Iridium Communications Inc.
Form 10-Q
November 09, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2010

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	**26-1344998**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
1750 Tysons Boulevard, Suite 1400, McLean, Virginia	**22102**
(Address of principal executive offices)	**(Zip code)**

703-287-7400

(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The number of shares of the registrant s common stock, par value $0.001 per share, outstanding as of November 5, 2010 was 70,251,001.

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PART I.

Iridium Communications Inc.

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 104,636	$ 147,178
Accounts receivable, net of allowance for doubtful accounts of $0 and $1,462, respectively	54,391	41,189
Inventory	12,167	25,656
Deferred tax assets, net	3,527	2,481
Prepaid expenses and other current assets	5,259	4,433
Total current assets	179,980	220,937
Property and equipment, net	531,195	401,666
Restricted cash	120	15,520
Other assets	30,091	1,127
Intangible assets, net	84,926	92,485
Goodwill	94,661	94,661
Total assets	$ 920,973	$ 826,396
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 66,922	$ 7,865
Accrued expenses and other current liabilities	65,732	56,403
Deferred revenue	26,576	20,027
Deferred acquisition consideration		4,636
Total current liabilities	159,230	88,931
Accrued satellite operations and maintenance expense, net of current portion	20,928	15,300
Deferred tax liabilities, net	94,112	93,326
Other long-term liabilities	2,765	1,365
Total liabilities	277,035	198,922
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.0001 par value, 2,000,000 shares authorized and none issued and outstanding		
Common stock, $0.001 par value 300,000,000 shares authorized and 70,251,001 and 70,247,701 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	70	70
Additional paid-in capital	673,986	670,116
Accumulated deficit	(30,165)	(42,734)
Accumulated other comprehensive income	47	22
Total stockholders equity	643,938	627,474

Total liabilities and stockholders equity	$	920,973	$	826,396

See notes to the unaudited condensed consolidated financial statements

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Iridium Communications Inc.

Unaudited Condensed Consolidated Statements of Operations

(In thousands, except per share amounts)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenue:				
Services:				
Government	$ 19,518	$	$ 56,761	$
Commercial	47,934		134,300	
Subscriber equipment	27,075		69,182	
Total revenue	94,527		260,243	
Operating expenses:				
Cost of subscriber equipment sales	14,798		49,654	
Cost of services (exclusive of depreciation and amortization)	17,613		56,995	
Research and development	2,311		14,708	
Depreciation and amortization	22,657		67,617	
Selling, general and administrative	16,312	318	48,945	722
Transaction costs		5,776		6,163
Total operating expenses	73,691	6,094	237,919	6,885
Operating profit (loss)	20,836	(6,094)	22,324	(6,885)
Other income (expense):				
Change in fair value of warrants		(34,117)		(34,117)
Interest income (expense), net	81	154	415	975
Other (expense) income, net	(6)		89	
Total other income (expense)	75	(33,963)	504	(33,142)
Earnings (loss) before income taxes	20,911	(40,057)	22,828	(40,027)
Income tax provision (benefit)	10,225	(629)	10,259	(616)
Net income (loss)	$ 10,686	$ (39,428)	$ 12,569	$ (39,411)
Weighted average shares outstanding basic	70,303	48,929	70,275	48,645
Weighted average shares outstanding diluted	74,040	48,929	72,873	48,645
Earnings (loss) per share basic	$ 0.15	$ (0.81)	$ 0.18	$ (0.81)
Earnings (loss) per share diluted	$ 0.14	$ (0.81)	$ 0.17	$ (0.81)

See notes to the unaudited condensed consolidated financial statements

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Iridium Communications Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)

	Nine Months Ended September 30, 2010	2009
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	$ 104,576	$ (15,594)
Cash flows from investing activities:		
Changes in investment in trust account		401,838
Cash paid for acquisition, net of cash acquired		(19,086)
Payment of deferred acquisition consideration	(4,636)	
Capital expenditures	(134,259)	
Net cash (used in) provided by investing activities	(138,895)	382,752
Cash flows from financing activities:		
Proceeds from public offerings		149,600
Purchase from issuance of private placement warrants		(4,940)
Purchase of shares of common stock		(164,884)
Purchase of shares of common stock for no-votes		(91,700)
Payment of underwriting fees		(4,288)
Payment of costs associated with offering		(850)
Payment under credit facility		(113,594)
Payment of deferred financing fees	(8,246)	
Proceeds from exercise of warrants	23	
Net cash used in financing activities	(8,223)	(230,656)
Net (decrease) increase in cash and cash equivalents	(42,542)	136,502
Cash and cash equivalents, beginning of period	147,178	129
Cash and cash equivalents, end of period	$ 104,636	$ 136,631
Supplemental cash flow information:		
Income taxes paid	$ 4,267	$ 340
Supplemental disclosure of non-cash investing activities:		
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
Property and equipment received but not yet paid for	$ 54,425	$
Leasehold improvement incentives	$ 901	$
Supplemental disclosure of non-cash financing activities:		
Reversal of deferred underwriter commissions	$	$ (8,176)
Accrued financing fees	$ 1,778	$

See notes to unaudited condensed consolidated financial statements

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Iridium Communications Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2010

1. Organization and Basis of Presentation

Iridium Communications Inc. (the Company) offers voice and data communications services and products to businesses, U.S. and international government agencies and other customers on a global basis. The Company was initially formed as GHL Acquisition Corp., 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 business combination on September 29, 2009 (the Acquisition). In accounting for the Acquisition, the Company was deemed the legal and accounting acquirer. On September 29, 2009, the Company changed its name to Iridium Communications Inc.

Iridium Holdings is considered the predecessor of the Company and, accordingly, its historical financial statements are separately presented herein 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 related 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 with which to 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 acquired certain satellite communications assets from Iridium LLC, a non-affiliated debtor in possession.

As a result of and subsequent to the Acquisition, the Company is a provider of mobile voice and data communications services via a constellation of low earth orbiting satellites. The Company holds various licenses and authorizations from the Federal Communications Commission (the FCC) and from foreign regulatory bodies that permit the Company to conduct its business, including the operation of its satellite constellation.

2. 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. The accompanying unaudited condensed consolidated financial statements include the accounts of (i) the Company, (ii) its wholly owned subsidiaries, (iii) all less than wholly owned subsidiaries that the Company controls, and (iv) variable interest entities where the Company is the primary beneficiary. All intercompany transactions and balances have been eliminated, and net income not attributable to the Company (when material) has been allocated to noncontrolling interests.

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 unaudited 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 unaudited condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes (as amended) included in its current report on Form 8-K filed with the Securities and Exchange Commission (the SEC) on May 10, 2010.

Reclassifications and Adjustments

To be consistent with the current operating company, all amounts presented as professional fees and other operating expenses in periods prior to the Acquisition have been reclassified to selling, general and administrative expenses or transaction costs. These reclassifications had no effect on the Company s net income (loss) for the three or nine months ended September 30, 2009 or stockholders equity as of September 30, 2009.

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After the December 31, 2009 financial statements were issued, the Company revised certain estimated pre-Acquisition income tax balances, which resulted in a decrease to goodwill in the amount of $0.8 million.

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 disclosures 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, restricted cash, prepaid expenses, deposits and other current assets, accounts receivable, accounts payable, accrued expenses and other liabilities and other obligations). 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. 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.

Additional information regarding fair value is disclosed in Note 5.

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 cash is swept nightly into a money market fund invested in U.S. treasuries. The Company performs credit evaluations of its customers financial condition and records reserves to provide for estimated credit losses. While the Company maintains its cash and cash equivalents with financial institutions with high credit ratings, it often maintains those deposits in federally insured financial institutions in excess of federally insured (FDIC) limits. Accounts receivable are due from both domestic and international customers (see Note 4).

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The cash and cash equivalents balances at September 30, 2010 and December 31, 2009, consisted of cash deposited in institutional money market mutual funds, regular interest bearing and non-interest bearing depository accounts and certificates of deposits with commercial banks. The Company s restricted cash balances as of September 30, 2010 and December 31, 2009 are $0.1 million and $15.5 million, respectively. The December 31, 2009 balance related primarily to collateral for a letter of credit for potential costs of de-orbiting the Company s satellites. In the third quarter of 2010, this $15.4 million letter of credit expired and is no longer required to be maintained (see Note 3).

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and generally are subject to late fee penalties. Management develops its estimate of an allowance for uncollectible receivables based on the Company s experience with specific customers, aging of outstanding invoices, its understanding of customers current economic circumstances and its own judgment as to the likelihood that the Company will ultimately receive payment. The Company writes off its accounts receivable when balances ultimately are deemed uncollectible.

