SMART ONLINE INC
Form 10-K/A
April 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2006
or

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

For the transition period from __________ to __________

Commission file number 333-119385

SMART ONLINE, INC.
(Exact name of registrant as specified in its charter)

Delaware	**95-4439334**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
2530 Meridian Parkway, 2nd Floor Durham, North Carolina (Address of principal executive offices)	27713 (Zip Code)

(919) 765-5000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

The aggregate market value of common stock held by non-affiliates of the registrant as of March 15, 2007 was approximately $24,010,000 (based on the closing sale price of $2.80 per share).

The number of shares of the registrant's Common Stock, $0.001 par value per share, outstanding as of April 27, 2007 was 17,872,137.

DOCUMENTS INCORPORATED BY REFERENCE

None.

EXPLANATORY NOTE

The purpose of this Amendment No. 1 to the Annual Report on Form 10-K/A is to include certain information that was omitted from Part III of the Annual Report on Form 10-K because it was incorporated by reference from our definitive Proxy Statement for the 2007 Annual Meeting of Stockholders. Because our definitive Proxy Statement for the 2007 Annual Meeting of Stockholders will not be filed with the Securities and Exchange Commission, or SEC, within 120 days after the end of the fiscal year ended December 31, 2006, the information required by Part III of the Annual Report on Form 10-K cannot be incorporated by reference and therefore must be included in the Annual Report. This Amendment No. 1 contains the information that was previously omitted from Part III of the Annual Report. In addition, we are including as exhibits updated certifications required under Section 302 of the Sarbanes-Oxley Act of 2002 and a current consent from our independent accountant. Solely for this reason, we also have amended Part IV of the Annual Report on Form 10-K to reflect the filing of these exhibits.

This Amendment No. 1 on Form 10-K/A does not attempt to modify or update any other disclosures set forth in the original Form 10-K, except as required to reflect the additional information included in Part III of this Form 10-K/A. Additionally, this Amendment No. 1 on Form 10-K/A, except for the additional information included in Part III, speaks as of the filing date of the original Form 10-K and does not update or discuss any other developments after the date of the original filing. All information contained in this Amendment No. 1 on Form 10-K/A and the original Form 10-K is subject to updating and supplementing as provided in the periodic reports that we have filed and will file after the original filing date with the SEC.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive Officers and Directors

The names of our directors and executive officers are listed below. Except as otherwise disclosed below, none of our officers and directors named below serve on the Board of Directors of any other public reporting company. Our executive officers are appointed by our board of directors to hold office until their successors are appointed, and the terms of all directors expire at the later of the next annual meeting of stockholders or upon election and qualification of their respective successors. The following table sets forth the names of our directors and executive officers, along with their positions and ages, as of April 27, 2007.

Name	Age	Position
Michael Nouri(1)(2)	53	President, Chief Executive Officer, and Director
Henry Nouri(2)	51	Executive Vice President
Thomas Furr	40	Chief Operating Officer, Director
Anil Kamath	40	Chief Technology Officer
Nicholas A. Sinigaglia	37	Chief Financial Officer and Principal Accounting Officer
Gary Mahieu	39	Chief Operating Officer and Vice President of Smart Commerce, Inc., a wholly owned subsidiary
Mike Stuart	38	Vice President - Sales
Brian Donaghy	38	Vice President - Product Strategy
Jeff LeRose	62	Chairman of the Board and Director
Shlomo Elia	64	Director
Philippe Pouponnot	37	Director
C. James Meese, Jr.	65	Director

(1) Michael Nouri’s full name is Dennis Michael Nouri.
(2) Dennis Michael Nouri and Henry Nouri are brothers.

Michael Nouri, President and Chief Executive Officer, and Director. Michael Nouri’s full name is Dennis Michael Nouri. Mr. Nouri co-founded Smart Online in 1993 to develop and market business productivity software to provide small businesses with cost-effective tools that address critical business issues and enhance their competitive positioning. He has been an officer and director of Smart Online since that time. Prior to founding Smart Online, Mr. Nouri was founder and CEO of the Nouri Group of Companies from 1980 to 1991. The Nouri Group of Companies acquired a number of government-owned manufacturers in Europe and privatized them. The Nouri Group was a multi-national conglomerate with diversified activities in real estate development, investment, construction, motor yacht manufacturing, high-end home design and architecture, and marketing and publishing. More than half of the company’s business was derived from real estate development and investment and joint ventures. Another third of the company’s business was derived from construction and motor yacht manufacturing. Mr. Nouri is a member of the National Association of Corporate Directors, or NACD.

Henry Nouri, Executive Vice President. Mr. Nouri co-founded Smart Online in 1993 and has been our Vice President since that time. Currently, he manages our research and development teams. He is responsible for development of our CD-ROM and Internet-hosted applications, for creating the extensive research and information management systems required to control the flow of vital validated business data and for the effective delivery of that information to the business user. In 1978, Mr. Nouri received a B.S. in Civil Engineering Technology from Florida International University.

Thomas Furr, Chief Operating Officer and Director. Mr. Furr is responsible for developing and implementing strategies to leverage existing direct and indirect distribution channels. He became Vice President, Sales of Smart Online in 2001. He became our Chief Operating Officer in November 2005. In 2002 he also became a Director. He was a co-founder and president of Kinetics, Inc., one of the first online commerce providers for the small business industry, from 1994 until 1995. Smart Online purchased Kinetics in 1995. After founding Kinetics, Mr. Furr was with the Plurimus Corporation from 1999 until 2001, where he managed Plurimus's southeast direct sales efforts. Previously, from 1996 until 1999 he managed East Coast direct sales and channel efforts in Canada and South Africa for Information Retrieval Corporation, a leading multi-national back-end CRM/help desk company. Mr. Furr holds a bachelor's degree in finance from East Carolina University.

Anil Kamath, Chief Technology Officer. Mr. Kamath joined Smart Online as Director of Database Implementation in July 1999 and became Vice President, Technology in 2000; he became our Chief Technology officer in November 2005. Mr. Kamath is responsible for the architecture of our web-native (SaaS) platform, supervises the development team, and provides architectural design direction for new software and hardware implementations. Before joining Smart Online he was the senior database architect for A^4 Health Systems from 1998 to 1999 and senior software architect and technical manager of BSG Imonics from 1991 until 1997. He holds a master's degree in computer and information sciences from the University of Florida.

Nicholas A. Sinigaglia, Chief Financial Officer. Mr. Sinigaglia joined us as our Controller in February 2006, and was appointed to be our Chief Financial Officer in March 2006. From August 2005 to February 2006, he acted as an independent business consultant providing accounting and business consulting services as well as interim-CFO services to New York clients. From February 2004 to June 2005, Mr. Sinigaglia served as the Center Manager of MedQuest Associates, a leading provider of diagnostic imaging services. From 1997 to February 2004, Mr. Sinigaglia was the Vice President and Managing Partner of Ray-X Medical Management Services, Inc., an organization offering management services to various medical specialties. Mr. Sinigaglia was an Audit Senior Supervisor with Arthur Andersen LLP from 1991 to 1997 and is a licensed certified public accountant in New York and North Carolina.

Gary Mahieu, Chief Operating Officer and Vice President of Smart Commerce, Inc., a wholly owned subsidiary. Mr. Mahieu is responsible for the operations of our wholly owned subsidiary, Smart Commerce, Inc. (d/b/a iMart), or Smart Commerce, serving as its Chief Operating Officer and Vice-President since we acquired iMart in October of 2005. Mr. Mahieu founded and served as President and Chief Operating Officer of iMart Incorporated, or iMart, from December 1999 until October 2005. Prior to founding iMart, Mr. Mahieu served as a technical manager for Quixtar, Inc. from April 1998 until December 1999. Mr. Mahieu received his bachelor’s degree in electrical engineering from Western Michigan University, and in 2006 he finished the Owners Presidents Management program at Harvard Business School. Mr. Mahieu is also the co-inventor on two e-Commerce patents.

