

Iridium Communications Inc.  
Form 10-Q  
November 16, 2009  
Table of Contents

**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, 2009**

**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)

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**DELAWARE**  
(State of incorporation)

**22-1344998**  
(I.R.S. Employer Identification No.)

**6707 Democracy Boulevard, Suite 300, Bethesda, Maryland**  
(Address of principal executive offices)

**20817**  
(Zip code)

**301-571-6200**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, 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 November 10, 2009 was 70,247,701.

**Table of Contents**

**IRIDIUM COMMUNICATIONS INC.**

**TABLE OF CONTENTS**

**ITEM**

<b>No.</b>		<b>PAGE</b>
<b>Part I. Financial Information</b>		
1.	Financial Statements	
	<i>Iridium Communications Inc.:</i>	
	<u>Unaudited Condensed Consolidated Balance Sheets</u>	1
	<u>Unaudited Condensed Consolidated Statements of Operations</u>	2
	<u>Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity</u>	3
	<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	4
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
	<i>Iridium Holdings LLC - Predecessor Company:</i>	
	<u>Unaudited Condensed Consolidated Balance Sheets</u>	20
	<u>Unaudited Condensed Consolidated Statements of Income</u>	21
	<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	22
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	23
2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
4.	<u>Controls and Procedures</u>	48
<b>Part II. Other Information</b>		
1.	<u>Legal Proceedings</u>	49
1A.	<u>Risk Factors</u>	49
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	63
3.	<u>Defaults Upon Senior Securities</u>	64
4.	<u>Submission of Matters to a Vote of Security Holders</u>	64
5.	<u>Other Information</u>	64
6.	<u>Exhibits</u>	64
	<u>Signatures</u>	65
	<u>EX-31.1</u>	
	<u>EX-31.2</u>	
	<u>EX-32.1</u>	

**Table of Contents****PART I.****FINANCIAL INFORMATION****Iridium Communications Inc.****Unaudited Condensed Consolidated Balance Sheets****(In thousands, except share and per share amounts)**

	September 30, 2009	December 31, 2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 136,631	\$ 129
Accounts receivable	46,571	
Inventory	32,045	
Deferred tax asset	3,781	
Prepaid expenses and other current assets	3,066	14
Total current assets	222,094	143
Property and equipment	394,709	
Restricted cash	15,520	
Investments held in trust at broker, including accrued interest of \$110		401,839
Deferred tax asset		1,168
Intangible assets	87,758	
Goodwill	75,464	
Other assets	1,161	
Total assets	\$ 796,706	\$ 403,150
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 4,281	\$
Accrued expenses and other current liabilities	30,918	1,611
Accrued compensation and employee benefits	5,738	
Deferred revenue	10,593	
Deferred acquisition consideration	25,500	
Deferred underwriter commissions		11,288
Deferred tax liability	2,192	
Total current liabilities	79,222	12,899
Accrued satellite operations and maintenance expense, net of current portion	15,218	
Convertible subordinated note	16,723	
Deferred tax liability	71,852	
Other long-term liabilities	1,078	
Total liabilities	184,093	12,899
Commitments and contingencies		
Common stock subject to possible conversion		119,988

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### Stockholders' equity:

Preferred stock, \$0.0001 par value, 2,000,000 shares authorized and none issued or outstanding.

Common stock, \$0.001 par value 300,000,000 shares authorized and 68,252,072 and 48,500,000 issued and outstanding at September 30, 2009 and December 31, 2008, respectively.

Additional paid-in capital	68	48
(Deficit) retained earnings	650,304	268,563
	(37,759)	1,652
<b>Total stockholders' equity</b>	<b>612,613</b>	<b>270,263</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 796,706</b>	<b>\$ 403,150</b>

See notes to the unaudited condensed consolidated financial statements.

**Table of Contents****Iridium Communications Inc.****Unaudited Condensed Consolidated Statements of Operations****(In thousands, except per share amounts)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Operating expenses:				
Professional fees	\$ 5,725	\$ 28	\$ 6,244	\$ 104
Other operating expenses	372	78	645	196
Total operating expenses	6,097	106	6,889	300
Change in fair value of warrants	(34,117)		(34,117)	
Other income - interest	157	1,943	979	4,936
(Loss) earnings before provision (benefit) for taxes	(40,057)	1,837	(40,027)	4,636
Income tax (benefit) provision	(629)	740	(616)	2,088
Net (loss) income	\$ (39,428)	\$ 1,097	\$ (39,411)	\$ 2,548
Weighted average shares outstanding - basic	48,929	48,500	48,645	41,512
Weighted average shares outstanding - diluted	48,929	48,500	48,645	41,512
(Loss) earnings per share - basic	\$ (0.81)	\$ 0.02	\$ (0.81)	\$ 0.06
(Loss) earnings per share - diluted	\$ (0.81)	\$ 0.02	\$ (0.81)	\$ 0.06

See notes to the unaudited condensed consolidated financial statements

**Table of Contents****Iridium Communications Inc.****Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity****For the Nine Months Ended September 30, 2009****(In thousands, except share amounts)**

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in	Retained	Stockholders
			Capital	Earnings	Equity
				(Deficit)	
Balance at December 31, 2008	48,500,000	\$ 48	\$ 268,563	\$ 1,652	\$ 270,263
Net loss				(39,411)	(39,411)
Payment of deferred underwriters' fees			6,982		6,982
Purchase of warrants			(1,828)		(1,828)
Net proceeds from offering	16,000,000	16	148,715		148,731
Shares issued in Acquisition	29,443,500	29	333,419		333,448
Purchase of common stock, net	(9,169,979)	(9)	28,317		28,308
Purchase of common stock under forward purchase contracts	(16,325,196)	(16)	(164,868)		(164,884)
Forfeitures	(1,441,176)	(1)	1		
Reclassification of warrants to derivative liabilities			(28,555)		(28,555)
Settlement of derivative liabilities for warrants			47,110		47,110
Settlement of derivative liabilities for shares of common stock	1,244,923	1	12,448		12,449
Balance at September 30, 2009	68,252,072	\$ 68	\$ 650,304	\$ (37,759)	\$ 612,613

See notes to the unaudited condensed consolidated financial statements

**Table of Contents****Iridium Communications Inc.****Unaudited Condensed Consolidated Statements of Cash Flows**

(In thousands, except share and per share amounts)

	Nine Months Ended September 30,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (39,411)	\$ 2,548
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Non-cash items included in net income:		
Deferred taxes	(667)	(135)
Change in market value of warrants	34,117	
Contributions of earnings from trust account	(979)	(2,073)
Payment of acquired liabilities	(7,638)	
Changes in operating assets and liabilities:		
Interest income receivable		(197)
Accounts receivable		
Prepaid expenses and other current assets	(816)	(47)
Accrued expenses and other liabilities	(1,180)	266
Accrued interest expense		3
Due to related party		10
Income tax payable		456
Net cash (used in) provided by operating activities	(16,574)	831
<b>Cash flows from investing activities:</b>		
Proceeds invested in trust account		(400,000)
Cash transfers from (to) trust account	402,818	(229)
Cash paid for acquisition, net of cash acquired	(19,086)	
Net cash provided by (used in) investing activities	383,732	(400,229)
<b>Cash flows from financing activities:</b>		
Proceeds from public offerings	149,600	393,100
(Purchase) issuance of private placement warrants	(4,940)	8,000
Purchase of shares	(164,884)	
Purchase of shares for no-votes	(91,700)	
Payment of deferred underwriting fee	(4,288)	
Payment of costs associated with offering	(850)	(1,140)
Payment of note payable to related party		(256)
Payments under credit facility	(113,594)	
Net cash (used in) provided by financing activities	(230,656)	399,704
Net increase in cash and cash equivalents	136,502	306
Cash and cash equivalents, beginning of period	129	184
Cash and cash equivalents, end of period	\$ 136,631	\$ 490
<b>Supplemental cash flow information:</b>		
Interest paid	\$	\$ 6



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Income taxes paid	\$ 340	\$ 1,767
<b>Supplemental disclosure of non-cash investing activities:</b>		
Shares issued for the acquisition of Iridium Holdings (29,443,500 shares at \$11.325 per share)	\$ 333,448	\$
Accrual of additional consideration for acquisition of Iridium Holdings	\$ 25,500	\$
<b>Supplemental disclosure of non-cash financing activities:</b>		
(Reversal) accrual of deferred underwriter commissions	\$ (8,176)	\$ 11,288
Accrued deferred acquisition costs	\$	\$ 1,268

See notes to the unaudited condensed consolidated financial statements

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**Table of Contents**

**Iridium Communications Inc.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2009**

**1. Organization and Basis of Presentation**

Iridium Communications Inc. (the Company) was formed as GHL Acquisition Corporation, a special purpose acquisition company as further described below. The Company acquired, directly and indirectly, all the outstanding equity of Iridium Holdings LLC (Iridium Holdings) and, together with its direct and indirect subsidiaries, Iridium) in a transaction accounted for as a purchase business combination on September 29, 2009 (the Acquisition). In accounting for the Acquisition, the Company was deemed the acquirer and Iridium Holdings the acquiree. On September 29, 2009, the Company changed its name to Iridium Communications Inc. For the purposes of presenting condensed consolidated financial statements as of and for the three and nine months ended September 30, 2009, management has determined that the results of Iridium's operations for the one-day period from the closing of the Acquisition to September 30, 2009 was not material. Accordingly, the Company's condensed consolidated statements of operations and cash flows for the three and nine months ended September 30, 2009 include solely the results of the Company's pre-Acquisition operations, and do not include any results of Iridium. The Company's condensed consolidated balance sheet as of September 30, 2009 includes the assets and liabilities of Iridium, as further described below. All significant intercompany accounts and transactions have been eliminated in consolidation.

Iridium is considered the predecessor of the Company and, accordingly, its historical financial statements are separately presented as predecessor financial statements.