Foreign Currencies

The functional currency of the Company s foreign consolidated subsidiaries is their local currency, except for countries that are deemed to have highly inflationary economies, in which case the functional currency is deemed to be the reporting currency (or U.S. dollar). Assets and liabilities of its foreign subsidiaries are translated to U.S. dollars based on exchange rates at the end of the reporting period. Income and expense items are translated at the weighted average exchange rates prevailing during the reporting period. Translation adjustments are accumulated in a separate component of stockholders equity. Transaction gains or losses are classified as other income (expense), net in the accompanying unaudited condensed consolidated statements of operations.

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Deferred Financing Costs

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

As of September 30, 2010, the Company had deferred (as other long-term assets in the accompanying unaudited condensed consolidated balance sheets) approximately $10.0 million of direct and incremental financing costs associated with securing debt financing for Iridium NEXT, the Company s next-generation satellite constellation.

Inventory

Inventory consists primarily of finished goods, although the Company at times also maintains an inventory of raw materials from third-party manufacturers. The Company outsources manufacturing of subscriber equipment primarily to one 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.

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, 2010 and December 31, 2009, the Company had $0.3 million and $1.0 million, respectively, of excess materials and the amounts were included in inventory on the accompanying unaudited condensed consolidated balance sheets.

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation at fair value. Accordingly, the Company expenses the estimated fair value of stock-based awards made in exchange for employee and consultant services over the requisite service period. Stock-based compensation cost related to stock options is determined at the grant date using the Black-Scholes option pricing model. The value of an award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service period and is classified in the statement of operations in a manner consistent with the statement of operations classification of the employee s salary and other compensation. Awards to consultants are classified in selling, general and administrative expenses.

In the third quarter of 2010, the Company granted approximately 75,000 stock options to its employees. Employee stock options generally vest over a four-year period with 25% vesting on the first anniversary of the grant date and the remainder vesting ratably on a quarterly basis thereafter. The aggregate estimated fair value of the employee stock options granted in the third quarter of 2010 based on the Black-Scholes option pricing model was approximately $0.5 million.

Property and Equipment

Property and equipment is carried at 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 useful life or remaining lease term

Repairs and maintenance costs are expensed as incurred.

Long-Lived Assets

The Company assesses its long-lived assets for impairment 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 when available, an estimate of market value or various other valuation techniques.

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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 indicators 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

A significant portion of the Company s intangible assets are spectrum and regulatory authorizations and trade names 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 indicators 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 have finite lives (primarily customer relationships government and commercial, core developed technology and 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 indicators 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 lives for these intangible assets each reporting period to determine whether events and circumstances warrant a revision in their remaining useful lives.

Comprehensive Income (Loss)

The Company s only component of other comprehensive income (loss) for all periods presented is the foreign currency translation adjustment related to consolidated subsidiaries. Comprehensive income (loss) is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Net income (loss)	$ 10,686	$ (39,428)	$ 12,569	$ (39,411)
Cumulative translation adjustments	68		25	
Comprehensive income (loss)	$ 10,754	$ (39,428)	$ 12,594	$ (39,411)

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 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, pursuant to the amended and restated operations and maintenance agreement (the O&M Agreement) by and between the Company s indirect wholly owned subsidiary Iridium Constellation LLC (Iridium Constellation) and Boeing, the Company would be required to pay Boeing $16.4 million, plus an amount equivalent to the premium for de-orbit insurance coverage ($2.5 million as of September 30, 2010). The Company has concluded that each of the foregoing de-orbit rights meets the definition of an asset retirement obligation. However, the Company currently 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 is 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.

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Revenue Recognition

The Company 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, the Company generates revenue by providing engineering and support services to commercial and government customers.

Wholesaler of satellite communications products and services

Pursuant to wholesale agreements, the Company 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, the Company 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, the Company sells 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 allocates the bundled contract price among the various contract deliverables based on each deliverable s relative fair value. The Company 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 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 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. The Company sells prepaid services in the form of e-vouchers and prepaid cards. A liability is established for the cash value of the e-voucher or prepaid card on purchase. The Company recognizes revenue from the prepaid services (i) upon the use of the e-voucher or prepaid card by the customer; (ii) upon the expiration of the right to access the prepaid service; or (iii) when it is determined that the likelihood that the prepaid card being redeemed by the customer is remote (Prepaid Card Breakage). The Company has determined the recognition of Prepaid Card Breakage based on its historical redemption patterns, which show that after 36 months from the sale to the service provider, the Company can determine the portion of the liability for which redemption is remote. The Company does not offer refund privileges for unused prepaid services.

Subscriber equipment sold on a stand-alone basis

The Company recognizes subscriber equipment sales and the related costs when title to the equipment (and the risks and rewards of ownership) passes to the customer, typically upon shipment.

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

The Company 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, (iii) a tiered pricing plan (based on usage) per device for data services and (iv) fixed monthly fees on a per user basis for unlimited beyond line-of-sight push-to-talk voice services to user-defined groups. Revenue related to these services is recognized ratably over the periods in which the services are provided, and the related costs are expensed as incurred. The U.S. government purchases its subscriber equipment from distributors and not directly from the Company.

Government engineering and support services

The Company 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; the related costs are expensed as incurred.

Other government and commercial engineering and support services

The Company also provides certain engineering services to assist customers in developing new technologies for use on the Company s 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 the Company s estimate of total costs expected to complete the contract, and the related 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. 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

The Company generally provides the first end-user purchaser of its products a warranty on subscriber equipment for one to two years from the date of purchase by such first end-user, depending on the product. A warranty accrual is made when it is estimable and

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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, freight and program administration.

	Nine Months Ended September 30, 2010 (In thousands)
Balance at beginning of the period	$ (726)
Provision	(1,185)
Utilization	932
Balance at end of the period	$ (979)

Research and Development

Research and development costs are 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 bases of its assets and liabilities. For interim periods, the Company recognizes a provision (benefit) for income taxes based on an estimated annual effective tax rate expected for the entire year. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts 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. The Company s policy is to recognize interest and penalties on uncertain tax positions as a component of income tax expense. The Company s estimated annual effective tax rate differs from the statutory U.S. federal income tax rate of 35% due to state taxes and additional U.S. taxes on foreign corporations.

Earnings Per Share

The Company calculates basic earnings (loss) per share by dividing net income (loss) available to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share takes into account the effect of potential dilutive common shares when the effect is dilutive. The effect of potential dilutive common shares, consisting of common stock issuable upon exercise of outstanding stock options and stock purchase warrants, is computed using the treasury stock method. The Company s unvested restricted stock units 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 earnings per share excludes net income attributable to the unvested restricted stock units from the numerator and excludes the impact of unvested restricted stock units from the denominator (see Note 7).

Accounting Developments

In June 2009, the Financial Accounting Standards Board (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 Company adopted the accounting guidance in the first quarter of 2010 with no material impact on its financial position or results of operations.

3. Commitments and Contingencies

Commitments

In June 2010, the Company, through its indirect wholly owned subsidiary Iridium Satellite LLC (Iridium Satellite), executed a primarily fixed price full scale development contract with Thales Alenia Space (Thales) for the design and manufacture of satellites for Iridium NEXT (the

FSD), the effectiveness of which was contingent upon the Company securing financing for the FSD, which occurred on October 25, 2010 (see Note 8). Also in June 2010, the Company entered into an authorization to proceed (ATP), which allowed Thales to commence work immediately on the development of satellites prior to the effectiveness of the FSD. The FSD contemplates the launch of the first Iridium NEXT satellites during the first quarter of 2015.

In the third quarter of 2010, Iridium Satellite and Thales entered into amendments to the ATP and FSD pursuant to which the Company paid $37.6 million to Thales to mitigate the potential currency fluctuations on the Euro-denominated portions of the ATP and FSD. As of September 30, 2010, the Company had paid $94.6 million for work related to the ATP. On October 25, 2010, the

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Company finalized the $1.8 billion loan facility (the Facility) and satisfied the conditions for the first borrowing; as a result, the FSD became effective and the ATP terminated automatically by its terms. The Company s aggregate payments under the ATP through the date of its termination were $149.3 million, which were credited against amounts due under the FSD (see Note 8). The total price under the FSD will be approximately $2.2 billion and the Company expects payment obligations under the FSD to extend into the third quarter of 2017.

