

Iridium Communications Inc.
Form 10-Q
October 27, 2016

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, 2016

OR

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

Commission File Number 001-33963

Iridium Communications Inc.

(Exact name of registrant as specified in its charter)

DELAWARE
(State of incorporation)

26-1344998
(I.R.S. Employer

Identification No.)

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

22102
(Zip code)

703-287-7400

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding as of October 24, 2016 was 95,771,083.

IRIDIUM COMMUNICATIONS INC.

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PART I.

Iridium Communications Inc.

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	September 30, 2016	December 31, 2015
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 374,006	\$ 185,665
Marketable securities	52,368	203,329
Accounts receivable, net	61,608	51,668
Inventory	21,419	27,926
Prepaid expenses and other current assets	21,798	13,130
Total current assets	531,199	481,718
Property and equipment, net	2,696,208	2,443,567
Restricted cash	113,101	91,112
Other assets	11,720	8,188
Intangible assets, net	45,992	46,589
Total assets	\$ 3,398,220	\$ 3,071,174
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 37,661	\$ 31,525
Accrued expenses and other current liabilities	29,391	29,402
Interest payable	9,954	3,720
Deferred revenue	37,682	36,967
Total current liabilities	114,688	101,614
Accrued satellite operations and maintenance expense, net of current portion	13,401	14,182
Credit facility, net	1,546,777	1,388,766
Deferred income tax liabilities, net	344,676	296,832
Deferred revenue, net of current portion	32,254	28,567
Other long-term liabilities	27,540	12,492
Total liabilities	2,079,336	1,842,453
Commitments and contingencies		
Stockholders' equity:		
Series A Preferred Stock, \$0.0001 par value, 1,000 shares authorized, issued and outstanding	-	-
Series B Preferred Stock, \$0.0001 par value, 500 shares authorized, issued and outstanding	-	-
Common stock, \$0.001 par value, 300,000 shares authorized, 95,763 and 95,126 shares issued and outstanding, respectively	96	95

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Additional paid-in capital	1,055,982	1,044,488
Retained earnings	268,553	193,201
Accumulated other comprehensive loss, net of tax	(5,747)	(9,063)
Total stockholders' equity	1,318,884	1,228,721
Total liabilities and stockholders' equity	\$3,398,220	\$3,071,174

See notes to unaudited condensed consolidated financial statements.

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Iridium Communications Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Services	\$87,316	\$81,200	\$250,625	\$234,640
Subscriber equipment	19,900	21,180	57,822	56,488
Engineering and support services	5,578	3,654	17,744	13,832
Total revenue	112,794	106,034	326,191	304,960
Operating expenses:				
Cost of services (exclusive of depreciation and amortization)	15,936	13,990	48,287	43,192
Cost of subscriber equipment	11,476	11,559	33,798	31,487
Research and development	5,038	3,480	11,610	12,028
Selling, general and administrative	18,767	17,534	60,133	56,800
Depreciation and amortization	11,809	12,932	37,588	39,107
Total operating expenses	63,026	59,495	191,416	182,614
Operating income	49,768	46,539	134,775	122,346
Other income (expense):				
Interest income, net	700	263	2,258	2,292
Undrawn credit facility fees	(305)	(774)	(1,176)	(2,621)
Other income (expense), net	39	(112)	359	(111)
Total other income (expense), net	434	(623)	1,441	(440)
Income before income taxes	50,202	45,916	136,216	121,906
Provision for income taxes	(18,647)	(16,369)	(49,287)	(45,352)
Net income	31,555	29,547	86,929	76,554
Series A Preferred Stock dividends	1,750	1,750	5,250	5,250
Series B Preferred Stock dividends	2,109	2,109	6,327	6,327
Net income attributable to common stockholders	\$27,696	\$25,688	\$75,352	\$64,977
Weighted average shares outstanding - basic	96,067	95,317	95,890	94,972
Weighted average shares outstanding - diluted	123,690	122,696	123,408	122,655
Net income attributable to common stockholders per share - basic	\$0.29	\$0.27	\$0.79	\$0.68
Net income attributable to common stockholders per share - diluted	\$0.26	\$0.24	\$0.70	\$0.62
Comprehensive income:				
Net income	\$31,555	\$29,547	\$86,929	\$76,554
Foreign currency translation adjustments, net of tax	222	(2,797)	3,157	(4,176)

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Unrealized gain (loss) on marketable securities, net of tax	(108)	(160)	159	(72)
Comprehensive income	\$31,669	\$26,590	\$90,245	\$72,306

See notes to unaudited condensed consolidated financial statements.