The Company was formed on November 2, 2007, for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or other similar business combination. All activity from November 2, 2007 (inception) through February 21, 2008 relates to the Company's formation and initial public offering. From February 21, 2008 through September 29, 2009, the Company's activities were limited to identifying prospective target businesses to acquire and complete a business combination. On September 29, 2009, the Company consummated the Acquisition and, as a result, is no longer in the development stage.

Iridium Holdings was formed under the laws of Delaware in 2000 as a limited liability company pursuant to the Delaware Limited Liability Company Act. On December 11, 2000, Iridium Holdings acquired certain satellite communication assets from Iridium LLC, a non affiliated debtor in possession, pursuant to an asset purchase agreement.

The Company is now, following the Acquisition, a provider of mobile voice and data communications services via satellite. The Company holds various licenses from the Federal Communications Commission (the FCC) and from international regulatory bodies that permit the Company to conduct its business, including the operation of its satellite constellation. The Company offers voice and data communications services and products to U.S. and international government agencies, businesses and other customers on a global basis.

**2. Business Combination**

On September 22, 2008, the Company entered into a transaction agreement, as amended on April 28, 2009 (the Transaction Agreement), with Iridium Holdings and its members whereby it agreed to purchase, directly or indirectly, all of the outstanding equity of Iridium Holdings. The Acquisition closed on September 29, 2009. Total consideration of approximately \$436.0 million included 29.4 million shares of the Company's common stock (Common Stock) valued at \$333.4 million, \$77.1 million in cash and the requirement to make a tax benefit payment of approximately \$25.5 million payable in cash to certain former members of Iridium Holdings on or around December 29, 2009, provided that the stated condition precedent in the Transaction Agreement has been satisfied. The Company accounted for its business combination with Iridium Holdings by recording all assets acquired and liabilities assumed at their respective Acquisition-date fair values. ASC 740 *Income Taxes* requires recognition of deferred tax liabilities and assets for the tax effects of differences between assigned book values and tax bases of assets acquired and liabilities assumed in a business combination. For tax purposes, to determine the tax basis of assets and liabilities upon acquisition, the Company first determined the pre-acquisition tax basis of assets acquired and liabilities assumed and then added the tax step-up for the partnership interests acquired directly. This resulted in a deferred tax liability of \$75.9 million.

**Table of Contents****Iridium Communications Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

Based on the Company's market price of its Common Stock on September 29, 2009, the total consideration for Iridium Holdings was \$436.0 million, as follows:

	<b>(In thousands)</b>
Cash	\$ 77,100
Equity	333,448
Cash related to tax benefit	25,500
 Total	 \$ 436,048

The estimated fair values used as of September 29, 2009 are based on the Company's initial estimation, and may be adjusted from time to time but no later than September 29, 2010, as better information becomes available. The following represents the allocation of the purchase price based on these initial estimated fair values:

	<b>Estimated Fair Value (In thousands)</b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 58,015
Restricted cash	15,520
Accounts receivable	46,571
Other current assets	2,236
Inventory	32,045
Property and equipment	394,709
Intangible assets	87,758
Goodwill	75,464
Deferred tax asset	3,781
Other assets	1,161
 Total assets	 717,260
 <b>Liabilities:</b>	
Accounts payable	4,281
Accrued liabilities	42,686
Deferred revenue	10,593
Accrued satellite operations and maintenance	15,218
Credit facility	113,593
Convertible subordinated note	16,723
Deferred tax liability	75,879
Other liabilities	2,239
 Total liabilities	 281,212
 Net assets acquired	 \$ 436,048

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*Goodwill.* The total consideration paid in the Acquisition exceeded the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed, resulting in approximately \$75.5 million of goodwill. The goodwill relates primarily to other intangible assets that do not qualify for separate recognition.

*Pre-Acquisition Contingency.* Iridium had certain contingencies under agreements in effect as of the date of the Acquisition that the Company believes are required to be recorded at their fair value at the time of the Acquisition. Some of the contingencies relate to potential payments relating to the occurrence of a distribution event, change of control or other specified transactions, and other matters. The Company believes that it is unclear whether the foregoing provisions were intended to apply to a transaction such as the Acquisition. Although the outcome of such payments is uncertain, management currently believes that payment on certain of these provisions is not probable. The estimated fair value of the pre-Acquisition contractual contingencies at the date of the Acquisition was \$11.7 million, which have been reflected as a liability in the unaudited Condensed Consolidated Balance Sheet as of September 30, 2009.

**Table of Contents****Iridium Communications Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (continued)****Transaction Costs**

An acquirer is required to recognize as expense the direct costs of a business combination in the period in which the expense is incurred. Accordingly, the Company has been expensing Acquisition-related costs as they have been incurred during the pre-Acquisition periods presented. The Company incurred approximately \$8.3 million of Acquisition-related costs, including \$6.2 million in 2009.

**Pro Forma Information**

The following table contains unaudited pro forma consolidated statement of income information of the Company for the nine months ended September 30, 2009 and 2008 as if the Acquisition had occurred at the beginning of each respective period presented:

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except per share amounts)</b>	
Total revenue	\$ 242,951	\$ 244,192
Net income	\$ (6,329)	\$ (474)
Basic and diluted net loss per common share	\$ (0.09)	\$ (0.01)
Weighted average shares outstanding	68,252	68,252

This pro forma information may not be indicative of the results of operations that would have actually occurred had the Acquisition occurred as presented. Also, future results may vary significantly from the results reflected in such pro forma information.

**3. Significant Accounting Policies and Basis of Presentation****Principles of Consolidation and Basis of Presentation**

The Company has prepared the unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ) for interim financial information. In the opinion of management, the unaudited 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 the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. While the Company believes that the disclosures are adequate to make the information not misleading, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in its Form 10-K for the fiscal year ended December 31, 2008.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ materially from those estimates.

**Financial Instruments**

The unaudited condensed consolidated balance sheets include various financial instruments (primarily cash and cash equivalents, investments held in trust, restricted cash, accounts receivable, accounts payable, accrued expenses and other liabilities, convertible subordinated note, and other obligations). Additional information regarding fair value is disclosed in Note 10 under Fair Value Measurements.



**Table of Contents**

**Iridium Communications Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

**Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and receivables. The majority of this cash is swept nightly into a money market fund with a diversified portfolio. The Company performs credit evaluations of its customers' financial condition and records reserves to provide for estimated credit losses. Accounts receivable are due from both domestic and international customers. The Company maintains its cash and cash equivalents with financial institutions with high credit ratings. The Company maintains deposits in federally insured financial institutions in excess of federally insured (FDIC) limits.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. The entire cash and cash equivalents balances at September 30, 2009 and December 31, 2008 consisted of cash deposited in institutional money market mutual funds (for overnight sweep account funds) and the remainder was held in regular interest bearing and non-interest bearing depository accounts and certificates of deposits with commercial banks.

**Accounts Receivable**

Trade accounts receivable are generally recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the condensed consolidated statements of cash flows. The Company had no allowance for uncollectible accounts at September 30, 2009 or December 31, 2008. Management develops its estimate of this allowance based on the Company's experience with specific customers, its understanding of their current economic circumstances and its own judgment as to the likelihood that the Company will ultimately receive payment. When a specific account receivable is determined to be uncollectible, the Company reduces both its accounts receivable and allowances for uncollectible accounts accordingly.

**Inventory**

Inventory consists of subscriber equipment, which includes handsets, L-Band transceivers, Iridium OpenPort, data devices, and related accessories to be sold to customers to access Company services and raw materials from third-party manufacturers (see Note 8 Commitments and Contingencies, Purchase Commitments). The Company outsources manufacturing of all subscriber equipment to a third-party manufacturer and purchases accessories from third-party suppliers. The Company's cost of inventory includes an allocation of overhead (including salaries and benefits of employees directly involved in bringing inventory to its existing condition, scrap, tooling and freight). Inventories are valued using the average cost method, and are carried at the lower of cost or market.

**Long-Lived Assets**

The Company assesses the impairment of long-lived assets when indicators of impairment are present. Recoverability of assets is measured by comparing the carrying amounts of the assets to the future undiscounted cash flows expected to be generated by the assets. Any impairment loss would be measured as the excess of the assets' carrying amount over their fair value. Fair value is based on market prices where available, an estimate of market value, or various valuation techniques.

**Goodwill and Other Intangible Assets**

*Goodwill*

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Impairment testing for goodwill is performed annually or more frequently if indications of potential impairment exist. If the fair value of goodwill is less than the carrying amount of goodwill, an impairment loss is recognized.

*Intangible Assets Not Subject to Amortization*

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A significant portion of our intangible assets are spectrum and trade names and trademarks which are indefinite-lived intangible assets. The Company reevaluates the useful life determination for these assets each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

The Company tests its indefinite-lived intangible assets for potential impairment annually or more frequently if indications of impairment exist. If the fair value of the indefinite-lived asset is less than the carrying amount, an impairment loss is recognized.

### *Intangible Assets Subject to Amortization*

The Company's intangible assets that do not have indefinite lives (primarily customer lists, core developed technology and internally developed software) are amortized over their useful lives and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any indications were present, the Company would test for recoverability by comparing the carrying amount of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount (i.e., the asset is not recoverable), the Company would perform the next step, which is to determine the fair value of the asset and record an impairment loss, if any. The Company reevaluates the useful life determinations for these intangible assets each reporting period to determine whether events and circumstances warrant a revision in their remaining useful lives.



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**Table of Contents**

**Iridium Communications Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

**Asset Retirement Obligations**

Liabilities arising from legal obligations associated with the retirement of long-lived assets are required to be measured at fair value and recorded as a liability. Upon initial recognition of a liability for retirement obligations, a company must record an asset, which is depreciated over the life of the asset to be retired.

Under certain circumstances, each of the U.S. government, The Boeing Company ( Boeing ) and Motorola, Inc. ( Motorola ) has the unilateral right to require the de-orbit of the Company's satellite constellation. In the event the Company was required to effect a mass de-orbit, the Company, pursuant to the amended and restated operations and maintenance agreement with Boeing (the O&M Agreement ) would be required to pay Boeing \$16.0 million, plus an amount equivalent to the premium for inception of Section B de-orbit insurance coverage (\$2.5 million as of September 30, 2009). The Company has concluded that each of the foregoing de-orbit rights meets the definition of a legal obligation and does not believe the U.S. government, Boeing or Motorola will exercise their respective de-orbit rights. As a result, the Company believes the likelihood of any future cash outflows associated with the mass de-orbit obligation to be remote.