Mike Stuart, Vice President of Sales. Mr. Stuart is responsible for sales and marketing. He joined Smart Online in October 2005 as Director of CRM and was promoted to Vice President of Sales and Marketing in January 2007. Mr. Stuart was the co-founder of Computility, Inc., or Computility, a leader in subscription computing and software as a service, or SaaS, applications to member based organizations. Mr. Stuart served as Chief Executive Officer of Computility until we purchased its assets in 2005. Mr. Stuart has an extensive background in founding technology start-ups. He received his BA from Baptist Bible College in 1992.

Brian Donaghy, Vice President of Product Strategy. Mr. Donaghy is responsible for market focused product and strategy development. He joined Smart Online in October 2005 as Director of CRM Technology and was promoted to Vice President of Product Strategy in January 2007. Mr. Donaghy was the co-founder of Computility, a leader in subscription computing and SaaS applications to member based organizations. Mr. Donaghy served as Chief Technology Officer of Computility until we purchased its assets in 2005. Mr. Donaghy has an extensive background in founding technology start-ups. He is also a committed philanthropist, currently serving on the United Way Board of Directors.

Jeffrey W. LeRose, Chairman of the Board and Director. Mr. LeRose was first appointed as a Director on September 13, 2005. Mr. LeRose is CEO and President of Research Triangle Software, an information technology company that he founded in 2001. Mr. LeRose was the Chairman of the Board of Directors of the business-to-business online e-commerce firm, Internet Commerce Corporation (NASDAQ: ICCA) from March 2001 until September 2001. He became Chairman of ICCA after selling Research Triangle Commerce, Inc., or RTCI, to ICCA in November 2000. Mr. LeRose was the founder and President of RTCI from September 1991 until November 2000. He currently sits on the Board of Advisors for the Love School of Business at Elon University and is a founding Board Member for the Research Triangle Chapter of the NACD. Mr. LeRose also is on the Board of Advisors for Southern Capitol Ventures, where he provides advice on the investments in emerging technology companies in central North Carolina. Mr. LeRose received his BA from New Jersey City University.

Shlomo Elia, Director. Mr. Elia has served on our Board of Directors since November 16, 2006, and was originally recommended for appointment to the Board by Atlas, one of our stockholders. Mr. Elia is a Director of 3Pen Ltd., or 3Pen, a private holding company, focusing on business opportunities in Internet infrastructure and telecommunications. Prior to founding 3Pen in 1999, Mr. Elia held several senior positions in the Israeli Defense Forces, or I.D.F., including the post of the Military Governor of the West-Bank (1982-1984) and Commander of the Liaison Unit for South Lebanon (1984-1985). During his service, among other activities, General Elia was engaged for a year as a Research Fellow in the Institute of International Strategic Affairs at U.C.L.A. Since his retirement from the I.D.F., he is involved in communication projects in Nigeria and West Africa, and construction projects in Romania. Among his civilian activities, Mr. Elia was Chairman of the National Tourist Board and currently is Chairman of 3Pen Technologies Ltd. and co-chairman of the Israeli Soldiers Welfare Association. Mr. Elia holds a B.A. degree in Modern History of the Middle-East from Tel Aviv University.

Philippe Pouponnot, Director. Mr. Pouponnot has served on our Board of Directors since November 16, 2006, and was originally recommended for appointment to the Board by the Blueline Fund, one of our stockholders. Mr. Pouponnot is a Director of Azur Management SAL, or Azur, a business engaged in the study and management of assets and companies. Mr. Pouponnot has been a director of Azur since its founding in 1999. In his position with Azur, he has gained international experience working with banks and brokers in all phases of investment management, including administrative, investment and commercial transactions. He also serves as an asset and investment manager for companies and high net worth individuals. Mr. Pouponnot has also worked closely with companies in a variety of sectors in matters ranging from formation to reorganization to liquidation.

C. James Meese, Jr., Director. Mr. Meese has served on our Board of Directors since November 16, 2006. Mr. Meese is the President and founder of Business Development Associates, Inc., or BDA, a strategic advisory firm. Since 1989, BDA has provided advice and assistance to both middle market and emerging companies on issues of company valuations, acquisitions and divestitures, market development, corporate governance, capital acquisition, strategic planning, exit strategies and organizational structuring. Prior to 1989, Mr. Meese spent approximately 20 years in various senior corporate marketing, business development and finance positions. Sixteen of those years were spent with West Pharmaceutical Services Inc., or West. He was a member of the company’s Top Management Committee during his last four years with West. Mr. Meese is also a director of Digital Recorders, Inc. (NASDAQ:TBUS), or DRI, The Altoona Railroaders Memorial Museum, and The Raleigh Rescue Mission and its Foundation. He is a former Chair and current member of the DRI Audit Committee, chairs the Railroaders Museum Board, is president of the Raleigh Rescue Mission Board and serves on a variety of committees in his directorships. He is a member of the NACD and is designated as our Audit Committee Financial Expert. Mr. Meese received a B.A. degree in Economics from the University of Pennsylvania and an M.B.A. from Temple University.

Except as disclosed below, none of the directors or executive officers has, during the past five years:

(a) Had any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
(b) Been convicted in a criminal proceeding or a subject of a pending criminal proceeding;
(c) Been the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, futures, commodities or banking activities; and
(d) Been found by a court of competent jurisdiction (in a civil action), the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Michael Nouri and Henry Nouri were officers and directors of two companies in Italy which were ordered into bankruptcy by Italian courts in 1993. Under Italian laws, Michael Nouri and Henry Nouri cannot serve as an officer or director of any Italian company, because of these bankruptcies.

Audit Committee Financial Expert

Our Board of Directors has determined that C. James Meese, Jr., who serves on our Audit Committee, has the experience and qualification to meet the definition of an “audit committee financial expert” under SEC rules governing audit committees and that Mr. Meese is “independent” as defined by SEC and NASDAQ rules regarding board members, committees and other corporate governance standards.

Section 16(a) Beneficial Ownership Reporting Compliance

The members of our Board of Directors, our executive officers and persons who hold more than 10% of our outstanding common stock are subject to the reporting requirements of Section 16(a) of the Exchange Act of 1934, or the Exchange Act, which require them to file reports with respect to their ownership of our common stock and their transactions in such common stock. Based upon our review of the Section 16(a) reports in our records for 2006 fiscal year transactions in the common stock and their common stock holdings, we believe that, except as noted below, all reporting requirements under Section 16(a) for such fiscal year were met in a timely manner by our directors, executive officers and greater than 10% beneficial owners.

Atlas Capital, S.A. was delinquent in the filing of a Form 4 relating to the purchase of shares of our common stock on March 3, 2006. The Form 4 for that purchase was not filed until March 8, 2006.

Atlas Capital, S.A. was delinquent in the filing of a Form 4 relating to the purchase of shares of our common stock on June 29, 2006. The Form 4 for that purchase was not filed until July 19, 2006.

Code of Ethics

We have adopted a Code of Ethics applicable to our executives, including our principal executive officer, principal accounting officer and principal financial officer, as defined by applicable rules of the SEC. It is publicly available on our web site at *www.smartonline.com*. If we make any amendments to our Code of Ethics other than technical, administrative, or other non-substantive amendments, or grant any waivers, including implicit waivers, from a provision of our Code of Ethics to the chief executive officer, chief financial officer, or certain other finance executives, we will disclose the nature of the amendment or waiver, its effective date and to whom it applies on our web site at *www.smartonline.com* or in a report on Form 8-K filed with the SEC.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion & Analysis

Overview of Compensation Philosophy and Objectives

We established a Compensation Committee of the Board of Directors, or the Compensation Committee, to assist the full Board in discharging its duties with respect to determining the compensation to be paid to our named executive officers listed in the Summary Compensation Table below, or the named executive officers. The objective of the Compensation Committee is to establish compensation levels that will attract and retain managerial talent desired by us, reward employees for past contributions and motivate managerial efforts consistent with corporate growth, strategic progress and the creation of stockholder value. As we increase our revenues and approach profitability, our goal and objective is to review our overall compensation program to determine whether each compensation element fits into our overall compensation objectives. This review may result in changes to current procedures in determining executive compensation, the implementation of new procedures, the identification of specific corporate and/or personal performance measures in setting compensation policies, or a re-evaluation of how total compensation is determined among its different elements.

