*Gateway Segment.* The gateway segment of our MSS/ATC System will consist of a facility using a large gateway feederlink antenna, along with the equipment necessary to communicate with the satellite. The gateway ground station will track the GEO satellite with the gateway antenna and will manage traffic routing and satellite telemetry, tracking and command between the ground and satellite antennas so as to maintain uninterrupted communications. A redundant gateway antenna and/or ground equipment may be implemented as needed.

We intend to own the gateway segment equipment and contract for the hosting of this equipment and for its operations and maintenance. We are currently in discussions with vendors regarding the build-out of the other components of the MSS/ATC System.

*Core Switching/Routing Segment.* The core switching/routing segment will include the equipment needed to direct calls, route data traffic, provide application services and manage the network. In addition, network management applications are expected to manage integration and coordination of the MSS and ATC segments. Together, all of the core switching/routing components are expected to ensure that switching and radio capacity is used efficiently to provide integrated services throughout our MSS/ATC System. We are currently in the process of identifying appropriate vendors and partners to design, build and operate the core switching/routing segment and network operations centers. We believe that there are several vendors and partners who can meet our specifications in this regard.

*ATC Segment.* The ATC segment will provide terrestrial wireless communications service that, when fully integrated with the satellite segment, will offer ubiquitous national coverage to end users. The satellite segment and the terrestrial communications segment will work in concert to provide integrated services to end users. Together, the MSS and ATC segments are expected to share the 20 MHz of nationwide spectrum. Our integrated MSS/ATC System is expected to include MSS radio equipment that will be co-located with the gateway segment equipment and ATC base stations that are expected to be deployed throughout the service area. These, together with dual-mode or other integrated devices, are expected to be capable of providing integrated end-user services and efficiently utilize the spectrum.

*End-User Devices.* We intend to provide integrated services that maximize the benefits of the combination of satellite and terrestrial components. We are focused primarily on offering differentiated products and services that integrate both components. We intend to work with one or more handset or handset platform manufacturers and potentially one or more terrestrial ATC partners to design and develop MSS/ATC capable devices; among these is a lightweight mass-market handset similar to existing cellular phones and PDAs. We believe a dual-mode (terrestrial/satellite) mobile device that is comparable to current terrestrial mobile phones can be constructed with relatively little additional hardware expense. We also may develop several different types of handsets for specific applications, such as homeland



defense, telematics, mobile broadcast video, maritime, and aeronautical. We are in discussions with several manufacturers and believe that such dual-mode devices can be manufactured.

#### ***Satellite Risk Management***

We intend to obtain launch vehicle and satellite insurance and maintain in-orbit insurance coverage, each in an amount equal to the full replacement cost of the launch vehicle and our GEO satellite. Launch insurance policies typically cover claims arising from events that take place during the launch of the satellite through subsequent in-orbit testing and operations, including the replacement value of the launch vehicle, the partial or full loss of the satellite during launch, the failure of a satellite to obtain proper orbit and the failure of a satellite to perform in accordance with design specifications during the policy period, as well as insurance on the cost of such insurance. Insurance policies include customary commercial satellite insurance exclusions and/or deductibles and material change limitations, including exclusions on coverage for damage arising from acts of war and other similar potential risks in addition to exclusions for certain types of problems affecting the satellite that were known at the time the policy was written. We anticipate that, as is common in the industry, we will not insure 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 the satellite.

#### ***Our MEO Satellite System***

In addition to our planned MSS/ATC System, we are authorized pursuant to regulations promulgated by the United Kingdom to operate a global MEO satellite system. Under ITU rules, our MEO system is deemed to have been brought into use and therefore is entitled to international recognition and legal protection.

Following one launch failure in March 2000, as well as disagreements with the manufacturer and launch manager of our MEO satellites, which disagreements are the subject of litigation commenced in 2004, and the issuance in 2003 of the FCC's order establishing rules permitting MSS operators to seek authorization to integrate ATC into their networks, we have accelerated the development of our MSS/ATC System in North America using a GEO satellite. In 2004, we gave notice of the termination of the construction and launch agreements for our MEO satellites. In 2003, we decided that we would no longer provide full funding to certain of our subsidiaries to pay the operators of gateways for the MEO system unless the agreements with such operators were restructured to reduce service levels and payment obligations. As a result, eight of the ten operators have terminated their agreements, four of which have been successfully renegotiated and our obligations thereunder released, four of which have been terminated but are not yet settled, one of which has been extended and one of which we continue to perform under as previously agreed.

We have in orbit one MEO satellite launched in June 2001, referred to as F2, which currently provides data gathering services. Primary satellite control is provided under an agreement with PanAmSat Corporation, and we have a network management center and a backup satellite control center in Slough, United Kingdom. We are required to have the capability of controlling F2 from the United Kingdom as part of our U.K. authorization. We are currently using one gateway ground station equipped with five antennas, located in the United States, to monitor F2. We also own a facility in Itaborai, Brazil, on which certain gateway equipment for the MEO system is located.

In addition, we have ten MEO satellites in storage under an agreement with Boeing Satellite Systems International, Inc., most of which were in advanced stages of completion prior to the termination of work under the satellite agreements. The MEO satellites, including F2, are a modified Hughes 601 and Hughes 702 design and have a designed in-orbit life of 12 years. The satellites feature active S-band antennas capable of forming up to 490 beams for satellite-user links and C-band hardware for satellite-ground station links.

As a result of the decision to significantly curtail construction, the MEO satellite system has been written down to its fair value of zero for accounting purposes on our consolidated financial statements.

*Plan of Operation for 2006.* Despite curtailment of our previous MEO business plan, we continue to explore the development of a new MEO business plan outside of North America that would utilize both our physical and regulatory MEO assets. Our MEO system has met seven out of eight milestones specified for 2 GHz MSS systems in Europe. We may proceed toward meeting the final milestone by providing commercial services in Europe, which may require the launch of additional MEO satellites, when the precise requirements imposed by the U.K. agencies in this regard are determined. We have also completed coordination, pursuant to the ITU's Radio Regulations, for our MEO system (with the exception of two Middle Eastern countries), and may pursue operating licenses globally. In addition, we are in discussions with potential partners who could provide funding for the development of the MEO system or who could provide other strategic assets to complement our physical and regulatory MEO assets. In addition to developing the global MEO satellite system, we may also pursue the integration of ATC-like components into our MEO satellite system to the extent permitted by applicable foreign regulatory authorities in the future.

#### **Summary Organizational Chart**

The following chart is a summary of the organizational structure of our company as of May 11, 2006. For various historical, operational and regulatory reasons, we have many subsidiaries through which we hold our assets and conduct our operations. This chart only lists our primary subsidiaries. Many of these subsidiaries were formed in connection with the development of the MSS/ATC System. Unless otherwise indicated, each entity is wholly-owned by its parent entity.



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\* ICO North America has outstanding 7.5% notes. If all of the 7.5% notes are converted, the Company's equity interest in ICO North America would be decreased to approximately 56%.

*ICO Global Communications (Operations) Limited* is authorized to operate a MEO satellite system globally pursuant to regulations promulgated by the United Kingdom and by the ITU. Our operations outside of North America are primarily conducted by this subsidiary and its subsidiaries.

*ICO North America, Inc.* was formed to develop the MSS/ATC System, and all of our operations in North America are conducted by this subsidiary and its subsidiaries. ICO North America is funding the MSS/ATC System, in part, through the issuance on August 15, 2005 of \$650 million aggregate principal amount of 7.5% notes.

*ICO Satellite Management LLC* contracted in January 2005 with Loral for construction of a GEO satellite for use in the MSS/ATC System. ICO Satellite Management LLC assigned this contract to ICO Satellite Services G.P. in January 2006.

*ICO Satellite Services Limited* and *ICO Services Limited* are the subsidiaries through which ICO North America holds a 100% interest in ICO Satellite Services G.P.

*ICO Satellite Services G.P.* was assigned 8 MHz of 2 GHz spectrum by the FCC for the provision of MSS in the United States. The FCC granted ICO Satellite Services' request in May 2005 to modify its reservation of spectrum for the

provision of MSS in the United States using a GEO satellite system rather

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than a MEO satellite system. ICO Satellite Services transferred the FCC authorization to New ICO Satellite Services G.P. in December 2005. ICO Satellite Services is also the assignee of the contract between ICO Satellite Management LLC and Loral for construction of a GEO satellite and the ground-based beam forming equipment for use in the MSS/ATC System. In March 2006, ICO Satellite Services G.P. entered into an agreement with Lockheed Martin Commercial Launch Services, Inc. to provide launch services on an Atlas V launch vehicle. ICO Satellite Services G.P. owns a 99.99% interest in New ICO Satellite Services G.P.

SSG UK Limited owns a 0.01% interest in New ICO Satellite Services G.P.

New ICO Satellite Services G.P. holds the U.S. FCC authorization. It acquired the FCC authorization from ICO Satellite Services G.P. in December 2005. The FCC increased the assignment of 2 GHz MSS spectrum to 20 MHz on December 8, 2005.