There are other circumstances in which the Company could be required, either by the U.S. government or for technical reasons, to de-orbit an individual satellite; however, the Company believes that such costs would not be significant relative to the costs associated with the ordinary operations of the satellite constellation.

**Revenue Recognition**

The Company will, after the Acquisition, derive its revenue primarily as a wholesaler of satellite communications products and services. The primary types of revenue include (i) services revenue (access and usage-based airtime fees) and (ii) subscriber equipment revenue. Additionally, the Company will generate sales by providing engineering and support services to commercial and government customers.

*Wholesaler of satellite communications products and services*

After the Acquisition, pursuant to wholesale agreements, the Company, through Iridium, will sell its products and services to service providers who, in turn, sell the products and services to other distributors or directly to the end-users. Generally, the Company will recognize revenue when services are performed or delivery has occurred, evidence of an arrangement exists, the fee is fixed or determinable, and collection is probable, as follows:

*Contracts with multiple elements*

At times, the Company will sell subscriber equipment through multi-element contracts that bundle subscriber equipment with airtime services. When the Company sells subscriber equipment and airtime services in bundled arrangements that include guaranteed minimum orders and determines that it has separate units of accounting, the Company will allocate the bundled contract price among the various contract deliverables based on each deliverable's relative fair value. The Company will determine vendor specific objective evidence of fair value by assessing sales prices of subscriber equipment and airtime services when they are sold to customers on a stand-alone basis.

*Services revenue sold on a stand-alone basis*

Services revenue will be generated from the Company's service providers through usage of its satellite system and through fixed monthly access fees per user charged to service providers. Revenue for usage will be recognized when usage occurs. Revenue for fixed-per-user access fees will be recognized ratably over the period in which the services are provided to the end-user. Revenue from prepaid services will be recognized when usage occurs or when the customer's right to access the unused prepaid services expires. The Company will not offer refund privileges for unused prepaid services. Deferred prepaid services revenue and access fees will typically be earned and recognized as income within one year of customer prepayment. Based on historical information for prepaid services that do not have an expiration date, the Company will record breakage associated with any prepaid account balances for which the likelihood of redemption is remote, which will generally be determined after 36 months from issuance.



**Table of Contents**

**Iridium Communications Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

*Subscriber equipment sold on a stand-alone basis*

The Company will recognize subscriber equipment sales and the related costs when title to the equipment (and the risks and rewards of ownership) passes to the customer.

*Services and subscriber equipment sold to the U.S. government*

After the Acquisition, the Company will provide airtime to U.S. government subscribers through (i) fixed monthly fees on a per user basis for unlimited voice services, (ii) fixed monthly fees per user for unlimited paging services and (iii) a tiered pricing plan (based on usage) per device for data services. Revenue related to these services will be recognized ratably over the periods in which the services are provided, and costs will be expensed as incurred. The U.S. government will purchase its equipment from third-party service providers and not directly from the Company.

*Government engineering and support services*

After the Acquisition, the Company will provide maintenance services to the U.S. government's dedicated gateway in Hawaii. This revenue will be recognized ratably over the periods in which the services are provided; costs will be expensed as incurred.

*Other government and commercial engineering and support services*

After the Acquisition, the Company also will provide certain engineering services to assist customers in developing new technologies for use on the Company's satellite system. The revenue associated with these services will be recorded when the services are rendered, typically on a percentage of completion method of accounting based on the Company's estimate of total costs expected to complete the contract, and costs will be expensed as incurred. Revenue on cost-plus-fixed-fee contracts will be recognized to the extent of estimated costs incurred plus the applicable fees earned. The Company considers fixed fees under cost-plus-fixed-fee contracts to be earned in proportion to the allowable costs incurred in performance of the contract.

**Warranty Expense**

After the Acquisition, the Company generally will provide its customers a warranty on subscriber equipment for one year from the date of activation, with the exception of the Iridium OpenPort product, which has a two year standard warranty. A warranty accrual will be made when it is estimable and probable that a loss has been incurred. A warranty reserve will be maintained based on historical experience of warranty costs and expected occurrences of warranty claims on equipment. Costs associated with warranties will be recorded as cost of subscriber equipment sales and include equipment replacements, repairs and program administration.

**Research and Development**

After the Acquisition, research and development costs will be charged as an expense in the period in which they are incurred.

**Income Taxes**

The Company accounts for income taxes using the asset and liability approach, which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax basis of its assets and liabilities. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company also recognizes a tax benefit from uncertain tax positions only if it is more likely than not that the position is sustainable based on its technical merits.

**Earnings Per Share**

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The Company calculates basic earnings per share by dividing net income (loss) by the weighted-average number of shares of Common Stock and common stock equivalents outstanding during the period. Diluted earnings per share

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**Table of Contents****Iridium Communications Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

takes into account the effects of other potentially dilutive securities when they are dilutive. As of September 30, 2009, the Company had approximately 28.0 million warrants outstanding; because there was a loss for the three and nine months ended September 30, 2009, these warrants were considered to be anti-dilutive in those periods and therefore were excluded from the weighted average diluted shares outstanding calculation.

**Accounting Developments**

In December 2007, the Financial Accounting Standards Board ( FASB ) issued accounting guidance on business combinations that requires the acquiring entity to record all assets acquired and liabilities assumed at their respective acquisition-date fair values, changes the recognition of assets acquired and liabilities assumed arising from contingencies, changes the recognition and measurement of contingent consideration, and requires the expensing of acquisition-related costs as incurred. The accounting guidance also requires additional disclosure of information surrounding a business combination, such that users of the entity's financial statements can fully understand the nature and financial impact of the business combination. The Company adopted the accounting guidance for business acquisitions effective January 1, 2009.

In June 2009, the FASB issued accounting guidance on financial reporting by companies involved with variable interest entities. The new guidance requires a company to perform an analysis to determine whether the company's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, a company is required to assess whether it has implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. The new guidance also requires enhanced disclosures that provide more transparent information about a company's involvement with a variable interest entity. The new guidance is effective for the Company's 2010 fiscal year. The Company has not yet determined the impact of the adoption of the new guidance on its financial position or results of operations.

In August 2009, the FASB issued Accounting Standards Update 2009-05, Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value ( ASU 2009-05 ). ASU 2009-05 clarifies that in circumstances in which a quoted market price in an active market for the identical liability is not available; a reporting entity is required to measure fair value using one of several acceptable valuation techniques. ASU 2009-05 also clarifies (i) that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustments to other inputs relating to the existence of a restriction that prevents the transfer of the liability and (ii) that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. ASU 2009-05 is effective in the fourth quarter of 2009. The Company has not yet determined the impact of the adoption of ASU 2009-05 on its financial position or results of operations.

In October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force ( ASU 2009-13 ). ASU 2009-13 amends existing accounting guidance for separating consideration in multiple-deliverable arrangements. ASU 2009-13 establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific evidence is not available, or estimated selling price if neither vendor-specific evidence or third-party evidence is available. ASU 2009-13 eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionately to each deliverable on the basis of each deliverable's selling price. ASU 2009-13 requires that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a stand-alone basis. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier adoption permitted. The Company has not yet determined the impact of the adoption of ASU 2009-13 on its financial position or results of operations.

**Table of Contents****Iridium Communications Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

In October 2009, the FASB issued Accounting Standards Update 2009-14, Software (Topic 985) Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force (ASU 2009-14). ASU 2009-14 changes the accounting for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and non-software components, that function together to deliver the tangible product's essential functionality, are no longer within the scope of existing software revenue guidance. ASU 2009-14 requires that hardware components of a tangible product containing software components always be excluded from the software revenue guidance, and provides guidance on how to determine which software, if any, relating to the tangible product also would be excluded from the scope of the software revenue guidance. ASU 2009-14 also requires that if software contained in the tangible product is essential to the tangible product's functionality, the software is excluded from the scope of the software revenue guidance. This exclusion includes essential software that is sold with or embedded within the tangible products essential software. ASU 2009-14 also provides guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that include both tangible products and software. ASU 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier adoption permitted. The Company has not yet determined the impact of the adoption of ASU 2009-13 on its financial position or results of operations.

**4. Equity Transactions***2007 Private Unit Offering*

In November 2007, the Company issued 11.5 million units for an aggregate purchase price of \$25,000 to its founding stockholder. Each unit consisted of one share of Common Stock and one Common Stock purchase warrant. Each warrant entitled the holder to purchase from the Company one share of Common Stock at a price of \$7.50 per share commencing on the later of the completion of a Business Combination (as defined in the warrant agreements) or 12 months from the effective date of a Public Offering (as defined in the warrant agreements), subject to certain conditions, and expiring five years from the effective date of the Public Offering or earlier upon redemption or liquidation of the Company's trust account established in connection with a Public Offering (the Trust Account).

*2008 Initial Public Offering*

In February 2008, the Company sold in its initial public offering (IPO) 40.0 million units at a price of \$10.00 per unit. Each unit consisted of one share of Common Stock and one Common Stock purchase warrant. Each warrant entitled the holder to purchase from the Company one share of Common Stock at a price of \$7.00 per share commencing on the later of the completion of a Business Combination or 12 months from the effective date of the Public Offering and expiring five years from the effective date of the Public Offering or earlier upon redemption or liquidation (as defined in the warrant agreements) of the Trust Account. Total underwriting fees, including contingent fees, related to the IPO were approximately \$23.3 million. The Company paid \$6.9 million upon closing of the IPO. The underwriters agreed that approximately 70% of the underwriting fees would not be payable unless and until the Company completed a Business Combination (as defined in the underwriting agreement), and they waived their right to receive such payment upon the Company's liquidation if the Company was unable to complete a Business Combination. On June 2, 2009, the Company entered into an agreement with Banc of America Securities LLC and its affiliate pursuant to which Banc of America Securities LLC waived its right to receive approximately \$8.2 million of deferred underwriting fees. On September 29, 2009, Banc of America Securities LLC received a payment of approximately \$4.3 million. The deferred underwriting commission paid was less pro-rata reductions resulting from the exercise of the stockholder conversion rights as discussed in the Proxy Statement.