In March 2010, the Company, through Iridium Satellite, entered into an agreement with Space Exploration Technologies Corp. (SpaceX) to secure SpaceX as the primary launch services provider for Iridium NEXT (the SpaceX Agreement), the effectiveness of which was contingent upon the Company securing financing for the FSD, which occurred on October 25, 2010 (see Note 8). On September 17, 2010, prior to the effectiveness of the SpaceX Agreement, Iridium Satellite also entered into an amendment with SpaceX that, among other things, extended the termination date to December 19, 2010. As part of the amendment, the Company agreed to make certain payments of approximately $24.0 million. The SpaceX Agreement, as amended, has a maximum price of $492.0 million.

As of September 30, 2010, the Company has made total payments of $38.0 million to SpaceX, of which $19.0 million was refundable as financing was not secured on the FSD at that time. Of the total payments of $38.0 million, the $19.0 million refundable portion was recorded in other long-term assets and the $19.0 million non-refundable portion was recorded in property and equipment, net in the accompanying unaudited condensed consolidated balance sheet as of September 30, 2010. On October 25, 2010, the Company finalized the Facility and, as a result, the SpaceX Agreement became effective and all amounts became non-refundable and will be classified as property and equipment, net going forward.

On July 21, 2010, Iridium Constellation and Boeing entered into the O&M Agreement, which superseded the prior operations and maintenance agreement previously in place between Iridium Constellation and Boeing. Under the O&M Agreement, Boeing operates and maintains the Company s satellite constellation. The term of the O&M Agreement runs concurrently with the estimated useful life of the current constellation. The amendment and restatement of the prior agreement does not materially change the obligations of Boeing, but provides for annual price reductions and other cost-saving opportunities and converts the fee for Boeing s operations and maintenance services from a fixed-price fee to a time-and-materials fee with an annual limit on amounts paid.

In addition, on July 21, 2010, Iridium Satellite and Boeing entered into an agreement pursuant to which Boeing will operate and maintain Iridium NEXT (the NEXT Support Services Agreement). Boeing will provide these services on a time-and-materials fee basis. The term of the NEXT Support Services Agreement runs concurrently with the estimated useful life of the Iridium NEXT constellation. Iridium Satellite is entitled to terminate the agreement for convenience and without cause commencing in 2019.

Contingencies

From time to time, in the normal course of business, the Company is party to various pending claims and lawsuits. Other than the Motorola action described below, the Company is not aware of any such actions that the Company would expect to have a material adverse impact on the Company s business, financial results or financial condition.

On February 9, 2010, Motorola filed a complaint against Iridium Satellite and Iridium Holdings to seek recovery of the commitment fee and the loan success fee under the Senior Subordinated Term Loan Agreement in an aggregate amount they alleged was at least $24.7 million. On October 1, 2010, the Company, together with Iridium Satellite and Iridium Holdings, entered into a settlement agreement with Motorola (see Note 8). The Company had accrued an amount related to this claim in the accompanying unaudited condensed consolidated balance sheets as of September 30, 2010 and December 31, 2009.

Indemnification Agreement

Iridium Satellite, Boeing, Motorola and the U.S. government are parties to an indemnification contract, effective as of December 5, 2000 and amended as of September 7, 2010 (the Indemnification Agreement), which provides, among other things, that: (a) Iridium Satellite will maintain satellite liability insurance; (b) Boeing will maintain aviation and space liability insurance; and (c) Iridium Satellite will maintain aviation products completed operations liability insurance with Motorola as an insured thereunder. Pursuant to the Indemnification Agreement, the U.S. government may, in its sole discretion, require the Company, Boeing or either of them to immediately de-orbit the Company s satellites at no expense to the U.S. government upon the occurrence of certain enumerated events. However, as discussed in Note 2, management does not currently believe the U.S. government will exercise this right.

4. Segments, Significant Customers, Supplier and Service Providers and Geographic Information

The Company operates in one segment, providing global satellite communications services and products.

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The Company contracts for the manufacture of its subscriber equipment primarily from one manufacturer and utilizes other sole source suppliers for certain component parts of its devices. Should events or circumstances prevent the manufacturer or the suppliers from producing the equipment or component parts, 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 or an alternative supplier for such component parts.

A significant portion of the Company s satellite operations and maintenance service is 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.

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

	September 30, 2010	December 31, 2009
	(In thousands)	
United States	$ 78,946	$ 66,307
Satellites in orbit	277,646	329,704
Satellite systems under construction	168,168	
All others (1)	6,435	5,655
	$ 531,195	$ 401,666

(1) No one other country represented more than 10% of net property and equipment.

Revenue by geographic area, was as follows:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
	(In thousands)	
United States	$ 42,805	$ 123,514
Canada	14,138	37,558
United Kingdom	12,597	32,223
Other countries (1)	24,987	66,948
	$ 94,527	$ 260,243

(1) No one other country represented more than 10% of revenue.

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. The Company s distributors sell services directly or indirectly to end-users, who may be located or use the Company s products and services elsewhere. The Company cannot provide the geographical distribution of end-users because it does not contract directly with them. The Company does not have significant foreign exchange risk on sales, as invoices are generally denominated in United States dollars.

5. Fair Value Measurements

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.

Financial Assets and Liabilities

Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash are recorded at fair value at September 30, 2010 and December 31, 2009. 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, regular interest bearing and non-interest bearing depository accounts and certificates of deposits with commercial banks.

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Short-term Financial Instruments

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

6. Related Party Transaction

The Company has a $0.4 million receivable from a 5% beneficial owner. The receivable resulted from federal and state tax payments submitted by the Company for Baralonco N.V. on behalf of this beneficial owner for the period prior to the Company s purchase of 100% of the Baralonco N.V. shares. As a result of the Acquisition, Baralonco N.V. is now a wholly owned subsidiary of the Company.

7. Earnings (Loss) Per Share

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

	For the Three Months Ended September 30, 2010	2009
	(In thousands, except per share amounts)	
Numerator:		
Net income (loss)	$ 10,686	$ (39,428)
Net income (loss) allocated to participating securities	(7)	
Numerator for basic earnings (loss) per share	$ 10,679	$ (39,428)
Numerator for diluted earnings (loss) per share	$ 10,679	$ (39,428)
Denominator:		
Denominator for basic earnings (loss) per share Weighted average outstanding common shares	70,303	48,929
Dilutive effect of warrants	3,737	
Denominator for diluted earnings (loss) per share	74,040	48,929
Earnings (loss) per share basic	$ 0.15	$ (0.81)
Earnings (loss) per share diluted	$ 0.14	$ (0.81)

	For the Nine Months Ended September 30, 2010	2009
	(In thousands, except per share amounts)	
Numerator:		
Net income (loss)	$ 12,569	$ (39,411)
Net income allocated to participating securities	(14)	
Numerator for basic earnings (loss) per share	$ 12,555	$ (39,411)
Numerator for diluted earnings (loss) per share	$ 12,555	$ (39,411)
Denominator:		
Denominator for basic earnings (loss) per share Weighted average outstanding common shares	70,275	48,645

Dilutive effect of warrants		2,598		
Denominator for diluted earnings (loss) per share		72,873		48,645
Earnings (loss) per share basic	$	0.18	$	(0.81)
Earnings (loss) per share diluted	$	0.17	$	(0.81)

For the three and nine months ended September 30, 2010, 14.4 million warrants and 3.2 million stock options were not included in the computation of diluted earnings per share as the effect would be anti-dilutive. For the three and nine months ended September 30, 2009, approximately 28.0 million of warrants were not included in the computation of diluted earnings per share as the effect would be anti-dilutive.

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8. Subsequent Events

Credit Facility

On October 4, 2010, Iridium Satellite entered into the Facility with a syndicate of bank lenders. Ninety-five percent of the obligations under the Facility are insured by Compagnie Française d Assurance pour le Commerce Extérieur (COFACE), the French export credit agency. The Facility is comprised of two tranches, with draws and repayments applied pro rata to each tranche:

Tranche A $1,537,500,000 at a fixed rate of 4.96%; and

Tranche B $262,500,000 at a floating rate equal to the London Interbank Offer Rate (LIBOR) plus 1.95%.

In connection with each draw it makes under the Facility, Iridium Satellite will also borrow an amount equal to 6.49% of such draw to cover the premium for the COFACE policy. Iridium Satellite will also pay a commitment fee of 0.80% per year, in semi-annual installments, on any undrawn portion of the Facility beginning on April 4, 2011. In addition, pursuant to separate fee letters entered into at the same time as the Facility, Iridium Satellite paid arrangement fees to the syndicate banks totaling $46.6 million on October 29, 2010.