*Financial Information About Geographic Areas.* Most of our assets and current development activities relate to our North American business. The following table contains the location of our long-lived assets for each of the three years in the period ended December 31, 2005 (in thousands):

	December 31,		
	2005	2004	2003
United States	\$ 117,391	\$	\$ 788,815
Foreign			88,628
	\$ 117,391	\$	\$ 877,443

#### Intellectual Property

We hold 24 granted U.S. patents, representing a total of 346 patent claims. We also have 5 pending U.S. patent applications. For our MSS/ATC System, the patents and applications cover features such as various frequency reuse schemes, different terrestrial and satellite air interfaces, dual-mode user devices, network control and frequency planning, among others. We hold 19 granted patents and have 5 pending patent applications in various foreign jurisdictions. Assuming that all maintenance fees and annuities continue to be paid, the patents expire on various dates from 2016 until 2022. ICO and the associated ICO corporate logo are our registered trademarks in the United States, and we maintain trademarks in approximately 18 foreign jurisdictions.

#### Employees

As of May 11, 2006, we had a total of 22 employees, including executive officers. We have engaged 9 consultants for the purpose of providing human resources, accounting services, strategy, regulatory and certain engineering specialties. We are currently hiring employees in the technical, administrative, legal, and operating fields, and expect to have several additional employees prior to year-end 2006. Our employees are not subject to any collective bargaining agreements.

#### Item 1A. Risk Factors.

*The risks below address some of the factors that may affect our future operating results and financial performance. If any of the following risks, or other risks not presently known to us or that we currently believe not to be significant, develop into actual events, then our business, financial condition, results of operations or prospects could be materially adversely affected.*

## Risks Related to Our Business

*We have no significant operations, revenues or operating cash flow and will need additional liquidity to fund our operations and fully fund all necessary capital expenditures.*

We were restructured in a bankruptcy and, since May 2000, have had no significant operations or revenues and do not generate any cash from operations. With the exception of gains recognized on certain contract settlements in 2005, we have incurred net losses since May 2000. We expect to have losses for the foreseeable future. We continue to incur expenses, which must be funded out of cash reserves or the proceeds (if any) of future financings.

The implementation of our business plan, including the construction and launch of a satellite system and the necessary terrestrial components of the mobile satellite service/ancillary terrestrial component system, referred to as the MSS/ATC System, will require significant funding. It is unclear when, or if, we will be able to generate sufficient cash from operations to cover our expenses and fund capital expenditures. Our current assets will not be sufficient to fund our expenses through deployment of our MSS/ATC System and commencement of revenue-generating operations. If we determine to develop the necessary ATC ground infrastructure alone, rather than with strategic partners, our capital requirements would be even more substantial. Moreover, the indenture governing ICO North America's 7.5% convertible senior secured notes due 2009, referred to as the 7.5% notes, restricts its ability to incur additional indebtedness and to sell, lease, transfer or encumber any of its assets. There is no assurance that we will be able to obtain the additional funding required in the amounts or at the time the funds are required.

*We may not be successful in implementing our business plan and this failure would have a material effect on our financial condition and results of operations.*

Our business plan contemplates building an MSS/ATC system serving all 50 states in the United States, as well as Puerto Rico and the U.S. Virgin Islands. Neither we nor any other company in the past has offered service over such an integrated satellite and ancillary terrestrial component network. There are no assurances that we will be able to develop such a network in the timetable or within the total costs projected, or that we will be able to successfully sell the services provided by such a network. We are substantially dependent on the efforts of our suppliers to develop and deliver the satellite and other material components of our planned MSS/ATC System, and there are no readily available substitute suppliers. We presently have limited operations other than development of our MSS/ATC System and delays in the delivery or deployment of the satellite will be harmful to the implementation of our business plan and, as a consequence, our financial condition and results of operations.

*There are significant risks associated with building, launching and operating the satellite contemplated under our business plan.*

Our business plan contemplates operating one GEO satellite, exposing us to risks inherent in satellite launch and operations, including possible delivery delays, launch failure or incorrect orbital placement. A delay in delivery of the satellite could cause us to miss our scheduled launch date. Such a delay could be caused by many factors, including unanticipated delays in designing the satellite to our specifications, unavailability of components, the performance of subcontractors and similar design and construction issues. A launch failure would result in significant delays in the deployment of the GEO satellite because of the need both to construct a replacement satellite, which can take 27 months or longer, and to obtain other launch opportunities. Such significant delays could materially and adversely affect our operations. Launch vehicles may also underperform, failing to place the GEO satellite in the desired orbital location. Even if we are able to place the GEO satellite into service by using its onboard propulsion systems to reach the desired orbital location, the satellite's useful life could be reduced. Satellites generally are subject to

significant operational risks while in orbit. These risks include malfunctions, commonly referred to as anomalies, which can occur as a result of various factors, such as satellite manufacturers' errors, problems with the power or control systems of the satellites and general failures resulting from operating satellites in the harsh environment of space. We suffered launch failure with one of our MEO satellites, and another satellite in the MEO system that was successfully launched experienced an anomaly in orbit that delayed functionality for several months.

While we have previous experience in launching and operating satellites and expect to obtain insurance for the launch and on-going operations of the satellite, such insurance will not fully cover all losses we may experience. We may face delay and/or financial loss in case of a disruption in the GEO satellite's construction or operation. We may not always be able to obtain insurance at reasonable rates. The occurrence of a launch failure could materially adversely affect our ability to insure the launch of our satellites at commercially reasonable premiums, if at all. Once launched, we may be unable to obtain and maintain insurance for our GEO satellite, and the insurance we obtain will not cover all losses we may experience. We do not expect to insure against business interruption, lost revenues or delay of revenues. Also, any insurance we obtain will likely contain certain customary exclusions and material change limitations that would limit our coverage.

A launch or operational failure of the satellite may also endanger our FCC authorization to provide MSS using the 2 GHz spectrum in the event that satellite services cannot be promptly or fully initiated or restored. The loss of our MSS authorization would have a material adverse effect on our financial condition and results of operations. See **Regulatory Risks**. Our 2 GHz MSS authorization is subject to significant implementation milestones.

***There are significant technological risks associated with development of our MSS/ATC System.***

The successful development of our MSS/ATC System will require us, through our subsidiaries and together with our suppliers and partners, to develop several new systems. These include the integrated MSS and ATC systems, dual direction ground-based beam forming for communications between the satellite and terrestrial equipment, and the development of mass-market dual mode devices that will meet the FCC's requirements, none of which exists today. Although ground-based beam forming has been used for satellites before, to the best of our knowledge, it has never been implemented in both directions to the extent planned for the GEO satellite. Also, the GEO satellite may operate at lower signal strength than other satellites, increasing the challenge of developing a suitable dual mode device. Each of these developments represents unique challenges that may impact schedule and development cost. In addition, the end-user devices and the new network infrastructure may be at a cost disadvantage, due to lack of manufacturing scale. This may place us at a cost disadvantage with respect to other terrestrial carriers.

Other parties may have patents or pending patent applications related to integrated MSS/ATC system technology. Those parties may claim that our products or services infringe their intellectual property rights and bring suit against us for infringement of patent or other intellectual property rights. Although we believe that we do not (and we do not intend to), we may be found to infringe on or otherwise violate the intellectual property rights of others. If our products or services are found to infringe or otherwise violate the intellectual property rights of others, we may need to obtain licenses from those parties or design around such rights, increasing development costs and potentially making the system's operation less efficient. We may not be able to obtain the necessary licenses on commercially reasonable terms, or at all, or to design around such rights. In addition, if a court finds that we infringe or otherwise violate the intellectual property rights of others, we could be required to pay substantial damages or be enjoined from making, using or selling the infringing product or technology. We could also be enjoined while an infringement suit was pending. Any such claim, suit or determination could have a material adverse effect on the operation of the system or our financial condition and results of operations.

Further, we will have to license hardware and software for our system and products. There can be no assurance that the necessary licenses will be available on acceptable commercial terms. Failure to obtain such licenses or other rights could have a material adverse effect on our business, operating results and financial condition.

***The success of our business plan may depend on our ability to form strategic partnerships to develop our MSS/ATC System under the constraints of various regulatory requirements.***

Our business plan contemplates that we may form strategic partnerships with parties who are able to complement our satellite offerings and benefit from our satellite and/or terrestrial network components. We currently have no strategic partners for our MSS/ATC System, and there can be no assurances that we will be able to form such partnerships on attractive terms. Further, such partnerships may be subject to various regulatory requirements on operation and ownership of satellite and terrestrial assets that may significantly impact the value to a third party of entering into a strategic relationship with us.

***We face significant competition from companies that are larger or have greater resources.***

We face significant competition from companies that are larger or have greater resources, and from companies that may introduce new technologies and new wireless spectrum. While we plan to be one of the first companies to offer integrated satellite and ATC-based terrestrial services, in parts of our business we will face competition from many well-established and well-financed competitors, including existing cellular/personal communications service operators who have large established customer bases. Many of these competitors have substantially greater access to capital and have significantly more operating experience. Further, due to their larger size, many of these competitors enjoy economies of scale benefits that are not available to us.

We may also face competition from other MSS operators planning to offer MSS/ATC services. In addition, the FCC could make additional wireless spectrum available to new or existing competitors. The FCC has announced its intent to begin auctioning, on June 29, 2006, 90 MHz of spectrum designated for advanced wireless services, which include a variety of wireless services such as Third Generation, or 3G, mobile broadband and advanced terrestrial wireless services. The FCC has designated additional spectrum for advanced wireless services, but has not yet adopted licensing or service rules for that spectrum.