Iridium Communications Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net cash provided by operating activities	\$ 164,559	\$ 162,938
Cash flows from investing activities:		
Capital expenditures	(231,791)	(251,797)
Purchases of marketable securities	(19,865)	(173,712)
Sales and maturities of marketable securities	170,290	212,178
Net cash used in investing activities	(81,366)	(213,331)
Cash flows from financing activities:		
Borrowings under the Credit Facility	148,050	152,637
Payment of deferred financing fees	(9,608)	(9,832)
Restricted cash deposits	(21,989)	(2,527)
Proceeds from exercise of stock options	390	2,074
Tax payment upon settlement of stock awards	(606)	(829)
Excess tax benefits from stock-based compensation	-	742
Payment of Series A Preferred Stock dividends	(5,250)	(5,250)
Payment of Series B Preferred Stock dividends	(6,327)	(6,327)
Net cash provided by financing activities	104,660	130,688
Effect of exchange rate changes on cash and cash equivalents	488	(862)
Net increase in cash and cash equivalents	188,341	79,433
Cash and cash equivalents, beginning of period	185,665	211,249
Cash and cash equivalents, end of period	\$ 374,006	\$ 290,682
Supplemental cash flow information:		
Interest paid	\$ 10,985	\$ 8,911
Income taxes paid, net	\$ 1,002	\$ 1,819
Supplemental disclosure of non-cash investing activities:		
Property and equipment received but not paid for yet	\$ 31,018	\$ 30,818
Interest capitalized but not paid	\$ 33,110	\$ 27,640
Capitalized amortization of deferred financing costs	\$ 19,569	\$ 13,752
Capitalized paid-in-kind interest	\$ 25,136	\$ 20,282
Capitalized stock-based compensation	\$ 1,926	\$ 623

Supplemental disclosure of non-cash financing activities:		
Dividends accrued on Series A Preferred Stock	\$292	\$292
Dividends accrued on Series B Preferred Stock	\$352	\$352

See notes to unaudited condensed consolidated financial statements.

Iridium Communications Inc.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation and Principles of Consolidation

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

In the opinion of management, the condensed consolidated financial statements reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of its results of operations and cash flows for the interim periods covered, and of the financial position of the Company at the date of the interim condensed consolidated balance sheet. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the U.S. Securities and Exchange Commission (“SEC”). These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 25, 2016.

2. Significant Accounting Policies

Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs. The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the amendment. Effective January 1, 2016, the Company applied the new guidance retrospectively to all prior periods presented in the accompanying financial statements. The adoption had no effect on the Company’s condensed consolidated statements of operations and comprehensive income, and condensed consolidated statements of cash flows for each of the three and nine months ended September 30, 2016 and 2015. The implementation of this accounting standard resulted in a reduction of \$123.1 million and \$133.1 million in the deferred financing costs asset and in the credit facility as of September 30, 2016 and December 31, 2015, respectively, as shown below.