Funds drawn under the Facility will be used for (i) 85% of the costs under the FSD for the construction of Iridium NEXT satellites and reimbursement to Iridium Satellite for 85% of the amounts it previously paid to Thales under the ATP, (ii) the premium for the COFACE policy and (iii) the payment of a portion of interest during a portion of the construction and launch phase of Iridium NEXT.

Scheduled semi-annual principal repayments will begin six months after the earlier of (i) the successful deployment of a specified number of Iridium NEXT satellites or (ii) September 30, 2017. During this repayment period, interest will be paid on the same date as the principal repayments. Prior to the repayment period, interest payments will be due on a semi-annual basis beginning April 29, 2011. The Facility will mature seven years after the start of the repayment period.

Iridium Satellite s obligations under the Facility are guaranteed by the Company and its subsidiaries that are obligors under the Facility and are secured on a senior basis by a lien on substantially all of the Company s assets and those of Iridium Satellite and the other obligors (except to the extent prohibited by law).

Iridium Satellite may not prepay any borrowings prior to December 31, 2015. If on that date, a specified number of Iridium NEXT satellites have been successfully launched and the Company has adequate time and resources to complete the Iridium NEXT constellation on schedule, Iridium Satellite may prepay the borrowings without penalty. In addition, following the completion of the Iridium NEXT constellation, Iridium Satellite may prepay the borrowings without penalty. Any amounts repaid may not be reborrowed. Iridium Satellite must repay the loans in full upon (i) a delisting of the Company s common stock, (ii) a change in control of the Company or the Company ceasing to own 100% of any of the other obligors or (iii) the sale of all or substantially all of the Company s assets. The Company must apply all or a portion of specified capital raising proceeds, insurance proceeds and condemnation proceeds to the prepayment of the loans. The Facility includes customary representations, events of default, covenants and conditions precedent to drawing of funds. The financial covenants include,

a minimum cash requirement;

a minimum debt to equity ratio level;

maximum capital expenditure levels;

minimum consolidated operational EBITDA levels;

minimum cash flow requirements from customers who have secondary payloads hosted on the Company s satellites;

minimum debt service reserve levels;

a minimum debt service coverage ratio level; and

maximum leverage levels.

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The covenants also place limitations on the ability of the Company and its subsidiaries to carry out mergers and acquisitions, dispose of assets, grant security interests, enter into certain transactions with affiliates, fund payments under the FSD from its own resources, incur debt, or make loans, guarantees or indemnities.

Upon the closing of the Facility on October 25, 2010, the FSD became effective and the ATP terminated automatically by its terms. The Company s total payments of $149.3 million under the ATP through the date of its termination were credited against amounts due under the FSD. In addition, the SpaceX Agreement also became effective in the fourth quarter of 2010, and the $19.0 million refundable portion of the payments the Company had made to SpaceX became non-refundable.

Motorola Settlement

On October 1, 2010, the Company, together with Iridium Satellite and Iridium Holdings, entered into a Settlement Agreement (the Settlement Agreement) with Motorola, pursuant to which the parties settled the litigation filed by Motorola against Iridium Satellite and Iridium Holdings in the Circuit Court of Cook County, Illinois, County Department Chancery Division (captioned Motorola, Inc. vs. Iridium Satellite LLC and Iridium Holdings LLC, Docket No. 10 CH 05684). On the same date, the parties entered into a series of other agreements. Pursuant to the Settlement Agreement, which contains no admission of liability by any party, and the certain other agreements entered into on the same date, Iridium Satellite will pay Motorola an aggregate of $46.0 million, in consideration of payment of debt of $15.4 million otherwise due this year, as reflected on its financial statements as of September 30, 2010, expanded intellectual property licenses, the conversion of existing intellectual property licenses from being royalty-based to prepaid, transfer to the Company of ownership of certain intellectual property rights, termination of Motorola s rights to distributions and payments based on the value of the Company upon certain triggering events and mutual releases of claims. Of the total $46.0 million, the Company paid $23.0 million contemporaneously with the execution of the Settlement Agreement and the remaining $23.0 million is reflected in a Promissory Note Iridium Satellite issued to Motorola (the Promissory Note), which bears interest at the rate of 10% per annum and matures on December 31, 2011. The Promissory Note is secured by a security interest in Iridium Satellite s accounts receivable and Iridium Satellite s principal operating account, and is guaranteed by Iridium Holdings and by the Company.

In conjunction with the execution of the Settlement Agreement, Iridium Satellite and Motorola terminated the Senior Subordinated Term Loan Agreement dated December 11, 2000 by and among them. Iridium Satellite, Iridium Holdings and Motorola also amended and restated the Transition Services, Products and Asset Agreement, also dated as of December 11, 2000, to eliminate provisions which by completion or passage of time were deemed unnecessary. The Company s insurance requirements and Motorola s de-orbit rights under the Amended and Restated Transition Services, Products and Asset Agreement remain materially unchanged.

In addition, Iridium Satellite and Motorola entered into a System Intellectual Property Rights Amendment and Agreement and a Supplemental Subscriber Equipment Technology Amendment and Agreement. Pursuant to those two agreements, the Company broadened its existing licenses to certain Motorola intellectual property for use with its current satellite constellation and subscriber equipment, and the Company received licenses to such intellectual property for use with Iridium NEXT and future subscriber equipment.

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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	Period January 1, 2009 to September 29, 2009
Revenue:		
Services:		
Government	$ 19,411	$ 56,039
Commercial	43,929	120,706
Subscriber equipment	21,117	66,206
Total revenue	84,457	242,951
Operating expenses:		
Cost of subscriber equipment sales	10,348	33,265
Cost of services (exclusive of depreciation and amortization)	20,096	58,978
Selling, general and administrative	17,334	44,505
Research and development	4,163	17,432
Depreciation and amortization	3,601	10,850
Transaction costs	10,560	12,478
Total operating expenses	66,102	177,508
Operating profit	18,355	65,443
Other (expense) income:		
Interest expense, net of capitalized interest of $133 and $324 for the period July 1, 2009 to September 29, 2009 and the period January 1, 2009 to September 29, 2009, respectively	(3,610)	(12,829)
Interest income and other income (expense), net	221	670
Total other (expense) income	(3,389)	(12,159)
Net income	$ 14,966	$ 53,284
Net income attributable to Class A Units	$ 10,152	$ 36,143
Weighted average Class A Units outstanding basic	1,084	1,084
Weighted average Class A Units outstanding diluted	1,168	1,168
Earnings per unit basic	$ 9.37	$ 33.34
Earnings per unit diluted	$ 8.96	$ 31.75

See accompanying notes to unaudited condensed consolidated financial statements

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Iridium Holdings LLC Predecessor Company

Unaudited Condensed Consolidated Statement of Cash Flows

(In thousands)

	For the Period January 1, 2009 to September 29, 2009
Operating activities:	
Net income	$ 53,284
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation and amortization	10,850
Other non-cash amortization and accretion	2,537
Equity and profits interest compensation	5,406
Change in certain operating assets and liabilities:	
Accounts receivable, net	(5,539)
Inventory	8,919
Prepaid expenses and other current assets	2,158
Deferred cost of sales	
Other noncurrent assets	935
Accounts payable	(2,368)
Accrued expenses and other liabilities	(7,134)
Accrued compensation and employee benefits	(2,908)
Deferred revenue	(54)
Accrued satellite operations and maintenance expense	(1,856)
Net cash provided by operating activities	64,230
Investing activities:	
Capital expenditures	(7,698)
Net cash used in investing activities	(7,698)
Financing activities:	
Payments under credit facilities	(23,327)
Distributions to Class A and B members	
Net cash used in financing activities	(23,327)
Net increase in cash and cash equivalents	33,205
Cash and cash equivalents, beginning of period	24,810
Cash and cash equivalents, end of period	$ 58,015
Supplementary cash flow information:	
Cash paid for interest	$ 10,704
Supplementary disclosure of non-cash investing activities:	
Property and equipment received but not paid for at period end	$ 2,403

See accompanying notes to unaudited condensed consolidated financial statements.

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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 Satellite LLC, a wholly owned subsidiary of Iridium Holdings, acquired certain satellite communication assets from Iridium LLC, a non-affiliated debtor in possession.

Iridium is considered a predecessor entity to Iridium Communications Inc.