In addition, the FCC has been directed by U.S. Congress to auction another 60 MHz of spectrum in the 700 MHz band no later than January 28, 2008, although the spectrum will not become available for use any earlier than February 2009.

We may also face competition from the entry of new competitors or from companies with new technologies, and we cannot at this time project the impact that this would have on our business plan or our future results of operations.

***We may be unable to protect the proprietary information and intellectual property rights that our operations and future growth will depend on.***

The success of our business plan depends, in part, on our ability to develop or acquire technical know-how and remain current on new technological developments. As a result, our ability to compete effectively will depend, in part, on our ability to protect our proprietary technologies and systems designs. While we have attempted to safeguard and maintain our proprietary rights, we do not know whether we have been or will be successful in doing so. We rely on patents, trademarks, copyrights, trade secret laws and policies and procedures related to confidentiality to protect our technology, products and services. Some of our technology, products and services, however, are not covered by any of these protections.

We do not know whether any of our pending patent applications will be issued or, in the case of patents issued or to be issued, that the claims allowed are or will be sufficiently broad to protect our intellectual property. Even if all of our patent applications are issued and are sufficiently broad, our patents may be challenged, invalidated or circumvented. In addition, we do not know whether we will be successful in maintaining the rights to our granted trademarks and these trademark rights may be challenged. Moreover, patent and trademark applications filed in foreign countries may be subject to laws, rules and procedures that are substantially different from those of the United States, and any resulting foreign patents may be difficult and expensive to enforce. We could, therefore, incur substantial costs and diversion of resources in prosecuting patent and trademark infringement suits or otherwise protecting our intellectual property rights, which could have a material adverse effect on our financial condition and results of operations, regardless of the final outcome. Despite our efforts to protect our proprietary rights, there can be no assurance that we will be successful in doing so or that our competitors will not independently develop or patent technologies equivalent or superior to our technologies.

We also rely upon unpatented proprietary technology and other trade secrets. While it is our policy to enter into confidentiality agreements with our employees and third parties to protect our proprietary expertise and other trade secrets, these agreements may not be enforceable, and, even if they are legally enforceable, we may not have adequate remedies for breaches of such agreements. The failure of our patents or confidentiality agreements to protect our proprietary technology or trade secrets could have an adverse effect on our results of operations.

We may be unable to determine when third parties are using our intellectual property rights without our authorization. The unremedied use of our intellectual property rights or the legitimate development or acquisition of intellectual property similar to ours by third parties could reduce or eliminate any competitive advantage we have as a result of our intellectual property, adversely affecting our financial condition and results of operations. If we must take legal action to protect, defend or enforce our intellectual property rights, any suits or proceedings could result in significant costs and diversion of our resources and management's attention, and there is a risk that we may not prevail in any such suits or proceedings. A failure to protect, defend or enforce our intellectual property rights could have an adverse effect on our business, financial condition and results of operations.

***ATC spectrum access is limited by technological factors.***

We will operate with the authority to use a finite quantity of 2 GHz spectrum. Spectrum used for communication between the satellite and the end user may interfere with portions of the spectrum that would otherwise be available for ATC use, diminishing the availability of spectrum for the ATC component to an extent that cannot be quantified at this time.

***We are currently being audited by the IRS for a tax year in which we realized a sizeable gain that was offset by losses.***

For U.S. federal income tax purposes, we realized a gain of more than \$300 million on the disposition of certain securities in 2003. This gain was offset by losses incurred in connection with the abandonment of certain assets related to our MEO network in 2003. We are currently being audited for tax year 2003 by the Internal Revenue Service. While we believe that we properly treated and reported all items of gain and loss, the disallowance of the deductions claimed would have a material adverse effect.

***We are engaged in litigation with The Boeing Company and Boeing Satellite Systems International and expect to incur material expenses in pursuing this litigation.***

We are engaged in litigation with The Boeing Company and Boeing Satellite Systems International, Inc., referred to as BSSI, arising out of agreements for the development and launch of MEO

satellites for our subsidiary, ICO Global Communications (Operations) Limited. We have asserted cross-claims that we believe are meritorious in this litigation, but affirmative claims of BSSI are still pending. While BSSI's allegations are unproven and it has not specified the amount of monetary relief it is seeking, BSSI alleges that it suffered losses of a material dollar amount. We anticipate that the expense of pursuing this litigation will be material.

***We are in the process of terminating our MEO gateway agreements and may incur additional material expenses in terminating these agreements.***

Certain of our subsidiaries had agreements with ten operators of gateways for our MEO system, and have successfully renegotiated and terminated four of those agreements. In addition, four of the agreements have been terminated but are not yet settled, one of the agreements has been extended and we continue to perform under one additional agreement. We have discontinued the funding of certain of the gateway agreements and may discontinue the funding of certain of our subsidiaries who are parties to the gateway agreements. There can be no assurance that there will not be costs associated with further terminations or that the operators of gateways will not try to hold us liable for these agreements. If we are unable to terminate and settle the remaining agreements and are held liable for them, it could have a material adverse effect on our financial condition.

***Our auditors identified material weaknesses in our internal controls during their audit of our financial statements. If we are unable to successfully address these material weaknesses in our internal controls, or other control deficiencies, our ability to provide timely and accurate financial statements could be adversely affected.***

In connection with their audit of our financial statements for the years ended December 31, 2003, 2004 and 2005, our independent auditors identified material weaknesses in our internal controls. Certain of these were matters that could, in our auditor's judgment, adversely affect our ability to record, process, summarize and report financial data. The comments and recommendations provided by our auditors included, but were not limited to: the need to employ additional financial reporting staff with adequate technical training and experience in connection with the preparation of consolidated financial statements on a timely basis and the need to improve control procedures with respect to recording journal entries.

If the material weaknesses identified by our auditors are not remedied, they could materially adversely affect our business and results of operations. For example, if we do not have sufficient adequately trained and experienced accounting personnel, we may be unable to prepare our financial statements on time and may not accurately reflect our performance or condition, which may adversely affect our business and compliance with SEC reporting obligations.

***Compliance with the Sarbanes-Oxley Act and the Exchange Act is likely to increase our operating expenses and may strain our resources and distract our management. If we fail to comply with the Sarbanes-Oxley Act and the Exchange Act, we may be subject to penalties and investors may lose confidence in us.***

As a public company, we will incur significant accounting, legal and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the Securities and Exchange Commission under the Securities Exchange Act of 1934 and the Nasdaq Stock Market, have required, and will require, changes to some of our corporate governance and other operating practices. These changes include developing financial and disclosure processes that satisfy Section 404 of the Sarbanes-Oxley Act. We expect that compliance with these rules and regulations will increase our legal and financial compliance costs and will make some activities more difficult, time consuming and costly, and may divert management's attention from other business concerns. We also expect that these rules and regulations could make it more difficult and more expensive for us to obtain director and officer liability insurance. As a result, it may be more difficult for us to attract and retain qualified directors, particularly to serve on our audit committee, and to attract and retain qualified executive officers. If we are unable to



comply with the Sarbanes-Oxley Act, the Exchange Act and related rules and regulations, investors may lose confidence in the reliability of our financial statements, which may cause a decline in our stock price and adversely affect our ability to raise additional capital.

### **Regulatory Risks**

#### ***Our 2 GHz MSS authorization is subject to significant implementation milestones.***

A significant component of our business strategy is to offer integrated MSS and ATC service. However, under FCC regulations, we are required to adhere to significant implementation milestones to maintain authorization to use our assigned MSS spectrum in the United States. To date, we have certified to the FCC that we have met the first five FCC milestones. We are required to meet seven additional FCC milestones, and these milestones include satellite launch by July 1, 2007, and certification that the MSS system is operational by July 17, 2007. This is an aggressive schedule, and there can be no assurance that we will meet these milestones to the satisfaction of existing FCC regulations. In the event that we do not meet a milestone, we may be deemed to be in violation of applicable FCC regulations and may be subject to automatic cancellation of our authorization to utilize our assigned 2 GHz spectrum. The loss of our MSS authorization would have a material adverse effect on our business prospects, financial condition and results of operations, and would be an event of default under the indenture governing the 7.5% notes.

#### ***We are subject to significant U.S. and international governmental regulation.***

Our ownership and operation of satellite and wireless communication systems is subject to regulation by the FCC, the U.K. Office of Communications, referred to as Ofcom, and the ITU. In general, laws, policies and regulations affecting the satellite and wireless communications industries are subject to change in response to industry developments, new technology or political considerations. Legislators or regulatory authorities in the United States, the United Kingdom and at the ITU are considering or may consider, or may in the future adopt, new laws, policies and regulations or changes to existing regulations regarding a variety of matters that could, directly or indirectly, affect our operations or increase the cost of providing services over our MSS/ATC System.

