ICO Global Communications (Holdings) LTD
Form 10-Q
November 10, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File Number 001-33008

ICO GLOBAL COMMUNICATIONS (HOLDINGS) LIMITED

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices including zip code)

(703) 964-1400

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨.

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

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

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

As of November 3, 2008, the registrant had 153,807,984 shares of Class A common stock and 53,660,000 shares of Class B common stock outstanding.

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ICO GLOBAL COMMUNICATIONS (HOLDINGS) LIMITED

FORM 10-Q

For the three and nine months ended September 30, 2008

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Condensed Consolidated Balance Sheets

(In thousands, except share data, unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 46,409	$ 146,657
Restricted cash		825
Available-for-sale investments		14,704
Prepaid expenses and other current assets	9,871	1,823
Total current assets	56,280	164,009
Property in service-net of accumulated depreciation of $859 and $452, respectively	1,013	1,221
Satellite system under construction	511,089	409,209
Available-for-sale investments	72,645	
Debt issuance costs-net of accumulated amortization of $22,173 and $16,281, respectively	7,385	13,277
Other assets	324	14,417
Total	$ 648,736	$ 602,133
LIABILITIES AND STOCKHOLDERS DEFICIENCY IN ASSETS		
Current liabilities:		
Accounts payable	$ 3,362	$ 827
Accrued satellite system construction payable	6,413	9,067
Accrued expenses	21,157	22,803
Accrued interest	27,033	14,838
Working capital facility	40,000	
Convertible debt-net of discount of $8,022	698,290	
Current portion of capital lease obligations	16,566	15,573
Total current liabilities	812,821	63,108
Capital lease obligations, less current portion	1,296	2,687
Accrued interest		20,719
Income tax	11,510	10,480
Convertible debt-net of discount of $14,196		635,804
Total liabilities	825,627	732,798
Commitments and contingencies (Note 8)		
Stockholders deficiency in assets:		
Preferred stock, $.01 par value, 75,000,000 shares authorized, no shares issued or outstanding		

Class A common stock, $.01 par value, 900,000,000 shares authorized, 211,794,830 and 203,348,323 shares issued, and 153,807,984 and 145,379,431 shares outstanding	2,118	2,033
Class B convertible common stock, $.01 par value, 150,000,000 shares authorized, 84,663,382 shares issued and 53,660,000 shares outstanding	847	847
Additional paid-in capital	2,788,671	2,752,269
Treasury stock, 57,986,846 and 57,968,892 shares of Class A common stock and 31,003,382 shares of Class B convertible common stock	(877,545)	(877,489)
Accumulated other comprehensive income	3,896	4,093
Deficit accumulated during the development stage	(2,094,878)	(2,012,418)
Total stockholders deficiency in assets	(176,891)	(130,665)
Total	$ 648,736	$ 602,133

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

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ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Condensed Consolidated Statements of Operations

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

	Three months ended September 30, 2008	Three months ended September 30, 2007 (restated)	Nine months ended September 30, 2008	Nine months ended September 30, 2007 (restated)	February 9, 2000 (inception) to September 30, 2008 (development stage period)
Operating expenses:					
General and administrative	$ 11,846	$ 10,328	$ 41,888	$ 29,885	$ 661,147
Research and development	2,337	2,439	4,582	6,791	81,650
Contract settlements					(74,955)
Impairment of property under construction					1,438,304
Loss on disposal of assets					11,100
Total operating expenses	14,183	12,767	46,470	36,676	2,117,246
Operating loss	(14,183)	(12,767)	(46,470)	(36,676)	(2,117,246)
Interest income	900	2,683	3,663	9,221	136,584
Interest expense	(9,755)	(8,582)	(29,068)	(26,774)	(218,813)
Other income (expense)	1,187	105	(9,572)	76	(4,109)
Loss before income taxes	(21,851)	(18,561)	(81,447)	(54,153)	(2,203,584)
Income tax benefit (expense)	(233)	(61)	(1,013)	(403)	118,438
Net loss before cumulative effect of change in accounting principle	(22,084)	(18,622)	(82,460)	(54,556)	(2,085,146)
Cumulative effect of change in accounting principle					(1,944)
Net loss	$ (22,084)	$ (18,622)	$ (82,460)	$ (54,556)	$ (2,087,090)
Basic and diluted loss per share:					
Loss before cumulative effect of change in accounting principle	$ (0.11)	$ (0.09)	$ (0.41)	$ (0.28)	$ (10.75)
Cumulative effect of change in accounting principle					(0.01)
Basic and diluted loss per share	$ (0.11)	$ (0.09)	$ (0.41)	$ (0.28)	$ (10.76)
Weighted average shares outstanding used to compute basic and diluted loss per share	206,917,676	198,254,133	201,991,956	198,132,689	194,028,833

