Iridium Communications Inc.
Form 10-K
March 05, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(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, 2012

OR

.. **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 001-33963

Iridium Communications Inc.

(Exact name of registrant as specified in its charter)

Delaware	**26-1344998**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1750 Tysons Boulevard, Suite 1400, McLean, Virginia 22102

(Address of principal executive offices, including zip code)

703-287-7400

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.001 par value	**NASDAQ Global Select Market**
Units, each consisting of one share of Common Stock and one $7.00 Warrant	**NASDAQ Global Select Market**
Warrants, exercisable for Common Stock at an exercise price of $7.00 per share	**NASDAQ Global Select Market**
Warrants, exercisable for Common Stock at an exercise price of $11.50 per share	**NASDAQ Global Select Market**

Securities Registered Pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ 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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. ¨

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of June 30, 2012 was approximately $460.7 million.

The number of shares of the registrant’s common stock, par value $0.001 per share, outstanding as of February 27, 2013 was 76,462,045.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for its 2013 annual meeting of stockholders to be filed pursuant to Regulation 14A with the Securities and Exchange Commission not later than 120 days after the registrant’s fiscal year end of December 31, 2012, are incorporated by reference into Part III of this Form 10-K.

IRIDIUM COMMUNICATIONS INC.

ANNUAL REPORT ON FORM 10-K

Year Ended December 31, 2012

TABLE OF CONTENTS

PART III

PART IV

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Such forward-looking statements include those that express plans, anticipation, intent, contingencies, goals, targets or future development or otherwise are not statements of historical fact. Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “expects,” “intends” and similar expressions are intended to identify forward-looking statements. These forward-looking statements are based on our current expectations and projections about future events, and they are subject to risks and uncertainties, known and unknown, that could cause actual results and developments to differ materially from those expressed or implied in such statements. The important factors discussed under the caption “Risk Factors” in this Form 10-K 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.

PART I

Item 1. Business

Corporate Background

We were formed as GHL Acquisition Corp., a special purpose acquisition company, in November 2007, for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or other similar business combination. On February 21, 2008, we consummated our initial public offering. On September 29, 2009, we acquired, directly and indirectly, all the outstanding equity of Iridium Holdings LLC, or Iridium Holdings, and changed our name from GHL Acquisition Corp. to Iridium Communications Inc.

Iridium Holdings was formed under the laws of Delaware in 2000, and on December 11, 2000, Iridium Holdings, through its wholly owned subsidiary Iridium Satellite LLC, or Iridium Satellite, acquired certain satellite assets from Iridium LLC, a non-affiliated debtor in possession, pursuant to an asset purchase agreement. We refer to Iridium Holdings, together with its direct and indirect subsidiaries, as Iridium.

Business Overview

We are the second largest provider by revenue of mobile voice and data communications services via satellite, and the only commercial provider of communications services offering true global coverage. Our satellite network provides communications services to regions of the world where existing wireless or wireline networks do not exist or are limited, including remote land areas, open ocean, 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 constellation of 66 in-orbit satellites, 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 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.

Our commercial end user base, which we view as our primary growth engine, is diverse and includes markets such as emergency services, maritime, government, utilities, oil and gas, mining, recreation, forestry, construction and transportation. Many of our end users view our products and services as critical to their daily operations and integral to their communications and business infrastructure. For example, multinational corporations in various sectors use our services for business telephony, e-mail and data transfer services and to provide mobile communications services for employees in areas inadequately served by terrestrial networks. Ship crews and passengers use our services for ship-to-shore calling as well as to send and receive e-mail and data files, and to receive electronic media, weather reports, emergency bulletins and electronic charts. Shipping operators use our services to manage operations on-board ships and to transmit data, such as course, speed and fuel stock. Aviation-based end users use our services for air-to-ground telephony and data communications for position reporting, emergency tracking, weather information, electronic flight bag updates and fleet information.

The U.S. government, directly and indirectly, has been and continues to be our largest single customer, generating $76.7 million in service and engineering and support service revenue, or 20% of our total revenue, for the year ended December 31, 2012. This does not include revenue from the sale of equipment that may be ultimately purchased by U.S. or non-U.S. government agencies through third-party distributors, or airtime services purchased by U.S. or non-U.S. government agencies that are provided through our commercial gateway, as we lack visibility into these activities and the related revenue.

