ICO Global Communications (Holdings) LTD
Form 10-K
March 22, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

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.)

2300 Carillon Point, Kirkland, Washington 98033

(Address of principal executive offices including zip code)

(425) 278-7100

(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Class A common stock, par value $0.01 per share	**The Nasdaq Global Market**

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x.

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

As of June 30, 2010, the aggregate market value of common stock held by non-affiliates of the registrant was approximately $247,684,867.

As of March 11, 2011, the registrant had 200,382,660 shares of Class A common stock and 53,660,000 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement for its 2011 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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ICO GLOBAL COMMUNICATIONS (HOLDINGS) LIMITED

2010 ANNUAL REPORT ON FORM 10-K

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PART I

This Annual Report on Form 10-K (Form 10-K) contains certain forward-looking statements regarding future events and our future operating results that are subject to the safe harbors created under the Securities Act of 1933, as amended (Securities Act), and the Securities Exchange Act of 1934, as amended (Exchange Act). Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified under Item 1A Risk Factors. Actual events or results could differ materially due to a number of factors, including those described herein and in the documents incorporated herein by reference.

Item 1. Business.

Overview

ICO Global Communications (Holdings) Limited (ICO Global), along with its consolidated subsidiaries (collectively referred to as us, we, or the Company) was formed as a Delaware corporation in March 2000 as a development stage next-generation mobile satellite service (MSS) operator. Our principal executive office is located at 2300 Carillon Point, Kirkland, Washington 98033, and our telephone number is (425) 278-7100. Our website address is www.ico.com. The information contained in, or that can be accessed through, our website is not part of this Form 10-K. Prior to May 15, 2009, the Company s consolidated subsidiaries included DBSD North America, Inc. (formerly ICO North America, Inc.), and its subsidiaries (collectively referred to as DBSD), which are developing a next-generation hybrid mobile satellite service with ancillary terrestrial components covering the United States and Canada that combines satellite and terrestrial communications capabilities (MSS/ATC System). DBSD filed voluntary petitions for bankruptcy in May 2009 and, as a result, were deconsolidated for financial accounting and reporting purposes.

In 2001, we successfully launched, and currently operate, one medium earth orbit (MEO) satellite (F2). We also own ten additional MEO satellites in various stages of completion, related ground station equipment, and the right to use certain C-band radio frequencies globally and S-band frequencies outside of North America (collectively with F2, the MEO Assets). By late 2004, we had invested approximately $2.6 billion, in the aggregate, into the MEO Assets, many of which have been subsequently sold or abandoned. Due to disagreements with Boeing Satellite Services, Inc. (BSSI), the manufacturer and launch manager of the MEO satellites, which resulted in the commencement of litigation, we have not advanced the development or deployment of the MEO Assets since 2004.

Since August 2004, we have been engaged in litigation with BSSI and its parent corporation, The Boeing Company (Boeing), arising out of agreements we had with BSSI for the development and launch of our MEO satellites and related launch vehicles (MEO Contracts). In October 2008, a jury determined that BSSI and Boeing were liable to us for breach of contract, fraud, negligent misrepresentation and tortious interference with the MEO Contracts. In February 2009, the court entered judgment in our favor for approximately $603.2 million, consisting of $370.6 million of compensatory damages against BSSI and Boeing for breach of contract, fraud, negligent misrepresentation and tortious interference with contract; $29.6 million against BSSI for punitive damages; $177.0 million against Boeing for punitive damages; and $26.0 million in pre-judgment interest. Beginning January 2, 2009, post-judgment interest began to accrue on the $603.2 million judgment amount at the rate of 10% per annum (simple interest).

On March 6, 2009, BSSI and Boeing appealed the trial court judgment to the California Court of Appeals. In order to stay enforcement of the judgment, Boeing posted a bond in the approximate amount of $904.0 million. In response, we cross-appealed the trial court s decision to overturn the jury s award of additional compensatory and punitive damages on our satellite pricing fraud claim against BSSI. Boeing filed its opening brief in the appellate proceedings on October 27, 2009 and we filed our response brief and opening cross-appeal brief on March 22, 2010. BSSI and Boeing filed their reply to our brief and their response to our cross-appeal on

August 10, 2010 and we then filed our reply brief on the cross-appeal on October 29, 2010. We anticipate that oral argument will be scheduled in the second or third quarter of 2011, with a decision expected from the appellate court within 90 days thereafter. We cannot predict the outcome of the appeal process.

During 2010, we explored potential opportunities to sell or otherwise divest the MEO Assets. Divestiture of the MEO Assets has been complicated by the fact that BSSI s assistance is likely needed to finish the partially completed satellites that we have in storage, and further complicated by the ongoing attempts by various regulatory agencies to terminate certain international spectrum rights previously allocated to us. Because of these challenges, and the fact that a majority of our ongoing operating expenses, excluding legal fees, have been related to the operation and maintenance of the MEO Assets, we concluded that it is in the best interests of our shareholders to either divest or dispose of the MEO Assets.

On February 11, 2011, we entered into an agreement with Jay & Jayendra (Pty) Ltd, a South African corporation, together with certain of its affiliates (collectively, J&J), granting J&J an option to acquire substantially all of our remaining MEO Assets during the period from April 1, 2011 through September 1, 2011 (J&J Option). The J&J Option expires on or before September 1, 2011, and can be terminated by either party prior to expiration under certain circumstances. During the term of the J&J Option and any closing process if the option is exercised, J&J will reimburse ICO for ongoing operating expenses that are directly related to the MEO Assets. If J&J exercises its option, its acquisition and operation of the MEO Assets will be conditioned upon certain regulatory approvals and cooperation from various governmental agencies and third parties. Assuming such approvals and cooperation are achieved, J&J will pay ICO a nominal amount of cash and warrants to acquire a 5% equity interest in the entity that owns and operates the MEO Assets going forward.

In addition to granting the J&J Option, we recently entered into an agreement with DISH Network Corporation (DISH Network) that provides DISH Network with a contingent option to acquire the MEO Assets if J&J does not exercise the J&J Option (the DISH Option). The DISH Option is part of a comprehensive Implementation Agreement, dated March 15, 2011 (the Implementation Agreement), under which DISH Network has agreed to pay us $325 million for our support of DISH Network s plan of reorganization for DBSD, certain spectrum priority rights, any distributions to us from DBSD, and the DISH Option, all as more thoroughly described below under Recent Developments. If neither J&J nor DISH Network exercise their options to purchase the MEO Assets, we will likely decommission F2 and begin the process of disposing of our other remaining MEO Assets.

With the proceeds from the Implementation Agreement and future proceeds, if any, from our judgment against Boeing and BSSI, we intend to explore opportunities to capitalize on the value of our actual and potential net operating loss carry forwards (NOLs). Our exploration is likely to result in the acquisition or investment in assets or businesses that are unrelated to our historical assets or business.

In this Form 10-K, we use the terms ICO, we, our and us to refer to ICO Global Communications (Holdings) Limited and its consolidated subsidiaries and, where the context indicates, its predecessor corporation. Because we deconsolidated DBSD from our financial operating results as of May 15, 2009, we do not include DBSD in these terms for the period from May 15, 2009 forward. For various historical, operational and regulatory reasons, we have many subsidiaries through which we hold our assets and conduct our operations. We have included a chart with a summary of our organizational structure which appears in Item 1 Business within this Form 10-K.

Recent Developments

Bankruptcy of DBSD North America, Inc.

On May 15, 2009, DBSD filed for bankruptcy protection under Chapter 11 of Title 11 of the United States Bankruptcy Code (Chapter 11 Case) in the United States Bankruptcy Court for the Southern District of New York (Bankruptcy Court). The Bankruptcy Court confirmed DBSD s plan of reorganization on October 26, 2009, as reflected in the Bankruptcy Court order entered on November 23, 2009, and thereafter affirmed by the

Federal District Court for the Southern District of New York (District Court) on March 24, 2010. However, on December 6, 2010, in response to further appeals of DBSD s confirmed plan of reorganization by DISH Network and Sprint Nextel Corporation (Sprint), the U.S. Court of Appeals for the Second Circuit (Court of Appeals) rejected the DISH Network appeal, but granted Sprint s appeal based on its determination that the confirmed plan of reorganization violates the Bankruptcy Code s absolute priority rule. Subject to certain exceptions, the absolute priority rule requires payment in full to a senior class of creditors before any payments can be made to junior creditors or equity holders. As a result of the ruling from the Court of Appeals, the plan of reorganization cannot be consummated in its current form. The Court of Appeals remanded the Chapter 11 Case to the District Court with instructions to remand to the Bankruptcy Court for further proceedings.

DBSD responded to the Court of Appeals rejection of DBSD s confirmed plan of reorganization by filing in January 2011, with the Bankruptcy Court, a modified plan of reorganization that eliminated ICO s equity interest in the reorganized DBSD. However, in February 2011, DBSD subsequently negotiated an Amended and Restated Investment Agreement with DISH Network (Investment Agreement), pursuant to which DISH Network has conditionally agreed to invest more than $1 billion into the reorganized DBSD in exchange for 100% of the stock of the reorganized DBSD. Prior to the signing of the Investment Agreement, other parties expressed interest in acquiring DBSD, leading to a robust auction process that culminated in DISH Network increasing its offer to approximately $1.4 billion, which includes the $325 million that DISH Network has agreed to pay to us under the Implementation Agreement. DISH Network s enhanced offer is memorialized in a March 15, 2011 amendment to the Investment Agreement which, together with the original Investment Agreement, is referred to in this document as the Amended Investment Agreement.

The Amended Investment Agreement describes the manner by which DISH Network will promptly offer to purchase all of DBSD s outstanding debt and creditor claims for the full amount of allowed claims, plus interest, including certain claims against DBSD for broadcast auxiliary service (BAS) spectrum clearing reimbursement (the BAS Claim) as well as ICO s creditor claims against DBSD, with the amount of any disputed claims determined by the Bankruptcy Court (the Tender Offer). The Amended Investment Agreement also describes the replacement debtor-in-possession credit facility for DBSD that is expected to provide DBSD with sufficient capital to continue operating until emergence from bankruptcy. The Bankruptcy Court s approval of the Amended Investment Agreement triggered obligations under the Implementation Agreement, and under the accompanying Restructuring Support Agreement that we also signed with DISH Network on March 15, 2011 (the Restructuring Support Agreement).