FCC authorizations to provide mobile satellite service are subject to various regulatory milestones relating to the construction, launch, and operation of MSS satellites, which constitute the satellite system component of an integrated MSS/ATC network. Authorizations to provide ATC-related services are predicated on compliance with, and achievement of, various rules and regulatory milestones relating to the construction, launch and operation of the underlying MSS system. Failure to comply with relevant FCC rules or milestones, or with the terms of FCC authorizations granted to us to provide MSS or ATC services, could result in a cancellation of the MSS or ATC authorization, unless a waiver of the rules or an extension of such milestones is obtained.

Ofcom submits and maintains ITU filings on our behalf, pursuant to our continuing compliance with U.K. due diligence requirements, which include obligations to proceed apace with our business plans and to comply with Ofcom and ITU requirements related to filings made and activities undertaken on our behalf. For example, in the event that Ofcom finds that ICO North America is not developing its satellite system consistent with Ofcom's due diligence requirements, Ofcom may elect to permit a competitive U.K. filing for its orbital location or refuse to further support ITU filings made on its behalf for that system, resulting in cancellation of the ITU filings. If Ofcom were to permit the competitive U.K. system to deploy at the ICO North America orbital location, future operations of the MSS/ATC System may be significantly compromised as a result of difficulty of frequency coordination with the competing U.K. system. If Ofcom were to indicate that it was withdrawing support for ICO North America's satellite system, it would have a material adverse effect on our ability to deploy the MSS/ATC System and, as a result, our financial condition and results of operations.

We are subject to similar requirements with respect to the development of the MEO satellite system, and would be similarly affected should Ofcom elect to permit a competitive U.K. filing for our orbital location or refuse to further support ITU filings made on our behalf for that system. U.K. law imposes an indemnification requirement on us and ICO North America in the event its satellite causes damage to another satellite in flight. We have obtained in-flight insurance for this risk.

The ITU regulates the use of radio frequency bands and orbital locations used by satellite networks to provide communications services. The use of spectrum and orbital resources by us and other satellite networks must be coordinated pursuant to the ITU's Radio Regulations in order to avoid interference among the respective networks.

By June 1, 2012, our GEO satellite system is required under ITU rules to be brought into use and coordinated with those national administrations whose satellite systems have superior ITU rights. If the system is not brought into use by June 1, 2012, the ITU would automatically cancel the ITU filings for that system, which could have a material adverse effect on our ability to deploy the GEO satellite system. Further, if we fail to complete coordination with such administrations and systems prior to the launch of the system, the system may be prohibited under ITU rules from providing coverage to countries served by those satellite systems.

Increased competition for spectrum and orbital locations may make it difficult and costly for us to obtain or retain the right to use the spectrum and orbital resources required for our operations. In the future, we may not be able to coordinate our satellite operations successfully under international telecommunications regulations and may not be able to obtain or retain spectrum and orbital resources required to provide future services.

***In order to maintain our U.K. authorization to operate our MEO satellite system, we may need to have additional satellites in orbit.***

We have in orbit one MEO satellite launched in June 2001, which currently provides data gathering services. In order to maintain the U.K. authorization to operate the MEO satellite system, we must meet U.K. due diligence requirements, which include compliance with European Commission rules and may include compliance with Conference of European Posts and Telecommunications decisions as they are developed for the provision of MSS in the 2 GHz band. We have certified that the MEO system has met seven of the eight milestones specified in the 1997 Conference of European Posts and Telecommunications decisions that provisioned spectrum in Europe for 2 GHz MSS systems. U.K. due diligence obligations require that we meet the final milestone by providing commercial services in Europe, which may require the launch of additional MEO satellites. However, the precise requirements and timing that may be imposed by U.K. agencies in this regard are still to be determined. We do not currently have the funding required to launch additional MEO satellites. If we were required to launch additional MEO satellites in order to maintain the U.K. authorization but were unable to secure the additional funding required for the completion of construction and launch of those satellites, it could lead to the loss of our U.K. MEO authorization, which could have a material adverse effect on our prospects, financial condition and results of operations.

***We have not yet applied for ATC authorization.***

We have not yet applied to the FCC for ATC authorization, and there are no assurances that the FCC would grant any such authorization request. We must apply for ATC authorization separately from any satellite authorization, and we cannot be granted ATC authorization until we have met certain ATC gating criteria, including a requirement to have a ground spare satellite available within one year of commencing ATC service. We also must apply for separate FCC authorizations to cover terrestrial facilities used to provide MSS/ATC services, including licenses and equipment certifications for the mobile handsets and other end-user equipment. If we are unsuccessful in receiving ATC authorization from the FCC, it could have a material adverse effect on our financial condition and results of operations.

***Our use of the 2 GHz band is subject to successful relocation of incumbent users.***

There are currently incumbent users operating services in certain portions of the 2 GHz band. Our operations in the 2 GHz band are subject to successful relocation of incumbent broadcast auxiliary service, cable television relay service and local television transmission service, collectively referred to as BAS, users and other users in the band. The FCC's rules require new entrants to the 2 GHz band, including 2 GHz MSS licensees, to relocate incumbent BAS users. Sprint Nextel, a new entrant in the 2 GHz band, is required to relocate incumbent BAS users in the 2 GHz MSS uplink band, and may be entitled to and has indicated that it intends to seek reimbursement of eligible clearing costs from 2 GHz MSS licensees, including us. We do not presently know the amount of our portion or the timing of the reimbursement, but believe it could have a material adverse effect on our financial condition and results of operations.

New entrants to the 2 GHz band also must relocate incumbent users in the 2 GHz MSS downlink band or reimburse other parties for their costs of relocating those incumbent users. In view of Sprint Nextel's participation in the BAS relocation and the defined number of users in our downlink band, we believe that we can meet the FCC requirements for relocating incumbent users prior to beginning commercial MSS operations. However, due to the complex nature of the BAS relocation and the need to work closely with an outside party, Sprint Nextel, there is a risk that delays in making sufficient progress in the relocation effort will delay the start of commercial MSS operations. Any such delay would negatively impact our financial condition and results of operations.

***Our spectrum assignment is subject to pending petitions for FCC reconsideration.***

On December 8, 2005, the FCC increased the assignment to us of 2 GHz MSS spectrum from 8 MHz to 20 MHz. Our spectrum assignment is subject to pending petitions for reconsideration of this FCC decision, and is conditioned upon any reinstatement of a cancelled Globalstar LLC 2 GHz MSS authorization. FCC reinstatement of the Globalstar authorization would likely result in a reduction in the amount of spectrum assigned to us. Any reduction in our spectrum assignment could reduce its value and adversely affect the implementation of our business plan and, as a consequence, our financial condition and results of operations.

***We are seeking authorization to change the GEO satellite orbital slot.***

The FCC has authorized us to operate from an orbital slot by positioning the GEO satellite at 91° west longitude. This orbital slot could present coordination challenges with other GEO satellites operated at or near 91° west longitude. We are seeking the necessary FCC and international authorizations to operate instead at 92.85° west longitude in order to reduce or eliminate coordination issues, but there is no assurance that we will be successful in that effort. Intelsat, a satellite operator authorized to operate at 93° west longitude, has filed an objection with the FCC against our request for authorization to operate at 92.85° west longitude to the extent we seek to use C-band frequencies under limited circumstances. We must develop a plan for our use of this location in a manner that does not interfere with Intelsat's operations at this orbital location. If we are unable to obtain such authorizations, we may be required to select an alternate orbital location, which may require coordination with an increased number of satellite systems, additional regulatory filings or a reduction in the amount of spectrum (feederlink) resources available to our MSS/ATC System as compared to the desired orbital location.

***Any changes in control of certain of our subsidiaries are subject to prior FCC approval.***

Any investment in our subsidiaries that hold various FCC assignments and authorizations that could result in a change of control of those subsidiaries would be subject to prior FCC approval. A request for FCC approval would involve a lengthy review period prior to consummation of the change of control.

There can be no assurance that an FCC approval could be obtained in a reasonably timely fashion, and the FCC could impose new or additional license conditions as part of such a review.

**Risks Related to the ICO North America 7.5% Notes**

*Our primary subsidiary, ICO North America, has a substantial amount of indebtedness, which could adversely affect our ability to execute our business plan and to obtain additional financing, and the terms of the indenture may restrict ICO North America's current and future operations.*

As of December 31, 2005, ICO North America had \$650 million aggregate principal amount of 7.5% notes outstanding. This substantial debt could have significant consequences, including, but not limited to:

- requiring ICO North America to dedicate a substantial portion of its assets and cash flow, if any, to pay principal and interest on the 7.5% notes, reducing the funds available for working capital, capital expenditures, payment of dividends, acquisitions and other general corporate purposes;
- limiting our ability to raise future financing for working capital, capital expenditures, acquisitions, debt service requirements or other purposes, and potentially subjecting us to restrictive covenants;
- limiting our flexibility in planning for and reacting to changes in our business and industry;
- making us more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation; and
- placing us at a disadvantage compared to our competitors who have less debt.