	September 30, 2016	December 31, 2015
	(in thousands)	
Credit facility	\$1,669,872	\$1,521,822
Deferred financing costs	(123,095)	(133,056)
Credit facility, net	\$1,546,777	\$1,388,766

Recent Accounting Developments

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation, Improvements to Employee Share-Based Payment Accounting. The amendment addresses multiple changes. The amendment requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. This ASU is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company will be required to make the disclosures about a change in accounting principle, but will not have to quantify the income statement effect of the change in the period of adoption. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Company is currently evaluating the effect ASU 2016-09 may have on its condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The amendment requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to current accounting. This ASU is effective for public business entities in fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted and reporting organizations are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is currently evaluating the effect ASU 2016-02 may have on its condensed consolidated financial statements and related disclosures, but recognizing the lease liability and related right-of-use asset will impact its balance sheet.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory. The amendment requires that inventory within the scope of the guidance be measured at the lower of cost and net realizable value. Inventory measured using last-in, first-out and retail inventory method are excluded from this new guidance. This ASU replaces the concept of market with the single measurement of net realizable value and is intended to create efficiencies for preparers and more closely aligns U.S. GAAP with International Financial Reporting Standards (IFRS). This ASU is effective for public business entities in fiscal years beginning after December 15, 2016, including interim periods within those years. Prospective application is required and early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the effect ASU 2015-11 may have on its condensed consolidated financial statements and related disclosures.

In May 2014, the FASB and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard, ASU No. 2014-09, Revenue from Contracts with Customers, that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The amendment requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB voted to defer the effective date of ASU 2014-09 for public entities to be effective for annual and interim periods beginning after December 15, 2017. Early adoption would be permitted no earlier than the original effective date beginning after December 15, 2016. ASU 2014-09 becomes effective for the Company in the first quarter of fiscal 2018. The Company has not yet selected a transition method and is currently evaluating the effect ASU 2014-09 may have on its condensed consolidated financial statements and related disclosures.

Warranty Expense

The Company provides the first end-user purchaser of its subscriber equipment a warranty for one to five years from the date of purchase by such first end-user, depending on the product. The Company maintains a warranty reserve based on historical experience of warranty costs and expected occurrences of warranty claims on equipment. Costs associated with warranties, including equipment replacements, repairs, freight, and program administration, are recorded as cost of subscriber equipment in the accompanying condensed consolidated statements of operations and comprehensive income. Changes in the warranty reserve during the nine months ended September 30, 2016 were as

follows:

	Nine Months Ended September 30, 2016 (in thousands)
Balance at beginning of the period	\$ 3,320
Provision	413
Utilization	(1,080)
Balance at end of the period	\$ 2,653

Fair Value Measurements

The Company evaluates assets and liabilities subject to fair value measurements on a recurring and non-recurring basis to determine the appropriate level to classify them for each reporting period. This determination requires significant judgments to be made by management of the Company. The instruments identified as subject to fair value measurements on a recurring basis are cash and cash equivalents, marketable securities, prepaid expenses and other current assets, accounts receivable, accounts payable and accrued

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expenses and other current liabilities. Fair value is the price that would be received from the sale of an asset or paid to transfer a liability assuming an orderly transaction in the most advantageous market at the measurement date. U.S. GAAP establishes a hierarchical disclosure framework which prioritizes and ranks the level of observability of inputs used in measuring fair value. The fair value hierarchy consists of the following tiers:

- Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2, defined as observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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

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

Depreciation and Amortization

The Company calculates depreciation expense using the straight line method and evaluates the appropriateness of the useful life used on a quarterly basis or as events occur that require additional assessment. In addition to the changes made in prior quarters, in the third quarter of 2016, the Company updated its estimate of the current satellites' remaining useful lives based on the continued refinement of the launch schedule, health of the existing constellation, and deployment plan for the Company's next-generation satellite constellation ("Iridium NEXT"). As a result, the estimated useful lives of the satellites within the current constellation have been extended and are consistent with the expected deployment of Iridium NEXT. The \$1.5 million decrease in depreciation expense for the nine months ended September 30, 2016 compared to the prior year is primarily related to the continued refinement in the estimated useful lives, partially offset by the addition of new assets and the impairment of two lost satellites during the second quarter of 2016. No satellite losses occurred during 2015. The Company will continue to evaluate the useful lives of its current satellites on an ongoing basis through the full deployment of Iridium NEXT as the satellites are placed into service. The Company does not believe the loss of these satellites in 2016 is an indicator of impairment of the remaining individual satellites or the constellation as of September 30, 2016. The changes in estimate will also have an effect on future periods through the deployment of Iridium NEXT.