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

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ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Condensed Consolidated Statements of Comprehensive Loss

(In thousands, unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007 (restated)	Nine months ended September 30, 2008	Nine months ended September 30, 2007 (restated)	February 9, 2000 (inception) to September 30, 2008 (development stage period)
Net loss	$ (22,084)	$ (18,622)	$ (82,460)	$ (54,556)	$ (2,087,090)
Other comprehensive income (loss):					
Unrealized gain on investments, net of $0 tax				18	
Cumulative translation adjustments	1,244	(769)	(197)	(758)	3,896
Comprehensive loss	$ (20,840)	$ (19,391)	$ (82,657)	$ (55,296)	$ (2,083,194)

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

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ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Condensed Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Nine months ended September 30, 2008	Nine months ended September 30, 2007 (restated)	February 9, 2000 (inception) to September 30, 2008 (development stage period)
Operating activities:			
Net loss	$ (82,460)	$ (54,556)	$ (2,087,090)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	6,291	4,304	39,275
Depreciation	407	146	4,138
Non-cash interest expense	13,117	10,737	42,424
Non-cash settlement of litigation matter	2,385		2,385
Unrealized foreign exchange (gains) losses	(1,258)	672	(6,530)
Loss on disposal of assets			11,100
Deferred income tax benefit		(103)	(103)
Impairment of property under construction			1,438,304
Gain on contract settlements			(74,955)
Gain on Nextel share-pledge derivative			(9,168)
Deferred tax credit			(121,928)
Loss on sale of available-for-sale investments	2,647		2,647
Other-than-temporary impairment on available-for-sale investments	9,087		9,776
Amortization of capitalized SAN operator incentive			2,593
Cost of issuance of shares to distribution partners			37,440
Other			29,713
Other changes in certain assets and liabilities:			
Prepaid expenses and other current/non-current assets	(6,941)	(907)	41,557
Accrued interest income	226	4,584	110
Accounts payable	2,542	1,402	2,421
Accrued interest payable	15,136	(32,335)	51,402
Other accrued expenses	(129)	(52)	63,072
Net cash used in operating activities	(38,950)	(66,108)	(521,417)
Investing activities:			
Proceeds from launch insurance			225,000
Debtor in possession advance in relation to Old ICO			(275,000)
Acquisition of net assets of Old ICO			(117,590)
Cash received from Old ICO at acquisition			107,436
Restricted cash	825		(5,074)
Purchases of satellite system under construction	(57,955)	(30,720)	(403,808)
Purchases of property under construction			(497,890)
Purchases of property in service	(199)	(1,124)	(3,347)
Investment in unconsolidated subsidiaries			(2,373)
Purchases of other assets			(14,000)
Purchases of available-for-sale investments	(126,850)	(415,203)	(4,404,343)
Maturities and sales of available-for-sale investments	57,274	447,768	4,320,150