In particular, the indenture governing the 7.5% notes contains a number of restrictive covenants that impose significant operating restrictions that may limit ICO North America and its subsidiaries' ability to engage in acts that may be in their long-term best interests. In addition, the indenture includes covenants restricting, among other things, ICO North America and its subsidiaries' ability to:

- make investments;
- incur liens;
- incur additional debt (including guarantees and capital lease obligations) or issue preferred stock;
- pay dividends (other than in the form of stock) on their capital stock, make redemptions or purchases of their capital stock or our capital stock, or make other payments to us;
- use the proceeds of certain asset sales that are not applied or invested in a certain manner within one year to repay the 7.5% notes;
- engage in mergers, consolidations, acquisitions and sales of substantially all their assets;
- change the business conducted;
- enter into transactions with affiliates (including the Company); and
- sell, lease or transfer the right to use their assets outside of the ordinary course of business or sell any capital stock of the subsidiaries.

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A breach of any of the restrictive covenants could result in an event of default under the indenture. If an event of default occurs, the indenture trustee or the holders of 25% of the aggregate principal amount of the outstanding 7.5% notes may elect to declare the notes, together with the funds held in escrow to meet the first two-years interest obligation, to be immediately due and payable and to enforce the guarantees of ICO North America's subsidiaries, to enforce their security interest or to enforce our pledge

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of ICO North America's capital stock. If the notes were accelerated, ICO North America and its subsidiaries' assets may not be sufficient to repay the notes.

***ICO North America does not generate sufficient cash to make future interest payments and repay its 7.5% notes.***

As a development stage company, ICO North America does not generate any operational cash flow. Under the terms of its 7.5% notes, it is required to keep in escrow sufficient funds to meet the first four scheduled semi-annual interest payments. However, its ability to make future interest payments and repay the notes upon maturity in August 2009 will depend on its ability to generate operating cash and/or raise additional financing.

***The 7.5% notes are secured by a security interest in substantially all of ICO North America and its subsidiaries' assets and by our pledge of its capital stock.***

ICO North America's 7.5% notes are secured by a first priority security interest in substantially all of the assets of ICO North America and its present and future subsidiaries to the extent permitted by law and by a first priority pledge by us of ICO North America's capital stock, subject to certain exceptions. ICO North America and its subsidiaries currently hold substantially all of our assets. In addition, the notes are fully and unconditionally guaranteed by all of ICO North America's present and future subsidiaries, and those guarantees are secured by a pledge of substantially all of the guarantors' assets to the extent permitted by law.

***ICO North America may not have the ability to finance the change of control repurchase offer required by the indenture governing its 7.5% notes.***

Upon the occurrence of certain events, including a change in control of ICO North America, as that term is defined in the indenture governing the 7.5% notes, or a transaction pursuant to which any person holds an amount of our capital stock that represents more votes in the election of our directors than is represented by the capital stock held by Eagle River, ICO North America is required to make an offer to repurchase the 7.5% notes in cash at a purchase price equal to 107.5% of the aggregate principal amount, plus any unpaid interest and a pro rata share of the funds held in escrow to meet the interest obligation through the second anniversary of issuance.

The source of funds for any such repurchase would be any available cash or cash generated from ICO North America's operations or other sources, including borrowings, sales of equity or funds provided by a new controlling person or entity. There is no assurance that sufficient funds will be available to ICO North America at the time of any change of control event to repurchase all tendered notes pursuant to this requirement.

***The 7.5% notes are convertible into shares of ICO North America's common stock, and, if converted, our ownership of ICO North America would be reduced to approximately 56%.***

Holders of ICO North America's 7.5% notes may convert their notes into shares of ICO North America's Class A common stock at any time. If all of the 7.5% notes were converted, our ownership interest in ICO North America would be reduced to approximately 56%. Presently, we hold over 99% of the capital stock of ICO North America and, therefore, have significant discretion over the conduct of its operations, subject only to the restrictions contained in the indenture governing the 7.5% notes and our obligations to minority stockholders of ICO North America. While we would remain its controlling stockholder even if all of the note holders choose to convert, our influence over the operations of ICO North America would be limited to our ability to elect its directors, which would mean that our interests in its operations would be balanced against any competing interests of the Class A common stock holders,

possibly resulting in delays in the implementation of, and changes to, the business plan for our primary subsidiary, ICO North America.

*The annual interest rate on the 7.5% notes increases if our MSS/ATC System is not certified as operational by August 15, 2008.*

If our MSS/ATC System is not certified as operational by August 15, 2008, the annual interest rate on the 7.5% notes increases by 1.5% initially and by an additional 1.5% every 30 days until certification is achieved, up to a maximum annual interest rate of 13.5%, and all payments on the notes are required to be paid in cash. If ICO North America did not have sufficient earnings to service the increased interest payments on the notes, it might be required to reduce capital expenditures, borrow more money or sell capital stock, which it may not be able to do. If this were to occur, it would adversely affect our ability to develop our MSS/ATC System and, as a consequence, our financial condition and results of operations.

#### **Risks Related to Our Class A Common Stock**

*We cannot predict the liquidity of the trading market for our Class A common stock.*

Our Class A common stock currently trades in the over-the-counter market and is quoted on the pink sheets, an electronic quotation system. We are applying to have our Class A common stock listed on the Nasdaq National Market. There is no assurance that our application to list the Class A common stock will be accepted. If it is not, we expect our Class A common stock to continue to be traded in the over-the-counter market. Whether our Class A common stock is listed on the Nasdaq National Market or continues to trade in the over-the-counter market, there can be no assurance as to the liquidity of the trading market that will develop.

*Future sales of our Class A common stock could depress the market price.*

The market price of our Class A common stock could decline as a result of sales of a large number of shares. Most of our Class A common stock that is held by non-affiliates can be sold without limitation under Rule 144(k). Beginning 90 days after the effective date of this registration statement, certain holders of our Class A common stock will be able to sell their shares in compliance with Rule 144. In addition, certain holders of our Class A common stock have the ability to cause us to register the resale of their shares, including, in the case of Eagle River, shares of Class A common stock acquired upon conversion of their Class B common stock. These sales might also make it more difficult for us to sell shares in the future at a time and price that we deem appropriate.

*The interests of our controlling stockholder may conflict with your interests as a holder of our Class A common stock.*

Eagle River Investments, LLC and its affiliates, collectively referred to as Eagle River, beneficially own and control approximately 68.9% of the voting power of our outstanding capital stock. As a result, Eagle River has control over the outcome of matters requiring stockholder approval, including:

- the election of our directors;
- amendments to our charter or certain amendments to our bylaws; and
- the adoption or prevention of mergers, consolidations or the sale of all or substantially all of our assets or the assets of our subsidiaries.

Eagle River also will be able to delay, prevent or cause a change of control of us. Among other effects, if a change in control transaction resulted in any person holding capital stock representing more votes in the election of directors than the number of votes represented by the capital stock held by Eagle River, the

consummation of such a change in control would also trigger the requirement that ICO North America offer to repurchase its 7.5% notes pursuant to the terms of the indenture.

Eagle River and its affiliates have made significant investments in other telecommunications companies and may in the future make additional investments. Some of these companies may compete with us. Eagle River and its affiliates are not obligated to advise us of any investment or business opportunities of which they are aware, and they are not restricted or prohibited from competing with us.

***We are a controlled company within the meaning of the NASD Marketplace Rules and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements.***

Eagle River and its affiliates beneficially own and control approximately 68.9% of the voting power of our outstanding capital stock. As a result, we will be a controlled company within the meaning of the Nasdaq National Market corporate governance standards. Under the NASD Marketplace Rules, a company of which more than 50% of the voting power is held by another company is a controlled company and may elect not to comply with certain Nasdaq National Market corporate governance requirements, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) the requirement that the compensation of officers be determined, or recommended to the board of directors for determination, by a majority of the independent directors or a compensation committee comprised solely of independent directors and (3) the requirement that director nominees be selected, or recommended for the board of directors selection, by a majority of the independent directors or a nominating committee comprised solely of independent directors with a written charter or board resolution addressing the nomination process. We intend to utilize these exemptions. As a result, you will not have the same protections afforded to shareholders of companies that are subject to all of the Nasdaq National Market corporate governance requirements.

***Certain provisions in our Restated Certificate of Incorporation may discourage takeovers, which could affect the rights of holders of our Class A common stock.***

Our Restated Certificate of Incorporation provides that we will take all necessary and appropriate action to protect certain rights of our common stockholders that are set forth in the Restated Certificate of Incorporation, including voting, dividend and conversion rights and their rights in the event of a liquidation, merger, consolidation or sale of substantially all of our assets. It also provides that we will not avoid or seek to avoid the observance or performance of those rights by charter amendment, entry into an inconsistent agreement or reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution or the issuance or sale of securities. In particular, these rights include our Class B common stockholder's right to ten votes per share on matters submitted to a vote of our stockholders and option to convert each share of Class B common stock into one share of Class A common stock.

***We do not expect to pay dividends on our Class A common stock for the foreseeable future.***

We have never paid a cash dividend on shares of our equity securities, and do not intend to pay any dividends on our Class A common shares during the foreseeable future. Since we were restructured in a bankruptcy in May 2000, we have had no significant operations or revenues and have incurred net losses (other than in 2005, but due solely to the recognition of an accounting gain in that year). We continue to incur expenses, which must be funded out of cash reserves or the proceeds (if any) of future financings. We expect to have losses for the foreseeable future.

Our current plan is to focus most of our resources on the development of our MSS/ATC System. ICO North America is at an early stage of development and does not have any revenue-generating operations. Its ability to generate cash in the future will depend on its ability to successfully develop the MSS/ATC



System and implement and manage projected growth and development. There are no assurances that ICO North America will be successful in these endeavors.