Role of Executive Officers

After its formation on July 22, 2005, the Compensation Committee left in place the existing compensation packages previously entered into with several named executive officers. In reaching these agreements, the Chief Executive Officer acted on our behalf. The Chief Executive Officer also reviews the performance of our other named executive officers that, as set forth below, is used to determine the compensation of these named executive officers. In general, the Compensation Committee has relied on recommendations made by the Chief Executive Officer in awarding compensation packages. The Compensation Committee reviews the performance of the Chief Executive Officer.

Elements of Executive Compensation

In fiscal 2006, the principal components of compensation for our named executive officers were salary and equity awards. Some of our named executive officers have also received performance-based incentive compensation. We have no pre-established policy for determining the allocation of compensation between cash and equity, or under what circumstances, terms or conditions to provide certain named executive officers with performance-based incentive compensation. However, some factors effecting the determination of the levels of each element of total compensation include length of service; nature, scope and level of responsibilities; accomplishment of tasks and goals; market analysis; and the attitude and work ethic of the employee.

Salary. Salaries are paid to our named executive officers in order to compensate them for their services to us. We establish the salaries for our named executive officers based on readily available public information regarding local market compensation levels, and, considering the fact that we have immaterial revenues and have only experienced net losses to date, we establish salaries for our named executive officers mostly at the low end of the market salary ranges. Our human resources manager has collected relevant market information using various websites.

Many of our named executive officers had employment contracts that were entered into prior to the formation of the Compensation Committee, which contracts provide for a base salary that can be increased. Any future compensation packages will be reviewed and approved by the Compensation Committee.

Factors considered in determining salary increases for named executive officers include: (i) length of time the executive has been employed by us and the last review and salary increase; (ii) the nature, scope and level of the executive’s responsibilities; (iii) accomplishment of tasks and goals such as the release of new products or product enhancements, attainment of milestones regarding research and development, and project completion; (iv) recommendations of the Chief Executive Officer; (v) past performance when reviewing employment contract renewals; (vi) market analysis; and (vii) the attitude toward his or her job and responsibilities and work ethic of the executive.

During fiscal 2006, most of our named executive officers did not receive any increase in their salaries. Factors affecting the decision to freeze the salaries of these named executive officers were (1) the suspension in the trading of our securities by the SEC and the related investigation, (2) the repeated need to enter into various financing transactions in order to continue operations, (3) we had immaterial revenues other than those generated by Smart Commerce and Smart CRM, Inc. (d/b/a Computility), or Smart CRM, and (4) we have only experienced net losses to date.

Because of the trading suspension, the related investigation, and the various financing transactions noted above, we believe that the attention of the named executive officers was diverted from our core business operations, possibly causing our performance to suffer. In addition, in light of the lack of adequate working capital, we tried to avoid any increase in costs in order to utilize the working capital we had to the greatest extent possible. Following the end of fiscal 2006 and as described in further detail below, several of our named executive officers have agreed to reductions in their base-salary and shifted to bonus compensation in an effort to reduce costs.

The lone exception to this salary freeze was the salary increases provided to our Chief Financial Officer, Nicholas A. Sinigaglia. Mr. Sinigaglia was originally hired in February 2006 as our Controller. On March 21, 2006, he was appointed our Chief Financial Officer, replacing our interim Chief Financial Officer, Scott Whitaker. In conjunction with his promotion to that position, Mr. Sinigaglia received graduated increases in his annual salary according to the following schedule:

Dates	**Annual Salary**
March 21 through 31, 2006	$ 90,000
April 1 though May 31, 2006	$ 110,000
June 1 through August 31, 2006	$ 120,000
September 1, 2006 to date	$ 135,000

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Factors effecting the determination of the salary increases include comparable salaries based on company size, industry and position, experience, capabilities; work ethic; and responsibilities.

Equity Awards. Equity awards are made to provide each named executive officer with both the incentive and reward for achieving long-term success as reflected in the growth in our share value. The 2004 Equity Compensation Plan, or the 2004 Plan, is currently in effect. The 2004 Plan replaced the 2001 Equity Compensation Plan, or the 2001 Plan, which in turn replaced the 1998 Stock Option Plan, or the 1998 Plan. Under the 2004 Plan, the named executive officers, among others, may be awarded incentive stock options, restricted stock or a stock award. Under its terms, the committee administering the 2004 Plan determines the terms and conditions of each award, including but not limited to the amount of the award, vesting, and expiration. The outstanding options issued to our named executive officers under the 2001 Plan were fully vested upon the grant date. Most of the stock options granted to named executive officers under the 2004 Plan vest at the rate of 20% per year for five years on the anniversary of the grant date. Our Chief Financial Officer, who was hired and subsequently appointed to that position in 2006, was awarded stock options in fiscal 2006. The 2004 Plan is administered by the Compensation Committee. All stock option awards were made at or above the fair market value of our common stock on the date of the grant.

To date, named executive officers have only been granted incentive stock options under the 2004 Plan, but some named executive officers have, in prior years under prior plans, received awards of our common stock. Awards under the 2004 Plan are generally made when a named executive officer is first appointed to his position, and periodically in connection with awards that may be made to other employees. At this time, we do not have a plan establishing the dates, amounts or types of these awards.

In addition to the factors considered in determining named executive officers' base salary, factors considered in determining awards of stock options under the 2004 Plan include: (i) the scale of awards based on past practices, (ii) our overall practice regarding different managerial levels; (iii) the executive's past performance, and (iv) creating incentives for both the executive's and our future performance and goals.

Beginning January 1, 2006, we began accounting for stock option equity awards as required by Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, or SFAS No. 123R. Under SFAS No. 123R, all share-based payments to employees, including grants of employee stock options, must be recognized in our financial statements based on their fair values. The immediate effect has been to favor equity awards other than stock options to provide our named executive officers and other employees with equity based compensation.

Performance-Based Incentive Compensation. In prior years, certain of our named executive officers also received bonus compensation upon meeting or exceeding certain goals that we set for them. In the past, these bonuses have been tied to the development and release of certain applications within the OneBiz^{SM} suite. Factors that influence when we offer a bonus and the amount of that bonus include the importance of the goal to our overall success, the effort required to complete the goal, current salary level and the time since the last pay increase. No bonuses were paid to our named executive officers in 2006 for the same reasons that we froze salaries to most of our named executive officers in 2006 as described above.

Recent Developments

On January 12, 2007, the Compensation Committee approved the modification of the 2007 compensation for the following named executive officers: Michael Nouri, Thomas Furr, and Henry Nouri. Under the modified compensation arrangements, the 2007 annual base salary for each of these named executive officers has been reduced to $100,000. In consideration for this reduction in salary, the employees have orally agreed to, and the Compensation Committee approved, a performance based aggregate quarterly bonus. The bonus, if any, to be paid to each of these named executive officers will be 2% of any "Free Cash Flow." For these purposes, "Free Cash Flow" is defined as our total revenue, less operating expenses (with non-cash items added back), less principal debt payments. After considering the potential amount of the bonus, the Compensation Committee agreed to these reductions in salary as it would likely result in an overall reduction of our expenses and provide these officers with incentive-based compensation to improve our financial health, which was not an element of their compensation packages prior to this change. These bonuses relate only to "Free Cash Flow" during 2007 as this bonus arrangement expires on December 31, 2007. On January 1, 2008, compensation for these officers is scheduled to return to pre-reduction levels. The Compensation Committee approved and these officers agreed to amend their compensation arrangements. Effective April 16, 2007, each agreed to an increase in their salary to its pre-reduction level and to be paid the bonus described above for the period of the salary reduction. Because there was no "Free Chas Flow," no bonus is due or owing these officers.