Purchases of restricted investments		(50)	(94,283)
Maturities and sales of restricted investments		46,270	94,305
Proceeds from contract amendments			44,434
Proceeds from sale of assets			12,106
Net cash provided by (used in) investing activities	(126,905)	46,941	(1,014,277)
Financing activities:			
Net proceeds from issuance of common stock	27,435		625,353
Proceeds from exercise of stock options		139	139
Net proceeds from issuance of convertible notes			620,442
Net proceeds from working capital facility	37,539		37,539
Proceeds from sales of subsidiary stock and stock options			9,920
Payment of withholding taxes from stock awards	(94)		(771)
Advances from affiliates			324,395
Repayment of advances from affiliates			(324,395)
Repayment of note payable to Eagle River			(37,500)
Repayment of operator financing			(5,727)
Proceeds from pledge of Nextel shares			351,600
Proceeds from loan from Teledesic LLC			20,000
Acquisition of ICO shares from minority interest stockholder			(30,868)
Net cash provided by financing activities	64,880	139	1,590,127
Effect of foreign exchange rate changes on cash	727	(751)	(8,024)
Net increase (decrease) in cash and cash equivalents	(100,248)	(19,779)	46,409
Cash and cash equivalents beginning of period	146,657	163,059	
Cash and cash equivalents end of period	$ 46,409	$ 143,280	$ 46,409

(continued)

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ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Condensed Consolidated Statements of Cash Flows (Continued)

(In thousands, except share data, unaudited)

	Nine months ended September 30, 2008	Nine months ended September 30, 2007 (restated)	February 9, 2000 (inception) to September 30, 2008 (development stage period)
Supplemental disclosures:			
Income taxes paid	$ 405	$ 38	$ 7,870
Interest paid	110	48,750	150,512
Capitalized interest	32,579	23,702	86,868
Supplemental disclosure of non-cash activities:			
Issuance of Class A common shares in respect of investment in Ellipso, Inc.			6,863
Issuance of Class B common shares in respect of investment in Ellipso, Inc.			74
Issuance of Class A common shares in respect of investment in Constellation Communications Holdings, Inc.			904
Issuance of Class A common shares for settlement of litigation matter	2,385		2,385
Issuance of Class A common shares for advisory services	375	375	1,403
Issuance of Class A common shares for stock-based compensation	270		3,288
Increase (decrease) in accrued satellite system construction payable, net of liquidated damages	(2,654)	10,224	6,413
Equipment acquired in capital lease agreements			42,096
Issuance of warrants for the repayment of debt			4,950
Interest payment on convertible debt in the form of additional notes	56,312		56,312
The following securities of ICO arose from the acquisition of Old ICO s net assets:			
93,700,041 Class A common shares and options to acquire Class A common shares issued			679,873
31,003,382 Class B common shares issued			275,000
1,600,000 Class A common shares issued to distribution partners			16,720
200,000 Class A common shares committed to distribution partners			2,090
50,000,000 warrants issued to acquire Class A common shares			180,000
			(concluded)

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

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ICO Global Communications (Holdings) Limited

(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Organization and Business

ICO Global Communications (Holdings) Limited (ICO), along with its subsidiaries (collectively referred to as Company), is a next-generation mobile satellite service (MSS) operator. Through its majority owned subsidiary, ICO North America, Inc., along with its subsidiaries, (ICO North America), the Company is authorized by the U.S. Federal Communications Commission (FCC) to offer MSS throughout the United States using a geosynchronous earth orbit (GEO) satellite. The Company has applied to the FCC for authorization to integrate an ancillary terrestrial component (ATC) into its MSS system in order to provide integrated satellite and terrestrial services. The Company also continues to explore the development of a business plan outside of North America which would use its medium earth orbit (MEO) physical and regulatory assets.