In addition, ICO North America and its subsidiaries are prohibited from paying cash dividends on their capital stock and from purchasing or redeeming their capital stock (unless funded by a contemporaneous sale of capital stock) under the terms of the indenture governing ICO North America's 7.5% notes.

**Item 2. Financial Information.**

**Selected Financial Data**

Set forth below is our selected consolidated financial data for the five fiscal years ended December 31, 2005. The selected consolidated financial data for the five fiscal years ended December 31, 2005, 2004, 2003, 2002 and 2001 are derived from our audited consolidated financial statements. The audited consolidated financial statements as of December 31, 2005 and 2004, for the three fiscal years ended December 31, 2005, and for the period from February 9, 2000 (inception) to December 31, 2005 are included in this registration statement. You should read the selected consolidated financial data in conjunction with our consolidated financial statements and related notes included in this registration statement and with Management's Discussion and Analysis of Financial Condition and Results of Operations.

	<b>Year ended December 31,</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>(in thousands, except per share data)</b>				
<b>Operating expenses:</b>					
General and administrative(1)	\$ 27,850	\$ 28,011	\$ 52,492	\$ 81,743	\$ 268,030
Research and development	570				
Contract settlements(2)	(74,955 )				
(Gain) loss on disposal of assets	(2,030 )			12,527	639
Impairment of property under construction(3)		865,191	165,417	392,066	15,630
Operating income (loss)	48,565	(893,202 )	(217,909 )	(486,336 )	(284,299 )
Net interest income (expense)	(14,450 )	(9,087 )	(15,852 )	(38,878 )	45,953
Other income (expense)	76	220	(1,430 )	(434 )	11,072
Income (loss) before income taxes	34,191	(902,069 )	(235,191 )	(525,648 )	(227,274 )
Income tax benefit (expense)	(785 )	(429 )	1,043	114,133	3,318
Net income (loss) before cumulative effect of a change in accounting principle	33,406	(902,498 )	(234,148 )	(411,515 )	(223,956 )
Cumulative effect of a change in accounting principle(4)					(1,944 )
Net income (loss)	\$ 33,406	\$ (902,498 )	\$ (234,148 )	\$ (411,515 )	\$ (225,900 )
Basic income (loss) per share	\$ 0.17	\$ (4.64 )	\$ (1.20 )	\$ (2.12 )	\$ (1.20 )
Diluted income (loss) per share	\$ 0.17	\$ (4.64 )	\$ (1.20 )	\$ (2.12 )	\$ (1.20 )
Total assets	\$ 714,775	\$ 54,960	\$ 994,941	\$ 1,569,070	\$ 2,261,156
Long-term obligations, including current portion	\$ 667,191	\$ 68,492	\$ 105,639	\$ 106,423	\$ 303,244

(1) The decrease in general and administrative expenses from 2001 to 2002 is a result of the termination of a ground segment supply agreement totaling \$93.3 million, the relocation of our headquarters from London to the United States, as well as staff reductions. General and administrative expenses

continued to decrease through the end of 2004 as we continued to curtail further spending on the MEO system.

(2) Certain of our subsidiaries had agreements with ten operators of gateways for our MEO system. Eight of the ten operators have terminated their agreements with us and discontinued providing the requisite level of services. We have continued to accrue expenses according to our subsidiaries' contractual obligation until such obligations have been released and the operator has ceased providing services, although in most instances our subsidiaries have suspended or significantly reduced actual payments to the operators. In 2005, upon reaching settlement with four operators, pursuant to which the operators' claims were legally released, we wrote off the accrued liability and recognized a gain on contract settlements of \$75 million.

(3) In 2001, we cancelled certain launch services resulting in an impairment of property under construction of \$15.6 million. In 2002, we identified certain assets that were no longer expected to be utilized in the future design of the MEO system. As a result, we recorded an impairment charge of \$392.1 million, of which, approximately \$83.1 million related to space segment property under construction assets and \$309 million related to ground property under construction assets.

In 2003, as part of our continued effort to find alternative strategies to our original MEO business model and to reduce the cost of deploying the MEO system, we amended our MEO satellite contract with Boeing Satellite Systems International, Inc. and simultaneously determined we did not need all of our gateways to economically deploy the MEO satellite system. As a result of this decision, property under construction related to the launch services contract and property at certain gateways was determined to have no future value and was written off for accounting purposes, resulting in an impairment charge of \$165.4 million in 2003.

In December 2004, our Board of Directors determined to significantly curtail further construction on our global MEO satellite system. As a result of this decision, the remaining property under construction related to the MEO system, which included the satellites and the remaining equipment at various gateways, was written off for accounting purposes, resulting in an impairment charge of \$865.2 million in 2004.

(4) In accordance with the transition provisions of Statement of Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, we recorded a cumulative effect of a change in accounting principle associated with a derivative share pledge agreement with a bank. The share pledge agreement contained a call-spread derivative whereby the pledge liability was adjusted when the fair value of the pledged shares was not within the call spread. The cumulative effect represents the initial valuation of this call-spread derivative and the revaluation of the associated pledge liability, net of tax.

We have never paid a cash dividend on our common stock.

#### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

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 "Risk Factors" and elsewhere in this registration statement. 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.

The following presentation of management's discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and notes thereto included in this registration statement.

**Overview**

We are a next-generation MSS operator. We are authorized to operate a MEO satellite system globally pursuant to regulations promulgated by the United Kingdom and by the ITU. We are also authorized to offer MSS services throughout the United States using a GEO satellite. We have the opportunity in the future to seek authorization from the FCC to integrate ATC into the MSS system in order to provide integrated satellite and terrestrial services. At the present time, we are focusing most of our resources on developing the U.S. MSS system.

We were incorporated in March 2000 to purchase the assets and assume certain liabilities of our predecessor. We established a new management team who oversaw the construction of the MEO satellites and ground systems and developed the technical plan for the MEO system. Following one launch failure in March 2000, as well as disagreements with the manufacturer and launch manager of our MEO satellites, these disagreements which are the subject of litigation commenced in 2004, we significantly curtailed construction activity on the MEO system.

Due to regulatory changes permitting MSS operators in the United States to integrate ATC into their networks, we formed a new subsidiary, ICO North America, to develop an advanced hybrid satellite-terrestrial system. The MSS/ATC System is designed to use a GEO satellite and provide voice, data and Internet service throughout the United States to handsets similar to existing cellular phones. We are presently focused on the development of our MSS/ATC System. The MSS portion of the system is required to be certified as operational in July 2007. One of our business models includes the ability to offer our services to strategic service providers who can incorporate our capabilities to offer integrated satellite and terrestrial services to their customers. We may also commence operations without a strategic partner.

In August 2005, ICO North America issued \$650 million aggregate principal amount of 7.5% notes, with the net proceeds to be used in the development of our MSS/ATC System. Such funding has allowed us to continue to develop and build a GEO satellite for use in our MSS/ATC System and expand our management team to facilitate future development and expansion activities.

As a result of the decision to significantly curtail further construction, the MEO satellite system has been written down to its fair value of zero for accounting purposes on our consolidated financial statements, resulting in significant charges to operations for asset impairments. Despite curtailment of our previous MEO business plan, we continue to explore the development of a new MEO business plan outside of North America that would utilize both our physical and regulatory MEO assets.

We are considered a development stage enterprise as defined in Statement of Financial Accounting Standards ( SFAS ) No. 7, *Accounting and Reporting by Development Stage Enterprises* and are not currently generating revenue from operations. There is no assurance that we will be able to obtain the funding necessary to complete the construction of our MSS/ATC System, fund our future working capital requirements, or achieve positive cash flow from operations. In the event that we are not able to realize our assets in the ordinary course of business and are forced to realize the assets by divestment, there is no assurance that the carrying value of the assets could be recovered. Our losses to date have been primarily funded by proceeds from the issuance of various forms of capital and by proceeds from the sale of 7.5% notes. Management plans to sustain operations with existing funds and through additional third-party equity or debt financing when necessary.

### ***Critical Accounting Policies***

The accounting policies described below are considered critical in preparing our consolidated financial statements. 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.

*Impairment of Long-Lived Assets.* We have adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Pursuant to SFAS No. 144, 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 through expected future cash flows, discounted at a market rate of return for a similar investment. Beginning in 2001 and continuing through the end of 2004, we recorded substantial impairments of property under construction related to our MEO system.

*Contract Settlements.* Our policy with respect to a contract in dispute is to continue to record operating expenses and liabilities according to our contractual obligation until such contract is terminated. Upon termination, and prior to settlement, we continue to accrue estimated late payment fees and interest expense, as applicable. Upon reaching settlement, whereby the other party's claims are legally released, we will extinguish our recorded liability, resulting in the recognition of a gain or loss on contract settlement. We recorded substantial gains on contract settlements for the year ended December 31, 2005.

*Stock Based Compensation.* We have elected to apply the disclosure-only provisions of SFAS No. 123, *Accounting For Stock-Based Compensation*, and to delay full adoption of SFAS No. 123 and its revision SFAS No. 123R (revised 2004), *Share-Based Payments*, until the first quarter of 2006. Had we accounted for our restricted stock and options under the fair value methodology of SFAS No. 123 and SFAS No. 123R, we would have recognized additional compensation expense for the years ended December 31, 2005, 2004 and 2003 of \$510,000, \$13,000 and \$1 million, respectively.