Pursuant to the terms of the Implementation Agreement, we agreed to (i) sell to DISH Network our priority spectrum rights vis-à-vis DBSD s G1 satellite, (ii) provide DISH Network with a contingent call right on our equity interest in DBSD, exercisable in certain circumstances, subject to certain conditions, including regulatory approvals; (iii) pay over to DISH Network any distributions from DBSD or other benefits received by us in connection with a reorganization of DBSD; and (iv) grant DISH Network the DISH Option. In exchange for these rights and for rights provided to DISH Network in the Restructuring Support Agreement, DISH Network will pay us an aggregate of approximately $324,536,000, (i) $35,000,000 of which is payable within five calendar days after the Bankruptcy Court s approval of the Investment Agreement (the Implementation Date), (ii) $279,536,000 of which is payable on the Purchase Date, which is the date upon which DISH Network, via the Tender Offer, purchases greater than 50% of the 7.5% Convertible Senior Secured Notes due 2009 issued by DBSD, and (iii) $10,000,000 of which is payable upon DBSD s emergence from its pending Chapter 11 bankruptcy proceeding. If the Purchase Date does not occur within forty calendar days after the Implementation Date, we may accelerate all remaining amounts due from DISH Network, other than the $10,000,000 deferred payment, upon three business days notice. In addition to these payments, DISH Network also agreed to indemnify us from all claims against and expenses incurred by us in connection with the BAS Claim (the BAS Indemnity). DISH Network s payment obligations under the Implementation Agreement and the BAS Indemnity are not subject to any further court action, approvals or DBSD s emergence from bankruptcy. On March 21, 2011, we received $35 million from DISH Network pursuant to the terms of the Implementation Agreement.

The Restructuring Support Agreement requires us to support the plan of reorganization that has been proposed by DISH Network (the Plan) and to take certain actions to facilitate the consummation of the Plan, including opposing any alternative transaction. Our facilitation commitments in the Restructuring Support Agreement are supplemented by certain related obligations in the Implementation Agreement, including the obligation to execute with DISH Network and DBSD a tax matters agreement, a license and spectrum coordination agreement and a transition services agreement. The tax matters agreement defines various tax-related obligations and commitments of the parties. The license and spectrum coordination agreement, among other things, obligates us or our successor to keep its MEO satellite system from interfering with DBSD s geosynchronous earth orbit (GEO) satellite system in the United States, Canada, Puerto Rico and the Virgin Islands. The transition services agreement describes the manner by which ICO and DBSD will cooperate and provide personnel and other support to each other following DBSD s emergence from bankruptcy.

Tax Benefits Preservation Plan

Effective January 29, 2010, our Board of Directors adopted a Tax Benefits Preservation Plan (Tax Benefits Plan) designed to prevent or significantly limit any ownership change, and to thereby preserve for our stockholders the value of certain tax assets primarily associated with NOLs under Section 382 of the Internal Revenue Code (Section 382). In connection with the Tax Benefits Plan, a dividend of Class A Rights and Class B rights, described more fully below, was paid to our stockholders of record at the close of business on February 8, 2010.

The Board of Directors adopted the Tax Benefits Plan in an effort to help us preserve our ability to utilize fully our NOLs, to preserve potential future NOLs, and to thereby reduce potential future federal income tax obligations. As of December 31, 2010, we have substantial existing NOLs of approximately $353 million. We may generate substantially larger NOLs if J&J exercises its option to purchase the MEO Assets, or if we otherwise sell or dispose of the MEO Assets. Under the Internal Revenue Code and related Treasury Regulations, we may carry forward these NOLs in certain circumstances to offset current and future income and thus reduce our potential future federal income tax liability, subject to certain restrictions. We believe that we will be able to carry forward a significant amount of NOLs, and therefore the NOLs could be a substantial asset for us. However, if we experience an ownership change, as defined in Section 382, the timing of usage and our ability to use the NOLs could be significantly limited.

The Tax Benefits Plan is intended to act as a deterrent to any person or group acquiring, without the approval of our Board of Directors, beneficial ownership of 4.9% or more of our securities, defined to include: (i) shares of our Class A common stock and Class B common stock, (ii) shares of our preferred stock, (iii) warrants, rights, or options to purchase our securities, and (iv) any interest that would be treated as stock of the Company for purposes of Section 382 or pursuant to Treasury Regulation § 1.382-2T(f)(18). Holders of 4.9% or more of our securities outstanding as of the close of business on January 29, 2010 will not trigger the Tax Benefits Plan so long as they do not (i) acquire additional securities constituting one-half of one percent (0.5%) or more of our securities outstanding as of the date of the Tax Benefits Plan (as adjusted), or (ii) fall under 4.9% ownership of our securities and then re-acquire 4.9% or more of the our securities (as adjusted).

History and Development of Our Business

We were incorporated in the State of Delaware in 2000 in order to purchase through a Chapter 11 bankruptcy process the assets of ICO Global Communication (Holdings) Limited, a Bermuda company (Old ICO). Old ICO was established in 1995 to provide global, mobile communications services using a MEO satellite system, the pursuit of which resulted, prior to Old ICO s bankruptcy, in an aggregate net loss of $592.6 million and capitalized costs of approximately $2.6 billion relating to the construction of its MEO satellites, procurement of launch vehicles and development of a ground station network. In May 2000, the U.S. Bankruptcy Court approved Old ICO s plan of reorganization, as a result of which we acquired the assets of Old ICO in exchange for cash, shares of our Class A common stock, and warrants to purchase additional shares of our Class A common stock.

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After the reorganization of Old ICO, we continued the construction of the MEO satellites and ground systems and developed our technical plan for the MEO satellite system. When disagreements arose with BSSI and Boeing that culminated in litigation, we significantly curtailed construction activity on our MEO satellite system. Instead, we focused our MSS strategy on the United States, and devised and introduced to the Federal Communications Commission (FCC) the concept of using MSS spectrum for an ancillary terrestrial component (ATC) or terrestrial re-use of MSS spectrum in order to address service coverage and economic limitations inherent to the MSS business plan. In December 2004, we formed DBSD to develop an advanced next-generation hybrid MSS/ATC System, using a GEO satellite system rather than a MEO satellite system to provide wireless voice, video, data and/or Internet service throughout the United States on mobile and portable devices. In May 2005, the FCC granted DBSD s request to modify its reservation of spectrum for the provision of MSS in the United States using a GEO satellite system.

On May 15, 2009, DBSD commenced its Chapter 11 Case. Due to our loss of control over DBSD as a result of the Chapter 11 Case, we deconsolidated DBSD from our financial operating results as of May 15, 2009. Subsequent to deconsolidation, DBSD has been carried as a cost method investment in our consolidated balance sheet.

Future Business Strategy

As evidenced by our entry into the Implementation Agreement and the J&J Option, we have decided to exit the satellite business in both North America and internationally. In the short term, we are reducing or eliminating costs associated with the MEO Assets, except to the extent that such costs must be incurred to satisfy obligations under the option agreements with J&J and DISH Network.

Going forward, we will focus on exploring ways to utilize the proceeds generated by the sale of our satellite business and resolution of the litigation with Boeing, to leverage our NOLs. Our exploration is likely to result in the acquisition or investment in assets or businesses that are unrelated to our historical assets or business.

Competition

The communications industry is highly competitive. Any communications service offering by the operator of our MEO Assets or DBSD s GEO assets will compete with a number of other communications services, including existing satellite services offered by Iridium LLC (Iridium), Globalstar LLC (Globalstar), Inmarsat Global Ltd (Inmarsat), Thuraya Telecommunications Company (Thuraya) and LightSquared (formerly SkyTerra Communications, Inc.). Globalstar and Iridium are both licensed and operational in the Big LEO band and provide voice and data services using dozens of LEO satellites. Iridium s coverage is global, while Globalstar partially covers the globe. Inmarsat owns and operates a fleet of geostationary satellites, and its offerings consist of maritime voice, facsimile and data, as well as global land-based and aeronautical communications services. Inmarsat is the leading provider of satellite communications services to the maritime sector. Thuraya owns two geostationary satellites operating in the L Band across Europe, the Middle East, Africa and Asia, and offers voice and data products from small handheld terminals to data only modems in all types of vertical market segments. LightSquared is building an LTE-based 4G wireless broadband network that will be integrated with North American satellite coverage for devices such as data cards, personal hotspots, routers and smartphones.

Competition in the communications industry will not be limited to the current capabilities of the entities described above. Rather, we expect that competition for 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, as well as the ability to use spectrum in the most efficient manner. To the extent that we retain an interest in the successor operators of our MEO Assets or DBSD s GEO assets, the value of the interest may be impacted by these competitive forces.

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We are not yet able to anticipate the type of competition that we will encounter as we transition from the MSS business and focus on utilizing our financial resources to leverage our actual and potential tax losses. The nature and strength of the competition will depend upon the assets we acquire, the markets we enter and the businesses we pursue.

Regulation

Our ownership and operation of the MEO satellite system, and the ownership and operation of the MEO satellite system by any successor operator, is subject to regulation from the FCC, the International Telecommunication Union (ITU) and the United Kingdom (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. Although MEO Asset operation is focused outside of the United States, the FCC regulates the U.S. earth station that controls F2.

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. In 2004, Ofcom informed the ITU that our MEO system (also known as ICO-P) has been brought into operation and is using the spectrum assignments in the 2 GHz band. In 2007, the ITU certified our use by entering our MEO system in the Master International Frequency Register (ITU Master Register) maintained by the ITU. Under ITU rules, other administrations take our recorded assignment into account when making their own assignments, in order to avoid harmful interference.

U.K. Office of Communications

Our MEO satellites are permitted to operate subject to compliance with regulations promulgated by the ITU and the United Kingdom through Ofcom and the U.K. Department for Business Enterprise and Regulatory Reform. Under the ITU constitution, only nations that have full standing as ITU members may make filings to the ITU, and therefore we must rely on the United Kingdom as our administrative body to the ITU for regulatory filings and coordination of our spectrum use and orbital location with all other potentially affected satellite operators that are represented by their respective national administrations.

Despite our ITU coordination priority on 25-60 MHz of 2 GHz spectrum on which to operate the MEO satellite system globally outside of the United States and Canada, Ofcom has stated its intent to write to the ITU to instruct that the ICO-P assignments currently recorded in the ITU Master Register be cancelled. We filed for a judicial review against Ofcom in the United Kingdom to preclude Ofcom from sending such a letter to the ITU, but the court denied our request. The court also denied our subsequent written request for reconsideration. ICO requested an oral hearing on our request for appeal, which was held on February 17, 2011. In this oral hearing, the judge granted ICO request for appeal on all three arguments. An appeal hearing will be scheduled sometime in the second quarter 2011. Ofcom has told the court that they will not send a letter requesting removal of the ICO-P filing from the ITU Master Register until all appeals are exhausted by ICO. Even if the letter is sent, we do not believe the ITU will be compelled to comply with Ofcom s request, and we expect that J&J will attempt to persuade the ITU to preserve the ICO-P assignments; however, if the letter is sent, it may increase the likelihood that the ITU will initiate proceedings to cancel the ICO-P assignments.

