Without an Angel, Iridium’s Sky Will Fall

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It seemed an elegant, even lucrative idea—an necklace of earth-orbiting satellites capable of connecting telephone calls from the most remote reaches of the globe. But barring the last-minute arrival of a corporate savior, a buyer willing to sweep in with millions to take over, Iridium LLC appeared at its end late yesterday, its customers soon to be disconnected, its bulky telephones rendered useless, and its satellites bound for vapor.

Yesterday was the deadline imposed by a New York bankruptcy court for the struggling satellite telephone company to either come up with a purchaser or shutter the business, accepting the loss of a $5 billion investment. Under a recent court filing, the company promised that if it couldn't entice a buyer by 5 p.m., it would proceed with plans to liquidate.

As the deadline passed, the company wouldn't say whether a buyer had been found. It is due in court tomorrow to deliver the word. If the word is no, the company is scheduled to shut down service at the end of the night. But late last night, Bloomberg News reported that Gene Curcio, chief executive of closely held Crescent Communications Inc. said his company had made a formal bid for Iridium's assets. Bloomberg reported that Iridium said it won't know if any bids were made until today.

If no deal is made, Iridium's 66 low-earth-orbiting satellites are probably coming down. Rather than leave them floating through space as galactic garbage and perhaps interfering with still-working birds, the company said it would "decommission" them. That is, tip them into an orbit that would cause them to plunge and burn, the remains landing harmlessly in the ocean.

Motorola, the giant electronics firm that is Iridium's largest backer, has already said it would sink no more money into the failing effort. Two weeks ago, Iridium lost its last, best chance for rescue, as wireless telephone pioneer Craig McCaw said he would not buy the company.

McCaw had already taken over another bankrupt satellite phone system, ICO Global Communications. He plans to fold it into another venture.
ICO Global Communications. He plans to fold it into another venture, Teledesic, which uses satellites to deliver high-speed Internet connections. According to a knowledgeable source, McCaw took a serious look at Iridium, but ultimately decided it could not be worked into those plans.

A source close to Iridium said the company's investment bankers were continuing to call possible buyers yesterday afternoon. But analysts were expecting nothing.

"McCaw is either playing an incredible game of chicken and he'll come back and save it at the last minute or it's going down," said Armand Musey, an analyst with Banc of America Securities. "There's no one else out there who's going to buy it."

Iridium's satellites would need to be replaced in two to three years, requiring another infusion of billions. Thus, the thinking goes: If Iridium isn't worth owning for McCaw, who could at least use it as a living advertisement for satellite communications while he concentrated on Teledesic, it certainly isn't worth owning as a stand-alone business.

If no deal is struck, the company is expected on Friday to lay out a time line to take the satellites down, rather then continue to pay the roughly $10 million a month it costs to operate the system. Taking them down would not be free; instead it would require an additional six or seven months of running the system, Musey said. Who would pay remained an open question.

Clearly, burning a constellation of satellites would inflict a stunning embarrassment on the company's backers, not least Motorola, whose support lent legitimacy to the venture. Armored with wide panels, the satellites sometimes pick up a glint of sun visible from the earth. If they are lowered, they would only be more visible--fiery testaments to a colossal failure.

"This is a huge black eye," Musey said. "You'd have everyone looking up at the sky saying, 'There they are!' "

Not that embarrassment is new for Iridium. The company advertised its service long before its telephones were available. Its retail costs--$3,000 per phone and as much as $7 a minute for calls--became an industry joke. Moreover, the phones were as big as bricks and didn't work indoors. A very public bankruptcy quickly became industry fable.

But analysts say Iridium's failure speaks to more than poor execution. The satellite industry failed to properly account for the rapid spread of earth-dwelling cellular telephone networks. While Iridium and Motorola were blasting money into the heavens, cell phones were growing ubiquitous on earth, carving deeply into Iridium's market.

"The brilliance of the technology cannot take precedence over the market
case," said Herschel Shosteck, a Wheaton-based wireless analyst. "At the end of the day, if you're spending $5 billion on the technology, there better be a market for it. And if there isn't, there will be great humiliation."