The U.S. Department of Defense, or DoD, owns and operates a dedicated gateway in Hawaii that is only compatible with our satellite network. The U.S. armed services, State Department, Department of Homeland Security, Federal Emergency Management Agency, or FEMA, Customs and Border Protection, and other U.S. government agencies, as well as other nations' governmental agencies, use our voice and data services for a wide variety of applications. Our voice and data products are used for numerous primary and backup communications solutions, including logistical, administrative, morale and welfare, tactical and emergency communications. In addition, our products are installed in ground vehicles, ships, helicopters and fixed-wing aircraft and are used for command and control and situational awareness purposes. Our satellite network provides increased network security to the DoD because traffic is routed across our satellite constellation before being brought down to earth through the dedicated, secure DoD gateway, thus providing additional levels of protection. Since our network was created in the mid-1990s, the DoD has made significant investments to build and upgrade its dedicated gateway and to purchase our handsets and voice and data devices, all of which are only compatible with our satellite network. In addition, the DoD continues to invest directly and indirectly in additional services on our network such as Distributed Tactical Communications Services, which we refer to as Netted Iridium®. The DoD would have to incur significant expense to switch to a competing service provider for mobile satellite voice and data services similar to those we provide, and no other service provider can provide true global coverage or an interlinked mesh architecture that allows DoD traffic to flow through one secure, dedicated gateway.

We sell our products and services to commercial end users exclusively through a wholesale distribution network, encompassing more than 70 service providers, 175 value-added resellers, or VARs, and 50 value-added manufacturers, or VAMs, which create and sell Iridium-based technology 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 December 31, 2012, we had approximately 611,000 billable subscribers worldwide, representing a 17% increase compared to December 31, 2011. Total revenue decreased slightly from $384.3 million in 2011 to $383.5 million in 2012.

Industry

We compete in the mobile satellite services sector of the global communications industry. Mobile satellite services operators provide voice and data services to people and machines on the move or in fixed locations using a network of satellites and ground facilities. Mobile satellite services are intended to fill users' needs for connectivity in all locations. Customers typically use satellite voice and data communications in situations where existing terrestrial wireline and wireless communications networks do not exist, do not provide sufficient coverage, or are impaired. Further, many regions of the world benefit from satellite networks, such as rural and developing areas that lack adequate wireless or wireline networks, ocean and polar regions where few alternatives exist, and regions where the telecommunications infrastructure has been affected by political conflicts or natural disasters.

Government organizations, including military and intelligence agencies and disaster response agencies, non-governmental organizations and industrial operations and support teams depend on mobile and fixed voice and data satellite communications services on a regular basis. Businesses with global operations require reliable communications services when operating in remote locations around the world. Mobile satellite services users span many sectors, including emergency services, maritime, aviation, government, utilities, oil and gas, mining, recreation, forestry, construction and transportation, among others. Many of our customers view satellite communications services as critical to their daily operations.

We believe that increasing penetration will provide a significant market opportunity for the mobile satellite services industry. According to an October 2012 report produced by Wireless Intelligence for the GSM Association, total mobile connections were expected to reach 6.8 billion throughout the world as of the fourth quarter of 2012. We believe that growth in the terrestrial wireless industry has increased awareness of the need for reliable mobile voice and data communications services. In addition, despite significant penetration and competition, terrestrial wireless systems only serve a small fraction of the earth's surface and are focused mainly in those areas where people live, excluding oceans and other remote regions where ships, airplanes and other remote assets may be in transit or are located. By offering mobile communications services with global voice and data coverage, mobile satellite service providers address the demand from businesses, governments and individuals for connectivity and reliability in locations not consistently served by wireline and wireless terrestrial networks.

The mobile satellite services industry also benefits from the continued development of innovative, lower cost technology and applications integrating mobile satellite products and services. We believe that growth in demand for mobile satellite services is driven in large part by the declining cost of these services, the diminishing size and lower costs of voice, data and machine-to-machine, or M2M, devices, the rollout of new applications tailored to the specific needs of customers across a variety of markets, and the growing number of countries that license and permit mobile satellite services to be deployed in their territories..