The Company is currently developing an advanced next-generation hybrid mobile satellite service/ancillary terrestrial component system (MSS/ATC System) combining both satellite and terrestrial communications capabilities. The MSS/ATC System will allow the Company to provide wireless voice, video, data and/or Internet service throughout the United States on mobile and portable devices. On April 14, 2008, the Company successfully launched its first GEO satellite (ICO G1). ICO G1 will initially be used by the Company to conduct an alpha trial of its ICO Mobile Interactive Media (ICO mim) service (Alpha Trial) in the fourth quarter of 2008. ICO mim will combine the Company s unique interactive satellite capability with terrestrial network coverage to deliver mobile video services including live television content, navigation and enhanced roadside assistance.

2. Development Stage Enterprise and Liquidity Issues

The Company is a development stage enterprise as defined in Statement of Financial Accounting Standards (SFAS) No. 7, *Accounting and Reporting by Development Stage Enterprises* (SFAS 7), and will continue to be so until it commences commercial operations. The development stage is from February 9, 2000 (inception) through September 30, 2008.

The Company is not currently generating revenue from operations and it may be unable to obtain the funding necessary to repay its debt obligations due in 2009, complete the construction of its MSS/ATC System and ICO mim service, fund its future working capital requirements, or achieve positive cash flow from operations. As of September 30, 2008, the Company had a working capital deficit (current liabilities exceeded current assets) of $757 million. This deficit is primarily due to the Company s $650 million aggregate principal amount of convertible notes due in August 2009 (2009 Notes), the Company s $40 million working capital facility due in May 2009 (2009 Credit Facility) and investments in student loan backed auction rate securities (ARS) recorded as long-term available-for-sale investments in 2008 as described in Note 4. In order to fund the maturity of its short-term debt obligations, the Company plans to refinance the 2009 Notes and 2009 Credit Facility. Based on the current credit crisis and volatility in the capital markets, there is no assurance that this refinancing will be completed on terms acceptable to the Company, if at all. The outcome of these events cannot be predicted at this time, which raises material uncertainty about the Company s ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability or classification of assets or the amounts or classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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

As described in Note 4, the Company holds ARS that have become illiquid as a result of failed auctions. As of September 30, 2008, the Company held ARS with a par value of approximately $81.6 million and carrying value of $72.6 million. On October 8, 2008, UBS Financial Services, Inc. (UBS) notified the Company of a settlement offer whereby UBS would purchase ARS it sold to the Company prior to February 13, 2008 which the Company still holds (Eligible ARS). Under the terms of the settlement, at the Company s option, UBS will purchase Eligible ARS from the Company at par value during the period of June 30, 2010 through July 2, 2012. The Company has until November 14, 2008 to notify UBS if it will accept the terms of the settlement offer. The Company currently intends to do so. UBS will also provide the

Company with access to loans for a period until June 30, 2010 for an amount up to 75% of the market value of Eligible ARS, subject to certain restrictions in the indenture governing the Company s 2009 Notes. In addition, UBS will reimburse the Company for losses incurred, which represents the difference between the securities par value and the sale price, on the sale of any Eligible ARS that occurred prior to September 15, 2008. As of September 30, 2008, the Company held approximately $39.7 million of Eligible ARS and losses incurred on the sale of Eligible ARS prior to September 15, 2008 totaled $1.8 million.

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3. Summary of Significant Accounting Policies

Interim Financial Statements The financial information included in the accompanying condensed consolidated financial statements is unaudited and includes all adjustments, consisting of normal recurring adjustments and accruals, considered necessary for a fair presentation. Certain information and footnote disclosures have been condensed or omitted. The financial information as of December 31, 2007, is derived from the Company s audited consolidated financial statements and notes, included in Item 8 in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (2007 10-K), filed with the U.S. Securities and Exchange Commission (SEC) on March 28, 2008. The financial information included in this quarterly report should be read in conjunction with management s discussion and analysis of financial condition and results of operations and the consolidated financial statements and notes included in the Company s 2007 10-K. Operating results and cash flows for the interim periods presented are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2008 or any other interim period.