Business

Iridium is a provider of mobile voice and data communications services via satellite. Iridium holds various licenses and authorizations from the Federal Communications Commission (the FCC) and from foreign 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 businesses, U.S. and international government agencies and other customers on a global basis.

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. The accompanying unaudited condensed consolidated financial statements include the accounts of Iridium and its wholly owned and majority-owned subsidiaries. All intercompany transactions and balances have been eliminated. Iridium has continued to follow the accounting policies disclosed in the consolidated financial statements included in its 2009 audited financial statements on Iridium Communications Inc. s Form 10-K for the year ended December 31, 2009. 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. 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 pursuant to such rules and regulations. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. While Iridium believes that the disclosures are adequate to not make the information misleading, these interim unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the 2009 audited financial statements on Iridium Communications Inc. s current report on Form 8-K filed with the Securities and Exchange Commission (the SEC) on May 10, 2010.

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 revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

3. Commitments and Contingencies

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.

4. 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% of its total revenue during both the period July 1, 2009 to September 29, 2009 and the period January 1, 2009 to September 29, 2009 from agencies of the U.S. government. Iridium s two largest commercial customers accounted for approximately 25% and 23% of total revenue for the period July 1, 2009 to September 29, 2009 and the period January 1, 2009 to September 29, 2009, respectively.

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Iridium acquires subscriber equipment primarily 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.

Revenue by geographic area is as follows:

	For the Period July 1, 2009 to September 29, 2009	For the Period January 1, 2009 to September 29, 2009
	(In thousands)	
United States	$ 39,546	$ 115,901
Canada	14,844	37,087
United Kingdom	8,761	23,461
Other countries [(1)]	21,306	66,502
	$ 84,457	$ 242,951

(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 invoices are generally denominated in United States dollars.

5. 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.

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.

Interest Rate Swaps

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. 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.

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

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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 unaudited condensed consolidated statements of income. 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 tables summarize the effect of derivative instruments designated as cash flow hedges (interest rate swaps) on Iridium s results of operations for the period July 1, 2009 to September 29, 2009 and January 1, 2009 to September 29, 2009:

For the Period July 1, 2009 to September 29, 2009

(In thousands)

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivative (Effective Portion)	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Loss Recognized in Income on Derivative (Ineffective Portion)	Amount of Loss Recognized in Income on Derivative (Ineffective Portion)
Accumulated other comprehensive loss	$ (216)	Interest Expense	$ (533)	Interest Expense	$ (3)
Total	$ (216)		$ (533)		$ (3)

For Period January 1, 2009 to September 29, 2009

(In thousands)

Derivatives in Cash Flow Hedging Relationships	Amount of Loss Recognized in OCI on Derivative (Effective Portion)	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Loss Recognized in Income on Derivative (Ineffective Portion)	Amount of Loss Recognized in Income on Derivative (Ineffective Portion)
Accumulated other comprehensive loss	$ (295)	Interest Expense	$ (2,323)	Interest Expense	$ (10)
Total	$ (295)		$ (2,323)		$ (10)

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The following tables summarize the effect of derivative instruments not designated as hedges (foreign currency exchange contracts) on Iridium s results of operations for the period July 1, 2009 to September 29, 2009 and January 1, 2009 to September 29, 2009:

For the Period July 1, 2009 to September 29, 2009

(In thousands)

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Foreign currency exchange contracts	Other income	$ (4)
Total		$ (4)

For the Period January 1, 2009 to September 29, 2009

(In thousands)

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Foreign currency exchange contracts	Other income	$ 298
Total		$ 298

6. Earnings Per Unit

Basic earnings per unit is calculated by dividing net income available to Class A Unit holders by the weighted average of the Class A Units outstanding for the period. Net income available to Class A Unit holders gives effect to the net income allocable to Class B Unit holders as if such net income was distributed in the applicable period pursuant to the terms of the LLC Agreement. Diluted earnings per Class A Unit takes into account the conversion of the Note when such effect is dilutive.

	For the Period July 1, 2009 to September 29, 2009	For the Period January 1, 2009 to September 29, 2009
	(In thousands except per unit data)	
Numerator:		
Net Income	$ 14,966	$ 53,284
Adjustments for Class B Units earnings participation	(4,814)	(17,141)
Net income attributable to Class A Units, basic	10,152	36,143
Adjustment for interest on Note	312	936

Net income attributable to Class A Units, diluted	$ 10,464	$ 37,079
Denominator:		
Weighted-average Class A Units outstanding, basic	1,084	1,084
Units from assumed conversion of Note	84	84
Weighted-average Class A Units outstanding, diluted	1,168	1,168
Earnings Per Unit:		
Basic	$ 9.37	$ 33.34
Diluted	$ 8.96	$ 31.75

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion along with our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and our current report on Form 8-K filed on May 10, 2010 with the Securities and Exchange Commission, or the SEC, as well as our unaudited condensed consolidated financial statements and the unaudited condensed consolidated financial statements of Iridium Holdings LLC (our predecessor entity) included in this Form 10-Q.

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Such forward-looking statements include those that express plans, anticipation, intent, contingencies, goals, targets or future development or otherwise are not statements of historical fact. Without limiting the foregoing, the words believes, anticipates, plans, expects, intends and similar expressions are intended to identify forward-looking statements. These forward-looking statements are based on our current expectations and projections about future events and they are subject to risks and uncertainties, known and unknown, that could cause actual results and developments to differ materially from those expressed or implied in such statements. The important factors discussed under the caption Risk Factors in this Form 10-Q could cause actual results to differ materially from those indicated by forward-looking statements made herein. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Background

We were formed as GHL Acquisition Corp., a special purpose acquisition company, on November 2, 2007, for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or other similar business combination. We closed an initial public offering of our common stock on February 21, 2008. All of our activity from November 2, 2007 (inception) through February 21, 2008 related to our formation and initial public offering. From February 21, 2008 through September 29, 2009, our activities were limited to identifying prospective target businesses to acquire and complete a business combination, and we were considered to be in the development stage.

On September 29, 2009, we acquired, directly and indirectly, all the outstanding equity of Iridium Holdings LLC, or Iridium Holdings. We refer to this transaction as the Acquisition. Iridium Holdings, its subsidiary Iridium Satellite LLC, or Iridium Satellite, and Iridium Satellite s subsidiary Iridium Constellation LLC, or Iridium Constellation, were formed under the laws of Delaware in 2000 and were organized as limited liability companies pursuant to the Delaware Limited Liability Company Act. We refer to Iridium Holdings, together with its direct and indirect subsidiaries, as Iridium. On December 11, 2000, Iridium acquired satellite communication assets from Iridium LLC, a non-affiliated debtor in possession. Iridium and its affiliates held, and following the Acquisition we hold, various licenses and authorizations from the U.S. Federal Communications Commission, or FCC, and from foreign regulatory bodies that permit us to conduct our business, including the operation of our satellite constellation.

Pursuant to the terms of the Acquisition, we purchased all of the outstanding equity of Iridium Holdings. Total consideration included 29.4 million shares of our common stock and $102.6 million in cash, including payments totaling $25.5 million in cash we made in December 2009 and January 2010 to some of the former members of Iridium Holdings for tax benefits we received. Upon the closing of the Acquisition, we changed our name from GHL Acquisition Corp. to Iridium Communications Inc.

We accounted for our business combination with Iridium Holdings as a purchase business combination and recorded all assets acquired and liabilities assumed at their respective Acquisition-date fair values. We were deemed the legal and accounting acquirer and Iridium Holdings the legal and accounting acquiree. Iridium is considered our predecessor and, accordingly, its historical financial statements are deemed to be our predecessor financial statements. Iridium s historical financial statements are included in this Form 10-Q but are presented separately from our financial statements.

As a result of the Acquisition, we recorded the assets and liabilities we acquired from Iridium at fair value, which resulted in a significant increase in the carrying value of our assets and liabilities. After the December 31, 2009 financial statements were issued, we received additional information related to a pre-Acquisition contingency and retrospectively adjusted the estimated fair value of the assets acquired and liabilities assumed in the Acquisition on September 29, 2009. This retrospective adjustment was reflected in a Form 8-K filed with the SEC on May 10, 2010. Consequently, the impact of acquisition accounting on our carrying value of inventory, property and equipment, intangible assets and accruals, was an increase of approximately $19.8 million, $348.2 million, $95.5 million and $29.0 million, respectively, compared to Iridium s balance sheet as of September 29, 2009. Similarly, Iridium s deferred revenue decreased by $7.4 million. As a result of the effect of acquisition accounting, our cost of subscriber equipment sales increased in the first quarter of 2010 as compared to those costs and expenses of Iridium in prior periods, and the decrease in the carrying value of deferred revenue caused a decrease in revenue, which we expect will continue through the first quarter of 2011. In addition, the increase in accruals had the effect of reducing cost of services (exclusive of depreciation and amortization) during 2010, which we expect will continue into future periods. The increase in property and equipment and intangible assets had the effect of increasing depreciation and amortization expense during 2010, which we expect will continue into future periods.

Overview of Our Business

We are engaged primarily in providing mobile voice and data communications services using a constellation of orbiting satellites. We are the second largest provider of satellite-based mobile voice and data communications services based on full year 2009 revenue, and the only provider of mobile satellite communications services offering 100% global coverage. Our satellite network provides communications services to regions of the world where existing wireless or wireline networks do not exist or are impaired, including extremely remote or rural land areas, airways, open ocean, the polar regions and regions where the telecommunications infrastructure has been affected by political conflicts or natural disasters.

We offer voice and data communications services to businesses, the U.S. and foreign governments, non-governmental organizations and consumers using our constellation of in-orbit satellites and related ground infrastructure, including a primary commercial gateway. We utilize an interlinked, mesh architecture to route traffic across the satellite constellation using radio frequency crosslinks. This unique architecture minimizes the need for ground facilities to support the constellation, which facilitates the global reach of our services and allows us to offer services in countries and regions where we have no physical presence.

We sell our products and services to commercial end-users exclusively through a wholesale distribution network, encompassing approximately 70 service providers, 145 value-added resellers, or VARs, and 50 value-added manufacturers, who either sell directly to the end-user or indirectly through other service providers, VARs or dealers. These distributors often integrate our products and services with other complementary hardware and software and have developed a broad suite of applications for our products and services targeting specific vertical markets.

At September 30, 2010, we had approximately 413,000 billable subscribers worldwide, an increase of 74,000 or 21.8% from approximately 339,000 billable subscribers at September 30, 2009. We have a diverse customer base, including end-users in the following vertical markets: land-based handset; maritime; aviation; machine-to-machine, or M2M; and government.

We expect a high proportion of our future revenue will be derived from services. Voice and M2M data service revenue historically has generated higher gross margin than subscriber equipment revenue. We expect our future revenue growth rates will be somewhat lower than our historical rates primarily due to decreased subscriber equipment revenue growth and the difficulty in sustaining high growth rates as our revenue increases.

Our business plan calls for the development of Iridium NEXT, our next-generation satellite constellation, the development of new product and service offerings, upgrades to our current services, hardware and software upgrades to maintain our ground infrastructure and upgrades to our business systems. We estimate the aggregate costs associated with the design, build and launch of Iridium NEXT and related infrastructure upgrades through early 2017 to be approximately $3 billion. We believe our new credit facility, described below, together with internally generated cash flow, will be sufficient to fully fund the aggregate costs associated with the design, build and launch of Iridium NEXT and related infrastructure upgrades through early 2017.

Full Scale Development and Launch Services Agreements

In June 2010, we, through Iridium Satellite, executed a primarily fixed price full scale development contract, or FSD, with Thales Alenia Space, or Thales, for the design and manufacture of satellites for Iridium NEXT. The effectiveness of the FSD was contingent upon our securing financing for the FSD. Also in June 2010, we entered into an authorization to proceed, or ATP, with Thales, which allowed Thales to commence work immediately on the development of satellites prior to the effectiveness of the FSD. The FSD contemplates the launch of the first Iridium NEXT satellites during the first quarter of 2015.

In the third quarter of 2010, Iridium Satellite entered into amendments with Thales to the ATP and FSD pursuant to which we paid $37.6 million to Thales to mitigate the potential currency fluctuations on the Euro-denominated portions of the ATP and FSD. As of September 30, 2010, we had paid $94.6 million for work related to the ATP. On October 25, 2010, we finalized a $1.8 billion loan facility, or the Facility, and satisfied the conditions for the first borrowing. As a result, the FSD became effective and the ATP terminated automatically by its terms. Our aggregate payments under the ATP through the date of its termination were $149.3 million, which were credited against amounts due under the FSD. The total price under the FSD will be approximately $2.2 billion, and we expect our payment obligations under the FSD to extend into the third quarter of 2017.

In March 2010, we, through Iridium Satellite, entered into an agreement with Space Exploration Technologies Corp., or SpaceX, to secure SpaceX as the primary launch services provider for Iridium NEXT. The effectiveness of this agreement, which we refer to as the SpaceX

Agreement, was contingent upon our securing financing for the FSD, which occurred on October 25, 2010 when we satisfied the conditions for the first borrowing under the Facility. On September 17, 2010, prior to the effectiveness of the SpaceX Agreement, Iridium Satellite also entered into an amendment with SpaceX that, among other things, extended the termination date to December 19, 2010. As part of the amendment, we agreed to make certain payments of approximately $24.0 million. The SpaceX Agreement, as amended, has a maximum price of $492.0 million.

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As of September 30, 2010, we had made total payments of $38.0 million to SpaceX, of which $19.0 million was refundable at that time since we had not yet completed our financing for the FSD. Of the total payments of $38.0 million, the $19.0 million refundable portion was recorded in other long-term assets and the $19.0 million non-refundable portion was recorded in property and equipment, net in the accompanying unaudited condensed consolidated balance sheet as of September 30, 2010. On October 25, 2010, we finalized the Facility and, as a result, the SpaceX Agreement became effective and all amounts became non-refundable and will be classified as property and equipment, net, going forward.

New Credit Facility

On October 4, 2010, Iridium Satellite entered into the Facility with a syndicate of bank lenders. Ninety-five percent of the obligations under the Facility are insured by Compagnie Française d Assurance pour le Commerce Extérieur, or COFACE. The Facility consists of two tranches, with draws and repayments applied pro rata to each tranche:

Tranche A $1,537,500,000 at a fixed rate of 4.96%; and

Tranche B $262,500,000 at a floating rate equal to the London Interbank Offer Rate, or LIBOR, plus 1.95%.

In connection with each draw it makes under the Facility, Iridium Satellite will also borrow an amount equal to 6.49% of such draw to cover the premium for the COFACE policy. Iridium Satellite will also pay a commitment fee of 0.80% per year, in semi-annual installments, on any undrawn portion of the Facility beginning on April 4, 2011. In addition, pursuant to separate fee letters entered into at the same time as the Facility, Iridium Satellite paid arrangement fees to the syndicate banks totaling $46.6 million on October 29, 2010. Funds drawn under the Facility will be used for (i) 85% of the costs under the FSD for the construction of Iridium NEXT satellites and reimbursement to Iridium Satellite for 85% of the amounts it previously paid to Thales under the ATP, (ii) the premium for the COFACE policy and (iii) the payment of a portion of interest during a portion of the construction and launch phase of Iridium NEXT.

Scheduled semi-annual principal repayments will begin six months after the earlier of (i) the successful deployment of a specified number of Iridium NEXT satellites or (ii) September 30, 2017. During this repayment period, interest will be paid on the same date as the principal repayments. Prior to the repayment period, interest payments will be due on a semi-annual basis beginning April 29, 2011. The Facility will mature seven years after the start of the repayment period.

Iridium Satellite s obligations under the Facility are guaranteed by us and our subsidiaries that are obligors under the Facility and are secured on a senior basis by a lien on substantially all of our assets and those of Iridium Satellite and the other obligors.

Iridium Satellite may not prepay any borrowings prior to December 31, 2015. If on that date, a specified number of Iridium NEXT satellites have been successfully launched and we have adequate time and resources to complete the Iridium NEXT constellation on schedule, Iridium Satellite may prepay the borrowings without penalty. In addition, following the completion of the Iridium NEXT constellation, Iridium Satellite may prepay the borrowings without penalty. Any amounts repaid may not be reborrowed. Iridium Satellite must repay the loans in full upon (i) a delisting of our common stock, (ii) a change in control of our company or our ceasing to own 100% of any of the other obligors or (iii) the sale of all or substantially all of our assets. We must apply all or a portion of specified capital raising proceeds, insurance proceeds and condemnation proceeds to the prepayment of the loans. The Facility includes customary representations, events of default, covenants and conditions precedent to drawing of funds. The financial covenants include,

a minimum cash requirement;

a minimum debt to equity ratio level;

maximum capital expenditure levels;

minimum consolidated operational EBITDA levels;

minimum cash flow requirements from customers who have secondary payloads hosted on our satellites;

minimum debt service reserve levels;

a minimum debt service coverage ratio level; and

maximum leverage levels.

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The covenants also place limitations on the ability of us and our subsidiaries to carry out mergers and acquisitions, dispose of assets, grant security interests, enter into certain transactions with affiliates, fund payments under the FSD from our own resources, incur debt, or make loans, guarantees or indemnities.

On October 29, 2010, we borrowed $135.1 million under the Facility and used a portion of the proceeds to reimburse Iridium Satellite for a portion of the previous payments under the ATP and to make the COFACE policy premium related to the draw. We also used funds received from this borrowing to pay $46.6 million of fees and expenses in connection with the negotiation and arrangement of the Facility.

Settlement of Motorola Litigation

On October 1, 2010, we entered into a settlement agreement with Motorola, Inc., or Motorola, pursuant to which the parties settled the litigation filed by Motorola against Iridium Satellite and Iridium Holdings in Illinois. On the same date, the parties entered into a series of other agreements. Pursuant to these several agreements, Iridium Satellite will pay Motorola an aggregate of $46.0 million to repay debt of $15.4 million otherwise due this year, as reflected in our financial statements as of September 30, 2010, and $14.9 million in consideration of expanded intellectual property licenses, the conversion of existing intellectual property licenses from being royalty-based to prepaid, the transfer to us of ownership of certain intellectual property rights, $15.7 million for the termination of Motorola s rights to distributions and payments based on the value of our company upon certain triggering events and mutual releases of claims. Of the total $46.0 million, we paid $23.0 million contemporaneously with the execution of the settlement agreement and the remaining $23.0 million is reflected in a promissory note Iridium Satellite issued to Motorola, which bears interest at the rate of 10% per annum and matures on December 31, 2011. The promissory note to Motorola is secured by a security interest in Iridium Satellite s accounts receivable and Iridium Satellite s principal operating account, and is guaranteed by Iridium Holdings and by us.

In conjunction with the execution of the settlement agreement, Iridium Satellite and Motorola also terminated the Senior Subordinated Term Loan Agreement dated December 11, 2000 by and among them.

Material Trends and Uncertainties

Iridium s industry and customer base has historically grown as a result of:

- demand for remote and reliable mobile communications services;
- increased demand for communications services by the Department of Defense, or DoD, disaster and relief agencies and emergency first responders;
- a broad and expanding wholesale distribution network with access to diverse and geographically dispersed niche markets;
- a growing number of new products and services and related applications;
- improved data transmission speeds for mobile satellite service offerings;
- regulatory mandates requiring the use of mobile satellite services, particularly among maritime end-users;
- a general reduction in prices of mobile satellite services equipment; and

- geographic market expansion through the receipt of licenses in additional countries.

Nonetheless, as we continue the Iridium business, we face a number of challenges and uncertainties, including:

- our ability to develop Iridium NEXT and related ground infrastructure, and develop products and services for Iridium NEXT, including our ability to access our credit facility to meet our future capital requirements for the construction of the Iridium NEXT satellites;
- our ability to maintain the health, capacity, control and level of service of our satellite network until and during the transition to Iridium NEXT;
- changes in general economic, business and industry conditions;
- our reliance on a single primary gateway and a primary satellite network operations center;
- competition from other mobile satellite service providers and, to a lesser extent, from the expansion of terrestrial based cellular phone systems and related pricing pressures;
- our ability to maintain our relationship with U.S. government customers, particularly the DoD;
- rapid and significant technological changes in the telecommunications industry;
- reliance on our wholesale distribution network to market and sell our products, services and applications effectively; and

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reliance on single source suppliers for some of the components required in the manufacture of our end-user subscriber equipment and our ability to purchase parts that are periodically subject to shortages resulting from surges in demand.

Comparison of Our Results of Operations for the Three and Nine Months Ended September 30, 2010 and 2009

For the periods prior to the Acquisition, we did not have any business operations and we were considered to be in the development stage. All of our activities during the three and nine months ended September 30, 2009 related to completing a business combination. Accordingly, we had no revenue during this period. For the three and nine months ended September 30, 2010, our revenue was $94.5 million and $260.2 million, respectively, which was entirely attributable to the operations after the Acquisition.

Total operating expenses increased to $73.7 million and $237.9 million for the three and nine months ended September 30, 2010, respectively, from $6.1 million and $6.9 million for the three and nine months ended September 30, 2009, respectively. This increase was related to the operations after the Acquisition.

We had an income tax provision of approximately $10.2 million for both the three and nine months ended September 30, 2010, compared to an income tax benefit of approximately $0.6 million for both the three and nine months ended September 30, 2009. The effective tax rate for the nine months ended September 30, 2010 was approximately 49% compared to 1.54% in the equivalent period in 2009 due to the non-deductibility of certain transaction costs and the tax treatment of the derivative liability for the warrant exchange and repurchase agreement. Our estimated annual effective rate in 2010 differs from the statutory U.S. federal income tax rate of 35% due to state taxes and additional U.S. taxes on foreign corporations.

Comparison of Our Results of Operations for the Three Months Ended September 30, 2010 and Iridium s (Predecessor Company s) Results of Operations for the Period from July 1, 2009 to September 29, 2009

For comparison purposes, we have included the following discussion of our operating results for the three months ended September 30, 2010 and those of Iridium for the period from July 1, 2009 to September 29, 2009, or the 2009 Quarter Period. This presentation is intended to facilitate the evaluation and understanding of the financial performance of our business on a quarter-to-quarter basis. Management believes this presentation is useful in providing the users of our financial information with an understanding of our results of operations because there were no material changes to the operations of Iridium as a result of the Acquisition and we had no material operating activities from the date of formation of GHL Acquisition Corp. until the Acquisition.

	Iridium Communications Inc. Three Months Ended September 30, 2010	Iridium (Predecessor Company) 2009 Quarter Period	% Change
	(In thousands)		
Revenue:			
Services:			
Government	$ 19,518	$ 19,411	0.6%
Commercial	47,934	43,929	9.1%
Subscriber equipment	27,075	21,117	28.2%
Total revenue	94,527	84,457	11.9%
Operating expenses:			
Cost of subscriber equipment sales	14,798	10,348	43.0%
Cost of services (exclusive of depreciation and amortization)	17,613	20,096	(12.4)%
Research and development	2,311	4,163	(44.5)%
Depreciation and amortization	22,657	3,601	529.2%
Selling, general and administrative	16,312	17,334	(5.9)%

Transaction costs			10,560	NM
Total operating expenses	73,691		66,102	11.5%
Operating profit	20,836		18,355	13.5%
Other income (expense):				
Interest income (expense), net of capitalized interest	81		(3,438)	(102.4)%
Other income (expense), net	(6)		49	(112.2)%
Total other income (expense)	75		(3,389)	(102.2)%
Earnings before income taxes	20,911		14,966	39.7%
Income tax provision	10,225			NM
Net income	$ 10,686	$	14,966	(28.6)%

NM = Not Meaningful

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Revenue

Total revenue increased by 11.9% to $94.5 million for the three months ended September 30, 2010 from $84.4 million for the 2009 Quarter Period, due principally to increased sales of subscriber equipment and growth in billable subscribers, which resulted in increased sales of commercial and government services. Billable subscribers at September 30, 2010 increased by approximately 21.8% from September 30, 2009 to approximately 413,000.

Government Services Revenue

Government services revenue increased by 0.6% to $19.5 million for the three months ended September 30, 2010 from $19.4 million for the 2009 Quarter Period, primarily due to voice billable subscriber growth, including growth related to Netted Iridium, a service introduced in late 2009 that provides beyond line-of-sight push-to-talk capability for user-defined groups. This increase was largely offset by a decrease in engineering and support services contracts, which are project-based, non-recurring in nature and generally have a low gross margin. The average monthly revenue per unit, or ARPU, for voice included in government services, decreased by $2 to $149 for the three months ended September 30, 2010 compared to the 2009 Quarter Period, due to a higher proportion of billable subscribers on the lower priced Netted Iridium plan. We expect government voice ARPU to decrease in the future as usage of Netted Iridium continues to grow. The government M2M data ARPU increased by $1 to $22 for the three months ended September 30, 2010 compared to the 2009 Quarter Period, due to a higher proportion of billable subscribers on higher tiered pricing plans. We expect total government revenue for the full year 2010 to be generally in line with 2009. Also, future growth in voice and M2M data billable subscribers and revenue may be negatively affected by reductions in U.S. defense spending and troop levels, and a corresponding decrease in usage under our agreements with the U.S. government, which accounts for a majority of our government services revenue and is subject to annual renewals.

Government Services

	Iridium Communications Inc. Three Months Ended September 30, 2010			Iridium (Predecessor Company) 2009 Quarter Period			Year over Year Change		
	(Revenue in millions and subscribers in thousands)								
	Revenue	**Billable Subscribers(1)**	**ARPU(2)**	**Revenue**	**Billable Subscribers(1)**	**ARPU(2)**	**Revenue**	**Billable Subscribers**	**ARPU**
Voice	$ 15.0	35.2	$ 149	$ 13.3	29.6	$ 151	$ 1.7	5.6	$ (2)
M2M data	0.4	6.3	22	0.2	3.4	21	0.2	2.9	1
Engineering and support	4.1			5.9			(1.8)		
Total	$ 19.5	41.5		$ 19.4	33.0		$ 0.1	8.5	

(1) Billable subscriber numbers shown are at the end of the respective period.
(2) ARPU is calculated by dividing revenue in the respective period by the average of the number of billable subscribers at the beginning of the period and the number of billable subscribers at the end of the period and then dividing the result by the number of months in the period.

Commercial Services Revenue

Commercial services revenue increased by 9.1% to $47.9 million for the three months ended September 30, 2010 from $43.9 million for the 2009 Quarter Period, due principally to voice revenue and M2M data revenue growth. Voice revenue was up principally due to subscriber growth, including growth related to Iridium OpenPort, our high-speed data maritime service, partially offset by a decrease in revenue from the impact of acquisition accounting in the third quarter of 2010. M2M data revenue growth was driven principally by an increase in the billable subscriber base. The increase in engineering and support revenue was related to new work in 2010. Commercial voice ARPU decreased by $4 to $52 for the three months ended September 30, 2010 compared to the 2009 Quarter Period, primarily due to the impact of acquisition accounting, a decrease in average usage per subscriber, and lower revenue recognized on prepaid cards where the likelihood of redemption is remote, or Prepaid Card Breakage, which was partially offset by an increase in ARPU from our Iridium OpenPort services. Commercial M2M data ARPU was unchanged at $21. We expect to see a decrease in commercial M2M data ARPU as we add new pricing plans to address new M2M markets.

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Commercial Services

(Revenue in millions and subscribers in thousands)

	Iridium Communications Inc. Three Months Ended September 30, 2010			Iridium (Predecessor Company) 2009 Quarter Period			Year over Year Change		
	Revenue	Billable Subscribers[(1)]	ARPU[(2)]	Revenue	Billable Subscribers[(1)]	ARPU[(2)]	Revenue	Billable Subscribers	ARPU
Voice	$ 41.5	270.3	$ 52[(3)]	$ 39.3	236.4	$ 56[(3)]	$ 2.2	33.9	$ (4)
M2M data	5.8	100.9	21	4.3	69.3	21	1.5	31.6	
Engineering and support	0.6			0.3			0.3		
Total	$ 47.9	371.2		$ 43.9	305.7		$ 4.0	65.5	

(1) Billable subscriber numbers shown are at the end of the respective period.

(2) ARPU is calculated by dividing revenue in the respective period by the average of the number of billable subscribers at the beginning of the period and the number of billable subscribers at the end of the period and then dividing the result by the number of months in the period.

(3) ARPU is affected by Prepaid Card Breakage, which fluctuates from period to period.

Subscriber Equipment Revenue

Subscriber equipment revenue increased by 28.2% to $27.1 million for the three months ended September 30, 2010 from $21.1 million for the 2009 Quarter Period. The increase in subscriber equipment revenue was primarily due to strong handset and M2M data device sales, which was in part attributable to fulfilling customer orders that were delayed due to the component parts shortage we experienced in the second quarter of 2010. We successfully addressed the component parts delay and are again meeting standard order fulfillment timelines for our customers. The increase in sales volume was partially offset by decreased equipment unit prices introduced earlier in 2010 to incent future growth in service revenue reflecting our belief that service revenues are a more stable, profitable and long-term source of income than equipment sales, and in anticipation of competitive pressure. We intend to continue our strategy of pricing equipment to incent subscriber growth and growth in recurring service revenues due to the higher margins in service. Subscriber equipment sales to the U.S. government, including sales through a non-government distributor, may be negatively affected by reductions in U.S. defense spending and troop levels, and a corresponding decrease in usage under our agreements with the U.S. government, which are subject to annual renewals.

Operating Expenses

Total operating expenses increased by 11.5% to $73.7 million for the three months ended September 30, 2010 from $66.1 million for the 2009 Quarter Period. This increase was due primarily to increased depreciation and amortization, of which $19.4 million was related to acquisition accounting, and increased cost of subscriber equipment sales due to higher volume of sales, partially offset by transaction costs in the 2009 Quarter Period, decreased cost of services (exclusive of depreciation and amortization), lower research and development expenses and lower selling, general and administrative expenses.

Cost of Subscriber Equipment Sales

Cost of subscriber equipment sales generally includes the direct costs of equipment sold, which are manufacturing costs, allocation of overhead, warranty costs and royalties paid for the subscriber equipment intellectual property.

Cost of subscriber equipment sales increased by 43.0% to $14.9 million for the three months ended September 30, 2010 from $10.3 million for the 2009 Quarter Period, primarily due to increased sales volume in handsets and M2M data devices. Historically, cost of subscriber equipment sales has changed in line with changes in subscriber equipment revenue with the exception of the fourth quarter of 2009 and first quarter of 2010 due to the impact of acquisition accounting. The cost of subscriber equipment sales was 49.0% of subscriber equipment revenues in the 2009 Quarter Period and 54.7% in the three months ended September 30, 2010, which was primarily due to lower product pricing and a shift to lower margin products in 2010. We expect that in the fourth quarter of 2010, the cost of subscriber equipment sales will continue to represent a higher percentage of subscriber equipment revenue due to the expected mix of our product sales.

Cost of Services (exclusive of depreciation and amortization)

Cost of services (exclusive of depreciation and amortization) generally includes the cost of network engineering and operations staff including subcontractors, software maintenance, product support services and cost of services for government and commercial engineering and support revenue.

Cost of services (exclusive of depreciation and amortization) decreased by 12.4% to $17.6 million for the three months ended September 30, 2010 from $20.1 million for the 2009 Quarter Period, primarily due to the result of a favorable contract renegotiation with The Boeing Company, or Boeing, in July 2010 that resulted in lower operations and maintenance expenses. We also experienced lower government engineering and support services expenses directly related to the decrease in government engineering and support

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services revenue, partially offset by increased expense related to new commercial engineering and support services work and increased satellite operations and engineering costs. We expect our cost of services (exclusive of depreciation and amortization) in the fourth quarter of 2010 to run at lower than historical rates.

Research and Development

Research and development expenses decreased by 44.5% to $2.3 million for the three months ended September 30, 2010 from $4.1 million for the 2009 Quarter Period, primarily as a result of a decrease in expenses related to the completion of a new M2M data device, and decreased expenses related to Iridium NEXT projects as they transitioned out of the research and development stage.

Depreciation and Amortization

Depreciation and amortization expenses increased by 529.2% to $22.6 million for three months ended September 30, 2010 from $3.6 million for the 2009 Quarter Period, primarily as a result of $19.4 million additional depreciation and amortization attributable to increased asset values related to acquisition accounting. We expect depreciation and amortization expense going forward to continue to be at levels significantly higher than in 2009 primarily due to these higher asset values.

Selling, General and Administrative

Selling, general and administrative expenses generally include sales and marketing costs as well as legal, finance, information technology, facilities, billing and customer care expenses.

Selling, general and administrative expenses decreased by 5.9% to $16.3 million for the three months ended September 30, 2010 from $17.4 million for the 2009 Quarter Period primarily due to a decline in stock-based compensation related to the Acquisition in the 2009 Quarter Period, partially offset by an increase in employee incentives and commissions, an increase in professional fees (accounting, legal and regulatory) related to becoming a public company and our geographic expansion.

Transaction Costs

Transaction costs related to the Acquisition were $10.6 million for the 2009 Quarter Period. Transaction costs primarily include legal, accounting and consulting fees. There were no such costs for the three months ended September 30, 2010.

Interest Income (Expense), Net of Capitalized Interest

Interest income (expense), net of capitalized interest was $0.1 million for the three months ended September 30, 2010 and ($3.4) mi