### ***Recent Accounting Pronouncements***

In December 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 123R (revised 2004), *Share-Based Payments*. The statement is a revision of SFAS No. 123, *Accounting for Stock Based Compensation*, and supersedes Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*. The statement focuses primarily on accounting for transactions in which we obtain employee services in share-based payment transactions. This statement requires us to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. We expect to adopt this statement using the modified prospective method in the first quarter of 2006, and it will have a material impact on our consolidated statements of operations. We have selected the Black-Scholes Option Pricing Model for our valuation method.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 ( FIN 47 )*. FIN 47 requires the recognition of a liability for the fair value of a legally-required conditional asset retirement obligation when incurred, if the liability's fair value can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective for

fiscal years ending after December 15, 2005. Our adoption of FIN 47 did not have a material effect on our financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We adopted this statement in the first quarter of 2006, and the adoption did not have a material effect on our financial position, results of operations or cash flows.

In November 2005, the FASB issued FASB Staff Position No. 115-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments* ( FSP No. 115-1 ). FSP No. 115-1 amends SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and includes guidance for evaluating and recording impairment losses on debt and equity investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. FSP No. 115-1 also requires an investment in debt or equity securities for which an other-than-temporary impairment occurs to be written down to its fair value, which becomes the new cost basis. FSP No. 115-1 is effective for fiscal years beginning after December 15, 2005. We will continue to evaluate the application of FSP No. 115-1; however, adoption is not expected to have a material effect on our financial position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*. This statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* to simplify and make more consistent the accounting for certain financial instruments. This statement permits fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. This statement also allows a qualifying special purpose entity to hold a derivative financial instrument that pertains to a beneficial interest. SFAS No. 155 is effective for all financial instruments acquired or issued after December 31, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements for any interim period for that fiscal year. We do not expect the adoption of this statement to have an impact on 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 each of the three years in the period ended December 31, 2005 (in thousands):

	Year ended December 31,		
	2005	2004	2003
General and administrative expenses	\$ 27,850	\$ 28,011	\$ 52,492
Research and development expenses	570		
Contract settlements	(74,955 )		
Gain on disposal of assets	(2,030 )		
Impairment of property under construction		865,191	165,417
Interest income	9,503	1,413	2,119
Interest expense	(23,953 )	(10,500 )	(17,971 )
Other income (expense)	76	220	(1,430 )
Income tax benefit (expense)	(785 )	(429 )	1,043

*General and Administrative Expense.* General and administrative expense, which consists of salaries and benefits, office facilities and related occupancy costs, professional fees, expenses recognized under gateway agreements and expenses related to satellite tracking, decreased to \$27.9 million for the year ended December 31, 2005 from \$28 million for the year ended December 31, 2004. Professional fees increased by \$5.2 million due to the formation of ICO North America, legal fees associated with the Boeing litigation and certain legal, accounting and auditing fees related to compliance with the covenants of the 7.5% notes. In addition, we recognized an increase in bonus expense and consulting fees in connection with the issuance of the 7.5% notes. These increases were offset by a reduction in our workforce which reduced base salaries and benefits by \$1.3 million, a decrease in rent expense of \$3.7 million due to the cancellation of a lease agreement for our U.K. headquarters in November 2004 and a decrease in expenses recognized under gateway agreements of \$2.8 million due to the termination of contracts for the MEO system. We expect general and administrative expenses to increase in future periods due to the hiring of additional personnel and the additional costs necessary to develop our MSS/ATC System.

General and administrative expense decreased to \$28 million for the year ended December 31, 2004 from \$52.5 million for the year ended December 31, 2003. Expenses recognized under gateway operating agreements decreased \$2.9 million, due to the termination of several agreements. In addition, the write-off of related pre-paid operator incentives totaled \$10.5 million in 2003. Salaries and benefits decreased by \$2.8 million due to workforce reductions and the absence of severance payments, which totaled \$1.5 million in 2003. Other decreases in general and administrative expenses in 2004 included a decrease in directors and officers insurance expense of \$2.3 million and a decrease in satellite in-orbit operating costs of \$700,000. In addition, during 2003, due to the curtailment of certain gateway operations, which increased the likelihood that the gateways would not be utilized in a timely fashion in the contemplated MEO system, we determined that value-added taxes of \$9.4 million that we previously expected to recover from foreign governments would no longer be collectible and were charged to expense. Offsetting the decreases in general and administrative expenses in 2004 was an increase in rent expense of \$2.2 million, primarily the result of a \$2 million settlement of the early termination of a noncancellable lease agreement for our U.K. headquarters in November 2004.

*Research and Development Expense.* Research and development expense of \$570,000 for the year ended December 31, 2005 consisted of third-party engineering costs related to certain technology that was being considered for use in our MSS/ATC System. We did not incur any research and development expense in 2004 or 2003.

*Contract Settlements.* As explained more fully in Note 6 to our consolidated financial statements, in 2002, due to a delay in the deployment of the MEO system, we initiated negotiations with gateway operators to defer certain of the payment obligations and reduce the service levels and associated expense under non-cancelable agreements that initially expire in various years through 2010. These negotiations were unsuccessful.

In 2003, we determined that we did not need all of our gateways to economically deploy the MEO system. Additionally, our Board of Directors decided to no longer provide funding to certain of our subsidiaries to pay gateway operators unless we received additional funding or the contracts with such operators were restructured to obtain a substantial cost savings. In December 2004, our Board of Directors decided to significantly curtail further construction of our global MEO satellite system, which further increased the likelihood that the gateways would not be utilized in a timely fashion in the contemplated MEO system.

As a result of our decisions, seven of ten gateway operators terminated their agreements during 2004 and 2005 and discontinued providing the requisite level of services. We have continued to accrue operating expenses and liabilities according to our subsidiaries' contractual obligation until such obligations have been released and the operator has ceased providing services, although in most instances our subsidiaries have suspended or significantly reduced actual payments to the operators. Subsequent to the date of termination, we have continued to accrue late payment fees, if applicable, and interest expense. In 2005, upon reaching settlement with four operators, whereby the operators' claims were legally released, we wrote off the related liabilities and recognized a gain on contract settlements of \$75 million. As of December 31, 2005, we had an accrued liability of \$40.1 million related to unsettled agreements. In 2006, one other gateway operator has terminated its agreement. We will pursue settlement with regard to the agreements that have been terminated but for which our subsidiaries' obligations have not been released; however, the financial impact of settling the remaining agreements cannot be determined at this time.

*Gain on Disposal of Assets.* In May 2005, we settled an outstanding obligation to a vendor in exchange for equipment that had been impaired during the year ended December 31, 2004. In exchange for a portion of the equipment at certain gateways, the vendor forgave our \$2 million obligation.

*Impairment of Property under Construction.* The MEO satellite system was designed to provide global, mobile communications services using a MEO satellite network that included several satellites and up to eleven gateways located throughout the world. In 2003, as part of our continued effort to find alternative strategies to our original MEO business model and to reduce the cost of deploying the MEO system, we amended our MEO satellite contract and simultaneously determined that we did not need all of our gateways to economically deploy the MEO system. As a result of this decision, certain property under construction related to the satellite launch services contract and property at certain gateways was determined to have no future value and was written off for accounting purposes, resulting in an impairment charge of \$165.4 million in 2003.

In December 2004, our Board of Directors determined to significantly curtail further construction on our MEO satellite system. As a result of this decision, the remaining property under construction related to the MEO system, which included the satellites and the remaining equipment at various gateways, was written off for accounting purposes, resulting in an impairment charge of \$865.2 million in 2004.

*Interest Income.* Interest income for the year ended December 31, 2005 of \$9.5 million was primarily attributable to interest earned on the investment of the proceeds of the 7.5% notes issued in August 2005. We earned interest income on our cash and cash equivalent balances of \$1.4 million and \$2.1 million in 2004 and 2003, respectively. We expect interest income to increase in 2006, as we will record a full year of interest income on the proceeds of the 7.5% notes issued in August 2005.

*Interest Expense.* Interest expense increased to \$24 million for the year ended December 31, 2005 from \$10.5 million for the year ended December 31, 2004. Interest expense in 2005 consisted of interest on the 7.5% notes issued in August 2005 of \$18.2 million, amortization of debt issuance costs associated with the 7.5% notes of \$2.4 million and interest expense related to the gateway agreements recorded as capital lease obligations of \$4.6 million. As a partial offset, interest costs associated with the construction of our MSS/ATC System totaling \$1.2 million were capitalized to property under construction. Interest expense in 2004 was almost entirely attributable to interest on capital lease obligations associated with the gateway agreements. The decrease in interest expense on capital lease obligations resulted from the termination of several gateway agreements.

Interest expense in 2003 of \$18 million consisted of interest on capital lease obligations associated with the gateway agreements of \$8.8 million, interest on a note payable to a related party of \$4.7 million and interest expense related to a share pledge agreement with a bank of \$4.5 million.