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If our ICO-P assignments are cancelled by the ITU, we will lose our ability to operate a MEO system based on our current ITU filing priority and MEO authorization, which will reduce the likelihood that either J&J or DISH Network will exercise their respective options to purchase the MEO Assets. See Risk Factors Regulatory Risks.

European Community

On February 14, 2007, the European Commission (EC) adopted a decision on the harmonized use of radio spectrum in the 2 GHz bands for the implementation of systems providing MSS. This decision states that radio spectrum is available and planned to be used for MSS in the frequency bands 1980 - 2010 MHz and 2170 - 2200 MHz. Under this decision, systems capable of providing MSS must include one or more space stations and may include complementary ground components.

On June 30, 2008, the European Parliament passed Decision No. 626/2008/EC under which the EC made a call for applications for pan-European systems to provide MSS (EC Call). We unsuccessfully sought annulment of the EC Call. We also caused our subsidiary, ICO Satellite Limited, to file an application in response to the EC Call. The application was rejected on May 14, 2009, which prompted us to file in the European General Court a proceeding to challenge the outcome of the EC Call process and Decision No. 626/2008/EC, under which the European Union granted European spectrum rights to two of our competitors, but denied our request for spectrum rights (EC Call Process). We recently submitted a brief in this matter, and expect a full hearing in front of the European General Court in 2011.

Our MEO Satellite System

We have in orbit one MEO satellite, F2, launched in June 2001. Primary satellite control is provided under an agreement with Intelsat, Ltd. (Intelsat), with backup satellite control provided by us 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 ground station in Brewster, Washington to monitor F2.

In addition, we have ten MEO satellites, most of which are in advanced stages of completion, stored in a climate controlled leased storage facility in El Segundo, California. 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 MEO satellites feature an active phased array S-band antenna capable of forming up to 490 beams for satellite-user links and with C-band hardware for satellite to gateway links.

Construction of our MEO satellites ceased in 2004 and is the subject of our litigation with Boeing and BSSI as discussed under Item 3 Legal Proceedings. In 2003, we also ceased funding to certain of our gateway operators. As a result, nine of the ten gateway operators have terminated their agreements with us, six of which have been renegotiated and three of which remain unsettled. We also abandoned nine direct and indirect subsidiaries as of December 31, 2010. Meanwhile, we continue to own the real property at our former gateway facility in Itaborai, Brazil, on which certain gateway equipment for the MEO satellite system is located; however, this facility is not currently operational and we are actively marketing the property for sale.

We have written down the MEO Assets to zero for accounting purposes in our consolidated financial statements. However, as evidenced by the options granted to J&J and DISH Network, we continue to explore ways to capitalize on our substantial investment in our MEO Assets. The outcome of our efforts to capitalize on such value remains uncertain, at least until either J&J or DISH Network exercises an option to purchase the MEO Assets. Prior to that time, provided that neither we nor J&J terminate J&J s option, J&J must reimburse us for ongoing operating expenses that are directly related to the MEO Assets (the O&M Costs), thereby reducing our ongoing operating costs. If the J&J Option terminates, and DISH Network opts to maintain the DISH Option, then DISH Network must reimburse us for O&M Costs.

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Summary Organizational Chart

The following chart is a summary of our organizational structure as of December 31, 2010. For various historical, operational and regulatory reasons, we have subsidiaries through which we hold our assets and conduct our operations, most of which subsidiaries we abandoned in 2010. This chart only lists our primary subsidiaries, including DBSD, which we no longer consolidate effective May 15, 2009.

Financial Information By Geographic Areas

Our long-lived fixed assets primarily consist of furniture and fixtures, software and leasehold improvements held in the United States. The following table contains the location of our long-lived assets as of December 31, 2010 and 2009 (in thousands):

	December 31,	
	2010	2009
United States	$ 283	$ 377
Foreign	3	6
	$ 286	$ 383

Intellectual Property

ICO and the ICO logo are trademarks or registered trademarks of ours in the United States and other countries.

Employees

As of December 31, 2010, ICO Global had only two full-time employees, but also has an arrangement with DBSD under which DBSD provides to us the services of its 33 employees. We have also engaged full and part-time consultants for the purpose of providing financial oversight, legal services, human resources, accounting services, regulatory and certain engineering specialties. Our employees are not subject to any collective bargaining agreements.

Available Information

The address of our website is www.ico.com. You can find additional information about us and our business on our website. We make available on this website, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission (SEC). You may read and copy this Form 10-K at the SEC s public reference room at 100 F Street, NE, Washington, DC 20549-0102. Information on the operation of the public reference room can be obtained by calling the SEC at 1-800-SEC-0330. These filings are also accessible on the SEC s website at www.sec.gov.

We also make available on our website in a printable format the charters for certain of our various Board of Director committees, including the Audit Committee and Compensation Committee, and our Code of Conduct and Ethics in addition to our Certificate of Incorporation and Bylaws. This information is available in print without charge to any stockholder who requests it by sending a request to ICO Global Communications (Holdings) Limited, 2300 Carillon Point, Kirkland, Washington 98033, Attn: Corporate Secretary. The material on our website is not incorporated into or part of this Form 10-K.

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 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 are engaged in litigation with Boeing and BSSI and expect to incur material expenses in pursuing this litigation.

We are engaged in litigation with BSSI and Boeing arising out of agreements for the development and launch of our MEO satellites. In February 2009, the Los Angeles Superior Court issued a judgment in our favor and against BSSI and Boeing for $603.2 million. The judgment consists of at least four subparts, including compensatory awards, a punitive damage award against BSSI, a punitive damage award against Boeing, and pre-judgment interest. BSSI and Boeing have appealed the judgment and all of its subparts, thereby rendering the entire award subject to the risks of appeal. We cannot predict the outcome of the appeal process. Boeing has posted the full bond required to stay enforcement of the judgment, but the existence of the bond does not entirely eliminate the risk of collection. We have previously incurred substantial costs and fees to obtain the judgment, and expect we will continue to incur substantial additional costs and fees through the ultimate resolution of the case, including a contingent obligation to pay our trial lawyers a fee equal to 3% of any recovery up to $250 million, and 5% of any recovery in excess of $250 million, less certain costs and fees paid previously. If we do not substantially prevail on appeal, this could materially negatively impact our financial condition. Moreover, our use of the proceeds from the litigation, if any, is uncertain at this time.

Sprint has sued us to collect BAS spectrum clearing costs.

Sprint has aggressively lobbied the FCC to impose upon ICO Global direct liability to reimburse Sprint for some of the costs incurred by Sprint to clear from the 2 GHz band the incumbent BAS that occupied the 2 GHz band prior to the FCC s allocation of spectrum to MSS/ATC operators (Spectrum Clearing Costs). Sprint is seeking payment for approximately $104 million of Spectrum Clearing Costs from us that Sprint is currently precluded from collecting from DBSD as a result of DBSD s Chapter 11 Case. The FCC, in its BAS Relocation Ruling that was issued on September 29, 2010, specifically declined to rule on our liability for Spectrum Clearing Costs, but in so doing described circumstances under which an affiliate of an FCC licensee might be liable for Spectrum Clearing Costs. Sprint has filed suit against us in the Eastern District of Virginia to recover the Spectrum Clearing Costs, and we have vigorously defended ourselves against this claim. We have previously incurred substantial costs and fees in connection with Sprint s lobbying efforts and Sprint s lawsuit, but recently significantly reduced our defense costs and exposure for Spectrum Clearing Costs by obtaining from DISH Network the BAS Indemnity. Nonetheless, if DISH Network for some reason fails to fulfill its BAS Indemnity obligations, we could continue to incur substantial additional costs and fees through the ultimate resolution of the lawsuit, as well as resulting economic damages if Sprint prevails.

The divestiture of our MEO Assets may be dependent upon the transaction with J&J or DISH Network and cooperation from BSSI.

The implementation of our MEO satellite system requires significant funding, and the completion and launch of the MEO satellites currently in storage will likely require cooperation from BSSI to complete construction of those satellites. BSSI has to date been unwilling to complete the MEO satellites for us and there can be no assurance that BSSI will agree to complete the satellites for J&J, DISH Network or any other potential buyer of the MEO Assets. If BSSI refuses to cooperate with J&J or DISH Network to complete the construction of the satellites, it is more likely that J&J will terminate J&J s option, DISH Network will forego the DISH Option, and we will therefore not receive any consideration leaving us to fund the costs of decommissioning F2 and disposing of the remainder of the MEO Assets.

The divestiture of our MEO Assets may be dependent upon the unimpaired operation of our satellites.

F2 continues to orbit the earth and perform routine functions, but has experienced certain anomalies over its life, including occasional short-circuiting of a forward digital signal processor (which has been corrected each time through operational procedures), and accelerated degradation of the battery. These anomalies have increased in recent years, in large part because of our decisions to reduce telemetry and command sites to minimize operational costs. If these anomalies become more pronounced, or if other operational problems surface, it is less likely that J&J or DISH Network will exercise their respective options, and we would be left to fund the costs of decommissioning F2 and disposing of the remainder of the MEO Assets.

The divestiture of our MEO Assets may be dependent upon post-bankruptcy agreements with DBSD.

Under the Implementation Agreement, we will enter into a transition services agreement and license agreement with DBSD, pursuant to which we will receive services from DBSD personnel, as well as a license to use and deploy certain patents and patent rights owned by DBSD. The Implementation Agreement calls for the execution and delivery of these agreements prior to DBSD s emergence from bankruptcy, but if for some reason the agreements do not become effective, we may lack transition services or patent license rights that are critical for the operation of the MEO Assets. If ICO is unable to effectively operate the MEO system, it could impact J&J s willingness or DISH Network s willingness to exercise its option for the MEO Assets. Similarly, without a patent license, we may be unsuccessful in selling our MEO Assets to J&J, or otherwise transferring our MEO Assets to a successor operator.

The divestiture of our MEO Assets may be dependent upon approval or cooperation from regulatory agencies.

The transfer of our MEO Assets to J&J, DISH Network or any other potential acquirer of the MEO Assets will likely require the approval or cooperation of various regulatory authorities, including Ofcom and the ITU. Ofcom has indicated its intention to write to the ITU to request that the ICO-P filing be cancelled. If ICO does not prevail in its appeal of the judicial review or if J&J or any other potential buyer of the MEO Assets is unable to modify Ofcom s current position, it is likely that Ofcom will send its letter, which in turn will increase the likelihood that the ITU will cancel the ICO-P filing. Irrespective of whether Ofcom sends its letter, Ofcom and other regulators in the United Kingdom may not be willing to cooperate with the transfer of our satellite operating license to J&J, particularly in light of the fact that the license is still registered in the name of ICO Satellite Services, Inc., which is a subsidiary of DBSD.

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Following the divestiture of our MEO Assets, we will have no significant operations, revenues or operating cash flow to fund any future investments to utilize the NOLs.