On April 18, 2007, our Chief Financial Officer was granted a restricted stock award of 30,000 shares of our common stock. The restriction on these shares lapses in three equal installments at the following dates: (1) the date of agreement, (2) the first anniversary of such date, and (3) on the second anniversary of such date, if he is a service provider to us on such date.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion & Analysis required by Item 402(b) of Regulation S-K with management, and based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion & Analysis be included in this Amendment No. 1 to the Annual Report on Form 10-K/A.

Jeffrey W. LeRose
(chairman)
C. James Meese, Jr.
Philippe Pouponnot

2006 Summary Compensation Table

The following table shows the annual and long-term compensation paid to, or accrued by us for, our Chief Executive Officer, the two individuals who served as our Chief Financial Officer, and our next three most highly compensated executive officers for services rendered to us during the fiscal year ended December 31, 2006. We refer to the persons identified on the table below as our “named executive officers.”

Name and Principal Position	Year	Salary ($)	Option awards ($) [1]	All other compensation ($)	Total ($)
Dennis Michael Nouri	2006	$ 170,000	$		
of current portion	13,401	14,182			
Credit facility, net	1,546,777	1,388,766			
Deferred income tax liabilities, net	344,676	296,832			
Deferred revenue, net of current portion	32,254	28,567			
Other long-term liabilities	27,540	12,492			
Total liabilities	2,079,336	1,842,453			
Commitments and contingencies					
Stockholders' equity:					
Series A Preferred Stock, $0.0001 par value, 1,000 shares authorized, issued and outstanding	-	-			
Series B Preferred Stock, $0.0001 par value, 500 shares authorized, issued and outstanding	-	-			
Common stock, $0.001 par value, 300,000 shares authorized, 95,763 and 95,126 shares issued and outstanding, respectively	96	95			
Additional paid-in capital	1,055,982	1,044,488			
Retained earnings	268,553	193,201			
Accumulated other comprehensive loss, net of tax	(5,747)	(9,063)			
Total stockholders' equity	1,318,884	1,228,721			

Total liabilities and stockholders' equity	$ 3,398,220	$ 3,071,174

See notes to unaudited condensed consolidated financial statements.

Iridium Communications Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income

(In thousands, except per share amounts)

(Unaudited)

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

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

See notes to unaudited condensed consolidated financial statements.

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Iridium Communications Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

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

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

See notes to unaudited condensed consolidated financial statements.

Iridium Communications Inc.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation and Principles of Consolidation

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

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

2. Significant Accounting Policies

Adopted Accounting Pronouncements

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

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

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Recent Accounting Developments

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

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

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

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

Warranty Expense

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

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

Fair Value Measurements

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

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

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

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

Depreciation and Amortization

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

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

Cash and Cash Equivalents

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

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

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Restricted Cash

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

Marketable Securities

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

The following tables summarize the Company's marketable securities:

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

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

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

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

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

4. Commitments and Contingencies

Commitments

Thales

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

SpaceX

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

Kosmotras

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

Credit Facility

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

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

	Nine Months Ended September 30, 2016		
	Cash	Deemed Loan	Total

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

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

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

Contingencies

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

5. Stock-Based Compensation

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

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

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

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

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

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

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

6. Equity Transactions and Instruments

Preferred Stock

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

Series A Cumulative Perpetual Convertible Preferred Stock

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

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

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

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

Series B Cumulative Perpetual Convertible Preferred Stock

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

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

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

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

7. Net Income Per Share

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

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

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

Numerator for diluted net income per share	$ 31,555	$ 29,547
Denominator:		
Denominator for basic net income per share - weighted average outstanding common shares	96,067	95,317
Dilutive effect of stock options	293	31
Dilutive effect of contingently issuable shares	-	18
Dilutive effect of Series A Preferred Stock	10,602	10,602
Dilutive effect of Series B Preferred Stock	16,728	16,728
Denominator for diluted net income per share	123,690	122,696
Net income per share attributable to common stockholders - basic	$ 0.29	$ 0.27
Net income per share attributable to common stockholders - diluted	$ 0.26	$ 0.24

For the three months ended September 30, 2016, options to purchase 2.8 million shares of common stock were not included in the computation of diluted net income per share, as the effect would be anti-dilutive. For the three months ended September 30, 2016, 1.4

million unvested non-performance-based RSUs were excluded from the computation of basic net income per share and not included in the computation of diluted net income per share, as the effect would be anti-dilutive, and 1.7 million unvested performance-based RSUs were not included in the computation of basic and diluted net income per share, as certain performance criteria have not been satisfied.

For the three months ended September 30, 2015, options to purchase 4.9 million shares of common stock were not included in the computation of diluted net income per share, as the effect would be anti-dilutive. For the three months ended September 30, 2016, 1.4 million unvested non-performance based RSUs were excluded from the computation of basic net income per share and not included in the computation of diluted net income per share, as the effect would be anti-dilutive, and 0.4 million unvested performance-based RSUs were not included in the computation of basic and diluted net income per share, as certain performance criteria have not been satisfied.

	Nine Months Ended September 30,	
	2016	2015
	(in thousands, except per share data)	
Numerator:		
Net income attributable to common stockholders (numerator for basic net income per share)	$ 75,352	$ 64,977
Dividends on Series A Preferred Stock	5,250	5,250
Dividends on Series B Preferred Stock	6,327	6,327
Numerator for diluted net income per share	$ 86,929	$ 76,554
Denominator:		
Denominator for basic net income per share - weighted average outstanding common shares	95,890	94,972
Dilutive effect of stock options	188	316
Dilutive effect of contingently issuable shares	-	37
Dilutive effect of Series A Preferred Stock	10,602	10,602
Dilutive effect of Series B Preferred Stock	16,728	16,728
Denominator for diluted net income per share	123,408	122,655
Net income per share attributable to common stockholders - basic	$ 0.79	$ 0.68
Net income per share attributable to common stockholders - diluted	$ 0.70	$ 0.62

For the nine months ended September 30, 2016, options to purchase 4.0 million shares of common stock were not included in the computation of diluted net income per share, as the effect would be anti-dilutive. For the nine months ended September 30, 2016, 1.4 million unvested non-performance-based RSUs were excluded from the computation of basic net income per share and not included in the computation of diluted net income per share, as the effect would be anti-dilutive, and 1.5 million unvested performance-based RSUs were not included in the computation of basic and diluted net income per share, as certain performance criteria has not been satisfied.

For the nine months ended September 30, 2015, options to purchase 1.8 million shares of common stock were not included in the computation of diluted net income per share, as the effect would be anti-dilutive. For the nine months ended September 30, 2015, 1.4 million unvested non-performance-based RSUs were excluded from the computation of basic net income per share and not included in the computation of diluted net income per share, as the effect would be anti-dilutive, and 0.5 million unvested performance-based RSUs were not included in the computation of basic and diluted net income per share, as certain performance criteria have not been satisfied.

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, 2015, filed on February 25, 2016 with the Securities and Exchange Commission, or the SEC, as well as our condensed consolidated financial statements 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 "believe," "anticipate," "plan," "expect," "intend" 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed on February 25, 2016, 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.

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 revenue, and the only commercial provider of communications services offering true global coverage. Our satellite network provides communications services to regions of the world where wireless or wireline networks do not exist or are limited, including remote land areas, open oceans, airways, the polar regions, and regions where the telecommunications infrastructure has been affected by political conflicts or natural disasters.