Interest expense is expected to increase during 2006, as we will record a full year of interest on the 7.5% notes issued in August 2005.

*Income Tax Expense.* Income tax expense was \$785,000 for the year ended December 31, 2005 compared to \$429,000 for the year ended December 31, 2004. Income tax expense consists of foreign taxes payable primarily in the United Kingdom and Netherlands. For the year ended December 31, 2003, we had an income tax benefit of \$1 million consisting primarily of taxes receivable from the United Kingdom, partially offset by taxes payable to the Netherlands and Singapore.

#### *Liquidity and Capital Resources*

The following table is provided to facilitate the discussion of our liquidity and capital resources for each of the three years in the period ended December 31, 2005 (in thousands):

	Year ended December 31,		
	2005	2004	2003
Net cash provided by (used in):			
Operating activities	\$ (22,849 )	\$ (28,310 )	\$ (42,946 )
Investing activities	(477,074 )	4,067	77,380
Financing activities	620,460	(37,500 )	
Effect of foreign exchange rate changes	2,422	11,359	3,603
Net increase (decrease) in cash and cash equivalents	122,959	(50,384 )	38,037
Cash and cash equivalents beginning of period	52,551	102,935	64,898
Cash and cash equivalents end of period	\$ 175,510	\$ 52,551	\$ 102,935

Cash and cash equivalents were \$175.5 million at December 31, 2005 compared to \$52.6 million at December 31, 2004. In addition, at December 31, 2005, we had \$296.2 million in available-for-sale investments and \$94.9 million in restricted investments, such restricted investments were deposited into an escrow account and will be used for the full payment of the first four semi-annual interest payments under the 7.5% notes. As explained below, the increase in our liquidity is due to net proceeds of \$620.4 million from the issuance of the 7.5% notes in August 2005, partially offset by capital expenditures of \$88.2 million related to the development of our MSS/ATC System. We believe that our cash, cash equivalents and available-for-sale investments will be sufficient to fund our operational and capital requirements at least through the end of 2007.

Cash used in operating activities for the years ended December 31, 2005, 2004 and 2003 was \$22.8 million, \$28.3 million and \$42.9 million, respectively. Since the first interest payment on the 7.5% notes was due in February 2006, interest expense did not impact cash used in operating activities in 2005. The trend of reducing cash used in operating activities from 2003 to 2005 resulted from the termination of



gateway agreements and lease agreements for office facilities, as well as savings realized from reductions in our workforce. As we begin making interest payments on the 7.5% notes and add personnel and incur additional costs to develop our MSS/ATC System, we expect cash used in operations to increase in future periods.

Cash used in investing activities was \$477.1 million for the year ended December 31, 2005. The primary investing activities in 2005 were net purchases of available-for-sale and restricted investments of \$386.9 million and capital expenditures of \$88.2 million related to the development of the MSS/ATC System under our satellite construction contract with Space Systems/Loral, Inc. We had no significant investing activities in 2004. During 2003, cash provided by investing activities of \$77.4 million consisted primarily of maturities and sales of available-for-sale investments of \$40.3 million and cash proceeds in connection with amendments to the contract with Boeing Satellite Systems International, Inc. of \$44.4 million, partially offset by capital expenditures of \$7.6 million.

Cash provided by financing activities for the year ended December 31, 2005 was \$620.5 million and related to the net proceeds from the issuance of the 7.5% notes in August 2005. The notes bear interest at an annual rate of 7.5% per year, payable semiannually in arrears on February 15 and August 15 of each year until maturity in August 2009. Until required for operating expenses and the design and construction of our MSS/ATC System, the net proceeds will be invested in commercial paper, U.S. government and agency securities and corporate notes and bonds. For the year ended December 31, 2004, cash used in financing activities was \$37.5 million attributable to the repayment of a note payable to Eagle River. There were no financing activities in 2003.

*Long-Term Obligations.* At December 31, 2005, we had long-term obligations, including the current portion of such obligations, of \$667.2 million, consisting of \$650 million aggregate principal amount of the 7.5% notes and amounts payable under capital leases of \$17.2 million.

In August 2005, ICO North America issued \$650 million aggregate principal amount of the 7.5% notes, which are due in August 2009. The proceeds from ICO North America's issuance of these 7.5% notes were approximately \$526.8 million, net of \$93.6 million deposited into an escrow account, as required by the indenture, to provide for the payment, in full, of the first four scheduled semi-annual interest payments on the notes and net of debt issuance costs of \$29.6 million. Subject to the satisfaction of certain conditions and to certain exceptions, commencing February 15, 2008, ICO North America has the option of paying interest with additional notes in lieu of cash at an increased rate of 8.5% per annum. In the event that the MSS/ATC System is not certified as operational by August 15, 2008, the interest rate on the 7.5% notes would increase by 1.5% initially and by an additional 1.5% every 30 days until certification were achieved, up to a maximum annual interest rate of 13.5%, and all payments on the notes would then be required to be paid in cash. In addition, the annual interest rate on these notes will increase by 2% if we have not begun to file the reports with the SEC that would be required if it were subject to the reporting requirements of the Exchange Act on or prior to June 30, 2006, and continue at such rate until we have begun to file such reports.

ICO North America's 7.5% notes are secured by a first priority security interest in substantially all of the assets of ICO North America and its present and future subsidiaries to the extent permitted by law and by a first priority pledge by us of ICO North America's capital stock, subject to certain exceptions. In addition, the notes are fully and unconditionally guaranteed by all of ICO North America's present and future subsidiaries, and those guarantees are secured by a pledge of substantially all of the guarantors' assets to the extent permitted by law. In addition, ICO North America and its subsidiaries are prohibited under the indenture from incurring liens on any asset owned or acquired in the future with certain exceptions.

ICO North America's 7.5% notes were issued under an indenture containing various covenants restricting the operations of ICO North America and its subsidiaries, including prohibiting the payment of

dividends on their capital stock, other than stock dividends and payments to ICO North America or its subsidiaries, and prohibiting ICO North America and its subsidiaries from purchases, redemptions or other acquisitions of their capital stock or our capital stock, unless funded by a contemporaneous sale of capital stock.

ICO North America and its subsidiaries are also prohibited from issuing preferred stock and incurring, issuing or guaranteeing any indebtedness (including capital lease obligations) other than: indebtedness under a working capital facility not to exceed \$40 million; additional notes issued as interest on the 7.5% notes; refinancings of indebtedness permitted under the indenture; indebtedness between or among ICO North America and its subsidiaries; hedging obligations and certain other indebtedness incurred in the ordinary course of business; and subordinated indebtedness not to exceed \$200 million, provided there is not a default under the indenture, ICO North America first offers any subordinated indebtedness to the holders of its 7.5% notes, the subordinated indebtedness matures at least 91 days after, and bears a cash interest rate of not more than, the 7.5% notes and that a portion of the proceeds equal to the first two years' cash interest are deposited into an escrow account.

The indenture also restricts ICO North America and its subsidiaries' ability to sell, lease or transfer the right to use their assets outside the ordinary course of business, other than a sale of substantially all of the assets of ICO North America and its subsidiaries, and to sell the subsidiaries' capital stock, in each case in transactions exceeding \$1 million, and also places restrictions on the use of proceeds from any permitted sales or leases. The indenture also contains restrictions on ICO North America's and its subsidiaries' transactions with us and their other affiliates as well as restrictions on mergers, consolidations or sales of substantially all of the assets of ICO North America and its subsidiaries. The indenture also restricts investments by ICO North America and its subsidiaries, including investments in another company unless such other company is merged into or becomes a subsidiary of ICO North America or one of its subsidiaries.

Holders may convert their 7.5% notes at any time and, upon the occurrence of certain events, the notes will automatically convert into shares of ICO North America's Class A common stock. The holders presently have the authority to designate one director to the ICO North America board of directors. Further, ICO North America is required to offer to repurchase the notes in cash at a purchase price equal to 107.5% of the aggregate principal amount, plus a pro rata portion of the escrowed interest and any accrued and unpaid interest, upon the occurrence of certain events, including a change in control of ICO North America. A change in control for purposes of the repurchase provision includes: (i) a sale of substantially all of the assets of ICO North America and its subsidiaries, other than to Eagle River; (ii) a transaction (before an initial public offering of ICO North America's Class A common stock) pursuant to which we and Eagle River cease to own ICO North America capital stock representing at least 50.1% of the possible votes in the election of directors ( voting power ); (iii) a transaction (following a Class A common stock IPO) after which a person holds capital stock representing more ICO North America voting power than Eagle River holds; or (iv) a transaction pursuant to which any person holds an amount of our capital stock that represents more votes in the election of our directors than is represented by our capital stock held by Eagle River.

*Future Funding Requirements.* We expect that the total funding needed to develop the MSS portion of our MSS/ATC System will be approximately \$525 million to \$600 million, including net interest expense, of which approximately \$96 million had been spent through December 31, 2005. The MSS system is required to be certified as operational in July 2007. ICO North America may seek to secure a working capital facility and incur a limited amount of additional indebtedness in order to provide funds to complete the MSS portion.

We believe that our cash, cash equivalents and available-for-sale investments will be sufficient to fund our operational and capital requirements until at least the end of 2007. This assumes continued

compliance with the provisions of the indenture governing ICO North America&#1