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of ninety days or less to be cash equivalents. These investments, along with cash deposited in institutional money market funds, commercial paper,

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regular interest bearing and non-interest bearing depository accounts, are classified as cash and cash equivalents in the accompanying condensed consolidated balance sheet. The following table summarizes the Company's cash and cash equivalents:

	September 30, 2016 (in thousands)	December 31, 2015	Recurring Fair Value Measurement
Cash and cash equivalents:			
Cash	\$ 114,237	\$ 67,005	
Money market funds	254,530	118,660	Level 1
Commercial paper	5,239	-	Level 2
Total cash and cash equivalents	\$ 374,006	\$ 185,665	

Restricted Cash

The Company is required to maintain a minimum cash reserve for debt service related to its \$1.8 billion loan facility (the "Credit Facility") (see Note 4). As of September 30, 2016 and December 31, 2015, the Company's restricted cash balance, which includes a minimum cash reserve for debt service related to the Credit Facility and the interest earned on these amounts, was \$113.1 million and \$91.1 million, respectively.

Marketable Securities

Marketable securities consist of fixed-income debt securities and commercial paper with an original maturity in excess of ninety days. These investments are classified as available-for-sale and are included in marketable securities within current assets in the accompanying condensed consolidated balance sheets. All investments are carried at fair value. Unrealized gains and losses, net of taxes, are reported as a component of other comprehensive income or loss. The specific identification method is used to determine the cost basis of the marketable securities sold. There were no material realized gains or losses on the sale of marketable securities for the three and nine months ended September 30, 2016 and 2015. The Company regularly monitors and evaluates the fair value of its investments to identify other-than-temporary declines in value. The Company determined that the decline in fair value of its investments is temporary at September 30, 2016 as the Company does not intend to sell these securities, and it is not likely that the Company will be required to sell the securities before the recovery of their amortized cost basis.

The following tables summarize the Company's marketable securities:

	As of September 30, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Recurring Fair Value Measurement
	(in thousands)				
Fixed-income debt securities	\$39,977	\$ 37	\$ (4	) \$ 40,010	Level 2
U.S. treasury notes	12,336	22	-	12,358	Level 2
Total marketable securities	\$52,313	\$ 59	\$ (4	) \$ 52,368	

	As of December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Recurring Fair Value Measurement
	(in thousands)				
Fixed-income debt securities	\$181,636	\$ 4	\$ (200	) \$ 181,440	Level 2
Commercial paper	9,821	-	(1	) 9,820	Level 2
U.S. treasury notes	12,079	-	(10	) 12,069	Level 2
Total marketable securities	\$203,536	\$ 4	\$ (211	) \$ 203,329	

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

	As of September 30, 2016		As of December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value

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	(in thousands)			
Mature within one year	\$35,954	\$35,981	\$169,728	\$169,619
Mature after one year and within three years	16,359	16,387	33,808	33,710
Total	\$52,313	\$52,368	\$203,536	\$203,329

4. Commitments and Contingencies

Commitments

Thales

In June 2010, the Company executed a primarily fixed-price full-scale development contract (the “FSD”) with Thales Alenia Space France (“Thales”) for the design and build of satellites for Iridium NEXT. The total price under the FSD is \$2.3 billion, and the Company expects payment obligations under the FSD to extend through 2018. As of September 30, 2016, the Company had made aggregate payments of \$1,671.7 million to Thales, of which \$1,417.0 million were from borrowings under the Credit Facility, and which were capitalized as construction in progress within property and equipment, net in the accompanying condensed consolidated balance sheet. The Company currently uses the Credit Facility to pay 85% of each invoice received from Thales under the FSD, with the remaining 15% funded from cash on hand. Once the Credit Facility is fully drawn, the Company expects to pay 100% of each

invoice received from Thales from cash and marketable securities on hand as well as internally generated cash flows, including contracted cash flows from hosted payloads and potential cash flows from Iridium PRIMESM.