We provide voice and data communications services to businesses, the U.S. and foreign governments, non-governmental organizations and consumers via our satellite network, which has an architecture of 66 in-orbit satellites with in-orbit spares and related ground infrastructure. We utilize an interlinked mesh architecture to route traffic across our satellite constellation using radio frequency crosslinks between satellites. This unique architecture minimizes the need for local 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 through a wholesale distribution network, encompassing more than 80 service providers, more than 215 value-added resellers, or VARs, and more than 65 value-added manufacturers, or VAMs, which create and sell technology that uses the Iridium® network either 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 using our products and services to target specific lines of business. We expect that demand for our services will increase as more applications are developed and deployed that utilize our technology.

At September 30, 2016, we had approximately 838,000 billable subscribers worldwide, representing an increase of 7% from approximately 781,000 billable subscribers at September 30, 2015. We have a diverse customer base, with end users in the following lines of business: land-based handset; machine-to-machine, or M2M; maritime; aviation; and government.

We recognize revenue from both the sale of equipment and the provision of services. We expect a higher proportion of our future revenue will be derived from service revenue. Revenues from providing voice and data service historically have generated higher gross margins than sales of subscriber equipment.

Our new satellite constellation, Iridium NEXT, will maintain the architecture of our current constellation, with 66 in-orbit satellites, as well as in-orbit and ground spares. We have contracted with Thales Alenia Space France, or Thales, to construct the Iridium NEXT satellites, which are designed to be compatible with our current constellation and current end-user equipment, so that as the Iridium NEXT satellites are launched, they will replace satellites in the current constellation without affecting the service to our end users. We plan to deploy 70 satellites (66 operational and 4 in-orbit spares) on seven Falcon 9 rockets launched by Space Exploration Technologies Corporation, or SpaceX. In September 2016, SpaceX experienced an anomaly with one of its rockets and has suspended launches pending the completion of its investigation. We expect to begin launching Iridium NEXT satellites shortly after SpaceX concludes its investigation and announces a return to flight. Based on the length of historical anomaly reviews and the current planned schedule of contracted launches, we expect to complete the SpaceX launches in 2018. We have also contracted to deploy two satellites on a Dnepr rocket launched by International Space Company Kosmotras, or Kosmotras. However, Kosmotras has to date been unable to obtain permission to launch our satellites, and as a result we are exploring other options to launch additional satellites for in-orbit spares.

We estimate the costs associated with the design, build and launch of Iridium NEXT and related ground infrastructure upgrades through 2018 to be approximately $3 billion. Our funding plan for these costs includes the substantial majority of the funds available under our $1.8 billion credit facility, or the Credit Facility, together with cash on hand and internally generated cash flows, including contracted cash flows from hosted payloads and potential cash flows from Iridium PRIME℠.

The Iridium NEXT constellation will also host the Aireon℠ system to provide a global air traffic surveillance service through a series of automatic dependent surveillance-broadcast, or ADS-B, receivers on the Iridium NEXT satellites. Aireon LLC, our joint venture with the air navigation service providers, or ANSPs, of Canada, Italy, Denmark and Ireland, has contracted to provide the Aireon service to a number of ANSPs, including our co-investors in Aireon and NATS (En Route) PLC, the ANSP of the United Kingdom. Aireon also plans to offer the service to other ANSPs worldwide including the U.S. Federal Aviation Administration, or FAA. Aireon will pay us a fee to host the ADS-B receivers on Iridium NEXT, as well as data services fees for the delivery of the air traffic surveillance data over the Iridium NEXT system. In addition, we have entered into an agreement with Harris Corporation, the manufacturer of the Aireon hosted payload, pursuant to which Harris pays us fees to allocate the remaining hosted payload capacity to its customers, and Harris has contracted to pay us data service fees on behalf of these customers.

Recent Developments

Iridium NEXT

As described above, we expect to begin launching Iridium NEXT shortly after SpaceX announces a return to flight. Ten Iridium NEXT satellites have been delivered to Vandenberg Air Force Base and mated to the SpaceX dispenser for the first launch; additional Iridium NEXT satellites are under various stages of construction at the assembly, integration and test facility; our ground infrastructure upgrades are complete, and our Satellite Network Operations Center is ready to support Iridium NEXT. All hardware components have been qualified for use in space and the platform software is nearly complete.

As a result of the delays in the Iridium NEXT launch schedule during the second and third quarters of 2016, we updated the estimated useful lives of the current satellites and extended the lives to be consistent with the expected deployment of Iridium NEXT. We will continue to evaluate the useful lives of our current satellites through the full deployment of Iridium NEXT as the satellites are placed into service.

The Credit Facility requires us to obtain insurance covering the launch and first 12 months of operation of the Iridium NEXT satellites. We have completed the placement of this insurance, which covers all seven contracted launches on SpaceX rockets and a launch on a Dnepr rocket by Kosmotras, as well as the first 12 months of operation of the Iridium NEXT satellites on such launches.

Our insurance program uses our spare satellites and a prepaid relaunch right with SpaceX to self-insure a portion of our launch and in-orbit risks, as permitted under the Credit Facility. While we believe this has enabled us to obtain insurance at a substantially lower cost than would have been possible without the spares and relaunch right, if we use our spares to replace lost satellites, we will likely choose to purchase additional satellites to maintain a backup supply of spares. The cost of such additional spares is not included in the $3 billion estimated cost for the design, build and launch of Iridium NEXT and related infrastructure upgrades through 2018.

Material Trends and Uncertainties

Our 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 disaster and relief agencies, and emergency first responders;

- a broad 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;
- a general reduction in prices of mobile satellite services and subscriber equipment; and
- geographic market expansion through the ability to offer our services in additional countries.

Nonetheless, we face a number of challenges and uncertainties in operating our business, including:

- our ability to develop and launch Iridium NEXT;
- our ability to develop new and innovative products and services for Iridium NEXT;
- our ability to access the Credit Facility to meet our future capital requirements for the manufacture and launch of the Iridium NEXT satellites;

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- our ability to generate sufficient internal cash flows, including contracted cash flows from hosted payloads and potential cash flows from Iridium PRIME, to fund a portion of the costs associated with Iridium NEXT and support ongoing business;
- Aireon LLC’s ability to successfully deploy and market its space-based ADS-B global aviation monitoring service to be carried as a hosted payload on the Iridium NEXT system;
- Aireon’s ability to raise sufficient funds to pay hosting fees to us;
- our ability to maintain the health, capacity, control and level of service of our existing satellite network through the transition to Iridium NEXT;
- changes in general economic, business and industry conditions, including the effects of currency exchange rates;
- our reliance on a single primary commercial 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;
- market acceptance of our products;
- regulatory requirements in existing and new geographic markets;
- 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;
- reliance on single-source suppliers for the manufacture of most of our subscriber equipment and 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, natural disasters or other events; and
- reliance on a few significant customers, particularly agencies of the U.S. government, for a substantial portion of our revenue, as a result of which the loss or decline in business with any of these customers may negatively impact our revenue, and risk of collectability of accounts receivable is more concentrated.

Comparison of Our Results of Operations for the Three Months Ended September 30, 2016 and 2015

($ in thousands)	Three Months Ended September 30, 2016	% of Total Revenue	2015	% of Total Revenue	Change Dollars	Percent
Revenue:						
Services	$87,316	77 %	$81,200	77 %	$6,116	8 %
Subscriber equipment	19,900	18 %	21,180	20 %	(1,280)	(6 %)
Engineering and support services	5,578	5 %	3,654	3 %	1,924	53 %
Total revenue	112,794	100 %	106,034	100 %	6,760	6 %
Operating expenses:						
Cost of services (exclusive of depreciation and amortization)	15,936	14 %	13,990	13 %	1,946	14 %
Cost of subscriber equipment	11,476	10 %	11,559	11 %	(83)	(1 %)
Research and development	5,038	4 %	3,480	3 %	1,558	45 %
Selling, general and administrative	18,767	17 %	17,534	17 %	1,233	7 %
Depreciation and amortization	11,809	10 %	12,932	12 %	(1,123)	(9 %)
Total operating expenses	63,026	55 %	59,495	56 %	3,531	6 %
Operating income	49,768	45 %	46,539	44 %	3,229	7 %
Other income (expense):						
Interest income, net	700	1 %	263	1 %	437	166 %
Undrawn credit facility fees	(305)	0 %	(774)	(1 %)	469	(61 %)
Other income (expense), net	39	0 %	(112)	(1 %)	151	(135 %)
Total other income (expense)	434	1 %	(623)	(1 %)	1,057	(170 %)
Income before income taxes	50,202	46 %	45,916	43 %	4,286	9 %
Provision for income taxes	(18,647)	(17 %)	(16,369)	(15 %)	(2,278)	14 %
Net income	$31,555	29 %	$29,547	28 %	$2,008	7 %