Restatement of Prior Period Financial Information During the financial close process for the year ended December 31, 2007, the Company discovered certain errors in its previously issued consolidated financial statements pertaining to its accounting for an embedded beneficial conversion feature included within its 2009 Notes. The Company determined its accounting for this embedded beneficial conversion feature, which was initially recognized in the condensed consolidated financial statements for the three months ended September 30, 2007, should have been recognized in the three months ended September 30, 2005. For the three and nine months ended September 30, 2007, the correction of these errors resulted in a non-cash increase in interest expense of $46,000 and $2 million, respectively, in the Company s condensed consolidated statement of operations. These errors also resulted in a non-cash increase in income tax expense of $6.7 million in the Company s condensed consolidated statement of operations for both the three and nine months ended September 30, 2007. For the nine months ended September 30, 2007, these errors resulted in a $3.8 million increase in non-cash interest expense, a $6.7 million decrease in deferred income tax benefit and a $1.7 million change in accrued interest payable in the Company s condensed consolidated statement of cash flows. In addition, capitalized interest increased by $1.7 million in the supplemental disclosures to the Company s condensed consolidated statement of cash flows for the nine months ended September 30, 2007. The Company also determined it had incorrectly classified amortization of debt discount related to this embedded beneficial conversion feature of $1.7 million as a change in accrued interest payable, rather than non-cash interest expense, on its condensed consolidated statement of cash flows for the nine months ended September 30, 2007. These errors did not have an impact on net cash from operating, investing or financing activities. The condensed consolidated financial statements for the three and nine months ended September 30, 2007 have been restated to reflect the effect of these adjustments.

The following table is a summary of the effects of these errors on the Company s condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2007 (in thousands, except per share data):

	Three months ended September 30, 2007		Nine months ended September 30, 2007	
	As originally reported	As restated	As originally reported	As restated
Interest expense	$ (8,536)	$ (8,582)	$ (24,751)	$ (26,774)
Loss before income taxes	(18,515)	(18,561)	(52,130)	(54,153)
Income tax benefit (expense)	6,649	(61)	6,307	(403)
Net loss	(11,866)	(18,622)	(45,823)	(54,556)
Comprehensive loss	(12,635)	(19,391)	(46,563)	(55,296)
Basic and diluted loss per share	(0.06)	(0.09)	(0.23)	(0.28)

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

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

	September 30, 2008	December 31, 2007

Cash	$	3,343	$	554
Money market funds		43,066		124,726
Commercial paper				21,377
	$	46,409	$	146,657

Available-for-Sale Investments As of September 30, 2008, the Company s available-for-sale investments were held in ARS, classified as long-term and reported at fair value. As of December 31, 2007, the Company s available-for-sale investments were held in commercial paper, classified as current and reported at fair value. Available-for-sale investments are measured using quoted prices in active markets, or valued based on other observable and unobservable inputs within the hierarchy established in SFAS No. 157, *Fair Value Measurements* (SFAS 157), which the Company adopted on January 1, 2008. Investments that have maturity dates less than one year are classified as current assets while those with maturities greater than one year are classified as long-term assets. Realized gains and losses on investments sold are determined using the specific identification method. The Company recognizes realized losses when the fair value of its investments is below the cost basis and the decline is determined to be other-than-temporary. In determining whether a decline in fair value is other-than-temporary, the Company considers various factors including market price (when available), investment ratings, the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost basis and the Company s ability and intent to hold the investment until maturity or for a period of time sufficient to allow for any anticipated recovery in market value. If the Company determines that a decline in fair value is other-than-temporary, the investment is valued at the current estimated fair value and a realized loss equal to the decline is reflected in its condensed consolidated statement of operations. The Company includes any unrealized gains or losses on its investments that are deemed to be temporary, net of tax, in stockholders equity (deficiency in assets) as a component of accumulated other comprehensive income (loss). The Company does not currently hold any derivative financial instruments.