*2008 Private Placement of Warrants*

In connection with the IPO, the Company sold an additional 8.0 million Common Stock purchase warrants to the founding stockholder at a price of \$1.00 per warrant. The warrant terms are generally identical to the warrants sold in the IPO, except for certain restrictions on transfer and redemption and their ability to be exercised on a cashless basis.

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**Table of Contents****Iridium Communications Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (continued)***2008 Modification of Warrants Terms*

In connection with the IPO, in February 2008, the Company modified the terms of the warrants issued originally in November 2007, reducing the exercise price from \$7.50 per share to \$7.00 per share. The change in the fair value of these warrants that resulted from the reduction in exercise price (\$0.7 million), was treated as a deemed dividend to the warrant holder.

*\$7.00 Warrants General Terms*

The Company may redeem all of the warrants with a \$7.00 strike price ( \$7.00 warrants ) at a price of \$0.01 per warrant upon 30 days prior notice, provided that the warrants are exercisable and the registration statement covering the Common Stock issuable upon exercise of the warrants remains effective and available, and provided further that such redemption can only be made if the last sales price of the Common Stock is at least \$14.25 per share (the redemption price ) for any 20 trading days within a 30-trading-day period ending on the third day prior to the date on which notice of redemption is given. If a registration statement is not effective at the time of exercise, the holders of the \$7.00 warrant will not be entitled to exercise the warrants, and in no event (whether in the case of a registration statement not being effective or otherwise) will the Company be required to net cash settle any such warrant exercise. Consequently, the \$7.00 warrants could expire unexercised and unredeemed. The number of shares of Common Stock issuable upon the exercise of each \$7.00 warrant is subject to adjustment from time to time upon the occurrence of certain events. The warrants expire in 2013.

Following the appropriate accounting guidance in effect at the time, the \$7.00 warrants initially were classified within stockholders equity. On June 2, 2009, the Company entered into an agreement with Banc of America Securities LLC and its affiliate to purchase the 3.7 million warrants held by Banc of America Securities LLC for a price of approximately \$1.8 million in cash upon completion of the Acquisition, which would meet the definition of a Business Combination. Upon this modification, the Company determined that the completion of the Acquisition was probable of occurrence and, accordingly, classified those warrants as a derivative liability as of June 30, 2009 at their then-current fair value; the Company marks to market these warrants at each balance sheet date.

*2008 Cancellations, Forfeitures and Transfers*

In January 2008, the Company cancelled approximately 1.7 million of the units originally purchased in November 2007, which were surrendered in a recapitalization. In March 2008, approximately 1.3 million additional units originally purchased in November 2007 were forfeited pursuant to the terms of the applicable purchase agreements. In February 2008, approximately 0.2 million units originally purchased in November 2007 were transferred from the original holders to certain of the Company s directors; the Company s directors then forfeited approximately 20,000 units. The transferred units have the same terms and are subject to the same restrictions on transfers as the original units.

*2009 Warrant Restructure and Exchange Agreements*

On July 29, 2009, the Company entered in agreements with the holders of approximately 26.8 million of the \$7.00 warrants. The agreements generally provided such holders, upon the consummation of the Acquisition, the choice of tendering their warrants for (i) the right to demand payment (in cash and shares of common stock) by the Company to settle the warrants in a ratio of consideration of 20% cash and 80% common stock, (ii) the right to exchange their existing \$7.00 warrants for new warrants with an \$11.50 strike price ( \$11.50 warrants ) which included the extension of the exercise term for two additional years until 2015 and the increase of the redemption price from \$14.25 to \$18.00 per share or (iii) a combination thereof. The new \$11.50 warrants have terms similar to the \$7.00 warrants, except as described below under \$11.50 Warrants General Terms. The Company determined that the warrant restructure and exchange agreements created derivative liabilities for the warrants subject to settlement, and accordingly on July 29, 2009 reclassified the subject warrants from equity to derivative liability, at their then-current fair value of approximately \$28.6 million. On September 29, 2009, upon consummation of the Acquisition, holders of approximately 12.4 million warrants demanded total payment of approximately \$3.1 million in cash and approximately \$1.2 million shares of Common Stock with a value of approximately \$12.5 million, resulting in an expense during the third quarter of 2009 of approximately \$2.3 million. Holders of approximately 14.4 million warrants exchanged their existing warrants for new \$11.50 warrants, resulting in an expense during the third quarter of 2009 of approximately \$31.8 million. Following the appropriate accounting guidance in effect at the time, the new \$11.50 warrants initially are classified within stockholders equity.

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### *\$11.50 Warrants General Terms*

The Company may redeem all of the \$11.50 warrants at a price of \$0.01 per warrant upon 30 days prior notice, provided that the warrants are exercisable and the registration statement covering the Common Stock issuable upon exercise of the warrants remains effective and available, and provided further that such redemption can only be made if the last sales price of the Common Stock is at least \$18.00 per



**Table of Contents****Iridium Communications Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

share for any 20 trading days within a 30-trading-day period ending on the third day prior to the date on which notice of redemption is given. If the registration statement is not still effective at the time of exercise, the holders of the \$11.50 warrants will not be entitled to exercise the warrants, and in no event (whether in the case of a registration statement not being effective or otherwise) will the Company be required to net cash settle any such warrant exercise. Consequently, the \$11.50 warrants may expire unexercised and unredeemed. The number of shares of Company Common Stock issuable upon the exercise of each \$11.50 warrant is subject to adjustment from time to time upon the occurrence of specified events. The warrants expire in 2015.

*2009 Follow-on Equity Offering and Repurchases*

On September 29, 2009, the Company sold to the public 16.0 million shares of Common Stock for net proceeds of \$148.8 million. Concurrently with the follow-on offering, the Company repurchased, pursuant to existing forward contracts, 16.3 million shares of Common Stock for \$164.9 million. In addition, the Company repurchased approximately 9.2 million shares of Common Stock for \$91.7 million, representing the shares held by those stockholders who voted against the Acquisition.

*2009 Forfeitures*

In September 2009, 8.4 million warrants originally purchased in November 2007 and 4.0 million warrants originally purchased in February 2008 as part of the private placement were forfeited by the holders.

*Outstanding Warrants*

As of September 30, 2009, after considering all purchases, issuances, cancellations, forfeitures, transfers, repurchases and exchanges, the Company had 13.6 million \$7.00 warrants and 14.4 million \$11.50 warrants outstanding, which are exercisable through February 2013 and February 2015, respectively. All outstanding warrants are classified within stockholders' equity.

**5. Debt**

The Company acquired a \$22.9 million (face value) 5% convertible subordinated note due October 2015 (the "Note") issued to Greenhill & Co. Europe Holdings Limited (the "Holder") in connection with the Acquisition. As of September 30, 2009, the Note was recorded at its fair value of \$16.7 million. The Company has determined that the embedded derivatives contained in the Note (including the conversion option, the Holder's put options and the Company's call option) do not require separate accounting, and therefore the Company has accounted for the Note as a conventional convertible debt instrument. There are no beneficial conversion features associated with the Note. The Note was converted on October 24, 2009 (see Note 14 Subsequent Events).

The Company paid all outstanding amounts for its first and second lien credit facilities on September 30, 2009, following the Acquisition on September 29, 2009.

**6. Property and Equipment**

Property and equipment acquired in the Acquisition consisted of the following at:

	<b>September 30, 2009</b>
	<b>(In thousands)</b>
Satellite system	\$ 325,704
Terrestrial system	8,120
Equipment	13,864

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Gateway system	5,194
Internally developed software and purchased software	902
Building and leasehold improvements	22,430
	376,214
Less: accumulated depreciation	
	376,214
Land	7,887
Construction in process	10,608
Total property and equipment	\$ 394,709

**Table of Contents****Iridium Communications Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

At September 30, 2009, construction in process consisted of assets being developed or constructed for various uses including: equipment of \$1.1 million, gateway system of \$1.8 million and internally developed software of \$7.7 million.

Property and equipment is carried at acquired cost less accumulated depreciation. The Company capitalizes interest costs associated with the construction of capital assets and amortizes the cost over the assets' useful lives beginning when the assets are placed in service. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. For the assets acquired in the Acquisition, the Company has estimated their useful lives (ranging from three to 40 years).

**7. Intangible Assets**

As a result of the Acquisition on September 29, 2009, the Company had identifiable intangible assets as follows:

	<b>September 30, 2009</b>
	<b>(In thousands)</b>
Trade names and trademarks	\$ 17,731
Customer relationships and backlog	43,550
Core developed technology	5,913
Spectrum	17,403
Acquired software	3,161
 Total Intangible Assets	 \$ 87,758

Intangible assets are carried at acquired cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives. The Company has determined the useful lives of its identified intangible assets based on its assessment of all facts and circumstances, including (i) the expected use of the asset; (ii) the expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate; (iii) any legal, regulatory, or contractual provisions that may limit the useful life; (iv) the Company's own historical experience in renewing or extending similar arrangements (consistent with the intended use of the asset), regardless of whether those arrangements have explicit renewal or extension provisions; (v) the effects of obsolescence, demand, competition and other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels); and (vi) the level of maintenance expenditures required to obtain the expected future cash flows from the asset. The estimated useful lives of the identifiable intangible assets acquired in the Acquisition generally range from three to ten years, except for the acquired spectrum, and trade names and trademarks that are deemed to have indefinite lives. The estimated useful lives may be adjusted from time to time but no later than September 29, 2010, as better information becomes available.

**Table of Contents**

**Iridium Communications Inc.**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

**8. Commitments and Contingencies**

**Purchase Commitments**

The Company has a manufacturing agreement with a supplier to manufacture subscriber equipment, which contains minimum monthly purchase requirements. The Company's purchases have exceeded the monthly minimum requirement since inception. Pursuant to the agreement, the Company may be required to purchase excess materials if the materials are not used in production within the periods specified in the agreement; the supplier will then generally repurchase such materials from the Company at the same price paid by the Company, as required for the production of the devices. As of September 30, 2009, the Company has purchased \$1.2 million of excess materials and the amount is included in inventory on the accompanying unaudited condensed consolidated balance sheet.

**Contingencies**

From time to time, the Company is involved in various litigation matters involving ordinary and routine claims incidental to its business. The Company currently believes these matters, either individually or in the aggregate, will not have a material adverse effect on the Company's business, results of operations or financial condition.

**9. Segments, Significant Customers, Supplier and Service Providers and Geographic Information**

As a result of the Acquisition, the Company operates in one business segment, providing global satellite communication services and products.

Approximately 27% of the Company's accounts receivable balances at September 30, 2009 were derived by Iridium from agencies of the U.S. government. The two largest commercial customers accounted for approximately 25% of the Company's accounts receivable balance at September 30, 2009.

After the Acquisition, the Company will acquire substantially all of its subscriber equipment from one manufacturer. Should events or circumstances prevent the manufacturer from producing the equipment, the Company's business could be adversely affected until the Company is able to move production to other facilities of the manufacturer or secure a replacement manufacturer.

After the Acquisition, a significant portion of the Company's satellite operations and maintenance services will be provided by Boeing. Should events or circumstances prevent Boeing from providing these services, the Company's business could be adversely affected until the Company is able to assume operations and maintenance responsibilities or secure a replacement service provider.

Approximately \$325.7 million of the Company's property and equipment consists of satellites in orbit. Of the remaining \$69.0 million of property and equipment, approximately \$62.7 million is located in the United States.

**10. Fair Value Measurements**

The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1, defined as observable inputs such as quoted prices in active markets for identical assets;

Level 2, defined as observable inputs other than Level 1 prices such as quoted prices for similar assets; 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



**Table of Contents****Iridium Communications Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

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

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.

**Financial Assets and Liabilities*****Cash, Cash Equivalents and Restricted Cash***

Cash, cash equivalents and restricted cash are recorded at fair value at September 30, 2009 and December 31, 2008. The inputs used in measuring the fair value of these instruments are considered to be Level 1 in accordance with the fair value hierarchy. The fair values are based on period-end statements supplied by the various banks and brokers that held the majority of the Company's funds deposited in institutional money market mutual funds (for overnight sweep account funds) and the remainder held in regular interest bearing and non-interest bearing depository accounts and certificates of deposits with commercial banks.

***Short-term Financial Instruments***

The fair values of short-term financial instruments (primarily cash and cash equivalents, prepaid expenses and other current assets, accounts receivable, accounts payable, accrued expenses and other current liabilities, and accrued compensation and employee benefits) approximate their carrying values because of their short-term nature.

***Convertible Subordinated Note***

On October 5, 2009, the Holder exercised its right to convert the Note and the Note was converted on October 24, 2009. Accordingly, the Company believes that the fair value of the Note is approximately \$16.7 million based on the estimated value of the shares issuable upon the ultimate conversion of the Note.

**Non-Financial Assets and Liabilities**

In 2008, the Company did not provide fair value disclosures for its non-financial assets and liabilities pursuant to the exceptions and deferrals granted under existing accounting guidance. The Company adopted the existing accounting guidance related to the fair value disclosures of its non-financial assets and liabilities in the first quarter of 2009. The Company has no required disclosures for non-financial assets and liabilities.

**11. Related Party Transaction**

The Company paid \$0.1 million for each of the nine month periods ended September 30, 2009 and 2008 to a major stockholder for the use of office space and administrative services. This arrangement was terminated as of September 30, 2009.

**12. Income Taxes**

The components of the provision for income taxes for the three and nine month periods ended September 30, 2009 and 2008 are set forth below:

<b>For the Three Months Ended</b>	
<b>September 30,</b>	
<b>2009</b>	<b>2008</b>
<b>(In thousands)</b>	

Current taxes:	
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U.S. federal	\$ (200)	\$ 550
State and local	(118)	325
Total current tax (benefit) expense	\$ (318)	\$ 875

**Table of Contents****Iridium Communications Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

Deferred taxes:		
U.S. federal	\$ (622)	\$ (85)
State and local	311	(50)
Valuation allowance		
<b>Total deferred tax benefit</b>	<b>\$ (311)</b>	<b>\$ (135)</b>
Total income tax (benefit) provision	\$ (629)	\$ 740
	<b>For the Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>	
Current taxes:		
U.S. federal	\$ 32	\$ 1,398
State and local	19	825
Total current tax expense	\$ 51	\$ 2,223
Deferred taxes:		
U.S. federal	\$ (846)	\$ (85)
State and local	179	(50)
Valuation allowance		
<b>Total deferred tax benefit</b>	<b>\$ (667)</b>	<b>\$ (135)</b>
Total income tax (benefit) provision	\$ (616)	\$ 2,088

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. The Company has deferred tax assets of approximately \$3.8 million at September 30, 2009 and approximately \$74.0 million of deferred tax liabilities established as a result of the Acquisition.

The effective tax rate of 1.54% differs from the statutory U.S. federal income tax rate of 34% due to the non-deductibility of certain transaction costs and the tax treatment of the derivative liability for the warrant exchange and repurchase agreements. The Company believes that its uncertain tax positions are immaterial.

**13. Earnings Per Share**

The computations of basic and diluted (loss) earnings per share are set forth below:

<b>For the Three Months Ended September 30,</b>		
<b>2009</b>		<b>2008</b>
<b>(In thousands, except per share amounts)</b>		



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Numerator for basic and diluted (loss) earnings per share	Net		
(loss) income		\$ (39,428)	\$ 1,097
Denominator for basic and diluted (loss) earnings per share			
weighted average shares outstanding		48,929	48,500
(Loss) earnings per share	basic and diluted	\$ (0.81)	\$ 0.02

**Table of Contents****Iridium Communications Inc.****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

	<b>For the Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except per share amounts)</b>	
Numerator for basic and diluted (loss) earnings per share Net (loss) income	\$ (39,411)	\$ 2,548
Denominator for basic and diluted (loss) earnings per share weighted average shares outstanding	48,645	41,512
(Loss) earnings per share basic and diluted	\$ (0.81)	\$ 0.06

**14. Subsequent Events**

The Company has evaluated subsequent events through November 16, 2009, the date as of which its financial statements are being issued.

The Note was converted into 1,995,629 shares of Common Stock on October 24, 2009.

**Table of Contents****Iridium Holdings LLC Predecessor Company****Unaudited Condensed Consolidated Balance Sheet****(In thousands, except unit data)**

	<b>December 31, 2008</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 24,810
Restricted cash	120
Accounts receivable, net	41,031
Inventory	29,847
Prepaid expenses and other current assets	5,547
Total current assets	101,355
Property and equipment, net	63,090
Restricted cash	15,400
Deferred financing costs and other assets	10,724
Total assets	\$ 190,569
<b>Liabilities and members deficit</b>	
Current liabilities:	
Accounts payable	\$ 6,650
Accrued expenses and other current liabilities	23,973
Accrued compensation and employee benefits	10,586
Credit facility, current portion	30,379
Deferred revenue	25,366
Total current liabilities	96,954
Accrued satellite operations and maintenance expense, net of current portion	9,898
Motorola payable	10,849
Credit facility	106,541
Convertible subordinated note	22,900
Other long-term liabilities	5,657
Total liabilities	252,799
Commitments and contingencies	
Members deficit:	
Members units:	
Class A Units (1,083,872 units issued and outstanding)	
Class B Units (518,012 units issued and outstanding)	
Additional paid-in capital	4,429
Accumulated deficit	(63,497)
Accumulated other comprehensive loss	(3,162)
Total members deficit	(62,230)

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Total liabilities and members deficit \$ 190,569

See accompanying notes to unaudited condensed consolidated financial statements

**Table of Contents****Iridium Holdings LLC Predecessor Company****Unaudited Condensed Consolidated Statements of Income**

(In thousands, except per unit data)

	Period July 1, 2009 to September 29, 2009	Three Months Ended September 30, 2008 As Restated	Period January 1, 2009 to September 29, 2009	Nine Months Ended September 30, 2008 As Restated
<b>Revenue:</b>				
<b>Services:</b>				
Government	\$ 19,411	\$ 18,959	\$ 56,039	\$ 48,826
Commercial	43,929	35,696	120,706	97,542
Subscriber equipment	21,117	33,558	66,206	97,824
Total revenue	84,457	88,213	242,951	244,192
<b>Operating expenses:</b>				
Cost of subscriber equipment sales	10,348	18,481	33,265	55,261
Cost of services (exclusive of depreciation and amortization)	20,096	17,741	58,978	49,855
Selling, general and administrative	17,334	15,158	44,505	40,591
Research and development	4,163	10,215	17,432	21,095
Depreciation and amortization	3,601	3,098	10,850	8,959
Transaction costs	10,560	1,820	12,478	2,376
Total operating expenses	66,102	66,513	177,508	178,137
Operating profit	18,355	21,700	65,443	66,055
<b>Other (expense) income:</b>				
Interest expense, net of capitalized interest of \$133 and \$392 for the period July 1, 2009 to September 29, 2009 and the three months ended September 2008, respectively, and \$324 and \$1,120 for the period January 1, 2009 to September 29, 2009 and the nine months ended September 30, 2008, respectively	(3,610)	(4,566)	(12,829)	(14,325)
Interest income and other income (expense), net	221	(196)	670	605
Total other (expense) income	(3,389)	(4,762)	(12,159)	(13,720)
Net income	\$ 14,966	\$ 16,938	\$ 53,284	\$ 52,335
Net income attributable to Class A Units	\$ 10,152	\$ 11,461	\$ 36,143	\$ 35,411
Weighted average Class A Units outstanding basic	1,084	1,084	1,084	1,084
Weighted average Class A Units outstanding diluted	1,168	1,084	1,168	1,084
Earnings per unit basic	\$ 9.37	\$ 10.57	\$ 33.34	\$ 32.67
Earnings per unit diluted	\$ 8.96	\$ 10.57	\$ 31.75	\$ 32.67