Commercial Service Revenue

	Three Months Ended September 30, 2016			September 30, 2015			Change		
	(Revenue in millions and subscribers in thousands)								
	Revenue	Billable Subscribers (1)	ARPU (2)	Revenue	Billable Subscribers (1)	ARPU (2)	Revenue	Billable Subscribers	ARPU
Commercial voice and data	$48.0	358	$ 44	$47.2	360	$ 43	$0.8	(2)	$ 1
Commercial M2M data	17.3	398	15	16.0	352	15	1.3	46	-
Total Commercial	$65.3	756		$63.2	712		$2.1	44	

(1) Billable subscriber numbers shown are at the end of the respective period.
(2) Average monthly revenue per unit, or 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. ARPU excludes revenue from our non-subscriber satellite, timing, and location service that was launched in the second quarter of 2016.

For the three months ended September 30, 2016, commercial voice and data revenue increased slightly primarily due to increases in Iridium push-to-talk, or PTT, services and Iridium OpenPort® services, as well as a $0.9 million one-time benefit from the recognition of revenue associated with unused minutes on an expiring contract. These increases were partially offset by continued declines in telephony airtime usage.

For the three months ended September 30, 2016, commercial M2M data revenue increased primarily due to a 13% increase in commercial M2M data billable subscribers.

We anticipate continued growth in billable commercial subscribers for the remainder of 2016.

Government Service Revenue

	Three Months Ended September 30, 2016		September 30, 2015		Change	
	(Revenue in millions and subscribers in thousands)					
	Revenue	Billable Subscribers [1]	Revenue	Billable Subscribers [1]	Revenue	Billable Subscribers
Government service revenue	$22.0	82	$18.0	69	$4.0	13

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

Government service revenues for the three months ended September 30, 2016 increased to $22.0 million from $18.0 million in the prior year period as a result of a contractual price increase under the Enhanced Mobile Satellite Services, or EMSS, contract with the U.S. government's Defense Information Systems Agency. Under this contract, revenue is a fixed monthly amount and is not based on subscribers or usage, allowing an unlimited number of users access to existing services. As we continue to innovate and better meet the needs of our customers, additional services not contemplated under the current EMSS contract may be provided in future periods at an amount mutually agreed upon by both parties.

Subscriber Equipment Revenue

Subscriber equipment revenue decreased $1.3 million, or 6%, for the three months ended September 30, 2016 compared to the prior year period. The decrease was primarily due to lower handset unit sales partially offset by increased Iridium M2M device unit sales.

Engineering and Support Service Revenue

	Three Months Ended September 30, 2016	September 30, 2015	Change
	(In millions)		
Government	$4.9	$ 3.6	$ 1.3
Commercial	0.7	0.1	0.6
Total	$5.6	$ 3.7	$ 1.9

Engineering and support service revenue increased by $1.9 million, or 51%, for the three months ended September 30, 2016 compared to the prior year period primarily as a result of multiple U.S. Department of Defense, or DoD, contracts entered into in late 2015 to adapt the Iridium Extreme® handset for DoD use and continue the gateway modernization efforts.

Operating Expenses

Cost of Services (exclusive of depreciation and amortization)

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

Cost of services (exclusive of depreciation and amortization) increased $1.9 million, or 14%, for the three months ended September 30, 2016 from the prior year period, primarily due to an increase in scope of work for government sponsored contracts and related costs.

Cost of Subscriber Equipment

Cost of subscriber equipment includes the direct costs of equipment sold, which consist of manufacturing costs, allocation of overhead, and warranty costs.

Cost of subscriber equipment decreased by $0.1 million, or 1%, for the three months ended September 30, 2016 compared to the prior year period. This decrease is primarily due to a lower volume of handset sales, typically our higher margin product, offset by higher volumes of M2M device sales.

Research and Development

Research and development expenses increased by $1.6 million, or 45%, for the three months ended September 30, 2016 compared to the prior year period due to increased spend on Iridium NEXT projects.

Selling, General and Administrative

Selling, general and administrative expenses that are not directly attributable to the sale of services or products include sales and marketing costs as well as employee-related expenses (such as salaries, wages, and benefits), legal, finance, information technology, facilities, billing and customer care expenses.

Selling, general and administrative expenses increased by $1.2 million, or 7%, for the three months ended September 30, 2016 compared to the prior year period, primarily due to increases in employee-related expenses and professional fees, partially offset by the completion of our supplier transition effort in 2015 and a decrease in non-income taxes.

Depreciation and Amortization

Depreciation and amortization expense decreased by $1.1 million, or 9%, for the three months ended September 30, 2016 compared to the prior year period, primarily due to continued changes in the estimated useful lives of the satellites within our current constellation. We updated our analysis of the current satellites' remaining useful lives in the third quarter of 2016. We will continue to evaluate the useful lives of our current satellites through the full deployment of Iridium NEXT as the satellites are placed into service.

Other Income (Expense)

Undrawn Credit Facility Fees

Commitment fees on the undrawn portion of the Credit Facility were $0.3 million for the three months ended September 30, 2016 compared to $0.8 million for the prior year period. The decrease of the commitment fee is directly related to the increase in the amounts borrowed under the Credit Facility as we continue to finance the development of Iridium NEXT.

Provision for Income Taxes

For the three months ended September 30, 2016, our income tax provision was $18.6 million, compared to $16.4 million for the prior year period. The increase in the income tax provision is primarily related to an increase in our income before taxes and higher state income taxes compared to the prior period. The increase in state taxes was primarily related to Arizona tax law change that resulted in a greater benefit in the prior period compared to the current period. If our current estimates change in future periods, the impact on the deferred tax assets and liabilities may change correspondingly.

Net Income

Net income was $31.6 million for the three months ended September 30, 2016, an increase of $2.0 million from the prior year period. This increase in net income was driven by a $6.8 million increase in total revenue, which was primarily the result of the $4.0 million revenue increase from the EMSS contract, as well as a $0.5 million decrease in undrawn credit facility fees. These increases in income were partially offset by the $3.5 million increase in total operating expenses, as well as the $2.3 million increase in the provision for income taxes.

Comparison of Our Results of Operations for the Nine Months Ended September 30, 2016 and 2015

($ in thousands)	Nine Months Ended September 30, 2016	% of Total Revenue	2015	% of Total Revenue	Change Dollars	Percent
Revenue:						
Services	$250,625	77%	$234,640	77%	$15,985	7%
Subscriber equipment	57,822	18%	56,488	19%	1,334	2%
Engineering and support services	17,744	5%	13,832	5%	3,912	28%
Total revenue	326,191	100%	304,960	100%	21,231	7%
Operating expenses:						
Cost of services (exclusive of depreciation and amortization)	48,287	15%	43,192	14%	5,095	12%
Cost of subscriber equipment	33,798	10%	31,487	10%	2,311	7%
Research and development	11,610	4%	12,028	4%	(418)	(3%)
Selling, general and administrative	60,133	18%	56,800	19%	3,333	6%
Depreciation and amortization	37,588	12%	39,107	13%	(1,519)	(4%)
Total operating expenses	191,416	59%	182,614	60%	8,802	5%
Operating income	134,775	41%	122,346	40%	12,429	10%
Other income (expense):						
Interest income, net	2,258	1%	2,292	1%	(34)	(1%)
Undrawn credit facility fees	(1,176)	0%	(2,621)	(1%)	1,445	(55%)
Other income (expense), net	359	0%	(111)	(1%)	470	(423%)
Total other income (expense)	1,441	1%	(440)	(1%)	1,881	(428%)
Income before income taxes	136,216	42%	121,906	39%	14,310	12%
Provision for income taxes	(49,287)	(15%)	(45,352)	(15%)	(3,935)	9%
Net income	$86,929	27%	$76,554	24%	$10,375	14%

