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Iridium Communications Inc.  
Form 10-Q  
October 29, 2015  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2015

OR

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

Commission File Number 001-33963

Iridium Communications Inc.

(Exact name of registrant as specified in its charter)

DELAWARE  
(State of incorporation)

26-1344998  
(I.R.S. Employer

Identification No.)

1750 Tysons Boulevard, Suite 1400, McLean, Virginia  
(Address of principal executive offices)

22102  
(Zip code)

703-287-7400

(Registrant's telephone number, including area code)

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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, and (2) has been subject to such filing requirements for the past 90 days. Yes  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 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 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. (Check one):

Large accelerated filer  Accelerated filer

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

The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding as of October 26, 2015 was 94,949,374.

IRIDIUM COMMUNICATIONS INC.

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## PART I.

Iridium Communications Inc.

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	September 30, 2015	December 31, 2014
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 290,682	\$ 211,249
Marketable securities	221,888	261,136
Accounts receivable, net	50,996	50,672
Inventory	31,118	28,433
Deferred income tax assets, net	13,740	11,009
Prepaid expenses and other current assets	13,129	10,614
Total current assets	621,553	573,113
Property and equipment, net	2,229,515	1,971,839
Restricted cash	88,631	86,104
Other assets	8,113	7,726
Intangible assets, net	46,787	47,416
Deferred financing costs	132,524	136,444
Goodwill	87,039	87,039
Total assets	\$ 3,214,162	\$ 2,909,681
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 34,252	\$ 17,677
Accrued expenses and other current liabilities	33,259	38,419
Interest payable	8,441	9,589
Deferred revenue	36,122	36,665
Total current liabilities	112,074	102,350
Accrued satellite operations and maintenance expense, net of current portion	14,442	15,051
Credit facility	1,444,038	1,291,401
Deferred income tax liabilities, net	290,850	245,042
Deferred revenue, net of current portion	29,004	20,689
Other long-term liabilities	22,538	3,284
Total liabilities	1,912,946	1,677,817
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Series A Preferred Stock, \$0.0001 par value, 1,000 shares authorized, issued and outstanding	-	-
Series B Preferred Stock, \$0.0001 par value, 500 shares		

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authorized, issued and outstanding	-	-
Common stock, \$0.001 par value, 300,000 shares authorized, 94,946 and 93,905 shares issued and outstanding, respectively	95	94
Additional paid-in capital	1,041,798	1,033,176
Retained earnings	266,491	201,514
Accumulated other comprehensive loss, net of tax	(7,168 )	(2,920 )
Total stockholders' equity	1,301,216	1,231,864
Total liabilities and stockholders' equity	\$3,214,162	\$2,909,681

See notes to unaudited condensed consolidated financial statements.