SpaceX

In March 2010, the Company entered into an agreement with Space Exploration Technologies Corp. (“SpaceX”) to secure SpaceX as the primary launch services provider for Iridium NEXT (as amended to date, the “SpaceX Agreement”). The total price under the SpaceX Agreement for seven launches and a reflight option in the event of a launch failure is \$468.1 million. As of September 30, 2016, the Company had made aggregate payments of \$338.7 million to SpaceX, which were capitalized as construction in progress within property and equipment, net in the accompanying condensed consolidated balance sheet. In addition, the Company made a \$3.0 million refundable deposit to SpaceX in the first quarter of 2014 for the reservation of additional future launches, which is not included in the total contract price.

Kosmotras

In June 2011, the Company entered into an agreement with International Space Company Kosmotras (“Kosmotras”) as a supplemental launch service provider for Iridium NEXT (the “Kosmotras Agreement”). In June 2013, the Company exercised an option for one launch to carry two Iridium NEXT satellites. If the Company does not exercise any additional options, the total cost under the contract including this single launch will be \$51.8 million. As of September 30, 2016, the Company had made aggregate payments of \$36.8 million to Kosmotras, which were capitalized as construction in progress within property and equipment, net in the accompanying condensed consolidated balance sheet. In June 2015, the Company agreed with Kosmotras to replace the remaining options with a new set of options to purchase up to six dedicated launches. Kosmotras has to date been unable to obtain permission to launch the Company’s satellites, and the Company is exploring other options to launch additional satellites. The Company may also be unable to recover the amounts already paid to Kosmotras.

Credit Facility

In October 2010, the Company entered into a \$1.8 billion credit facility with a syndicate of bank lenders, which was amended and restated in May 2014 (as further amended to date, the “Credit Facility”). As of September 30, 2016, the Company reported \$1,546.8 million in borrowings from the credit facility in the accompanying condensed consolidated balance sheet, net of \$123.1 million of deferred financing costs, for an aggregate total of \$1,669.9 million in borrowings. The unused portion of the Credit Facility as of September 30, 2016 was \$130.1 million. Pursuant to the Credit Facility, the Company maintains a minimum cash reserve for debt repayment. As of September 30, 2016, the minimum required cash reserve balance was \$113.0 million, which is classified as restricted cash in the accompanying condensed consolidated balance sheet. The minimum cash reserve requirement will increase to \$189.0 million in 2017.

Interest costs incurred under the Credit Facility were \$19.8 million and \$57.0 million for the three and nine months ended September 30, 2016, respectively, and \$16.7 million and \$47.2 million for the three and nine months ended September 30, 2015, respectively. All interest costs incurred related to the Credit Facility have been capitalized during the construction period of the Iridium NEXT assets. The Company pays interest on a semi-annual basis in April and October through a combination of a cash payment and a deemed additional loan.

Nine Months Ended September 30, 2016		
	Deemed	
Cash	Loan	Total

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	(in thousands)		
Beginning interest payable	\$3,720	\$8,514	\$12,234
Interest incurred	17,219	39,778	56,997
Interest payments	(10,985)	(25,136)	(36,121)
Ending interest payable	\$9,954	\$23,156	\$33,110

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

The Company is obligated to pay a cash commitment fee of 0.80% per year, in semi-annual installments, on any undrawn portion of the Credit Facility. In April 2016, the Company paid \$1.2 million as a semi-annual installment of the commitment fee. The commitment fee payable on the undrawn portion of the Credit Facility as of September 30, 2016 was \$0.7 million and is included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet.

Contingencies

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

5. Stock-Based Compensation

The Company accounts for stock-based compensation at fair value. The fair value of stock options is determined at the grant date using the Black-Scholes option pricing model. The fair value of restricted stock units (“RSUs”) is equal to the closing price of the underlying common stock on the grant date. The fair value of an award that is ultimately expected to vest is recognized on a straight-line basis over the requisite service or performance period and is classified in the condensed consolidated statements of operations and comprehensive income in a manner consistent with the classification of the recipient’s compensation. The expected vesting of the Company’s performance-based RSUs is based upon the likelihood that the Company achieves the defined performance goals. The level of achievement of performance goals, if any, is determined by the compensation committee of the Company’s Board of Directors. Stock-based awards to non-employee consultants are expensed at their fair value as services are provided according to the terms of their agreements and are classified in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations and comprehensive income.