Commercial Service Revenue

	Nine Months Ended September 30, 2016			September 30, 2015			Change		
	(Revenue in millions and subscribers in thousands)								
	Revenue	Billable Subscribers (1)	ARPU (2)	Revenue	Billable Subscribers (1)	ARPU (2)	Revenue	Billable Subscribers	ARPU
Commercial voice and data	$135.8	358	$ 42	$134.6	360	$ 42	$1.2	(2)	$ -
Commercial M2M data	48.8	398	14	46.0	352	15	2.8	46	(1)
Total Commercial	$184.6	756		$180.6	712		$4.0	44	

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

(2) Average monthly revenue per unit, or 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. ARPU excludes

revenue from our non-subscriber satellite, timing, and location service that was launched in the second quarter of 2016.

For the nine months ended September 30, 2016, commercial voice and data revenue increased slightly primarily due to increases in revenue from Iridium PTT services, Iridium OpenPort services and other services, as well as a $0.9 million one-time benefit from the recognition of revenue associated with unused minutes on an expiring contract. These increases were partially offset by continued declines in telephony airtime usage.

For the nine months ended September 30, 2016, commercial M2M data revenue increased primarily due to a 13% increase in commercial M2M data billable subscribers.

We anticipate continued growth in billable commercial subscribers for the remainder of 2016.

Government Service Revenue

	Nine Months Ended September 30, 2016		September 30, 2015		Change	
	(Revenue in millions and subscribers in thousands)					
	Revenue	Billable Subscribers [1]	Revenue	Billable Subscribers [1]	Revenue	Billable Subscribers
Government service revenue	$66.0	82	$54.0	69	$12.0	13

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

Government service revenues for the nine months ended September 30, 2016 increased $12.0 million as a result of a contractual price increase under the EMSS contract as described above.

Subscriber Equipment Revenue

Subscriber equipment revenue increased $1.3 million, or 2%, for the nine months ended September 30, 2016 compared to the prior year period. The increase was primarily due to higher unit sales of our Iridium Pilot® terminals and Iridium M2M devices, partially offset by fewer sales of our handsets and L-Band transceivers.

Engineering and Support Service Revenue

	Nine Months Ended September 30, 2016	September 30, 2015	Change
	(In millions)		
Government	$15.9	$ 13.1	$ 2.8
Commercial	1.8	0.7	1.1
Total	$17.7	$ 13.8	$ 3.9

Engineering and support service revenue increased by $3.9 million, or 28%, for the nine months ended September 30, 2016 compared to the prior year period primarily as a result of multiple DoD contracts entered into in late 2015 to adapt the Iridium Extreme® handset for DoD use and continue the gateway modernization efforts.

Operating Expenses

Cost of Services (exclusive of depreciation and amortization)

Cost of services (exclusive of depreciation and amortization) increased $5.1 million, or 12%, for the nine months ended September 30, 2016 from the prior year period, primarily due to an increase in scope of work for government sponsored contracts and related costs.

Cost of Subscriber Equipment

Cost of subscriber equipment increased by $2.3 million, or 7%, for the nine months ended September 30, 2016 compared to the prior year period. This increase is primarily due to a decline in the warranty provision for our Iridium OpenPort terminal during the nine months ended September 30, 2015 that did not recur in the nine months ended September 30, 2016. The remaining cost difference is related to a higher volume of Iridium Pilot terminal sales and M2M device sales, partially offset by decreased sales of handsets and L-Band transceivers. Additionally, our related costs decreased due to improved manufacturing costs on certain products.

Research and Development

Research and development expenses decreased by $0.4 million, or 3%, for the nine months ended September 30, 2016 compared to the prior year period due to decreased spend on M2M device product development.

Selling, General and Administrative

Selling, general and administrative expenses increased by $3.3 million, or 6%, for the nine months ended September 30, 2016 compared to the prior year period, primarily due to increases in employee-related expenses and professional fees, partially offset by the completion of our supplier transition effort in 2015 and a decrease in non-income taxes.

Depreciation and Amortization

Depreciation and amortization expense decreased by $1.5 million, or 4%, for the nine months ended September 30, 2016 compared to the prior year period, primarily due to continued changes in the estimated useful lives of the satellites within our current constellation, partially offset by the addition of new assets and the impairment charges that we recorded during the second quarter of 2016 as a result of two satellites having ceased operations. We updated our analysis of the current satellites' remaining useful lives in both the second and the third quarters of 2016. We will continue to evaluate the useful lives of our current satellites through the full deployment of Iridium NEXT as the satellites are placed into service.

Other Income (Expense)

Undrawn Credit Facility Fees

Commitment fees on the undrawn portion of the Credit Facility were $1.2 million for the nine months ended September 30, 2016 compared to $2.6 million for the prior year period. The decrease of the commitment fee is directly related to the increase in the amounts borrowed under the Credit Facility as we continue to finance the development of Iridium NEXT.

Provision for Income Taxes

For the nine months ended September 30, 2016, our income tax provision was $49.3 million, compared to $45.4 million for the prior year period. The change in the income tax provision is primarily related to an increase in our income before income taxes and higher state income taxes compared to the prior period. The increase in state taxes is primarily related to Arizona tax law change that resulted in a greater benefit in the prior period compared to the current period. If our current estimates change in future periods, the impact on the deferred tax assets and liabilities may change correspondingly.

Net Income

Net income was $86.9 million for the nine months ended September 30, 2016, an increase of $10.4 million from the prior year period. This increase in net income was driven by a $21.2 million increase in total revenue, which was primarily related to the $12.0 million revenue increase from the EMSS contract, as well as a $1.4 million decrease in undrawn credit facility fees. These increases in income were partially offset by an increase of $8.8 million in total operating expenses and a $3.9 million increase in the provision for income taxes.

Liquidity and Capital Resources

As of September 30, 2016, our total cash and cash equivalents balance was $374.0 million, and our marketable securities balance was $52.4 million. Our principal sources of liquidity are cash, cash equivalents and marketable securities, internally generated cash flows, and the Credit Facility. Our principal liquidity requirements are to meet capital expenditure needs, principally the design, build and launch of Iridium NEXT, as well as for working capital, interest payments on the Credit Facility, and dividend payments on our Series A Preferred Stock and Series B Preferred Stock.

We estimate the aggregate costs associated with the design, build and launch of Iridium NEXT and related infrastructure upgrades through 2018 to be approximately $3 billion. Our funding plan for these costs includes the substantial majority of the funds available under the Credit Facility, together with cash and marketable securities on hand, and internally generated cash flows, including contracted cash flows from hosted payloads and potential cash flows from Iridium PRIME.

While the contracted cash flows from our primary hosted payload customer, Aireon, are interest-bearing if not paid on time, we expect those hosted payload payments will continue to be delayed. Aireon is working to secure contracts with ANSPs, including the FAA, for the sale of Aireon's space-based ADS-B services. Aireon is currently seeking to raise the capital it will need to fund its continued operations and our hosted payload payments. Its ability to fund our hosted payload payments in the previously anticipated timeframe has been adversely affected by delays in its sales efforts to these ANSPs, which we believe in part results from delays in the launch of the Iridium NEXT system. If Aireon is unable to begin making its hosting payments to us in 2017, we will need to adjust our funding plan. As previously reported, in anticipation of potential delays in receipt of the Aireon hosting payments, we entered into discussions with our Credit Facility lenders to delay or reduce our payment obligations to fund the cash reserve account for debt repayment, or DSRA. We are also in discussions with Thales to delay some of the construction milestone payments that we otherwise anticipate making in 2017 under our full scale development contract, or FSD, with Thales. We may also consider, or be required to adopt in connection with concessions from our lenders, other cash preservation measures, such as temporary suspension of dividend payments on our Series A Preferred Stock and Series B Preferred Stock, but we do not expect to issue additional equity in connection with any such arrangement. If we are successful in these negotiations, we expect that these adjustments to our funding plan, including the cash preservation measures, would allow us to avoid any liquidity shortfall through at least 2017.