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Iridium Communications Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Revenue:</b>				
Services	\$81,200	\$81,568	\$234,640	\$231,215
Subscriber equipment	21,180	20,550	56,488	61,040
Engineering and support services	3,654	5,375	13,832	15,791
<b>Total revenue</b>	<b>106,034</b>	<b>107,493</b>	<b>304,960</b>	<b>308,046</b>
<b>Operating expenses:</b>				
Cost of services (exclusive of depreciation and amortization)	13,990	16,372	43,192	47,305
Cost of subscriber equipment	11,559	15,244	31,487	42,424
Research and development	3,480	4,910	12,028	11,676
Selling, general and administrative	17,534	18,277	56,800	55,956
Depreciation and amortization	12,932	19,677	39,107	59,615
<b>Total operating expenses</b>	<b>59,495</b>	<b>74,480</b>	<b>182,614</b>	<b>216,976</b>
<b>Operating income</b>	<b>46,539</b>	<b>33,013</b>	<b>122,346</b>	<b>91,070</b>
<b>Other income (expense):</b>				
Interest income, net	263	1,262	2,292	2,624
Undrawn credit facility fees	(774 )	(1,454 )	(2,621 )	(4,413 )
Other expense, net	(112 )	(365 )	(111 )	(4,504 )
<b>Total other expense</b>	<b>(623 )</b>	<b>(557 )</b>	<b>(440 )</b>	<b>(6,293 )</b>
<b>Income before income taxes</b>	<b>45,916</b>	<b>32,456</b>	<b>121,906</b>	<b>84,777</b>
Provision for income taxes	(16,369 )	(12,068 )	(45,352 )	(32,827 )
<b>Net income</b>	<b>29,547</b>	<b>20,388</b>	<b>76,554</b>	<b>51,950</b>
Series A Preferred Stock dividends	1,750	1,750	5,250	5,250
Series B Preferred Stock dividends	2,109	2,109	6,327	3,211
<b>Net income attributable to common stockholders</b>	<b>\$25,688</b>	<b>\$16,529</b>	<b>\$64,977</b>	<b>\$43,489</b>
<b>Weighted average shares outstanding - basic</b>	<b>95,317</b>	<b>94,048</b>	<b>94,972</b>	<b>86,037</b>
<b>Weighted average shares outstanding - diluted</b>	<b>122,696</b>	<b>121,516</b>	<b>122,655</b>	<b>94,691</b>
<b>Net income attributable to common stockholders per share - basic</b>	<b>\$0.27</b>	<b>\$0.18</b>	<b>\$0.68</b>	<b>\$0.51</b>
<b>Net income attributable to common stockholders per share - diluted</b>	<b>\$0.24</b>	<b>\$0.17</b>	<b>\$0.62</b>	<b>\$0.49</b>
<b>Comprehensive income:</b>				
Net income	\$29,547	\$20,388	\$76,554	\$51,950
Foreign currency translation adjustments, net of tax	(2,797 )	(534 )	(4,176 )	(104 )

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Unrealized gain on marketable securities, net of tax	(160 )	(78 )	(72 )	(16 )
Comprehensive income	\$26,590	\$19,776	\$72,306	\$51,830

See notes to unaudited condensed consolidated financial statements.

Iridium Communications Inc.

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities:		
Net cash provided by operating activities	\$ 162,938	\$ 153,335
Cash flows from investing activities:		
Capital expenditures	(251,797 )	(144,929 )
Purchases of marketable securities	(173,712 )	(185,607 )
Sales and maturities of marketable securities	212,178	45,610
Net cash used in investing activities	(213,331 )	(284,926 )
Cash flows from financing activities:		
Borrowings under the Credit Facility	152,637	50,336
Payment of deferred financing fees	(9,832 )	(5,043 )
Restricted cash deposits	(2,527 )	(15,872 )
Releases from restricted cash	-	11,009
Proceeds from exercise of stock options	2,074	619
Tax payment upon settlement of stock awards	(829 )	(220 )
Excess tax benefits from stock-based compensation	742	-
Payment of Series A Preferred Stock dividends	(5,250 )	(5,250 )

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Payment of Series B Preferred Stock dividends	(6,327 )	(2,859 )
Proceeds from issuance of Series B Preferred Stock, net of issuance costs	-	120,753
Proceeds from issuance of common stock, net of issuance costs	-	98,897
Net cash provided by financing activities	130,688	252,370
Effect of exchange rate changes on cash and cash equivalents	(862 )	-
Net increase in cash and cash equivalents	79,433	120,779
Cash and cash equivalents, beginning of period	211,249	186,342
Cash and cash equivalents, end of period	\$ 290,682	\$ 307,121
Supplemental cash flow information:		
Interest paid	\$ 8,911	\$ 7,271
Income taxes paid (refunded), net	\$ 1,819	\$ (138 )
Supplemental disclosure of non-cash investing activities:		
Property and equipment received but not paid for yet	\$ 30,818	\$ 8,820
Interest capitalized but not paid	\$ 27,640	\$ 21,490
Capitalized amortization of deferred financing costs	\$ 13,752	\$ 6,698
Capitalized paid-in-kind interest	\$ 20,282	\$ 16,542
Capitalized stock-based compensation	\$ 833	\$ 867

Supplemental  
disclosure of  
non-cash financing  
activities:

Dividends accrued on Series A Preferred Stock	\$	292	\$	292
Dividends accrued on Series B Preferred Stock	\$	352	\$	352

See notes to unaudited condensed consolidated financial statements.

Iridium Communications Inc.