See accompanying notes to unaudited condensed consolidated financial statements



**Table of Contents****Iridium Holdings LLC Predecessor Company****Unaudited Condensed Consolidated Statements of Cash Flows**

(In thousands)

	For the Period January 1, 2009 to September 29, 2009	For the Nine Months Ended September 30, 2008
<b>Operating activities:</b>		
Net income	\$ 53,284	\$ 52,335
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	10,850	8,959
Other non-cash amortization and accretion	2,537	2,094
Equity and profits interest compensation	5,406	2,103
Change in certain operating assets and liabilities:		
Accounts receivable, net	(5,539)	(9,817)
Inventory	8,919	(1,988)
Prepaid expenses and other current assets	2,158	(912)
Deferred cost of sales		3,224
Other noncurrent assets	935	376
Accounts payable	(2,368)	4,306
Accrued expenses and other liabilities	(7,134)	440
Accrued compensation and employee benefits	(2,908)	1,614
Deferred revenue	(54)	697
Accrued satellite operations and maintenance expense	(1,856)	(1,856)
Net cash provided by operating activities	64,230	61,575
<b>Investing activities:</b>		
Capital expenditures	(7,698)	(9,216)
Net cash used in investing activities	(7,698)	(9,216)
<b>Financing activities:</b>		
Payments under credit facilities	(23,327)	(4,314)
Distributions to Class A and B members		(5,568)
Net cash used in financing activities	(23,327)	(9,882)
Net increase in cash and cash equivalents	33,205	42,477
Cash and cash equivalents, beginning of period	24,810	22,105
Cash and cash equivalents, end of period	\$ 58,015	\$ 64,582
<b>Supplementary cash flow information:</b>		
Cash paid for interest	\$ 10,704	\$ 13,411
<b>Supplementary disclosure of non-cash investing activities:</b>		
Leasehold incentives in the form of leasehold improvements	\$	\$ 1,171
Property and equipment received but not paid for at period end	\$ 2,403	\$ 440

See accompanying notes to unaudited condensed consolidated financial statements.





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**Table of Contents**

**Iridium Holdings LLC Predecessor Company**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**September 29, 2009**

**1. Organization and Business**

**Organization**

Iridium Holdings LLC ( Iridium Holdings ) and, together with its direct and indirect subsidiaries, Iridium ) was formed under the laws of Delaware in 2000 and was organized as a limited liability company pursuant to the Delaware Limited Liability Company Act. On December 11, 2000, Iridium Holdings acquired certain satellite communication assets from Iridium LLC, a non affiliated debtor in possession, pursuant to an asset purchase agreement.

**Business**

Iridium is a provider of mobile voice and data communications services via satellite. Iridium holds various licenses from the Federal Communications Commission ( FCC ) and from international regulatory bodies that permit Iridium to conduct its business, including the operation of its satellite constellation. Iridium offers voice and data communications services and products to U.S. and international government agencies, businesses and other customers on a global basis.

On September 22, 2008, Iridium Holdings and its members entered into a transaction agreement, as amended on April 28, 2009 (the Transaction Agreement ), with GHQ Acquisition Corporation, a special purpose acquisition company ( GHQ ), whereby GHQ agreed to purchase, directly or indirectly, all of the outstanding equity of Iridium Holdings (the Acquisition ). The Acquisition closed on September 29, 2009. Total consideration included approximately 29.4 million shares of GHQ s common stock, \$77.1 million in cash and the requirement to make a tax benefit payment of approximately \$25.5 million payable in cash to certain former members of Iridium Holdings on or around December 29, 2009, provided that the stated condition precedent in the Transaction Agreement has been satisfied.

**2. Significant Accounting Policies and Basis of Presentation**

**Principles of Consolidation and Basis of Presentation**

Iridium has prepared the unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ) for interim financial information. Iridium has continued to follow the accounting policies disclosed in the consolidated financial statements included in its 2008 audited financial statements. In the opinion of management, the unaudited condensed consolidated financial statements reflect all normal recurring adjustments that Iridium 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 Iridium at the date of the interim condensed consolidated balance sheet. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. While Iridium believes that the disclosures are adequate to make the information not misleading, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the 2008 audited financial statements.

**Reclassifications**

Certain balances have been reclassified to conform to the current period presentation. Approximately \$1.0 million of selling, general and administrative expense for the six months ended June 30, 2009 has been reclassified to cost of services (exclusive of depreciation and amortization).

**Corrections of Errors**

Iridium has concluded that costs for government funded research and development service contracts should be classified as cost of services (exclusive of depreciation and amortization) in the accompanying consolidated statements of income. These costs were previously classified as research and development costs. Iridium has restated the accompanying unaudited consolidated statements of income for the period January 1, 2009 to September 29, 2009 and the nine months ended September 30, 2008 to reflect these reclassifications.

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The following is a summary of the adjustment to Iridium's previously issued unaudited condensed consolidated statements of income for the three months ended March 31, 2009 and for the nine months ended September 30, 2008.

**Table of Contents****Iridium Holdings LLC Predecessor Company****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

	Three Months Ended March 31, 2009		
	As Previously Reported	Adjustment (In thousands)	As Restated
Cost of services (exclusive of depreciation and amortization)	\$ 15,951	\$ 2,967	\$ 18,918
Research and development	\$ 15,061	\$ (2,967)	\$ 12,094

	Nine Months Ended September 30, 2008		
	As Previously Reported	Adjustment (In thousands)	As Restated
Cost of services (exclusive of depreciation and amortization)	\$ 47,450	\$ 2,405	\$ 49,855
Research and development	\$ 23,500	\$ (2,405)	\$ 21,095

The reclassifications and restatement had no effect on Iridium's income from operations or net income for the three months ended March 31, 2009 or the nine months ended September 30, 2008.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires Iridium to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.

**Revenue Recognition**

Iridium derives its revenue primarily as a wholesaler of satellite communications products and services. The primary types of revenue include (i) services revenue (access and usage-based airtime fees) and (ii) subscriber equipment revenue. Additionally, Iridium generates sales by providing engineering and support services to commercial and government customers.

*Wholesaler of satellite communications products and services*

Pursuant to wholesale agreements, Iridium sells its products and services to service providers who, in turn, sell the products and services to other distributors or directly to the end-users. Generally, Iridium recognizes revenue when services are performed or delivery has occurred, evidence of an arrangement exists, the fee is fixed or determinable, and collection is probable, as follows:

*Contracts with multiple elements*

At times, Iridium sells subscriber equipment through multi-element contracts that bundle subscriber equipment with airtime services. When it sells subscriber equipment and airtime services in bundled arrangements that include guaranteed minimum orders and determines that it has separate units of accounting, Iridium allocates the bundled contract price among the various contract deliverables based on each deliverable's relative fair value. Iridium determines vendor specific objective evidence of fair value by assessing sales prices of subscriber equipment and airtime services when they are sold to customers on a stand-alone basis.

*Services revenue sold on a stand-alone basis*

Services revenue is generated from Iridium's service providers through usage of its satellite system and through fixed monthly access fees per user charged to service providers. Revenue for usage is recognized when usage occurs. Revenue for fixed-per-user access fees is recognized ratably over the period in which the services are provided to the end-user. Revenue from prepaid services is recognized when usage occurs or when the customer's right to access the unused prepaid services expires. Iridium does not offer refund privileges for unused prepaid services. Deferred prepaid services revenue and access fees are typically earned and recognized as income within one year of customer prepayment. Based on historical information for prepaid services that do not have an expiration date, Iridium records breakage associated with any prepaid

account balances for which the likelihood of redemption is remote, which is generally determined after 36 months from issuance.

**Table of Contents**

**Iridium Holdings LLC Predecessor Company**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

*Subscriber equipment sold on a stand-alone basis*

Iridium recognizes subscriber equipment sales and the related costs when title to the equipment (and the risks and rewards of ownership) passes to the customer.

*Services and subscriber equipment sold to the U.S. government*

Iridium provides airtime to U.S. government subscribers through (i) fixed monthly fees on a per user basis for unlimited voice services, (ii) fixed monthly fees per user for unlimited paging services and (iii) a tiered pricing plan (based on usage) per device for data services. Revenue related to these services is recognized ratably over the periods in which the services are provided; and costs are expensed as incurred. The U.S. government purchases its equipment from a third-party service provider and not directly from Iridium.

*Government engineering and support services*

Iridium provides maintenance services to the U.S. government's dedicated gateway in Hawaii. This revenue is recognized ratably over the periods in which the services are provided; costs are expensed as incurred.

*Other government and commercial engineering and support services*

Iridium also provides certain engineering services to assist customers in developing new technologies for use on the Iridium satellite system. The revenue associated with these services is recorded when the services are rendered, typically on a percentage of completion method of accounting based on Iridium's estimate of total costs expected to complete the contract; and costs are expensed as incurred. Revenue on cost-plus-fixed-fee contracts is recognized to the extent of estimated costs incurred plus the applicable fees earned. Iridium considers fixed fees under cost-plus-fixed-fee contracts to be earned in proportion to the allowable costs incurred in performance of the contract.

**Inventory**

Inventory consists of subscriber equipment, which includes handsets, L-Band transceivers, Iridium OpenPort, data devices, and related accessories to be sold to customers to access Company services and raw materials from a third party manufacturer (see Note 4 Commitments and Contingencies, Purchase Commitments). Iridium outsources manufacturing of subscriber equipment to a third party manufacturer and purchases accessories from third party suppliers. Iridium's cost of inventory includes an allocation of overhead (including salaries and benefits of employees directly involved in bringing inventory to its existing condition, scrap, tooling, and freight). All inventories are valued using the average cost method, and are carried at the lower of cost or market.

**Warranty Expense**

Iridium generally provides its customers a warranty on subscriber equipment for one year from the date of activation, with the exception of its Iridium OpenPort product which has a two year standard warranty. A warranty accrual is made when it is estimable and probable that a loss has been incurred. A warranty reserve is maintained based on historical experience of warranty costs and expected occurrences of warranty claims on equipment. Costs associated with warranties are recorded as cost of subscriber equipment sales and include equipment replacements, repairs and program administration.

The following is a summary of the activity in the warranty reserve account:

<b>For the Period January 1, 2009 to September 29, 2009</b>	<b>For the Nine Months Ended</b>
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	<b>September 30, 2008</b>	
	<b>(In thousands)</b>	
Balance at beginning of period	\$ (381)	\$ (483)
Provision	(1,256)	(293)
Utilization	976	293
Balance at end of period	\$ (661)	\$ (483)

**Table of Contents**

**Iridium Holdings LLC Predecessor Company**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

**Financial Instruments**

The unaudited condensed consolidated balance sheet includes various financial instruments (primarily cash and cash equivalents, convertible subordinated debt, restricted cash, accounts receivable, accounts payable, accrued expenses and other liabilities, long-term debt, derivative instruments, and other obligations). Additional information regarding fair value is disclosed in Note 7, Fair Value Measurements.

**Concentrations of Credit Risk**

Financial instruments that potentially subject Iridium to concentrations of credit risk consist primarily of cash and cash equivalents and receivables. The majority of this cash is swept nightly into a money market fund with a diversified portfolio. Iridium performs credit evaluations of its customers' financial condition and records reserves to provide for estimated credit losses. Accounts receivable are due from both domestic and international customers.

**Convertible Subordinated Note**

In October 2008, Iridium issued to Greenhill & Co. Europe Holdings Limited (the Holder), a \$22.9 million 5% convertible subordinated note due October 2015 (the Note). Iridium has determined that the embedded derivatives contained in the Note (including the conversion option, the Holder's put options and Iridium's call option) do not require separate accounting, and therefore Iridium is accounting for the Note as a conventional convertible debt instrument. There are no beneficial conversion features associated with the Note.

Interest on the Note began accruing in April 2009 at 5% per year. Iridium is recording periodic interest cost using the effective interest rate method.

**Deferred Financing Costs**

Costs incurred in connection with securing debt financing have been deferred and are amortized as additional interest expense using the effective interest method over the term of the related debt.

**Accounts Receivable**

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. Accounts receivable are stated net of allowances for uncollectible accounts; Iridium had no allowance for uncollectible accounts at December 31, 2008. Iridium develops its estimate of this allowance based on Iridium's experience with specific customers, its understanding of their current economic circumstances and its own judgment as to the likelihood that it will ultimately receive payment. When a specific account receivable is determined to be uncollectible, Iridium reduces both its accounts receivable and allowances for uncollectible accounts accordingly.

**Research and Development**

Except for advance payments, research and development costs are charged as an expense in the period in which they are incurred.

**Accounting for Equity-Based Compensation**

Iridium accounts for equity-based compensation at fair value; accordingly Iridium expenses the estimated fair value of share-based awards made in exchange for employee services over the requisite employee service period. Share-based compensation cost is determined at the grant date using an option pricing model. The value of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the employee's requisite service period. No grants of equity-based compensation occurred in 2009.

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The expected volatility assumption used in the option pricing model was based on a review of the expected volatility of publicly traded entities similar to Iridium, which Iridium believes is a reasonable indicator of the expected volatility. The risk-free interest rate assumption is based upon U.S. Treasury Bond interest rates with terms similar to the expected term of the award. The dividend yield assumption is based on Iridium's history of not declaring and paying dividends. The expected term is based on Iridium's best estimate for the period of time for which the instrument is expected to be outstanding.



**Table of Contents****Iridium Holdings LLC Predecessor Company****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

Since Iridium is a nonpublic entity, Iridium can make a policy decision of whether to measure all of the liabilities incurred under share-based payment arrangements at fair value or to measure all such liabilities at intrinsic value. Iridium's policy is to measure all share-based payment liabilities using the intrinsic method. This intrinsic value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting periods.

As a result of the Acquisition, certain employee share-based awards and certain other employee benefits were automatically accelerated in vesting. The acceleration resulted in \$3.8 million being expensed in the condensed consolidated statement of income for the period July 1, 2009 to September 29, 2009. As of September 29, 2009, the closing date of the Acquisition, there were no equity based awards outstanding.

**Property and Equipment**

Property and equipment is carried at acquired cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Satellite system	14 years
Terrestrial system	7 years
Equipment	3 - 5 years
Gateway system	5 years
Internally developed software and purchased software	3 - 7 years
Building	39 years
Leasehold improvements	Shorter of estimated useful life or remaining lease term

Iridium capitalizes interest costs associated with the construction of capital assets and amortizes the cost over the assets' useful lives beginning when the assets are placed in service.

**Long-Lived Assets**

Iridium assesses the impairment of long-lived assets when indicators of impairment are present. Recoverability of assets is measured by comparing the carrying amounts of the assets to the future undiscounted cash flows expected to be generated by the assets. Any impairment loss would be measured as the excess of the assets' carrying amount over their fair value. Fair value is based on market prices where available, an estimate of market value or various valuation techniques.

The carrying value of a satellite lost as a result of an in-orbit failure would be charged to operations upon the occurrence of the loss. In February 2009, Iridium lost the use of a satellite and recorded an impairment charge of \$0.1 million, which represented the carrying value of the satellite.

**Income and Other Taxes**

As a limited liability company that is treated as a partnership for federal income tax purposes, Iridium Holdings is generally not subject to federal or state income tax directly. Rather, each member is subject to income taxation based on the member's portion of Iridium Holdings income or loss, as defined in Iridium Holdings' amended and restated limited liability company agreement (the "LLC Agreement"). Iridium Holdings is subject to income taxes in certain non-U.S. jurisdictions in which its foreign affiliates operate.

**Table of Contents****Iridium Holdings LLC Predecessor Company****Notes to Unaudited Condensed Consolidated Financial Statements (continued)****Comprehensive Income**

Comprehensive income is as follows:

	For the Period July 1, 2009 to September 29, 2009	For the Three Months Ended September 30, 2008	For the Period January 1, 2009 to September 29, 2009	For the Nine Months Ended September 30, 2008
	(In thousands)			
Net income	\$ 14,966	\$ 16,938	\$ 53,284	\$ 52,335
Increase to fair value of interest rate swaps	317	634	2,028	1,386
Cumulative translation adjustments	60		104	
Comprehensive income	\$ 15,343	\$ 17,572	\$ 55,416	\$ 53,721

**Asset Retirement Obligations**

Liabilities arising from legal obligations associated with the retirement of long-lived assets are required to be measured at fair value and recorded as a liability. Upon initial recognition of a liability for retirement obligations, a company must record an asset, which is depreciated over the life of the asset to be retired.

Under certain circumstances, each of the U.S. government, The Boeing Company ( Boeing ) and Motorola, Inc. ( Motorola ) has the unilateral right to require the de-orbit of Iridium's satellite constellation. In the event Iridium was required to effect a mass de-orbit, Iridium, pursuant to the amended and restated operations and maintenance agreement with Boeing (the O&M Agreement ), would be required to pay Boeing \$16.0 million, plus an amount equivalent to the premium for inception of Section B de-orbit insurance coverage (\$2.5 million as of December 31, 2008). Iridium has concluded that each of the foregoing de-orbit rights meets the definition of a legal obligation. Management does not believe the U.S. government, Boeing or Motorola will exercise their respective de-orbit rights. As a result, management believes the likelihood of any future cash outflows associated with the mass de-orbit obligation to be remote.

There are other circumstances in which Iridium could be required, either by the U.S. government or for technical reasons, to de-orbit an individual satellite; however, management believes that such costs would not be significant relative to the costs associated with the ordinary operations of the satellite constellation.

**Recent Accounting Pronouncements**

In April 2009, the FASB issued accounting guidance that requires disclosures about the fair value of financial instruments in financial statements for interim reporting periods and in annual financial statements of publicly-traded companies. The accounting guidance also requires entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments in financial statements on an interim and annual basis and to highlight any changes from prior periods. The effective date is interim and annual periods ending after June 15, 2009. Iridium adopted the accounting guidance in the second quarter of 2009 and the adoption did not have a material impact on its financial position or results of operations other than additional disclosures to the financial statement footnotes.

In April 2009, the FASB issued accounting guidance for other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The accounting guidance is effective for interim and annual periods ending after June 15, 2009. Iridium adopted the accounting guidance in the second quarter of 2009 and the adoption did not have a material impact on its financial position or results of operations.

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In May 2009, the FASB issued accounting guidance for subsequent events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The accounting guidance applies prospectively to both interim and annual financial periods ending after June 15, 2009. Iridium adopted the accounting guidance for subsequent events in the second quarter of 2009 and the adoption did not have a material impact on the reporting of its subsequent events.

**Table of Contents****Iridium Holdings LLC Predecessor Company****Notes to Unaudited Condensed Consolidated Financial Statements (continued)****3. Property and Equipment**

Property and equipment consisted of the following at:

	<b>December 31, 2008</b>
	<b>(In thousands)</b>
Satellite system	\$ 47,052
Terrestrial system	8,958
Equipment	18,985
Gateway system	10,971
Internally developed software and purchased software	27,465
Building and leasehold improvements	11,299
	124,730
Less: accumulated depreciation	(66,514)
	58,216
Land	1,280
Construction in process	3,594
Total property and equipment, net	\$ 63,090

At December 31, 2008, construction in process consisted of assets being constructed for various uses including: equipment of \$0.7 million, gateway system assets of \$2.3 million, internally developed software of \$0.5 million and terrestrial system assets of \$0.1 million.

**4. Commitments and Contingencies****Purchase Commitments**

Iridium has a manufacturing agreement with a supplier to manufacture subscriber equipment, which contains minimum monthly purchase requirements. Iridium's purchases have exceeded the monthly minimum requirement since inception. Pursuant to the agreement, Iridium may be required to purchase excess materials at if the materials are not used in production within the periods specified in the agreement; the supplier will then generally repurchase such materials from us at the same price paid by Iridium, as required for the production of the devices. There were no excess materials recorded in inventory at December 31, 2008.

**Contingencies**

From time to time, Iridium is involved in various litigation matters involving ordinary and routine claims incidental to its business. Iridium currently believes that these matters, either individually or in the aggregate, will not have a material adverse effect on Iridium's business, results of operations or financial condition.

**5. Members Equity in Parent****Issuance/Forfeitures of Class B Units**

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Class B units granted to directors are subject to forfeiture if the director voluntarily resigns or is removed from Iridium Holdings Board of Directors before the expiration of his then current term. As a result of a director voluntarily resigning from the Board of Directors in February 2009, 3,958 Class B units were forfeited.

### **6. Segments, Significant Customers, Supplier, and Service Providers and Geographic Information**

Iridium operates in one segment, providing global satellite communication services and products.

Iridium derived approximately 23% and 21% of its total revenue during the period July 1, 2009 to September 29, 2009 and the three months ended September 30, 2008, respectively, and 23% and 20% of its total revenue during the period January 1, 2009 to September 29, 2009 and the nine months ended September 30, 2008, respectively, from agencies of the U.S. government. Such agencies also accounted for approximately 29% of Iridium's accounts receivable balances at December 31, 2008. Iridium's two largest commercial customers accounted for 25% and 31% of total revenue for the period July 1, 2009 to September 29, 2009 and the three months ended September 30, 2008, respectively, and 23% and 29% of total revenue for the period January 1, 2009 to September 29, 2009 and the nine months ended September 30, 2008, respectively. The two largest commercial customers accounted for approximately 24% of Iridium's accounts receivable balances at December 31, 2008.

**Table of Contents****Iridium Holdings LLC Predecessor Company****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

Iridium acquires a majority of its subscriber equipment from one manufacturer. Should events or circumstances prevent the manufacturer from producing the equipment, Iridium's business could be adversely affected until Iridium is able to move production to other facilities of the manufacturer or secure a replacement manufacturer.

A significant portion of Iridium's satellite operations and maintenance services are provided by Boeing. Should events or circumstances prevent Boeing from providing these services, Iridium's business could be adversely affected until Iridium is able to assume operations and maintenance responsibilities or secure a replacement service provider.

Net property and equipment by geographic area, is as follows:

	<b>December 31, 2008</b>
	<b>(In thousands)</b>
United States	\$ 44,332
Satellites in orbit	16,547
All others <sup>(1)</sup>	2,211
	<b>\$ 63,090</b>

(1) All others primarily includes subscriber equipment in international waters.

Revenue by geographic area is as follows:

	<b>For the Period July 1, 2009 to September 29, 2009</b>	<b>Three Months Ended September 30, 2008</b>	<b>For the Period January 1, 2009 to September 29, 2009</b>	<b>Nine Months Ended September 30, 2008</b>
	<b>(In thousands)</b>			
United States	\$ 39,546	\$ 44,293	\$ 115,901	\$ 114,018
Canada	14,844	15,739	37,087	44,181
United Kingdom	8,761	6,067	23,461	17,256
Other countries <sup>(1)</sup>	21,306	22,114	66,502	68,737
	<b>\$ 84,457</b>	<b>\$ 88,213</b>	<b>\$ 242,951</b>	<b>\$ 244,192</b>

(1) No one other country represents more than 10% of revenue for any of the periods presented.

Revenue is attributed to geographic area based on the billing address of the distributor. Service location and the billing address are often not the same. Iridium's distributors sell services directly or indirectly to end-users, who may be located or use Iridium's products and services elsewhere. Iridium cannot provide the geographical distribution of end-users because it does not contract directly with them. Iridium does not have significant foreign exchange risk on sales, as nearly all invoices are denominated in United States dollars.

**7. Fair Value Measurements**

Iridium uses a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1, defined as observable inputs such as quoted prices in active markets for identical assets;

Level 2, defined as observable inputs other than Level 1 prices such as quoted prices for similar assets; 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.

**Table of Contents****Iridium Holdings LLC Predecessor Company****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

Fair value is the price that would be received to sell an asset or paid to transfer a liability that assumes an orderly transaction in the most advantageous market at the measurement date. At December 31, 2008, all Iridium's financial and non-financial assets and liabilities were measured using either Level 1 or Level 2 inputs.

**Financial Assets and Liabilities**

The following table summarizes information about Iridium's financial assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2008:

	Total	Fair Value Measurements at December 31, 2008 Using Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Restricted cash	\$ 15,520	\$ 15,520	\$	\$
Interest rate swaps	(3,588)		(3,588)	
Foreign currency exchange contracts	(1,082)		(1,082)	
	\$ 10,850	\$ 15,520	\$ (4,670)	\$

***Cash, Cash Equivalents and Restricted Cash***

All cash and cash equivalents are recorded at fair value at December 31, 2008. The inputs used in measuring the fair value of these instruments are considered to be Level 1 in accordance with the fair value hierarchy. The fair values are based on period-end statements supplied by the various banks and brokers that held the majority of Iridium's funds deposited in institutional money market mutual funds (for overnight sweep account funds) and the remainder held in regular interest bearing and non-interest bearing depository accounts and certificates of deposits with commercial banks.

***Short-term Financial Instruments***

The fair values of short-term financial instruments (primarily cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued expenses and other liabilities) approximate their carrying values because of their short-term nature.

***Credit Facilities***

The fair values of the credit facilities at December 31, 2008 were 88% of the carrying values for each of the First Lien Tranche A, the First Lien Tranche B and the Second Lien.

***Convertible Subordinated Note***

Iridium has determined that it is not practicable to estimate the fair value of the Note. Due to the lack of quoted market prices, Iridium was unable to identify any similar instruments in the market place. The Note is carried at face amount. The Note was converted on October 24, 2009.

***Interest Rate Swaps***



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Iridium accounts for its interest rate swaps on the balance sheet at their respective fair values. As required by Iridium's credit facilities, management executed four pay-fixed receive-variable interest rate swaps in 2006, all of which were settled on or before September 29, 2009. Iridium hedged \$86.0 million of variable interest rate debt as of December 31, 2008. The interest rate swaps were designated as cash flow hedges. The objective for holding these instruments was to manage variable interest rate risk related to Iridium's \$210.0 million credit facilities, by synthetically converting a portion of the variable rate risk to fixed rate interest rate risk. The swaps were structured so that Iridium would pay a fixed rate of interest and receive a variable interest payment, which, to the extent hedged, should offset the variable interest that was being paid on its debt.

**Table of Contents****Iridium Holdings LLC Predecessor Company****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

The principal market in which Iridium executes interest rate swap contracts is the retail market. For recognizing the most appropriate value, the highest and best use of Iridium's derivatives are measured using an in-exchange valuation premise that considers the assumptions that market participants would use in pricing the derivatives. Iridium has elected to use the income approach to value the derivatives, using observable Level 2 market expectations at the measurement date and standard valuation techniques to convert future amounts to a single present amount (discounted) assuming that participants are motivated, but not compelled to transact. Level 2 inputs for the swap valuations are limited to quoted prices for similar assets or liabilities in active markets (specifically futures contracts on LIBOR for the first two years) and inputs other than quoted prices that are observable for the asset or liability (specifically LIBOR cash and swap rates, and credit default swap rates at commonly quoted intervals).

Mid-market pricing is used as a practical expedient for fair value measurements. Key inputs, including the cash rates for very short term, futures rates for up to two years and LIBOR swap rates beyond the derivative maturity are compared to provide spot rates at resets specified by each swap as well as to discount those future cash flows to present value at the measurement date. Inputs are collected on the last market day of the period. The same rates used to compare the yield curve are used to discount the future cash flows. A credit default swap basis available at commonly quoted intervals is collected and applied to all cash flows when the swap is in an asset position pre-credit effect.

The variable interest rates on the swaps reset every quarter concurrent with the reset of the variable rate on the debt. The fixed rate will not change over the life of the swap. Each quarter-end, the swaps are measured against current interest rates to determine a fair market value. The fair market value is recorded on the balance sheet and the offset to the value, to the extent effective, is recorded in accumulated other comprehensive income. The effectiveness of the swaps in offsetting the gain or loss on the debt is assessed on a contract-by-contract basis quarterly, by regressing historical changes in the value of the swap against the historical change in value of the underlying debt. To establish a value for the underlying debt, a hypothetical derivative is created with terms that match the debt (e.g., notional amount, reset rates and terms, maturity) and which has a zero fair value at designation.

**Foreign Currency Exchange Contracts**

Iridium enters into foreign currency exchange contracts to mitigate foreign currency exposure on a product consulting service contract denominated in foreign currency. Given the variability of its purchase commitments and payment terms under the product consulting service contracts, Iridium has not elected hedge accounting for these foreign currency exchange contracts. Accordingly, the foreign currency exchange contracts are marked to market at each balance sheet date, with the changes in fair value being recognized as a current period gain or loss in the accompanying condensed consolidated statements of operations. The inputs used in measuring the fair value of these instruments are considered to be Level 2 in the fair value hierarchy. The fair market values are based on quoted market values for similar contracts. Subsequent to the closing of the Acquisition, Iridium closed the outstanding contracts, which had no impact to the statements of income.

**Derivative Instruments and Hedging Activities**

The following table summarizes the gross fair market value of all derivative instruments classified as liabilities (consisting of interest rate swaps and foreign currency exchange contracts) and their location in the accompanying unaudited condensed consolidated balance sheet. Iridium did not hold derivative instruments classified as assets at December 31, 2008.

	Balance Sheet Location	Fair Value (In thousands)
Derivatives designated as hedging instruments:		
Interest rate swaps	Accrued expenses and other current liabilities	\$ (3,588)
Total derivatives designated as hedging instruments		(3,588)

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Derivatives not designated as hedging instruments:

Foreign currency exchange contracts	Accrued expenses and other current liabilities	(1,082)
Total derivatives not designated as hedging instruments		(1,082)
Total derivatives		\$ (4,670)