In May 2015, the Company’s stockholders approved the 2015 Equity Incentive Plan (the “2015 Plan”) to provide stock-based awards, including nonqualified stock options, incentive stock options, restricted stock and other equity securities, as incentives and rewards for employees, consultants and non-employee directors. Members of the Company’s board of directors received a portion of their annual compensation in the form of equity awards under the 2015 Plan. An aggregate amount of approximately 126,000 RSUs were granted in January 2016, which will vest in full on the first anniversary of the grant date. The estimated aggregate grant date fair value of the RSUs granted to the directors in January 2016 was \$1.0 million. In January 2015, an aggregate amount of approximately 103,000 stock options and 62,000 RSUs were granted to the board of directors, with 25% vesting on the last day of each calendar quarter in 2015. The estimated aggregate grant date fair value of the stock options and RSUs granted to the directors in January 2015 was \$0.4 million and \$0.6 million, respectively.

During the nine months ended September 30, 2016 and 2015, the Company granted approximately 249,000 and 742,000 stock options, respectively, to its employees, with an estimated aggregate grant date fair value of \$0.9 million and \$2.9 million, respectively. Additionally, during the nine months ended September 30, 2016 and 2015, the Company granted 573,000 and 596,000 service-based RSUs, respectively, to its employees, with an estimated aggregate grant date fair value of \$4.0 million and \$5.6 million, respectively. Employee stock options and service-based RSUs generally vest over a four-year service period, with 25% vesting on the first anniversary of the grant date and the remainder vesting ratably on a quarterly basis thereafter.

In March 2016, the Company awarded approximately 1,335,000 performance-based RSUs to the Company’s executives and employees (the “Bonus RSUs”). The Company records stock-based compensation expense related to performance-based RSUs when it is considered probable that the performance conditions will be met. Vesting of the

March 2016 Bonus RSUs is dependent upon the Company's achievement of defined performance goals for the 2016 fiscal year. Management believes it is probable that certain RSUs will vest. The level of achievement, if any, of performance goals will be determined by the compensation committee of the Company's Board of Directors and, if such goals are achieved, the March 2016 Bonus RSUs will vest, subject to continued employment, in March 2017. The estimated aggregate grant date fair value of the March 2016 Bonus RSUs was \$9.4 million.

Additionally, in March 2016 and March 2015, the Company awarded approximately 119,000 and 161,000 performance-based RSUs, respectively, to the Company's executives (the "March Performance RSUs"). Vesting of the 2016 and 2015 March Performance RSUs is dependent upon the Company's achievement of defined performance goals over a two-year period (fiscal years 2016 and 2017 for the March Performance RSUs granted in 2016 and fiscal years 2015 and 2016 for the March Performance RSUs granted in 2015). Management believes it is probable that certain RSUs will vest. The number of March Performance RSUs that will ultimately vest may range from 0% to 150% of the original grant based on the level of achievement of the performance goals. If the Company achieves the performance goals, 50% of the March Performance RSUs will vest in March of the second year after grant and the remaining 50% will vest in March of the third year after grant, in each case subject to the executive's continued service as of the vesting date. The estimated aggregate grant date fair value of the March Performance RSUs was \$0.8 million for the 2016 grants and \$1.5 million for the 2015 grants.

In June 2016 and June 2015, the Company granted approximately 35,000 RSUs and 30,000 stock options, respectively, to non-employee consultants. The RSUs and stock options are generally subject to service-based vesting. The RSUs vest 50% in June 2017 and quarterly thereafter through June 2018. The stock options vest quarterly through June 2017. The estimated aggregate grant date fair value of the RSUs granted to non-employee consultants in June 2016 was \$0.3 million. The fair value of the consultant options is the then-current fair value attributable to the vesting portions of the awards, calculated using the Black-Scholes option pricing model. The estimated aggregate grant date fair value of the stock options granted to non-employee consultants in June 2015 was \$0.2 million.