Prepaid Expenses and Other Current Assets Prepaid expenses and other current assets consist primarily of payments made for satellite in-orbit insurance and debt issuance costs incurred in connection with issuance of the 2009 Credit Facility. Satellite in-orbit insurance costs will be amortized using the straight-line method upon completion of satellite system in-orbit testing, currently expected to be in November 2008, through April 2009.

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

Satellite System Under Construction Satellite system under construction includes third-party construction and engineering costs incurred in the design, manufacture, test and launch of the MSS/ATC System, satellite launch insurance costs and costs incurred for the procurement of equipment and technology for use in the ICO mim service. Satellite system under construction will be classified as property in service when the assets are placed into service and will be depreciated using the straight-line method based on the anticipated useful lives of the assets ranging from 5 to 15 years.

Capitalized Interest The Company capitalizes interest costs associated with the development of its MSS/ATC System and ICO mim service. Interest capitalized to satellite system under construction for the three and nine months ended September 30, 2008 and 2007 was $11.9 million and $32.6 million and $8.7 million and $23.7 million, respectively.

Debt Issuance Costs Costs incurred in connection with the issuance of the 2009 Credit Facility and 2009 Notes have been capitalized and are included in prepaid expenses and other current assets and debt issuance costs on the Company s condensed consolidated balance sheets. Debt issuance costs associated with the 2009 Credit Facility are being amortized using the effective interest method from April 2008 through maturity in May 2009. Debt issuance costs associated with the 2009 Notes are being amortized using the effective interest method from issuance in August 2005 through maturity in August 2009.

Amortization of debt issuance costs is included in interest expense in the condensed consolidated statements of operations. Amortization of debt issuance costs for the three and nine months ended September 30, 2008 and 2007 was $2.6 million and $6.9 million and $1.8 million and $5.3 million, respectively.

Fair Value of Financial Instruments Financial instruments include cash and cash equivalents, available-for-sale investments, accounts payable, working capital facility, convertible notes and certain other accrued liabilities. The Company determines the fair value of its financial instruments based on the hierarchy established by SFAS 157. The three levels of inputs used to measure fair value are as follows:

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

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

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

As of September 30, 2008, the fair value of the Company s available-for-sale investments was determined using Level 3 inputs (see Note 4). The fair value of the 2009 Notes, for the purpose of disclosure, was determined using Level 2 inputs. The carrying amounts of all other financial instruments are reasonable estimates of their fair values because they are equivalent to cash or due to their short-term nature.

Accumulated Other Comprehensive Income As of September 30, 2008 and December 31, 2007, the Company s accumulated other comprehensive income consisted of cumulative translation adjustments of $3.9 million and $4.1 million, respectively.

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

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

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

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

Foreign Currency Translation and Foreign Currency Transactions The reporting currency for the Company s operations is U.S. dollars. The Company translates the activities of its subsidiaries with functional currencies other than the U.S. dollar during the period at the average exchange rate prevailing during the period. Assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Translation adjustments resulting from these processes are recognized as a component of accumulated other comprehensive income (loss). The Company recognizes applicable cumulative translation adjustments as a component of operating income (loss) in the period in which a subsidiary is substantially liquidated. For the three and nine months ended September 30, 2008 and 2007, there were no gains or losses resulting from the liquidation of subsidiaries.

Gains and losses on foreign currency transactions are recognized as a component of other income (expense) in the condensed consolidated statements of operations in the period in which they occur. For the three and nine months ended September 30, 2008 and 2007, losses on intercompany foreign currency transactions of $7.5 million and $1.5 million and gains on intercompany foreign currency transactions of $1.6 million and $2.4 million, respectively, have been excluded from net loss and reported as a component of accumulated other comprehensive income due to their long-term investment nature.

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Loss Per Share Basic loss per share is calculated based on the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by dividing loss allocable to common shareholders by the weighted average common shares outstanding plus dilutive potential common stock. Dilutive potential common stoc