Notes to Condensed Consolidated Financial Statements

## 1. Basis of Presentation and Principles of Consolidation

Iridium Communications Inc. (the “Company”) has prepared its condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The accompanying condensed consolidated financial statements include the accounts of (i) the Company, (ii) its wholly owned subsidiaries, and (iii) all less than wholly owned subsidiaries that the Company controls. All material intercompany transactions and balances have been eliminated.

In the opinion of management, the condensed consolidated financial statements reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of its results of operations and cash flows for the interim periods covered, and of the financial position of the Company at the date of the interim condensed consolidated balance sheet. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the U.S. Securities and Exchange Commission (“SEC”). These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on February 26, 2015.

## 2. Significant Accounting Policies

### Warranty Expense

The Company provides the first end-user purchaser of its subscriber equipment a warranty for one to five years from the date of purchase by such first end-user, depending on the product. The Company maintains a warranty reserve based on historical experience of warranty costs and expected occurrences of warranty claims on equipment. Costs associated with warranties, including equipment replacements, repairs, freight, and program administration, are recorded as cost of subscriber equipment in the accompanying condensed consolidated statements of operations and comprehensive income. The Company experienced a \$6.2 million decrease in its warranty provision for the nine months ended September 30, 2015 compared to the prior year period. This decrease is primarily the result of fewer returns for the Iridium Pilot<sup>®</sup> units sold in 2014 and 2015, a decrease in the average repair costs, and a reduction in the Company's estimate for future returns. Changes in the warranty reserve during the nine months ended September 30, 2015 were as follows:

Nine  
Months  
Ended

	September 30, 2015 (in thousands)
Balance at beginning of the period	\$ 7,381
Provision	(1,140 )
Utilization	(1,938 )
Balance at end of the period	\$ 4,303

#### Fair Value Measurements

The Company evaluates assets and liabilities subject to fair value measurements on a recurring and non-recurring basis to determine the appropriate level to classify them for each reporting period. This determination requires significant judgments to be made by management of the Company. The instruments identified as subject to fair value measurements on a recurring basis are cash and cash equivalents, marketable securities, prepaid expenses and other current assets, accounts receivable, accounts payable and accrued expenses and other current liabilities. Fair value is the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. U.S. GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of observability of inputs used in measuring fair value. The fair value hierarchy consists of the following tiers:

- Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2, defined as observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The carrying values of short-term financial instruments (primarily cash and cash equivalents, prepaid expenses and other current assets, accounts receivable, accounts payable, and accrued expenses and other current liabilities) approximate their fair values because of their short-term nature. The fair value of the Company's investments in money market funds approximates its carrying value; such instruments are classified as Level 1 and are included in cash and cash equivalents on the accompanying condensed consolidated balance sheets. The fair value of the Company's investments in commercial paper and short-term U.S. agency securities with original maturities of less than ninety days approximates their carrying value; such instruments are classified as Level 2 and are included in cash and cash equivalents on the accompanying condensed consolidated balance sheets.

The fair value of the Company's investments in fixed-income debt securities and commercial paper with original maturities of greater than ninety days are obtained using similar investments traded on active securities exchanges and are classified as Level 2 and are included in marketable securities on the accompanying condensed consolidated balance sheets. For fixed income securities that do not have quoted prices in active markets, the Company uses third-party vendors to price its debt securities resulting in classification as Level 2.

#### Depreciation and Amortization

The Company calculates depreciation expense using the straight line method and evaluates the appropriateness of the useful life used on a quarterly basis or as events occur that require additional assessment. In addition to the changes made in prior quarters, in the third quarter of 2015, the Company updated its estimate of the current satellites' remaining useful lives based on the continued refinement of the launch schedule and deployment plan for the Company's next-generation satellite constellation ("Iridium NEXT"). As a result, the estimated useful lives of the satellites within the current constellation have been extended and are consistent with the expected deployment of Iridium NEXT. The changes in the estimated useful lives resulted in a decrease of \$2.8 million and \$9.1 million in depreciation expense for the three and nine months ended September 30, 2015, respectively, compared to the prior year period. The change in estimate will have an impact on future periods. The Company will continue to evaluate the useful lives of its current satellites on an ongoing basis through the full deployment of Iridium NEXT as the satellites are placed into service.

Additionally, during the nine months ended September 30, 2014, the Company lost communication with three of its in-orbit satellites, one in the first quarter of 2014 and two in the third quarter of 2014. As a result, an impairment charge of \$1.3 million and \$2.2 million was recorded within depreciation expense for the three and nine months ended September 30, 2014, respectively. The Company has since replaced the lost satellites with in-orbit spares. The Company has not lost any satellites in 2015.

Amortization expense decreased by \$3.1 million and \$9.2 million for the three and nine months ended September 30, 2015, respectively compared to the prior year period due to the completion of amortization of certain definite-lived intangible assets in 2014. These definite-lived intangible assets included customer relationships, core developed technology and software which were assigned fair values as a result of the Company's 2009 acquisition of Iridium Holdings LLC and were amortized over useful lives of five years.

### 3. Cash and Cash Equivalents, Restricted Cash and Marketable Securities

#### Cash and Cash Equivalents

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The Company considers all highly liquid investments with original maturities of ninety days or less to be cash equivalents. These investments, along with cash deposited in institutional money market funds, regular interest bearing and non-interest bearing depository accounts, are classified as cash and cash equivalents on the accompanying condensed consolidated balance sheet. The following table summarizes the Company's cash and cash equivalents:

	September 30, 2015 (in thousands)	December 31, 2014	Recurring Fair Value Measurement
Cash and cash equivalents:			
Cash	\$182,514	\$86,792	
Money market funds	106,169	105,497	Level 1
Commercial paper	1,999	18,960	Level 2
<b>Total Cash and cash equivalents</b>	<b>\$290,682</b>	<b>\$211,249</b>	

## Restricted Cash

The Company is required to maintain a minimum cash reserve for debt service related to its \$1.8 billion loan facility (the "Credit Facility") (see Note 4). As of September 30, 2015 and December 31, 2014, the Company's restricted cash balance, which includes a minimum cash reserve for debt service related to the Credit Facility and the interest earned on these amounts, was \$88.6 million and \$86.1 million, respectively.

## Marketable Securities

Marketable securities consist of fixed-income debt securities and commercial paper with an original maturity in excess of ninety days. These investments are classified as available-for-sale and are included in marketable securities within current assets on the accompanying condensed consolidated balance sheets. All investments are carried at fair value. Unrealized gains and losses, net of taxes, are reported as a component of other comprehensive income or loss. The specific identification method is used to determine the cost basis of the marketable securities sold. There were no material realized gains or losses on the sale of marketable securities for the three and nine months ended September 30, 2015 and 2014. The Company regularly monitors and evaluates the fair value of its investments to identify other-than-temporary declines in value. The Company determined that the decline in fair value of its investments is temporary at September 30, 2015 as the Company does not intend to sell these securities and it is not likely that the Company will be required to sell the securities before the recovery of their amortized cost basis.

The following tables summarize the Company's marketable securities:

	As of September 30, 2015				
	Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Recurring Fair Value Measurement
Fixed-income debt securities	\$ 198,789	\$ 74	\$ (92)	\$ 198,771	Level 2
Commercial paper	8,961	3	-	8,964	Level 2
U.S. Treasury Notes	14,124	29	-	14,153	Level 2
Total Marketable Securities	\$ 221,874	\$ 106	\$ (92)	\$ 221,888	

	As of December 31, 2014				
	Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Recurring Fair Value Measurement
Fixed-income debt securities	\$ 168,960	\$ 397	\$ (314)	\$ 169,043	Level 2
Commercial paper	78,915	-	-	\$ 78,915	Level 2
U.S. Treasury Notes	13,127	53	(2)	13,178	Level 2
Total Marketable Securities	\$ 261,002	\$ 450	\$ (316)	\$ 261,136	

The following table presents the contractual maturities of the Company's marketable securities:

As of September 30, 2015	As of December 31, 2014
Amortized Fair	Amortized Fair

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	Cost	Value	Cost	Value
	(in thousands)			
Mature within one year	\$184,423	\$184,422	\$177,011	\$177,145
Mature after one year and within three years	37,451	37,466	83,991	83,991
Total	\$221,874	\$221,888	\$261,002	\$261,136

#### 4. Commitments and Contingencies

##### Commitments

###### Thales

In June 2010, the Company executed a primarily fixed-price full-scale development contract (the “FSD”) with Thales Alenia Space France (“Thales”) for the design and build of satellites for Iridium NEXT, the Company’s next-generation satellite constellation. The total price under the FSD is \$2.3 billion, and the Company expects payment obligations under the FSD to extend into the first quarter of 2018. As of September 30, 2015, the Company had made aggregate payments of \$1,473.9 million to Thales, of which \$1,252.8 million were from borrowings under the Credit Facility, and which were capitalized as construction in progress within property and equipment, net in the accompanying condensed consolidated balance sheet. The Company currently uses the Credit Facility to pay 85% of each invoice received from Thales under the FSD, with the remaining 15% funded from cash on hand. Once the Credit Facility is fully drawn, the Company expects to pay 100% of each invoice received from Thales from cash and marketable securities on hand as well as internally generated cash flows, including potential cash flows from hosted payloads and Iridium PRIME<sup>SM</sup>.

###### SpaceX

In March 2010, the Company entered into an agreement with Space Exploration Technologies Corp. (“SpaceX”) to secure SpaceX as the primary launch services provider for Iridium NEXT (as amended to date, the “SpaceX Agreement”). The total price under the SpaceX Agreement for seven launches is \$453.1 million. As of September 30, 2015, the Company had made aggregate payments of \$188.3 million to SpaceX, which were capitalized as construction in progress within property and equipment, net in the accompanying condensed consolidated balance sheet. In addition, the Company made a \$3.0 million refundable deposit to SpaceX in the first quarter of 2014 for the reservation of additional future launches, which is not included in the total contract price.

###### Kosmotras

In June 2011, the Company entered into an agreement with International Space Company Kosmotras (“Kosmotras”) as a supplemental launch service provider for Iridium NEXT (the “Kosmotras Agreement”). The Kosmotras Agreement originally provided for the purchase of up to six launches with options to purchase additional launches. Each launch can carry two satellites. In June 2013, the Company exercised an option for one launch to carry the first two Iridium NEXT satellites. If the Company does not exercise any additional options, the total cost under the contract including this single launch will be \$51.8 million. As of September 30, 2015, the Company had made aggregate payments of \$34.2 million to Kosmotras, which were capitalized as construction in progress within property and equipment, net in the accompanying condensed consolidated balance sheet. The option to purchase two dedicated launches expired as of December 31, 2013, and in June 2015, the Company agreed with Kosmotras to replace the remaining options with a new set of options to purchase up to six dedicated launches.

###### Credit Facility

In October 2010, the Company entered into the Credit Facility with a syndicate of bank lenders (the “Lenders”). The Credit Facility was subsequently amended and restated in August 2012. In May 2014, the Company entered into a supplemental agreement (the “Supplemental Agreement”) with the Lenders under the Credit Facility to further amend and restate the Credit Facility. The Company had borrowed an aggregate total of \$1,444.0 million as of September 30, 2015. The unused portion of the Credit Facility as of September 30, 2015 was \$356.0 million. Pursuant to the Credit Facility, the Company maintains a minimum cash reserve for debt repayment. As of September 30, 2015, the minimum required cash reserve balance was \$91.0 million. Of this amount, \$88.6 million is included in restricted cash in the accompanying condensed consolidated balance sheet. The remaining \$2.4 million was added to the restricted

cash balance on October 2, 2015, within the timeframe allowable under the Credit Facility requirements. The minimum cash reserve requirement will increase over the term of the Credit Facility to \$189.0 million in 2017.

Interest costs incurred under the Credit Facility were \$16.7 million and \$47.2 million for the three and nine months ended September 30, 2015, respectively. All interest costs incurred related to the Credit Facility have been capitalized during the construction period of the Iridium NEXT assets. The following table presents interest activity for the Credit Facility for the nine months ended September 30, 2015 and 2014 payable via cash or deemed loan:

	Nine Months Ended September 30, 2015		
	Deemed		Total
	Cash	Loan	
	(in thousands)		
Beginning interest payable	\$2,936	\$6,653	\$9,589
Interest incurred	14,416	32,827	47,243
Interest payments	(8,911)	(20,282)	(29,193)
Ending interest payable	\$8,441	\$19,198	\$27,639

	Nine Months Ended September 30, 2014		
	Deemed		Total
	Cash	Loan	
	(in thousands)		
Beginning interest payable	\$2,435	\$5,543	\$7,978
Interest incurred	11,419	25,906	37,325
Interest payments	(7,271)	(16,542)	(23,813)
Ending interest payable	\$6,583	\$14,907	\$21,490

At September 30, 2015, the deemed loan of \$19.2 million is included in other long-term liabilities in the accompanying condensed consolidated balance sheet. The Company is obligated to pay a cash commitment fee of 0.80% per year, in semi-annual installments, on any undrawn portion of the Credit Facility. In April 2015, the Company paid \$2.3 million as a semi-annual installment of the commitment fee. The commitment fee payable on the undrawn portion of the Credit Facility as of September 30, 2015 was \$1.6 million and is included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet.

### Contingencies

From time to time, in the normal course of business, the Company is party to various pending claims and lawsuits. The Company is not aware of any such actions that it would expect to have a material adverse impact on its business, financial results or financial condition.

### 5. Stock-Based Compensation

The Company accounts for stock-based compensation at fair value. The fair value of stock options is determined at the grant date using the Black-Scholes option pricing model. The fair value of restricted stock units ("RSUs") is equal to the closing price of the underlying common stock on the grant date. The fair value of an award that is ultimately expected

to vest is recognized on a straight-line basis over the requisite service or performance period and is classified in the condensed consolidated statements of operations and comprehensive income in a manner consistent with the classification of the recipient's compensation. The expected vesting of the Company's performance-based RSUs is based upon the likelihood that the Company achieves the defined performance goals. The level of achievement of performance goals, if any, is determined by the compensation committee of the Company's Board of Directors. Stock-based awards to non-employee consultants are expensed at their fair value as services are provided according to the terms of their agreements and are classified in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations and comprehensive income.

In May 2015, the Company's stockholders approved the 2015 Equity Incentive Plan (the "2015 Plan") to provide stock-based awards, including nonqualified stock options, incentive stock options, restricted stock and other equity securities, as incentives and rewards for employees, consultants and non-employee directors. As of September 30, 2015, 23,203,009 shares of common stock were registered for issuance as awards under the 2015 Plan, of which 10,977,178 shares are reserved for issuance under outstanding awards.

In January 2015, members of the Company's board of directors elected to receive a portion of their 2015 annual compensation in the form of equity awards, in an aggregate amount of approximately 103,000 stock options and 62,000 RSUs. These stock options and RSUs were granted in January 2015 under the Company's 2012 Equity Incentive Plan and vest through the end of 2015, with 25% vesting on the last day of each calendar quarter. In addition, in July 2015, the Company granted approximately 15,000 RSUs pursuant to the 2015 Plan to two new board members who were elected at the Company's 2015 annual meeting of stockholders. These RSUs

vest through the end of 2015. The estimated aggregate grant-date fair value of the stock options was \$0.4 million. The estimated aggregate grant-date fair value of the RSUs was \$0.7 million.

During the nine months ended September 30, 2015, the Company granted approximately 742,000 stock options and 596,000 service-based RSUs to its employees. Employee stock options and service-based RSUs generally vest over a four-year service period with 25% vesting on the first anniversary of the grant date and the remainder vesting ratably on a quarterly basis thereafter. The estimated aggregate grant date fair values of the stock options and service-based RSUs granted during the nine months ended September 30, 2015 were \$2.9 million and \$5.6 million, respectively.

In addition, in March 2015, the Company awarded approximately 161,000 performance-based RSUs to the Company's executives. The Company records stock-based compensation expense related to performance-based RSUs when it is considered probable that the performance conditions will be met. Vesting of the March 2015 performance-based RSUs is dependent upon the Company's achievement of defined performance goals over fiscal years 2015 and 2016. The number of performance-based RSUs that will ultimately vest may range from 0% to 150% of the original grant based on the level of achievement of the performance goals. If the Company achieves the performance goals, 50% of the performance-based RSUs will vest at the end of two years and the remaining 50% will vest at the end of the third year, subject to continued service. The estimated aggregate grant date fair value of the performance-based RSUs granted in March 2015 was \$1.5 million.

In June 2015, the Company granted 30,000 stock options to non-employee consultants. The stock options granted to consultants are generally subject to service-based vesting and vest quarterly over a two-year service period. The fair value of the consultant options is the then-current fair value attributable to the vesting portions of the awards, calculated using the Black-Scholes option pricing model. The estimated aggregate grant-date fair value of the stock options granted to non-employee consultants during the nine months ended September 30, 2015 was \$0.2 million.

In June 2014, the Company awarded performance-based RSUs to its executives and employees. Vesting of the June 2014 performance-based RSUs was dependent upon the Company's achievement of defined performance goals for the 2014 fiscal year. The level of achievement of performance goals in connection with the June 2014 performance-based RSUs was determined by the compensation committee in March 2015. Approximately 304,000 of the June 2014 performance-based RSUs were vested and released in March 2015 at an estimated aggregate fair value of \$2.4 million, which was recognized as compensation expense over the vesting period.

## 6. Equity Transactions and Instruments

### Warrants

On September 29, 2009, in connection with the Company's acquisition of Iridium Holdings LLC, the Company issued warrants, each of which entitled the holder to purchase from the Company one share of common stock at a price of \$11.50 per share. On February 14, 2015, all of the outstanding and unexercised warrants expired in accordance with their terms.

### Preferred Stock

The Company is authorized to issue 2.0 million shares of preferred stock with a par value of \$0.0001 per share. As described below, the Company issued 1.0 million shares of preferred stock in the fourth quarter of 2012 and 0.5 million shares of preferred stock in the second quarter of 2014. The remaining 0.5 million authorized shares of preferred stock remain undesignated and unissued as of September 30, 2015.

Series A Cumulative Perpetual Convertible Preferred Stock

In the fourth quarter of 2012, the Company issued 1.0 million shares of its 7.00% Series A Cumulative Perpetual Convertible Preferred Stock (the "Series A Preferred Stock") in a private offering. The Company received proceeds of \$96.5 million from the sale of the Series A Preferred Stock, net of the aggregate \$3.5 million in initial purchaser discount and offering costs. The net proceeds of this offering were used to partially fund the construction and deployment of Iridium NEXT and for other general corporate purposes.

Holder of Series A Preferred Stock are entitled to receive cumulative cash dividends at a rate of 7.00% per annum of the \$100 liquidation preference per share (equivalent to an annual rate of \$7.00 per share). Dividends are payable quarterly in arrears on each March 15, June 15, September 15 and December 15. The Series A Preferred Stock does not have a stated maturity date and is not subject to any sinking fund or mandatory redemption provisions. The Series A Preferred Stock ranks senior to the Company's common stock and pari passu with the Company's 6.75% Series B Cumulative Perpetual Convertible Preferred Stock (the "Series B Preferred Stock") with respect to dividend rights and rights upon the Company's liquidation, dissolution or winding-up. Holders of Series A Preferred Stock generally have no voting rights except for limited voting rights if the Company fails to pay dividends for six

or more quarterly periods (whether or not consecutive) and in other specified circumstances. Holders of Series A Preferred Stock may convert some or all of their outstanding Series A Preferred Stock at an initial conversion rate of 10.6022 shares of common stock per \$100 liquidation preference, which is equivalent to an initial conversion price of approximately \$9.43 per share of common stock (subject to adjustment in certain events).

In 2014, the Company paid \$7.0 million in cash dividends to its holders of Series A Preferred Stock. During the three and nine months ended September 30, 2015, the Company paid cash dividends of \$1.8 million and \$5.3 million, respectively, to holders of the Series A Preferred Stock. As of September 30, 2015 and December 31, 2014, the Company had accrued \$0.3 million in cash dividends for the holders of the Series A Preferred Stock, which is included within accrued expenses and other current liabilities on the accompanying condensed consolidated balance sheets.

On or after October 3, 2017, the Company may, at its option, convert some or all of the Series A Preferred Stock into the number of shares of common stock that are issuable at the then-applicable conversion rate, subject to specified conditions. On or prior to October 3, 2017, the holders of Series A Preferred Stock will have a special right to convert some or all of the Series A Preferred Stock into shares of common stock in the event of fundamental changes described in the Certificate of Designations for the Series A Preferred Stock, subject to specified conditions and limitations. In certain circumstances, the Company may also elect to settle conversions in cash as a result of these fundamental changes.

#### Series B Cumulative Perpetual Convertible Preferred Stock

In May 2014, the Company issued 500,000 shares of its Series B Preferred Stock in an underwritten public offering at a price to the public of \$250 per share. The purchase price received by the Company, equal to \$242.50 per share, reflected an underwriting discount of \$7.50 per share. The Company received proceeds of \$120.8 million from the sale of the Series B Preferred Stock, net of the \$3.8 million underwriter discount and \$0.4 million of offering costs. The net proceeds of this offering are being used to partially fund the construction and deployment of Iridium NEXT and for other general corporate purposes.

Holders of Series B Preferred Stock are entitled to receive cumulative cash dividends at a rate of 6.75% per annum of the \$250 liquidation preference per share (equivalent to an annual rate of \$16.875 per share). Dividends are payable quarterly in arrears on each March 15, June 15, September 15 and December 15. The Series B Preferred Stock does not have a stated maturity date and is not subject to any sinking fund or mandatory redemption provisions. The Series B Preferred Stock ranks senior to the Company's common stock and pari passu with respect to the Company's Series A Preferred Stock with respect to dividend rights and rights upon the Company's voluntary or involuntary liquidation, dissolution or winding-up. Holders of Series B Preferred Stock generally have no voting rights except for limited voting rights if the Company fails to pay dividends for six or more quarterly periods (whether or not consecutive) and in other specified circumstances. Holders of Series B Preferred Stock may convert some or all of their outstanding Series B Preferred Stock at an initial conversion rate of 33.456 shares of common stock per \$250 liquidation preference, which is equivalent to an initial conversion price of approximately \$7.47 per share of common stock (subject to adjustment in certain events).

In 2014, the Company paid \$5.0 million in cash dividends to its holders of Series B Preferred Stock. During the three and nine months ended September 30, 2015, the Company paid cash dividends of \$2.1 million and \$6.3 million, respectively, to holders of the Series B Preferred Stock; the Company paid \$2.9 million in dividends during the three and nine months ended September 30, 2014. As of September 30, 2015, the Company had accrued \$0.4 million in cash dividends for the holders of the Series B Preferred Stock, which is included within accrued expenses and other current liabilities on the accompanying condensed consolidated balance sheet.

On or after May 15, 2019, the Company may, at its option, convert some or all of the Series B Preferred Stock into the number of shares of common stock that are issuable at the then-applicable conversion rate, subject to specified

conditions. On or prior to May 15, 2019, in the event of certain specified fundamental changes, holders of the Series B Preferred Stock will have the right to convert some or all of their shares of Series B Preferred Stock into the greater of (i) a number of shares of the Company's common stock as subject to adjustment plus the make-whole premium, if any, and (ii) a number of shares of the Company's common stock equal to the lesser of (a) the liquidation preference divided by the market value of the Company's common stock on the effective date of such fundamental change and (b) 81.9672 (subject to adjustment). In certain circumstances, the Company may elect to cash settle any conversions in connection with a fundamental change.

#### 7. Net Income Per Share

The Company calculates basic net income per share by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share takes into account the effect of potential dilutive common shares when the effect is dilutive. The effect of potential dilutive common shares, including common stock issuable upon exercise of outstanding stock options and stock purchase warrants, is computed using the treasury stock method. The effect of potential dilutive common shares from the conversion of outstanding convertible preferred securities is computed using the as-if converted method at the stated conversion rate. The RSUs granted to members of the Company's board of directors contain

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non-forfeitable rights to dividends and therefore are considered to be participating securities in periods of net income. The calculation of basic and diluted net income per share excludes net income attributable to the unvested RSUs from the numerator and excludes the impact of unvested RSUs from the denominator.

The computations of basic and diluted net income per share are as follows:

	Three Months Ended September 30,	
	2015	2014
	(in thousands, except per share data)	
<b>Numerator:</b>		
Net income attributable to common stockholders	\$ 25,688	\$ 16,529
Dividends on Series A Preferred Stock	1,750	1,750
Dividends on Series B Preferred Stock	2,109	2,109
Numerator for diluted net income per share	\$ 29,547	\$ 20,388