6. Equity Transactions and Instruments

Preferred Stock

The Company is authorized to issue 2.0 million shares of preferred stock with a par value of \$0.0001 per share. As described below, the Company issued 1.0 million shares of preferred stock in the fourth quarter of 2012 and 0.5 million shares of preferred stock in the second quarter of 2014. The remaining 0.5 million authorized shares of preferred stock remain undesignated and unissued as of September 30, 2016.

Series A Cumulative Perpetual Convertible Preferred Stock

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

Holder of Series A Preferred Stock are entitled to receive cumulative cash dividends at a rate of 7.00% per annum of the \$100 liquidation preference per share (equivalent to an annual rate of \$7.00 per share). Dividends are payable quarterly in arrears on each March 15, June 15, September 15 and December 15. The Series A Preferred Stock does not have a stated maturity date and is not subject to any sinking fund or mandatory redemption provisions. The Series A Preferred Stock ranks senior to the Company's common stock and pari passu with the Company's 6.75% Series B Cumulative Perpetual Convertible Preferred Stock (the "Series B Preferred Stock") with respect to dividend rights and rights upon the Company's liquidation, dissolution or winding-up. Holders of Series A Preferred Stock generally have no voting rights except for limited voting rights if the Company fails to pay dividends for six or more quarterly periods (whether or not consecutive) and in other specified circumstances. Holders of Series A Preferred Stock may convert some or all of their outstanding Series A Preferred Stock at an initial conversion rate of 10.6022 shares of common stock per \$100 liquidation preference, which is equivalent to an initial conversion price of approximately \$9.43 per share of common stock (subject to adjustment in certain events).

During each of the three and nine months ended September 30, 2016 and 2015, the Company paid cash dividends of \$1.8 million and \$5.3 million, respectively, to holders of the Series A Preferred Stock. As of September 30, 2016 and December 31, 2015, the Company had accrued \$0.3 million in cash dividends for the holders of the Series A Preferred Stock, which is included within accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheets.

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

limitations. In certain circumstances, the Company may also elect to settle conversions in cash as a result of these fundamental changes.

Series B Cumulative Perpetual Convertible Preferred Stock

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

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

consecutive) and in other specified circumstances. Holders of Series B Preferred Stock may convert some or all of their outstanding Series B Preferred Stock at an initial conversion rate of 33.456 shares of common stock per \$250 liquidation preference, which is equivalent to an initial conversion price of approximately \$7.47 per share of common stock (subject to adjustment in certain events).

During each of the three and nine months ended September 30, 2016 and 2015, the Company paid cash dividends of \$2.1 million and \$6.3 million, respectively, to holders of the Series B Preferred Stock. As of September 30, 2016 and December 31, 2015, the Company had accrued \$0.4 million in cash dividends for the holders of the Series B Preferred Stock, which is included within accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet.

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

7. Net Income Per Share

The Company calculates basic net income per share by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share takes into account the effect of potential dilutive common shares when the effect is dilutive. The effect of potential dilutive common shares, including common stock issuable upon exercise of outstanding stock options, is computed using the treasury stock method. The effect of potential dilutive common shares from the conversion of outstanding convertible preferred securities is computed using the as-if converted method at the stated conversion rate. The RSUs granted to members of the Company's board of directors contain non-forfeitable rights to dividends and therefore are considered to be participating securities in periods of net income. The calculation of basic and diluted net income per share excludes net income attributable to the unvested RSUs from the numerator and excludes the impact of unvested RSUs from the denominator.

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

	Three Months Ended September 30,	
	2016	2015
	(in thousands, except per share data)	
Numerator:		
Net income attributable to common stockholders		
(numerator for basic net income per share)	\$ 27,696	\$ 25,688
Dividends on Series A Preferred Stock	1,750	1,750
Dividends on Series B Preferred Stock	2,109	2,109

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Numerator for diluted net income per share	\$ 31,555	\$ 29,547
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Denominator: