

Iridium Communications Inc.
Form 10-Q
July 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2014

OR

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

Commission File Number 001-33963

Iridium Communications Inc.

(Exact name of registrant as specified in its charter)

DELAWARE

(State of incorporation)

26-1344998

(I.R.S. Employer Identification No.)

1750 Tysons Boulevard, Suite 1400, McLean, Virginia 22102

(Address of principal executive offices)

22102

(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 No

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

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

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

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

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The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding as of July 28, 2014 was 93,096,975.

IRIDIUM COMMUNICATIONS INC.

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PART I.**Iridium Communications Inc.****Condensed Consolidated Balance Sheets****(In thousands, except per share data)**

	June 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 336,328	\$ 186,342
Marketable securities	164,159	76,647
Accounts receivable, net	70,261	54,758
Inventory	28,830	29,532
Deferred tax assets, net	5,017	9,076
Income tax receivable	351	685
Prepaid expenses and other current assets	11,498	12,518
Total current assets	616,444	369,558
Property and equipment, net	1,654,862	1,575,579
Restricted cash	83,576	81,223
Other assets	7,733	8,909
Intangible assets, net	50,927	57,452
Deferred financing costs	129,699	130,036
Goodwill	87,039	87,039
Total assets	\$ 2,630,280	\$ 2,309,796
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 15,872	\$ 12,934
Accrued expenses and other current liabilities	37,349	39,209
Interest payable	8,706	7,989
Deferred revenue	40,341	41,367
Total current liabilities	102,268	101,499
Accrued satellite operations and maintenance expense, net of current portion	15,720	16,389
Credit facility	1,084,425	1,039,203
Deferred tax liabilities, net	219,017	202,825
Other long-term liabilities	17,951	10,385
Total liabilities	1,439,381	1,370,301
Commitments and contingencies		

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Stockholders' equity		
Series A Preferred Stock, \$0.0001 par value, 1,000 shares authorized, issued and outstanding	-	-
Series B Preferred Stock, \$0.0001 par value, 500 and zero shares authorized, issued and outstanding, respectively	-	-
Common stock, \$0.001 par value, 300,000 shares authorized, 93,097 and 76,690 shares issued and outstanding, respectively	93	77
Additional paid-in capital	1,025,198	801,262
Retained earnings	165,805	138,845
Accumulated other comprehensive loss, net of tax	(197)	(689)
Total stockholders' equity	1,190,899	939,495
Total liabilities and stockholders' equity	\$ 2,630,280	\$ 2,309,796

See notes to unaudited condensed consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Services	\$76,217	\$71,401	\$149,647	\$140,188
Subscriber equipment	20,333	19,815	40,490	37,146
Engineering and support services	5,971	3,468	10,416	6,539
Total revenue	102,521	94,684	200,553	183,873
Operating expenses:				
Cost of services (exclusive of depreciation and amortization)	16,730	14,206	30,933	28,682
Cost of subscriber equipment	13,268	12,893	27,180	24,013
Research and development	4,645	1,741	6,766	3,400
Selling, general and administrative	18,493	18,399	37,679	36,764
Depreciation and amortization	19,672	18,597	39,938	36,828
Total operating expenses	72,808	65,836	142,496	129,687
Operating income	29,713	28,848	58,057	54,186
Other income (expense):				
Interest income, net	725	641	1,362	1,278
Undrawn credit facility fees	(1,460)	(2,020)	(2,959)	(4,116)
Other expense, net	(3,789)	(869)	(4,139)	(2,265)
Total other expense	(4,524)	(2,248)	(5,736)	(5,103)
Income before income taxes	25,189	26,600	52,321	49,083
Provision for income taxes	(10,170)	(11,187)	(20,759)	(18,736)
Net income	15,019	15,413	31,562	30,347
Series A Preferred Stock dividends	1,750	1,750	3,500	3,500
Series B Preferred Stock dividends	1,102	-	1,102	-
Net income attributable to common stockholders	\$12,167	\$13,663	\$26,960	\$26,847
Weighted average shares outstanding - basic	86,793	76,900	81,964	76,834
Weighted average shares outstanding - diluted	95,653	87,530	86,444	87,477
Net income attributable to common stockholders per share - basic	\$0.14	\$0.18	\$0.33	\$0.35
Net income attributable to common stockholders per share - diluted	\$0.14	\$0.18	\$0.32	\$0.35

Comprehensive income:

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Net income	\$ 15,019	\$ 15,413	\$ 31,562	\$ 30,347
Foreign currency translation adjustments, net of tax	274	(188)	430	(261)
Unrealized gain (loss) on marketable securities, net of tax	2	(271)	62	(285)
Comprehensive income	\$ 15,295	\$ 14,954	\$ 32,054	\$ 29,801

See notes to unaudited condensed consolidated financial statements

Iridium Communications Inc.**Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net cash provided by operating activities	\$ 91,197	\$ 100,262
Cash flows from investing activities:		
Capital expenditures	(108,073)	(151,688)
Purchases of marketable securities	(120,473)	(91,393)
Sales and maturities of marketable securities	32,740	11,993
Investment in equity method affiliate	-	(5,000)
Net cash used in investing activities	(195,806)	(236,088)
Cash flows from financing activities:		
Borrowings under the Credit Facility	45,222	101,765
Payment of deferred financing fees	(4,560)	(6,540)
Restricted cash deposits	(13,362)	(13,494)
Releases from restricted cash	11,009	-
Proceeds from exercise of warrants	-	4
Proceeds from exercise of stock options	173	21
Tax payment upon settlement of stock awards	(37)	-
Payment of Series A Preferred Stock dividends	(3,500)	(3,500)
Proceeds from issuance of Series B Preferred Stock, net of issuance costs	120,753	-
Proceeds from issuance of common stock, net of issuance costs	98,897	-
Net cash provided by financing activities	254,595	78,256
Net increase (decrease) in cash and cash equivalents	149,986	(57,570)
Cash and cash equivalents, beginning of period	186,342	254,418
Cash and cash equivalents, end of period	\$ 336,328	\$ 196,848
Supplemental cash flow information:		
Interest paid	\$ 7,271	\$ 5,096
Income taxes paid (refunded)	\$ 273	\$ (2,927)
Supplemental disclosure of non-cash investing activities:		
Property and equipment received but not paid for yet	\$ 9,172	\$ 10,646
Interest capitalized but not paid	\$ 8,706	\$ 6,602
Capitalized amortization of deferred financing costs	\$ 4,897	\$ 4,500

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Capitalized paid-in-kind interest	\$ 16,542	\$ 11,667
Capitalized stock-based compensation	\$ 597	\$ 657
Supplemental disclosure of non-cash financing activities:		
Dividends accrued on Series A Preferred Stock	\$ 292	\$ 292
Dividends accrued on Series B Preferred Stock	\$ 1,102	\$ -

See notes to unaudited condensed consolidated financial statements

Iridium Communications Inc.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation and Principles of Consolidation

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

In the opinion of management, the condensed consolidated financial statements reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of its results of operations and cash flows for the interim periods covered, and of the financial position of the Company at the date of the interim condensed consolidated balance sheet. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the U.S. Securities and Exchange Commission (“SEC”). While the Company believes that the disclosures are adequate to make the information not misleading, these interim condensed consolidated financial statements should be read in conjunction with the 2013 annual consolidated financial statements and notes included in its Form 10-K filed with the SEC on March 4, 2014.

2. Significant Accounting Policies

Warranty Expense

The Company provides the first end-user purchaser of its subscriber equipment a warranty for one to five years from the date of purchase by such first end-user, depending on the product. The Company maintains a warranty reserve based on historical experience of warranty costs and expected occurrences of warranty claims on equipment. Costs associated with warranties, including equipment replacements, repairs, freight, and program administration, are recorded as cost of subscriber equipment in the accompanying condensed consolidated statements of operations and comprehensive income. Changes in the warranty reserve during the six months ended June 30, 2014 were as follows:

	Six Months Ended June 30, 2014 (in thousands)
Balance at beginning of the period	\$ 8,853
Provision	3,167
Utilization	(3,672)
Balance at end of the period	\$ 8,348

Fair Value Measurements

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

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

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

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

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

The fair value of the Company's investments in fixed-income debt securities and commercial paper with original maturities of greater than ninety days are obtained using similar investments traded on active securities exchanges and are classified as Level 2 and are included in marketable securities on the accompanying condensed consolidated balance sheets.

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard, Accounting Standards Update No. 2014-09 *Revenue from Contracts with Customers* ("ASU 2014-09") that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. ASU 2014-09 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for public entities for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. ASU 2014-09 becomes effective for the Company in the first quarter of fiscal 2017. The Company has not yet selected a transition method and is currently evaluating the effect that ASU 2014-09 will have on the Company's consolidated financial statements and related disclosures.

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

Cash and Cash Equivalents

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

	June 30, 2014 (in thousands)	December 31, 2013	Recurring Fair Value Measurement
Cash and cash equivalents:			
Cash	\$209,538	\$ 86,074	
Money market funds	88,619	88,769	Level 1
Commercial paper	38,171	11,499	Level 2
Total Cash and cash equivalents	\$336,328	\$ 186,342	

The increase in cash, cash equivalents, and marketable securities from December 31, 2013 to June 30, 2014 is due to the proceeds from the sale of the Company's common stock and Series B Cumulative Perpetual Convertible Preferred Stock. For further discussion of the Company's equity transactions, see the Equity Transactions and Instruments footnote below.

Restricted Cash

The Company is required to maintain a minimum cash reserve for debt service related to its \$1.8 billion loan facility (the "Credit Facility"). As of June 30, 2014 and December 31, 2013, the Company's restricted cash balance, which includes a minimum cash reserve for debt service related to the Credit Facility and the interest earned on these amounts, was \$83.6 million and \$81.2 million, respectively. For further discussion on the cash reserve for debt service related to the Credit Facility, see the Commitments and Contingencies footnote below.

Marketable Securities

Marketable securities consist of fixed-income debt securities and commercial paper with an original maturity in excess of ninety days. These investments are classified as available-for-sale and are included in marketable securities within current assets on the accompanying condensed consolidated balance sheet. All investments are carried at fair value. Unrealized gains and losses, net of taxes, are reported as a component of other comprehensive income or loss. The specific identification method is used to determine the cost basis of the marketable securities sold. There were no material realized gains or losses on the sale of marketable securities for the three and six months ended June 30, 2014 and 2013. The Company regularly monitors and evaluates the fair value of its investments to identify other-than-temporary declines in value. The Company determined that no other-than-temporary declines in value existed at June 30, 2014.

The following table summarizes the Company's marketable securities as of June 30, 2014 and December 31, 2013:

June 30, 2014, December 31, 2013, Recurring Fair Value