We have no significant operations or revenues and do not generate any cash from operations. With the exception of 2005, when we recognized net income due to non-cash gains recognized on certain contract settlements, and 2009, when we recognized net income due to a gain recognized on the deconsolidation of DBSD, we have incurred net losses since our inception. We will experience a substantial gain in 2011 as a result of payments from DISH Network. We continue to incur expenses, which must be funded out of cash reserves or the proceeds, if any, of future financings. The attainment of profitable operations is dependent upon future events, including effective deployment of the payments from DISH Network, receipt of proceeds from the Boeing litigation, and developing or acquiring profitable business operations.

The ongoing financial instability and uncertainty about global economic conditions could have a material negative effect on our business, liquidity and financial condition.

The financial crisis that affected the banking system and financial markets and the ongoing financial instability and uncertainty about global economic conditions have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in credit, equity and fixed income markets. There could be a number of follow-on effects from these economic developments on our future business, including the difficulty in raising sufficient money to pursue future business opportunities.

The risks associated with a successor s operation of our satellite constellation may be imputed to us.

If J&J exercises its option to purchase the MEO Assets, J&J contemplates operating our constellation of MEO satellites, possibly exposing us, as a predecessor owner and operator of the satellites, to risks that would not exist if we disposed of the MEO Assets. Risks inherent in satellite operations include failure to perform as specified, as well as 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. For example, in the past F2 has experienced an anomaly in orbit that interrupted some functionality on a number of occasions.

There are intellectual property risks associated with development of our MEO system.

Other parties may own patents or pending patent applications related to satellite communications. Those parties may claim that our MEO Assets infringe their intellectual property rights. Such claims, if brought against a successor operator of our MEO Assets (such as J&J or DISH Network) may require us to defend and indemnify the successor operator. 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 reducing the proceeds from a sale of the MEO Assets. 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. Any such claim, suit or determination could have a material adverse effect on the operation of the MEO system or a successor operator s ability to generate revenues, which in turn could result in claims against us.

Our prospects for disposing of the MEO Assets may be negatively impacted by our inability to protect proprietary information and intellectual property rights.

The success of a successor operator s business plan will likely depend, in part, on its ability to develop or acquire technical know-how and remain current on new technological developments. As a result, the successor s ability to compete effectively will depend, in part, on our ability and its 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 licensed 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. To the extent that J&J or DISH Network is uncomfortable with the scope of such protection, it may decrease the chance that J&J or DISH Network will exercise its option to acquire the MEO Assets.

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

Certain of our subsidiaries have agreements with the operators of the gateways for our MEO satellite system. 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. We may incur costs associated with further terminations and the operators of the gateways may try to hold us liable for these agreements. As of December 31, 2010, we had an accrued liability of $50.4 million related to these unsettled agreements.

Our subsidiary with responsibility for the development of our MEO gateways is in the midst of insolvency proceedings.

ICO Global Communications (Holdings) BV (IHB), our indirect subsidiary that was primarily responsible for coordinating and facilitating the funding of our gateway development, is currently the subject of insolvency proceedings in the Netherlands. IHB s liabilities significantly exceed its assets, and we therefore anticipate that IHB may ultimately be liquidated as a result of such proceedings. We will incur costs and fees to process and conclude the insolvency proceedings, but we do not anticipate that ICO Global will bear responsibility for IHB s obligations. However, unaffiliated creditors of IHB, who are owed approximately $16 million in the aggregate, may attempt to hold us liable for IHB s obligations.

Our success depends on certain key management personnel, and certain factors may make it difficult to maintain our key managers and, if necessary, attract new managers.

Our future success depends largely on the expertise and reputation of our senior management team. Many of our key managers have employment contracts limited to six months of severance in the event of a termination of employment, and some key managers have shorter severance periods or no severance periods. In addition, some of these contracts are with DBSD and are subject to limitations prescribed by the DBSD Chapter 11 Case. This severance protection is less than provided at some other companies, including some competitors and other peer entities. These factors create the risk that we may lose our key management personnel to other companies. Although other companies may face some or all of these risks, many companies face fewer or none of these risks, and the market for key management personnel continues to exist, even if currently at a reduced level. The loss of any of our key personnel or the inability to recruit and retain qualified individuals could adversely affect our ability to implement our business strategy and operate our business.

Our ability to utilize our NOLs is dependent on avoiding an ownership change and securing future income.

As of December 31, 2010, we had substantial existing NOLs of approximately $353 million, as well as additional potential NOLs through losses that could be generated from the sale of assets at prices significantly less than their tax basis. Under the Internal Revenue Code and the Treasury Regulations issued thereunder, we may carry forward these losses in certain circumstances to offset any current and future income and thus reduce our federal income tax liability, subject to certain restrictions. To the extent that the NOLs do not otherwise become limited, we believe that we will be able to carry forward a significant amount of NOLs, and therefore the NOLs could be a substantial asset for us. However, if we experience an ownership change, as defined in Section 382, our ability to use the NOLs will be significantly limited, and the timing of the usage of

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the NOLs could be significantly limited, which could therefore significantly impair the value of that asset. Our ability to fully utilize the NOLs is also dependent upon the generation of future taxable income before the expiration of the carry forward period attributable to these NOLs, which begin to expire in 2020.

Risks Related to Our Class A Common Stock

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 and certain holders of our Class A common stock are 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 Satellite Holdings, LLC (ERSH), 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 the interests of the holders of our Class A common stock.

ERSH, Eagle River Investments, LLC (Eagle River Investments), Eagle River, Inc. and Eagle River Partners, LLC (collectively Eagle River) control approximately 66% 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 and 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.

Eagle River Investments has 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 Investments and ERSH are not obligated to advise us of any investment or business opportunities of which it is aware, and they are not restricted or prohibited from competing with us. Craig O. McCaw, a member of our Board of Directors, is the Chairman, Chief Executive Officer and sole manager and beneficial member of Eagle River Investments, which is the sole member of ERSH. Benjamin G. Wolff, our Chairman, Chief Executive Officer and President, is the President of Eagle River Investments, and is compensated by both Eagle River Investments and the Company.

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 controls approximately 66% of the voting power of our outstanding capital stock. As a result, we are a controlled company within the meaning of the NASDAQ Global 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 Global 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 currently utilize only the third of these exemptions, but reserve the right to utilize all three exemptions. As a result, our stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the NASDAQ Global Market corporate governance requirements.

The Tax Benefits Plan that we entered into on January 29, 2010, as well as certain provisions in our restated certificate of incorporation, may discourage takeovers, which could affect the rights of holders of our Class A common stock.

The Tax Benefits Plan we have in place is intended to act as a deterrent against any person or group acquiring or otherwise obtaining beneficial ownership of more than 4.9% of our securities without the approval of our Board of Directors. In addition, 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. The provisions of the Tax Benefits Plan and our restated certificate of incorporation could discourage takeovers of our Company, which could adversely affect the rights of our stockholders.

We do not expect to pay cash dividends on our Class A or Class B 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 cash dividends on our Class A or Class B common shares in the foreseeable future.

Regulatory Risks

Ownership and Operation of the MEO Assets is subject to significant international governmental regulation.

Ownership and operation of our MEO Assets is subject to regulation by the ITU, Ofcom, and the FCC. 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 the operation of our MEO Assets or increase the cost of providing services over our MEO system. Any such changes could deter J&J or DISH Network from exercising their options to purchase the MEO Assets, and could discourage any other potential buyers from pursuing an acquisition of the MEO Assets.

Ownership and operation of the MEO Assets imposes indemnity liability on the operator of the MEO Assets.

The laws of the United Kingdom, and the laws of other ITU member countries, impose indemnification obligations on the operator of the MEO Assets in the event the in-orbit MEO satellite causes damage to another satellite in flight. Although we have procured third party liability insurance to meet this identification requirement, and J&J will be obligated to carry similar insurance, there is no assurance that J&J will comply with its obligations or that this insurance will cover any liability we may incur.

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Failure to adhere to the ITU s Radio Regulations could jeopardize satellite operations.

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.

Our MEO satellite system and claim to S-Band spectrum rights face substantial regulatory uncertainty.

There is considerable uncertainty as to how our MEO satellite system will be treated from an international regulatory standpoint. While we and J&J continue to have dialogue with the appropriate regulatory authorities, the fact that we have been unable to fully deploy our MEO satellite system continues to create regulatory uncertainty. In addition to our challenges with Ofcom and the ITU (as described above), we may be unable to maintain spectrum rights in Europe, depending upon our success in challenging Decision No. 626/2008/EC, under which the European Union granted European spectrum rights to two of our competitors, but denied our request for spectrum rights. We are currently challenging the EC Call Process in the European General Court, but the outcome of our challenge is very much in question, and if we fail, it is likely that neither we nor J&J will hold spectrum rights in Europe. The failure to procure European spectrum rights may prompt J&J or DISH Network to forego the exercise of its option, which in turn could force us to find an alternative method for divesting the MEO Assets.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters are located in Kirkland, Washington, where we occupy approximately 5,916 square feet of space under sublease. Upon expiration of our various leases, we do not anticipate any difficulty in obtaining renewals or alternative space.

The following table lists our leased properties as of December 31, 2010, both in the United States and in the United Kingdom:

ation	Operation	Lease Term	Square Footage (Approx.)
kland, .	U.S. Corporate Headquarters	Expires July 31, 2012	5,916
ton,	Satellite Ground Network Engineering	Expires May 30, 2012	7,508
undo,	Space Segment Engineering	Expires May 31, 2011	1,948
undo,	Satellite Warehouse Facility	Expires November 30, 2012	23,959
ugh, kshire, .	U.K. Registered Office(1)	Expires June 25, 2011	4,070

ugh, kshire, Archive Warehouse

Shares Acquired on Exercise (1)

EXECUTIVE COMPENSATION

Under rules established by the SEC, the Company is required to provide certain data and information in regard to the compensation and benefits provided to its chief executive officer and other executive officers, including the four other most highly compensated executive officers (collectively, the "Named Executive Officers"). The disclosure requirements for the Named Executive Officers include the use of tables and a report explaining the rationale and considerations that led to fundamental executive compensation decisions affecting these individuals.

The following report reflects Seacoast's compensation philosophy as endorsed by the Board of Directors and the Salary and Benefits Committee and resulting actions taken by Seacoast for the reporting periods shown in the various compensation tables supporting the report. The Salary and Benefits Committee either approves or recommends to the Board of Directors payment amounts and award levels for executive officers of Seacoast and its subsidiaries.

Salary and Benefits Committee Report

General

The Salary and Benefits Committee of the Board of Directors is composed of five members, all of whom are independent directors as defined in the Nasdaq rules. The Board of Directors designates the members and Chairman of such committee.

Compensation Policy

The policies that govern the Salary and Benefits Committee's executive compensation decisions are designed to align changes in total compensation with changes in the value created for the Company's shareholders. The Salary and Benefits Committee believes that compensation of executive officers and others should be directly linked to Seacoast's operating performance and that the achievement of performance objectives over time is the primary determinant of share price.

The underlying objectives of the Salary and Benefits Committee's compensation strategy are to establish incentives for certain executives**Name** and others to achieve and maintain short-term and long-term operating performance goals for Seacoast, to link executive and shareholder interests through equity-based plans, and to provide a compensation package that recognizes individual contributions as well as overall business results. At Seacoast, performance-based executive officer compensation includes: base salary, short-term annual cash incentives, and long-term stock and cash incentives.

During 2005, the Committee retained the services of a professional consulting firm to review the Company's executive compensation program and to comment on its design, competitiveness, and effectiveness. The firm evaluated the Company's business model and compared a number of Seacoast's executive positions, including that of the Chief Executive Officer and Chief Operating Officer, to 20 other publicly held regional banks and bank holding companies of comparable size and performance in the southeastern United States. The average asset size of the peer group was $2.52 billion, based on data from the last fiscal year-end. The consultant s report indicated that Seacoast s return on average assets and net interest margin were close to the peer group median. Seacoast s return on average equity and earnings per share growth were closer to the 75th and 80th percentile, respectively. Based on a review of recent performance and Seacoast s operating strategy and model, Seacoast s compensation was compared to the 75th percentile.

Seacoast's overall executive compensation program was found to be reasonable when compared to other similar organizations. The review recommended several items to assist in the long-term retention of key executives and to better align compensation programs with corporate performance for the Named Executive Officers. These recommendations are still being reviewed and considered by the Committee.

Base Salary and Increases

In establishing executive officer salaries and increases, the Committee considers individual annual performance and the relationship of total compensation to the defined salary market. The decision to increase base pay is recommended by the chief executive officer and approved by the Salary and Benefits Committee using performance results documented and measured annually. Information regarding salaries paid in the market is obtained through formal salary surveys and other means, and is used to evaluate competitiveness with Seacoast's peers and competitors. Seacoast's general philosophy is to provide base pay competitive with the market, and to reward individual performance while positioning salaries consistent with Company performance.

Short-Term Incentives

Seacoast's Key Manager Incentive Plan seeks to align short-term cash compensation with individual performance and performance for the shareholders. Funding for this annual incentive plan is dependent on Seacoast first attaining a defined performance threshold for earnings per share. Once this threshold is attained, the Salary and Benefits Committee, using recommendations from the Company's chief executive officer, approves awards to those officers who have made superior contributions to Company profitability as measured and reported through individual performance goals established at the beginning of the year. As specified in the plan, the payout schedule is designed to pay a smaller number of officers the highest level of funded cash incentives to ensure that a meaningful reward is provided to the organization's top performers. This philosophy better controls overall compensation expenses by reducing the need for significant annual base salary increases as a reward for past performance, and places more emphasis on annual profitability and the potential rewards associated with future performance. Salary market information is used to establish competitive rewards that are adequate in size to motivate strong individual performance during the year. The Key Manager Incentive Plan paid an aggregate of $1,824,500 in 2005, which was distributed among 17 persons.

Long-Term Incentives

Stock options granted under Seacoast s long-term incentive plans, the 1996 Incentive Plan, and the 2000 Incentive Plan are designed to motivate sustained high levels of individual performance and align the interests of key employees with those of the Company's shareholders by rewarding capital appreciation and earnings growth. Upon the recommendation of the chief executive officer, and subject to approval by the Salary and Benefits Committee, stock options are awarded periodically to those key officers whose performance has made a significant contribution to Seacoast's long-term growth. No stock options were awarded in 2005.

Deduction Limit

At this time, because of its compensation levels, Seacoast does not appear to be at risk of losing deductions under Section 162(m) of the Code, which generally establishes, with certain exceptions, a $1 million deduction limit on executive compensation for all publicly held companies. As a result, Seacoast has not established a formal policy regarding such limit, but will evaluate the necessity for developing such a policy in the future.

Chief Executive Pay

The Salary and Benefits Committee formally reviews the compensation paid to the chief executive officers of the Company and the Bank during the first quarter of each year. Final approval of the chief executives compensation is made by the Board of Directors. Changes in base salary and the awarding of cash and stock incentives are based on overall financial performance and profitability related to objectives stated in the Company's strategic performance plan and the initiatives taken to direct the Company. In addition, utilizing published surveys, databases, and proxy statement data, including, for example, public information compiled from the SNL Executive Compensation Review and the Wyatt Financial Institution Benchmark Compensation Report (collectively, the "Survey Data"), the Salary and Benefits Committee surveyed the total compensation of chief executive officers of comparable-sized financial institutions located in comparable markets nationally, as well as of similarly-sized, locally-based public banks and thrifts.

After reviewing the findings of the independent consulting firm retained in 2005 for such purpose and the Survey Data, the salary for Mr. Dennis S. Hudson, III, Chairman and Chief Executive Officer of Seacoast, was increased by $30,000 to $506,446 annually, beginning in 2006. This adjustment maintained Mr. Hudson's total compensation at the median of the comparative groups. Based on specific accomplishments and the overall financial performance of Seacoast, including the achievement of performance in excess of targeted goals for 2005, Mr. Hudson III was awarded a cash incentive award of $376,000 for 2005 under the Key Manager Incentive Plan, compared to an award of $175,000 in 2004.

Summary

In summary, the Salary and Benefits Committee believes that Seacoast's compensation program is reasonable and competitive with compensation paid by other financial institutions of similar size. The program is designed to reward managers for strong personal, Company and share value performance. The Salary and Benefits Committee monitors the various guidelines that make up the program and reserves the right to adjust them as necessary to continue to meet Company and shareholder objectives.

Salary and Benefits Committee:

Evans Crary, Jr., Chairman

Stephen E. Bohner

Jeffrey S. Furst

Thomas E. Rossin

John R. Santarsiero, Jr.

March 22, 2006

Audit Committee Report

The Audit Committee monitors the Company's financial reporting process on behalf of the Board of Directors. The Audit Committee operates under a written charter that was last revised in 2003 following the adoption of new Nasdaq governance standards, was approved by the Board of Directors, and included as Exhibit B to the Company s 2004 proxy statement. This report reviews the actions taken by the Audit Committee with regard to the Company's financial reporting process during 2005 and particularly with regard to the Company's audited consolidated financial statements as of December 31, 2005 and 2004 and for the three years in the period ended December 31, 2005.

The Audit Committee currently is composed of four persons, all of whom are "independent". In addition, the Board of Directors has determined that Christopher E. Fogal, Chairman of the Committee, is both independent under NASD rules and an audit committee financial expert as defined by the SEC. The Audit Committee also serves as the audit committee of the Bank.

The Company's management has the primary responsibility for the Company's financial statements and reporting process, including the systems of internal controls and reporting. The Company's independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Audit Committee monitors the integrity of the Company's financial reporting process and system of internal controls and monitors the independence and performance of the Company's independent auditors and internal auditors.

The Audit Committee believes that it has taken the actions necessary or appropriate to fulfill its oversight responsibilities under the Audit Committee's charter. To carry out its responsibilities, the Audit Committee met 10 times during 2005.

In fulfilling its oversight responsibilities, the Audit Committee reviewed with management the audited financial statements to be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, including a discussion of the quality (rather than just the acceptability) of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Audit Committee also reviewed with the Company's independent auditors, KPMG LLP, the audited financial statements, their judgments as to the quality (rather than just the acceptability) of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee under Statement on Auditing Standards No. 61, *Communication with Audit Committees*. In addition, the Audit Committee discussed with KPMG LLP its independence from management and the Company, including the written disclosures, letter and other matters required of KPMG LLP by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*. The Audit Committee also considered whether the provision of services during 2005 by KPMG LLP that were unrelated to its audit of the financial statements referred to above and to their reviews of the Company's interim financial statements during 2005 is compatible with maintaining KPMG LLP's independence, and determined that the provision of non-audit services by KPMG LLP is compatible with being independent.

Additionally, the Audit Committee discussed with the Company's internal and independent auditors the overall scope and plan for their respective audits. The Audit Committee met with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company s internal controls and the overall quality of the Company's financial reporting. The Audit Committee also discussed KPMG LLP s evaluation of management s assessment of the Company s internal control over financial reporting and KPMG LLP s audit opinion under Section 404 of the Sarbanes Oxley Act of 2002 and the Public Company Accounting Oversight Board Standard Number 2.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the Securities and Exchange Commission. The Audit Committee also recommended to the Board that the Company retain KPMG LLP as the Company s independent auditors for 2006. The Board has approved and ratified such recommendation. In addition, the Committee has approved the scope of non-audit services anticipated to be performed by KPMG LLP in 2006 and the estimated budget for those services.

Audit Committee:

Christopher E. Fogal, Chairman

John H. Crane, Member

Evans Crary, Jr., Member

T. Michael Crook, Member

March 22, 2006

The table below sets forth certain elements of compensation for the Named Executive Officers of Seacoast or the Bank for the periods indicated.

Summary Compensation Table

		Annual Compensation		Long Term Compensation		
Name and Principal Position	Year	Salary ($)	Bonus ($) [1]	Restricted Stock Awards ($)	Securities Underlying Options/SARs (#)	All Other Compensation ($)
Dennis S. Hudson, III	2005	$476,450	$376,000	--	--	$72,574 [2]
	2004	453,775	175,000	$105,600 [3]	30,000	65,903
Chairman & Chief Executive Officer of Seacoast and the Bank	2003	422,015	45,000	298,900 [4]	75,000	39,431
A. Douglas Gilbert	2005	$470,700	$376,000	--	--	$84,381 [5]
	2004	448,290	290,000	$201,200 [6]	--	58,305
President & Chief Operating & Credit Officer of Seacoast, Vice Chairman & Chief Credit Officer of the Bank	2003	417,014	100,000	597,800 [7]	--	42,041
C. William Curtis, Jr.	2005	$292,269	$197,000	--	--	$47,626 [8]
	2004	275,732	143,000	$133,600 [9] [10]	7,000	41,258

Senior Executive Vice President & Chief Banking Officer of Seacoast and the Bank	2003	261,729	40,000	68,320		15,000	28,066	
William R. Hahl	2005	$257,400	$167,000	--		--	$40,735	(11)
Executive Vice President &	2004	237,408	80,000	$124,640	(12)	5,000	31,619	
Chief Financial Officer of Seacoast and the Bank	2003	223,908	33,000	56,364	(13)	13,000	22,082	
O. Jean Strickland	2005	$235,585	$222,000	--		--	$34,317	(14)
	2004	192,539	125,000	$124,640	(15)	4,000	24,509	
Senior Executive Vice President of Seacoast and President and Chief Operating Officer of the Bank	2003	163,272	31,000	46,970	(16)	11,000	15,845	

---

(1)

Incentive cash compensation paid for results achieved during the applicable fiscal year in accordance with the Key Manager Incentive Plan as well as certain other bonuses related to performance or deemed necessary to attract new management. See "Salary and Benefits Committee Report."

(2)

This includes $900 in excess life insurance benefits, $13,650 in employer matching contributions to the Profit Sharing Plan, $10,500 in profit sharing, $4,200 in employer discretionary retirement contributions, $35,971 in employer matching contributions to the Executive Deferred Compensation Plan (the "Compensation Deferral Plan"), $550 paid by the employer into the Cafeteria Plan and $6,802 in supplemental long-term disability benefits.

(3)

This amount represents a restricted stock award of 6,500 shares of Common Stock, which was awarded to Mr. Hudson on December 21, 2004, based on the closing sale price of the Company s Common Stock on the Nasdaq National Market on December 21, 2004. One fifth of the shares covered by this award vested on December 21, 2005, and the remaining shares will, as long as Mr. Hudson remains employed by the Company, vest in increments of 20 percent on each of the following four anniversary dates thereafter. Mr. Hudson has full voting and dividend rights with respect to the restricted stock during the vesting period.

(4)

This amount represents a restricted stock award of 17,500 shares of Common Stock, which was awarded to Mr. Hudson on November 17, 2003, based on the closing sale price of the Company s Common Stock on the Nasdaq National Market on November 17, 2003. One fifth of the shares covered by this award vested on November 17, 2004, another one fifth of the shares vested on November 17, 2005, and the remaining shares will, as long as Mr. Hudson remains employed by the Company, vest in increments of 20 percent on each of the following three anniversary dates thereafter. Mr. Hudson has full voting and dividend rights with respect to the restricted stock during the vesting period.

(5)

This includes $3,960 in excess life insurance benefits, $13,650 in employer matching contributions to the Profit Sharing Plan, $10,500 in profit sharing, $4,200 in employer discretionary retirement contributions, $35,195 in employer matching contributions to the Compensation Deferral Plan, $550 paid by the employer into the Cafeteria Plan and $16,326 in supplemental long-term disability benefits.

(6)

This amount represents a restricted stock award of 13,000 shares of Common Stock, which was awarded to Mr. Gilbert on December 21, 2004, based on the closing sale price of the Company s Common Stock on the Nasdaq National Market on December 21, 2004. One fifth of the shares covered by this award vested on December 21, 2005, and the remaining shares will, as long as Mr. Gilbert remains employed by the Company, vest in increments of 20 percent on each of the following four anniversary dates thereafter. Mr. Gilbert has full voting and dividend rights with respect to the restricted stock during the vesting period.

(7)

This amount represents a restricted stock award of 35,000 shares of Common Stock, which was awarded to Mr. Gilbert on November 17, 2003, based on the closing sale price of the Company s Common Stock on the Nasdaq National Market on November 17, 2003. One fifth of the shares covered by this award vested on November 17, 2004, another one fifth of the shares vested on November 17, 2005, and the remaining shares will, as long as Mr. Gilbert remains employed by the Company, vest in increments of 20 percent on each of the following three anniversary dates thereafter. Mr. Gilbert has full voting and dividend rights with respect to the restricted stock during the vesting period.

(8)

This includes $7,620 in excess life insurance benefits, $13,650 in employer matching contributions to the Profit Sharing Plan, $10,500 in profit sharing, $4,200 in employer discretionary retirement contributions, $11,106 in employer matching contributions to the Compensation Deferral Plan and $550 paid by the employer into the Cafeteria Plan.

(9)

This amount represents a restricted stock award of 1,500 shares of Common Stock, which was awarded to Mr. Curtis on December 21, 2004, based on the closing sale price of the Company s Common Stock on the Nasdaq National Market on December 21, 2004. One fifth of the shares covered by this award vested on December 21, 2005, and the remaining shares will, as long as Mr. Curtis remains employed by the Company, vest in increments of 20 percent on each of the following four anniversary dates thereafter. Mr. Curtis has full voting and dividend rights with respect to the restricted stock during the vesting period.

(10)

This amount represents a restricted stock award of 4,000 shares of Common Stock, which was awarded to Mr. Curtis on November 17, 2003, based on the closing sale price of the Company s Common Stock on the Nasdaq National Market on November 17, 2003. One fifth of the shares covered by this award vested on November 17, 2004, another one fifth of the shares vested on November 17, 2005, and the remaining shares will, as long as Mr. Curtis remains employed by the Company, vest in increments of 20 percent on each of the following three anniversary dates thereafter. Mr. Curtis has full voting and dividend rights with respect to the restricted stock during the vesting period.

(11)

This includes $2,580 in excess life insurance benefits, $13,650 in employer matching contributions to the Profit Sharing Plan, $10,500 in profit sharing, $4,200 in employer discretionary retirement contributions, $6,399 in employer matching contributions to the Compensation Deferral Plan, $550 paid by the employer into the Cafeteria Plan and $2,856 in supplemental long-term disability benefits.

(12)

This amount represents a restricted stock award of 1,100 shares of Common Stock, which was awarded to Mr. Hahl on December 21, 2004, based on the closing sale price of the Company s Common Stock on the Nasdaq National Market on December 21, 2004. One fifth of the shares covered by this award vested on December 21, 2005, and the remaining shares will, as long as Mr. Hahl remains employed by the Company, vest in increments of 20 percent on each of the following four anniversary dates thereafter. Mr. Hahl has full voting and dividend rights with respect to the restricted stock during the vesting period.

(13)

This amount represents a restricted stock award of 3,300 shares of Common Stock, which was awarded to Mr. Hahl on November 17, 2003, based on the closing sale price of the Company s Common Stock on the Nasdaq National Market on November 17, 2003. One fifth of the shares covered by this award vested on November 17, 2004, another one fifth of the shares vested on November 17, 2005, and the remaining shares will, as long as Mr. Hahl remains employed by the Company, vest in increments of 20 percent on each of the following three anniversary dates thereafter. Mr. Hahl has full voting and dividend rights with respect to the restricted stock during the vesting period.

(14)

This includes $900 in excess life insurance benefits, $13,650 in employer matching contributions to the Profit Sharing Plan, $10,500 in profit sharing, $4,200 in employer discretionary retirement contributions, $3,454 in employer matching contributions to the Compensation Deferral Plan, $550 paid by the employer into the Cafeteria Plan and $1,063 in supplemental long-term disability benefits.

(15)

This amount represents a restricted stock award of 1,100 shares of Common Stock, which was awarded to Ms. Strickland on December 21, 2004, based on the closing sale price of the Company s Common Stock on the Nasdaq National Market on December 21, 2004. One fifth of the shares covered by this award vested on December 21, 2005, and the remaining shares will, as long as Ms. Strickland remains employed by the Company, vest in increments of 20 percent on each of the following four anniversary dates thereafter. Ms. Strickland has full voting and dividend rights with respect to the restricted stock during the vesting period.

(16)

This amount represents a restricted stock award of 2,750 shares of Common Stock, which was awarded to Ms. Strickland on November 17, 2003, based on the closing sale price of the Company s Common Stock on the Nasdaq National Market on November 17, 2003. One fifth of the shares covered by this award vested on November 17, 2004, another one fifth of the shares vested on November 17, 2005, and the remaining shares will, as long as Ms. Strickland remains employed by the Company, vest in increments of 20 percent on each of the following three anniversary dates thereafter. Ms. Strickland has full voting and dividend rights with respect to the restricted stock during the vesting period.

Grants of Options/SARs in 2005

No options or stock appreciation rights (SARs) were granted to the Named Executive Officers in 2005.

Aggregated Option/SAR Exercises in 2005

and 2005 Year-End Option/SAR Values

The following table shows stock options exercised by the Named Executive Officers during 2005, including the aggregate value of gains on the date of exercise. In addition, this table includes the number of shares of Common Stock covered by both exercisable and non-exercisable options as of December 31, 2005. Also reported are the values for "in-the-money" options, which represent the positive spread between the exercise price of any such existing options and the year-end price of the Company's Common Stock. No SARs were outstanding in 2005.

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nnis S. dson,	19,800	$277,932	148,200(E)	$1,832,890(E)
			69,000(U)	277,350(U)
	--	--	111,170(E)	$1,636,647(E)

. uglas bert			--(U)	--(U)
. lliam rtis, Jr.	45,000	$679,445	11,000(E)	$86,974(E)
			14,600(U)	55,910(U)
lliam Hahl	--	--	55,700(E)	$775,099(E)
			11,800(U)	47,986(U)
e a n ckland	--	--	37,833.7(E)	$501,876(E)
			9,800(U)	$40,502(U)

(1)

All exercised and outstanding shares are shares of Common Stock, and all options and SARs relate to Common Stock. There are no options or SARs involving Preferred Stock.

Long-Term Incentive Plans Awards in 2005

Performance Shares

No performance-based stock awards were granted to the Named Executive Officers in 2005.

Profit Sharing Plan

Seacoast sponsors a Retirement Savings Plan for Employees of the First National Bank & Trust Company of the Treasure Coast and its affiliates (the "Profit Sharing Plan"). The Profit Sharing Plan has various features, including employer matching contribution for salary deferrals of up to 4 percent of the employee's compensation for each calendar quarter. The Company matches 100 percent of any Elective Profit Sharing Contribution that is deferred into the Profit Sharing Plan. In addition, the Profit Sharing Plan has a Code Section 401(k) feature that allows employees to make voluntary "salary savings contributions" ranging from 1 percent to 15 percent of compensation (as defined by the Plan), subject to federal income tax limitations. After-tax contributions may also be made by employees with "voluntary contributions" of up to 10 percent of compensation (as defined in the Profit Sharing Plan for each plan year), subject to certain statutory limitations.

A retirement contribution is made on an annual discretionary basis by the Company of up to 2 percent of "retirement eligible compensation," as defined in the Profit Sharing Plan. At the end of each plan year, the Company's Board of Directors decides whether to make a profit sharing contribution for the plan year. If it decides to make such a contribution, the contribution is allocated among eligible employees based on each employee's "eligible compensation" as defined in the Profit Sharing Plan. At least 50 percent of this contribution (the "Non-Elective Profit Sharing Contribution") is contributed to the employee's Profit Sharing account. The balance (the "Elective Profit Sharing Contribution") may be deferred into the Profit Sharing Plan or taken in cash by the employee, at the employee's election.

Executive Deferred Compensation Plan

The Bank offers the Compensation Deferral Plan designed to permit a select group of management or highly compensated employees, including the Named Executive Officers, to elect to defer a portion of their compensation until their termination of employment with the Company and to receive matching and other Company contributions which they are restricted from receiving under the Company's Profit Sharing Plan because of legal limitations.

Supplemental Disability Insurance

The Bank provides supplemental disability insurance to certain members of executive management in excess of the maximum benefit of $15,000 per month provided under the group plan for all employees. The supplemental insurance provides a benefit up to 70% of the executive s monthly predisability income based on the executive s base salary and annual incentive. Coverage can be converted and maintained by the individual participant after employment ends. The benefit also includes no reduction in coverage due to disability benefits paid by other sources, and a partial benefit if a disabled participant is able to work on a part-time basis.

Performance Graph

The following line-graph compares the cumulative, total return on Seacoast's Common Stock from December 31, 2000 to December 31, 2005, with that of the Nasdaq Bank Index (an average of all bank and thrift institutions whose stock is traded on the Nasdaq Stock Market) and the Russell 2000 Financial Services Index (an average of all financial service companies included in the Russell 2000 Index). Cumulative total return represents the change in stock price and the amount of dividends received over the indicated period, assuming the reinvestment of dividends.

	2000	**2001**	**2002**	**2003**	**2004**	**2005**
Seacoast	100	179.40	223.28	232.18	304.98	322.52
Nasdaq Bank Index	100	112.53	120.38	159.61	181.05	177.46
	100	112.76	116.79	162.34	195.91	199.88

Russell 2000 Financial Services
Index

Employment and Change in Control Agreements

The Bank entered into an executive employment agreement with A. Douglas Gilbert on March 22, 1991. Similar agreements were entered into with Dennis S. Hudson, III on January 18, 1994, with C. William Curtis, Jr. on July 31, 1995 and with O. Jean Strickland on October 18, 2005.

All of these employment agreements contain certain non-competition, non-disclosure and non-solicitation covenants. Each such agreement also provides for a base salary, hospitalization, insurance, long term disability and life insurance in accordance with the Bank's insurance plans for senior management, and reasonable club dues. Each executive subject to these contracts may also receive other compensation including bonuses, and the executives will be entitled to participate in all current and future employee benefit plans and arrangements in which senior management of the Bank may participate. The agreements provide for termination of the employee for cause, including willful and continued failure to perform the assigned duties, crimes, breach of the Bank's Code of Ethics, and also upon death or permanent disability of the executive. Each agreement contains a Change in Control provision which provides that certain events, including the acquisition of the Bank or the Company in a merger, consolidation or similar transaction, the acquisition of 51 percent or more of the voting power of any one or all classes of Common Stock, the sale of all or substantially all of the assets, and certain other changes in share ownership, will constitute a "change in control" which would allow the executive to terminate the contract within one year following the date of such change in control. Termination may also be permitted by the executive after a change in control, and in the event of a change in duties and powers, customarily associated with the office designated in such contract. Upon any such termination following a change in control, the executive's base salary, hospitalization and other health benefits will continue for two years.

The Company entered into Change in Control employment agreements with Dennis S. Hudson, III and A. Douglas Gilbert on December 24, 2003. Each agreement has a three-year term and provides for automatic one-year extensions unless expressly not renewed. A change in control must occur during this period (the Change in Control Period) to trigger the agreement. These agreements supercede the change-in-control provisions in the executives employment agreements with the Bank. Also on December 24, 2003, the Company entered into similar agreements with C. William Curtis, Jr. and William R. Hahl, each having a two-year Change in Control Period. On January 7, 2004, the Company executed a similar agreement with O. Jean Strickland, President of the Bank, having a one-year Change in Control Period.

Each of the Change in Control employment agreements provides that, once a change in control has occurred, the executive subject to the contract (the Subject Executive) and the Company agree to continue, for the Change in Control Period, the Subject Executive s employment in the same position as held in the 120 days period prior to the change in control. If the Subject Executive is terminated for cause or resigns without good reason , as defined in the agreement, the Subject Executive will receive minimal benefits. If the Subject Executive resigns for good reason or is terminated without cause , or resigns for any reason during a 30-day period specified in the contract, the Subject Executive will receive salary, a pro-rata bonus, and all accrued and deferred amounts through the termination date, as well as his annual base salary, bonuses and other benefits that otherwise would have been paid over the Change in Control Period. The Company will also provide health and other welfare benefits to the Subject Executive for the duration of the Change in Control Period.

SALARY AND BENEFITS COMMITTEE INTERLOCKS

AND INSIDER PARTICIPATION

Messrs. Crary (Chairman), Bohner, Furst, Rossin and Santarsiero are the members of the Salary and Benefits Committee, none of whom is or has been an officer or employee of Seacoast or its subsidiaries.

Evans Crary, Jr., director of Seacoast and the Bank, and Chairman of the Bank's Executive Committee and the Company's Salary and Benefits Committee, is a retired member of Crary, Buchanan, Bowdish, Bovie, Beres, Elder & Thomas, Chartered ("Crary-Buchanan"), a law firm in Stuart, Florida. Mr. Crary s son is a partner in Crary-Buchanan. Crary-Buchanan performed various legal services for Seacoast and the Bank during the fiscal year ended December 31, 2005. Total fees paid by the Company to Crary-Buchanan during the fiscal year ended December 31, 2005 totaled $186,125.

Thomas E. Rossin, a director of Seacoast and the Bank, and a member of the Company s Nominating and Governance Committee and Salary and Benefits Committee, provided legal services for the Bank during the fiscal year ended December 31, 2005 and received approximately $15,705 for such services.

There are no interlocks , as defined by the SEC, with respect to any member of the Salary and Benefits Committee.

CERTAIN TRANSACTIONS AND BUSINESS RELATIONSHIPS

Several of Seacoast's directors, executive officers and their affiliates, including corporations and firms of which they are directors or officers or in which they and/or their families have an ownership interest, are customers of Seacoast and its subsidiaries. These persons, corporations and firms have had transactions in the ordinary course of business with Seacoast and its subsidiaries, including borrowings, all of which, in the opinion of Seacoast s management, were on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons and did not involve more than the normal risk of collectibility or present other unfavorable features. Seacoast and its subsidiaries expect to have such transactions on similar terms with their directors, executive officers, and their affiliates in the future. The aggregate amount of loans outstanding by the Bank to directors, executive officers, and related parties of Seacoast or the Bank as of December 31, 2005, was approximately $3,182,261, which represented approximately 2.08% of Seacoast's consolidated shareholders' equity on that date.

Jeffrey C. Bruner, a director of Seacoast and the Bank, is a controlling shareholder of Mayfair Investments, which leases to the Bank 21,400 square feet of space adjacent to the First National Center in Stuart, Florida pursuant to a lease agreement which expires in May 2007. At the end of the lease term, the Bank has two options to extend the lease for a period of five years each. The Bank paid rent of approximately $270,000 on this property in 2005. Seacoast believes the terms of this lease are commercially reasonable and comparable to rental terms negotiated at arm s length between unrelated parties for similar property in Stuart.

For information concerning specific transactions and business relationships between Seacoast or the Bank and certain of its directors or executive officers, see Salary and Benefits Committee Interlocks and Insider Participation .

PRINCIPAL SHAREHOLDERS

As of February 23, 2006, the only shareholders known to Seacoast to be the beneficial owners, as defined by SEC rules, of more than 5 percent of the outstanding shares of Common Stock were the following, for whom beneficial ownership information is set forth in the following table.

Name and Address of Beneficial Owner	**Number and Percent of Common Stock Beneficially Owned**	
	Number	**%**
Dale M. Hudson [(1) (2)]	1,609,516.4	9.41%
192 S.E. Harbor Point Drive		
Stuart, FL 34996		
Dennis S. Hudson, Jr. [(1) (3)]	1,345,696	7.87%
157 S. River Road		

Stuart, FL 34996		
Dennis S. Hudson, III (1) (3)	1,394,075	8.15%
2341 NW Bay Colony Court		
Stuart, FL 34994		
Mary T. Hudson (1) (2)	1,609,516.4 (4)	9.41%
192 S.E. Harbor Point Drive		
Stuart, FL 34996		
Anne P. Hudson (1) (3)	1,345,696 (5)	7.87%
157 S. River Road		
Stuart, FL 34996		
Eaton Vance Management	1,185,465 (6)	6.90%
24 Federal Street		
Boston, MA 02110		

(1)

Dennis S. Hudson, Jr. and Dale M. Hudson are brothers. Anne P. Hudson is the wife of Dennis S. Hudson, Jr. Mary T. Hudson is the wife of Dale M. Hudson. Dennis S. Hudson, III is the son of Dennis S. Hudson, Jr. and the nephew of Dale M. Hudson. See the table under "Proposal One Election of Directors" for further information on their beneficial ownership.

(2)

Dale M. Hudson and his wife, Mary T. Hudson, are the general partners of Monroe Partners, their family limited partnership, which as of February 23, 2006 owned 1,456,121 shares of Company Common Stock. Each of Dale M. Hudson and Mary T. Hudson, as general partners, may be deemed to share voting and investment power with the other general partner and each of them disclaims beneficial ownership with respect to such shares except to the extent of their respective partnership interests. See "Proposal One Election of Directors" for further information regarding their beneficial ownership.

(3)

Dennis S. Hudson, Jr. and his wife, Anne P. Hudson, together with their son, Dennis S. Hudson, III, are the general partners of Sherwood Partners, their family limited partnership, which as of February 23, 2006 owned 1,121,778 shares of Company Common Stock. Mr. and Mrs. Dennis Hudson, Jr. and their children are also limited partners of Sherwood Partners. Each of Dennis S. Hudson, Jr., Anne P. Hudson and Dennis S. Hudson, III, as general partners, may be deemed to share voting and investment power with the other general partners and each of them disclaims beneficial ownership with respect to such shares except to the extent described in the table under "Proposal One Election of Directors", which contains further information regarding their beneficial ownership.

(4)

Includes 152,570 shares held jointly with Mrs. Hudson's husband, as to which shares Mrs. Hudson may be deemed to share voting and investment power.

(5)

Includes 67,442 shares held by Mrs. Hudson's husband, as to which shares Mrs. Hudson may be deemed to share voting and investment power.

(6)

Eaton Vance Management (Eaton Vance) is a management company. Of the shares beneficially owned, Eaton Vance reports it has both sole voting and sole dispositive power as to 1,185,465 shares. The information regarding Eaton Vance, including the number and percent of Common Stock beneficially owned, is based solely upon a Schedule 13G dated February 14, 2006 and filed by Eaton Vance with respect to Common Stock beneficially owned by Eaton Vance as of December 31, 2005.

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PROPOSAL 2

AMENDMENT TO INCREASE THE AUTHORIZED SHARES OF COMMON STOCK

The Board of Directors has adopted a resolution to amend Section 4.01 of the Company's Articles to increase the total number of shares of Common Stock that the Company is authorized to issue from 22,000,000 to 35,000,000, and the total number of Common and Preferred shares to 39,000,000. This amendment will provide additional authorized but unissued shares of Common Stock available for issuance to meet business demands as they may arise. The Board of Directors believes that the additional shares will provide the Company with the flexibility to issue Common Stock for possible future stock dividends or stock splits, acquisitions, stock option and purchase plans, possible future financings, for maintaining capital adequate to support growth and other corporate purposes which may be identified by the Board of Directors, without the possible expense and delay of holding a special shareholders' meeting.

The authorized shares of Common Stock in excess of those issued will be available for issuance at such times and for such corporate purposes as the Board of Directors may deem advisable, without further action by the Company's shareholders, except as may be required by applicable law or by the rules of any stock exchange or securities market on which the securities may be listed or traded. Upon issuance, such shares will have the same rights as the outstanding shares of Common Stock. Holders of Common Stock have no preemptive rights.

The issuance of additional shares of Common Stock may have a dilutive effect on earnings per share and book value per share, and, for persons who do not purchase additional shares to maintain their pro rata interest in the Company, on such shareholders' percentage of voting power.

Although the Company has no present intention to issue shares of Common Stock to make acquisitions of control of the Company more difficult and is unaware of any pending proposals to acquire the Company, future issuances of Common Stock could have that effect. For example, the acquisition of shares of the Company's Common Stock by an entity seeking to acquire control of the Company might be discouraged through the public or private issuance of additional shares of Common Stock or securities convertible or exchangeable into Company Common Stock, since such issuance would dilute the stock ownership of the acquiring entity. Common Stock could also be issued to existing shareholders as a dividend or privately placed with purchasers who might side with the Board in opposing a takeover bid, thus discouraging such a bid.

Proposal 2 will amend Section 4.01 of the Company s Articles of Incorporation to read in its entirety as follows:

4.01

General. The total number of shares of all classes of capital stock ("Shares") which the Corporation shall have the authority to issue is 39,000,000 consisting of the following classes:

(1)

35,000,000 Shares of common stock, $.10 par value per share ("Common Stock"); and

(2)

4,000,000 Shares of preferred stock, $.10 par value per share ("Preferred Stock").

This proposal requires approval by the affirmative vote of the holders of two-thirds (66 2/3%) of all of the voting shares outstanding and entitled to vote at the Meeting.

The Board of Directors unanimously recommends a vote "FOR" Proposal 2.

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PROPOSAL 3

ADJOURNMENT OF THE ANNUAL MEETING

Proposal 3 would give the proxy holders discretionary authority to vote to adjourn the Meeting for up to 120 days if there are not sufficient shares voted at the Meeting, in person or by proxy, to approve Proposal 2.

If the Company desires to adjourn the Meeting, the presiding officer at the Meeting will request a motion that the Meeting be adjourned for up to 120 days with respect to Proposal 2 (and solely with respect to Proposal 2, provided that a quorum is present at the Meeting), and no vote will be taken on Proposal 2 at the originally scheduled Meeting. Unless revoked prior to its use, any proxy solicited for the Meeting will continue to be valid for any adjourned meeting, and will be voted in accordance with instructions contained therein, and if no contrary instructions are given, for Proposal 2.

Approval of this proposal will allow the Company, to the extent that shares voted by proxy are required to approve a proposal to adjourn the Meeting, to solicit additional proxies to determine whether sufficient shares will be voted in favor of or against Proposal 2. If the Company is unable to adjourn the Meeting to solicit additional proxies, Proposal 2 may fail, not because shareholders voted against the proposal, but rather because there were not sufficient shares represented at the Meeting to approve Proposal 2. The Company has no reason to believe that an adjournment of the Meeting will be necessary at this time.

This Proposal requires approval by the affirmative vote of a plurality of votes cast at the Meeting.

The Board of Directors unanimously recommends a vote FOR Proposal 3.

INDEPENDENT AUDITORS

The Board of Directors, upon the recommendation of the Audit Committee, has appointed KPMG LLP, independent certified public accountants, as independent auditors for Seacoast and its subsidiaries for the current fiscal year ending December 31, 2006. KPMG LLP became the independent auditors for Seacoast and its subsidiaries in June 2004, following the dismissal of PricewaterhouseCoopers LLP. The decision to replace PricewaterhouseCoopers LLP with KPMG LLP was made by Seacoast s Board of Directors, upon the recommendation of the Audit Committee, and was not based upon any disagreement on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. KPMG LLP s report on Seacoast s financial statements for the fiscal year ended December 31, 2005 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles. KPMG LLP s report on Seacoast s internal control over financial reporting expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting. KPMG LLP has advised Seacoast that neither the firm nor any of its partners has any direct or material interest in Seacoast and its subsidiaries except as auditors and independent certified public accountants of Seacoast and its subsidiaries.

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of the Company s annual financial statements for the year ended December 31, 2005, and fees billed for other services rendered by KPMG LLP during the year.

	2004	2005
Audit Fees (1)	$ 865,000	$ 639,500
Audit-Related Fees (2)	$ 25,000	$ 56,430
Tax Fees (3)	$ 17,500	$ 33,000
All Other Fees (4)	$ 0	$ 0

(1)

Includes the aggregate fees billed by KPMG LLP for professional services rendered for the audit of the Company s annual financial statements, review of financial statements included in the Company s Forms 10-Q filed during fiscal year 2005, and audit of the Company s internal control over financial reporting.

(2)

Includes the aggregate fees billed by KPMG LLP for assurance and related services that are reasonably related to the performance of the audit or review of the Company s financial statements and are not reported under Audit Fees. These services related to the audits of the Company s Profit Sharing Plan and a subsidiary of the Bank.

(1)

Includes the aggregate fees billed by KPMG LLP for completion of the Company s federal and state corporate tax returns, as well as audit of Bank tax returns for 2002 and 2003.

(2)

No fees were billed by KPMG LLP in the fiscal years ended December 31, 2004 and December 31, 2005 other than as stated above under the captions Audit Fees, Audit-Related Fees and Tax Fees.

A representative of KPMG LLP will be present at the Meeting and will be given the opportunity to make a statement on behalf of the firm, if he so desires, and will also be available to respond to appropriate questions from shareholders.

Pre-Approval Policy

Under the Audit Committee s Charter, the Audit Committee is required to approve in advance the terms of all audit services provided to the Company as well as all permissible audit-related and non-audit services to be provided by the independent auditors. All services set forth above under the captions Audit Fees , Audit-Related Fees and Tax Fees were approved by the Company s Audit Committee pursuant to SEC Regulation S-X Rule 2.01(c)(7)(i).

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors and executive officers, and persons who own more than 10 percent of the Company s Common Stock, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Directors, executive officers and persons owning more than 10 percent of the Company s Common Stock are required to furnish the Company with copies of all Section 16(a) reports they file. Based on the Company s review of such reports and written representations from the reporting persons, the Company believes that, during and with respect to fiscal 2005, all filing requirements applicable to its directors, executive officers and beneficial owners of more than 10 percent of its Common Stock were complied with in a timely manner, with the following exceptions:

The Form 4s for Dale M. Hudson and Dennis S. Hudson, Jr. filed on December 6, 2005, which reported the expiration of family trusts on January 31, 2005 for which they were trustees, were inadvertently filed late. The Company believes that the Form 5 filed on February 8, 2006 for Dale M. Hudson and the Form 4 filed on January 30, 2006 for Dennis S. Hudson, Jr. reflect their current holdings.

Dennis S. Hudson, III reported his disposition of 4,000 shares to charity on December 30, 2005 late on the Form 4 filed January 6, 2006. The Company believes that Mr. Hudson s Form 4A filed on January 20, 2006 reflects his current holdings.

The Form 5A dated December 31, 2005 for A. Douglas Gilbert reported Form 4 acquisitions which occurred in 2005 and 2006 and which were reported late. The Company believes that Mr. Gilbert s Form 4 dated February 14, 2006 reflects his current holdings.

The Form 5A dated December 31, 2005 and the Form 4 dated February 1, 2006 for Thomas E. Rossin reported Form 4 acquisitions which occurred in 2005 and 2006 and which were reported late. The Company believes that Mr. Rossin s Form 4 dated February 1, 2006 reflects his current holdings.

William R. Hahl reported his disposition of 4,000 shares on October 21, 2005 late on the Form 4 on February 2, 2006. The Company believes that Mr. Hahl s Form 4 filed on February 2, 2006 reflects his current holdings.

SHAREHOLDER PROPOSALS FOR 2007 ANNUAL MEETING

To be considered for inclusion in the Company s Proxy Statement and Proxy for the 2007 Annual Meeting of Shareholders, a shareholder proposal must be received at the Company s principal executive offices no later than November 22, 2006, which is 120 calendar days before the one-year anniversary of the date the Company mailed this Proxy Statement to shareholders. Any shareholder proposal not received at the Company s principal executive offices no later than February 5, 2007, which is 45 calendar days before the one-year anniversary of the date the Company mailed this Proxy Statement to shareholders, will be considered untimely and, if presented at the 2007 Annual Meeting of Shareholders, the proxy holders will be able to exercise discretionary authority to vote your shares on any such proposal to the extent authorized by Rule 14a-4(c) under the Securities Exchange Act.

OTHER MATTERS

Management of Seacoast does not know of any matters to be brought before the Meeting other than those described above. If any other matters properly come before the Meeting, the persons designated as Proxies will vote on such matters in accordance with their best judgment.

OTHER INFORMATION

Proxy Solicitation Costs

The cost of soliciting Proxies for the Meeting will be paid by Seacoast. In addition to the solicitation of shareholders of record by mail, telephone, electronic mail, facsimile or personal contact, Seacoast will be contacting brokers, dealers, banks, or voting trustees or their nominees who can be identified as record holders of Common Stock; such holders, after inquiry by Seacoast, will provide information concerning quantities of proxy materials and 2005 Annual Reports to Shareholders needed to supply such information to beneficial owners, and Seacoast will reimburse them for the reasonable expense of mailing proxy materials and 2005 Annual Reports to such persons. Seacoast may retain other unaffiliated third parties to solicit proxies and pay reasonable expenses and charges of such third parties for their services.

Annual Report on Form 10-K

Upon the written request of any person whose Proxy is solicited by this Proxy Statement, Seacoast will furnish to such person without charge (other than for exhibits) a copy of Seacoast's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, including financial statements and schedules thereto, as filed with the Securities and Exchange Commission. Requests may be made to Seacoast Banking Corporation of Florida, P.O. Box 9012, Stuart, Florida 34995, Attention: Dennis S. Hudson III, Chairman & Chief Executive Officer.

By Order of the Board of Directors,

DENNIS S. HUDSON III

Chairman & Chief Executive Officer

March 22, 2006

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