We currently use the Credit Facility to pay 85% of each invoice we receive from Thales under our contract for the development and construction of our Iridium NEXT satellites, with the remaining 15% funded from cash, cash equivalents and marketable securities on hand. We also utilize the Credit Facility to fund the COFACE insurance premiums and a portion of the interest under the Credit Facility. Once the Credit Facility is fully drawn, which we expect to occur in early 2017, we expect to pay 100% of each invoice we receive from Thales and all interest on the Credit Facility from cash, cash equivalents and marketable securities on hand, and internally generated cash flows, including contracted cash flows from hosted payloads and potential cash flows from Iridium PRIME.

The Credit Facility contains borrowing restrictions, including financial performance covenants and covenants relating to hosted payloads, and there can be no assurance that we will be able to continue to borrow funds under the Credit Facility. There can also be no assurance that our internally generated cash flows, including those from Iridium PRIME and hosted payloads on our Iridium NEXT satellites, will meet our current expectations. If we do not generate sufficient cash flows, or if the cost of implementing Iridium NEXT or the other elements of our business plan are higher than anticipated, we may need further external funding. Our ability to obtain additional funding may be adversely affected by a number of factors, including global economic conditions, and such funding may not be available on reasonable terms or at all. If we are not able to secure such funding in a timely manner, our ability to maintain our network, to design, build and launch Iridium NEXT and related ground infrastructure, products and services, and to pursue additional growth opportunities will be impaired, and we would likely need to delay some elements of our Iridium NEXT development. Our liquidity and our ability to fund our liquidity requirements also depend on our future financial performance, which is subject to general economic, financial, regulatory and other factors that are beyond our control.

Holders of Series A Preferred Stock and Series B Preferred Stock are entitled to receive cumulative cash dividends at an annual rate of $7.00 and $16.875 per share, respectively. Dividends are payable quarterly in arrears on each March 15, June 15, September 15 and December 15. For each full quarter that the Series A Preferred Stock or Series B Preferred Stock, as applicable, is outstanding, and assuming that no shares have been converted into common stock, we are required to pay cash dividends of $1.75 million and $2.1 million, respectively, per quarter. We expect that we will satisfy dividend requirements, if and when declared, from internally generated cash flows.

As of September 30, 2016, we reported $1,546.8 million in borrowings under the Credit Facility in our condensed consolidated balance sheet, net of $123.1 million of deferred financing costs, for an aggregate balance of $1,669.9 million outstanding under the Credit Facility. The unused portion of the Credit Facility as of September 30, 2016 was $130.1 million. Pursuant to the Credit Facility, we maintain the DSRA. As of September 30, 2016, the DSRA balance was $113.0 million, which is classified as restricted cash in our condensed consolidated balance sheet. The DSRA requirement will increase to $189.0 million in 2017. In addition to the minimum debt service levels, financial covenants under the Credit Facility, as amended to date, include:

- an available cash balance of at least $25 million;

- a debt-to-equity ratio, which is calculated as the ratio of total net debt to the aggregate of total net debt and total stockholders' equity, of no more than 0.7 to 1, measured each June 30 and December 31;
- specified maximum levels of annual capital expenditures (excluding expenditures on the construction of Iridium NEXT satellites) through the year ending December 31, 2024;
- specified minimum levels of consolidated operational earnings before interest, taxes, depreciation and amortization, or operational EBITDA, for the 12-month periods ending each December 31 and June 30 through December 31, 2017;
- specified minimum cumulative cash flow requirements from customers who have hosted payloads on our satellites, measured each December 31 and June 30, from June 30, 2016 through December 31, 2017;
- a debt service coverage ratio, measured during the repayment period, of not less than 1 to 1.5; and
- specified maximum leverage levels during the repayment period that decline from a ratio of 4.73 to 1 for the twelve months ending June 30, 2018 to a ratio of 2.36 to 1 for the twelve months ending December 31, 2024.

Our available cash balance, as defined by the Credit Facility, was $391.7 million as of September 30, 2016. Our debt-to-equity ratio was 0.5 to 1 as of June 30, 2016, the last point at which it was required to be measured. We were also in compliance with the operational EBITDA and hosted payload cash flow covenants set forth above as of June 30, 2016, the last point at which they were required to be measured, and with the capital expenditure covenant as of December 31, 2015, the last point at which it was required to be measured.

The covenants regarding capital expenditures, operational EBITDA and hosted payload cash flows are calculated in connection with a measurement, which we refer to as available cure amount, that is derived using a complex calculation based on overall cash flows, as adjusted by numerous measures specified in the Credit Facility. In a period in which our capital expenditures exceed, or our operational EBITDA or hosted payload cash flows fall short of, the amount specified in the respective covenant, we would be permitted to allocate available cure amount, if any, to prevent a breach of the applicable covenant. As of June 30, 2016, the last point at which it was measured, we had no available cure amount, although it was not necessary for us to apply any available cure amount to maintain compliance with the covenants. The available cure amount has fluctuated significantly from one measurement period to the next, and we expect that it will continue to do so.

The covenants also place limitations on our ability and that of our subsidiaries to carry out mergers and acquisitions, dispose of assets, grant security interests, declare, make or pay dividends, enter into transactions with affiliates, fund payments under the FSD with Thales from our own resources, incur additional indebtedness, or make loans, guarantees or indemnities. If we are not in compliance with the financial covenants under the Credit Facility, after any opportunity to cure such non-compliance, or we otherwise experience an event of default under the Credit Facility, the lenders may require repayment in full of all principal and interest outstanding under the Credit Facility. It is unlikely we would have adequate funds to repay such amounts prior to the scheduled maturity of the Credit Facility. If we fail to repay such amounts, the lenders may foreclose on the assets we have pledged under the Credit Facility, which include substantially all of our assets and those of our domestic subsidiaries.

We believe that our liquidity sources will provide sufficient funds for us to meet our liquidity requirements for at least the next 12 months, provided we receive the contractual hosting payment from Aireon or are successful in adjusting our funding plan, as discussed above.

Cash Flows

The following table summarizes our cash flows:

	Nine Months Ended September 30,		
	2016	2015	Change
	(in thousands)		

Cash provided by operating activities	$164,559	$162,938	$1,621
Cash used in investing activities	$(81,366)	$(213,331)	$131,965
Cash provided by financing activities	$104,660	$130,688	$(26,028)

Cash Flows from Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2016 increased $1.6 million from the prior year period principally due to changes in working capital requirements compared to the prior period.

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Cash Flows from Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2016 decreased by $132.0 million compared to the prior year period primarily due to an $112.0 million increase in net sales of marketable securities and a $20.0 million decrease in capital expenditures primarily related to Iridium NEXT.

Cash Flows from Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2016 decreased by $26.0 million from the prior year period primarily due to the increase in restricted cash deposits to support the credit facility covenant.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements, as such term is defined in Item 303(a)(4)(ii) of the SEC's Regulation S-K, that have or are reasonably likely to have a material current or future effect on our financial condition, results of operations, liquidity or capital resources.

Seasonality

Our results of operations have been subject to seasonal usage changes for commercial customers, and we expect that our results will be affected by similar seasonality effects in the future. March through October are typically the peak months for commercial voice services revenue and related subscriber equipment sales. Commercial M2M revenue has been less subject to seasonal usage changes, and revenue from our fixed-price U.S. government contract is not subject to seasonal fluctuations.

Critical Accounting Policies and Estimates