Communications industry sectors include:

- mobile satellite services, which provide customers with voice and data connectivity to mobile and fixed devices using ground facilities and networks of geostationary, or GEO, satellites, which are located approximately 22,300 miles above the equator, medium earth orbit satellites, which orbit between approximately 6,400 and 10,000 miles above the earth's surface, or low earth orbit, or LEO, satellites, such as those in our constellation, which orbit between approximately 300 and 1,000 miles above the earth's surface;

- fixed satellite services, which use GEO satellites to provide customers with broadband communications links between fixed points on the earth's surface; and

- terrestrial services, which use a network of land-based equipment including switching centers and radio base stations to provide wireless or wireline connectivity and are complementary to satellite services.

Within the major satellite sectors, fixed satellite services and mobile satellite services operators differ significantly from each other with respect to size of antenna and types of services offered. Fixed satellite services providers, such as Intelsat S.A., Eutelsat Communications S.A. and SES S.A., are characterized by large, often stationary or fixed ground terminals that send and receive high-bandwidth signals to and from the satellite network for video and high-speed data customers and international telephone markets. By contrast, mobile satellite services providers, such as us, Inmarsat plc, Globalstar, Inc., and ORBCOMM Inc. focus more on voice and data services, where mobility and small-sized terminals are essential.

A LEO system, such as the system we operate, generally has lower transmission delays than a GEO system, such as that operated by Inmarsat, due to the shorter distance signals have to travel, which also enables the use of smaller antennas on mobile devices. We believe the unique interlinked mesh architecture of our constellation, combined with the global footprint of our satellites, distinguishes us from other regional LEO satellite operators such as Globalstar and ORBCOMM, by allowing us to route voice and data transmissions to and from anywhere on the earth's surface via a single gateway. As a result, we are the only mobile satellite services operator offering real-time, low-latency services with true global coverage, including full coverage of the polar regions.

Our Competitive Strengths

True global coverage. Our network provides true global coverage, which none of our competitors, whether LEO or GEO, can offer. Our network of 66 operational satellites relies on an interlinked mesh architecture to transmit signals from satellite to satellite, which reduces the need for multiple ground stations around the world and facilitates the global reach of our services. GEO satellites orbit around the earth's equator, limiting their visibility to far northern or southern latitudes and polar regions. LEO satellites from operators like Globalstar and ORBCOMM use an architecture commonly referred to as "bent pipe", which requires voice and data transmissions to be immediately routed to nearby ground stations and can only provide real-time service when they are within view of a ground station, limiting coverage to continental areas where they have been able to license and locate ground infrastructure. The LEO design of our satellite constellation produces minimal transmission delays compared to GEO systems due to the shorter distance our signals have to travel. Additionally, LEO systems typically have smaller antenna requirements and are less prone to signal blockage caused by terrain than GEO satellite networks. As a result, we believe that we are well-positioned to capitalize on the growth in our industry from end users who require reliable, easy-to-use communications services in all locations.

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Attractive and growing markets. We believe that the mobile satellite services industry will continue to experience growth driven by the increasing awareness of the need for reliable mobile voice and data communications services, the lack of coverage by terrestrial wireless systems of most of the earth's surface, and the continued development of innovative, lower cost technology and applications integrating mobile satellite products and services. Only satellite providers can offer global coverage, and the satellite industry is characterized by significant financial, technological and regulatory barriers to entry.

Innovations for a broad range of markets at lower costs. The specialized needs of our global end users span many markets, including emergency services, maritime, aviation, government, utilities, oil and gas, mining, recreation, forestry, construction and transportation. We sell our products and services to commercial end users exclusively through a wholesale distribution network of service providers, VARs and VAMs, which often specialize in a particular line of business. Our distributors use our products and services to develop innovative and integrated communications solutions for their target markets, often combining our products with other technologies, such as GPS and terrestrial wireless technology. In addition to promoting innovation, our wholesale distribution model allows us to capitalize on the research and development expenditures of our distributor partners, while lowering overall customer acquisition costs and mitigating some risks, such as consumer credit risk. By partnering with these distributors to develop new products, services and applications, we believe we create additional demand for our products and services and expand our target markets at a lower cost than would a more direct marketing model. We believe our distribution network can continue to grow with us and amplify our impact on the market.

Strategic relationship with the U.S. government. The U.S. government is our largest single customer, and we have had a relationship with the DoD since our inception. We believe the DoD views our Netted Iridium, M2M devices, encrypted handset and other products as mission-critical services and equipment. The DoD has made significant investments in a dedicated gateway on a U.S. government site to provide operational security and allow DoD handset users to communicate securely with other U.S. government communications equipment. This gateway is only compatible with our satellite network.

Our Business and Growth Strategies

- *Leverage our largely fixed-cost infrastructure by growing our service revenue*. Our business model is characterized by high capital costs, primarily incurred every 10 to 15 years, in connection with designing, building and launching new generations of our satellite constellation, but the incremental cost of providing service to additional end users is relatively low. We believe that service revenue will be our largest source of future growth and profits, and we intend to focus on growing both our commercial and government service revenue in order to leverage our largely fixed-cost infrastructure.

- *Accelerate the development of personal communications capabilities*. Iridium Force® is our strategy for the development of personal mobile satellite communications, allowing users to connect to our network in more ways, including from devices such as smartphones, tablets and laptops; making our technology more accessible and cost-effective for our distribution partners to integrate by licensing our core technologies; integrating location-based services for location-specific applications and personal security capabilities; and providing rugged, dependable devices and services.

- *Continue to expand our distribution network.* We believe our wholesale distribution network lowers our costs and risks, and we plan to continue to selectively expand our network of service providers, VAMs and VARs. We expect that our current and future value-added partners will continue to develop customized products, services and applications targeted to the land-based handset, maritime, aviation, M2M and government markets. We believe these markets represent an attractive opportunity for continued subscriber growth. We also expect to continue to expand our sales and distribution efforts geographically by seeking authorization to operate and engaging distribution partners in additional countries.

- *Develop new services for the DoD.* We are developing additional capabilities for our network to enhance its utility to the DoD, and plan to continue to expand our offerings to focus more on strategic as well as tactical applications. In conjunction with the U.S. Navy, we have developed and introduced Netted Iridium, which provides beyond-line-of-sight, push-to-talk voice and position location services to user-defined groups of DoD users. This, and other services in development, leverage on-going U.S. government research and development investments and provide us with opportunities to offer new products and services to the DoD. We anticipate continued growth in M2M applications for the DoD and other government customers as new and existing VARs and VAMs design applications around the Iridium 9602 and 9603 short-burst data modems described below. Growth areas for government short-burst data applications include tracking of personnel, vehicles and equipment, connectivity for unattended sensors and backup control links for unmanned platforms.

- *Develop Iridium NEXT constellation*. We are developing our next-generation satellite constellation, Iridium NEXT, which will replace our existing constellation with a more powerful satellite network while maintaining backward compatibility with our current system and end-user devices. Iridium NEXT will maintain our current system's key attributes, including the capability to upload new software, while providing new and enhanced capabilities, such as higher data speeds and increased capacity. We believe Iridium NEXT's increased capabilities will expand our target markets by enabling us to develop and offer a broader range of products and services, including a wider array of cost-effective and competitive broadband data services. We expect to complete the critical design review phase of the

development of Iridium NEXT in 2013 and to commence launches in early 2015.

Develop Aireon and other hosted payload opportunities. Iridium NEXT is designed to host secondary payloads, which have the potential to generate cash flows and deferred revenue during the construction phase of Iridium NEXT and the potential to generate recurring service revenue once Iridium NEXT is launched. In June 2012, we announced our plan to host a payload being developed by one of our subsidiaries, Aireon LLC, or Aireon. Aireon's payload will be an automatic dependent surveillance-broadcast, or ADS-B, receiver to enable a global air traffic monitoring business, which Aireon plans to offer to air navigation service providers, such as NAV CANADA, our co-investor in Aireon, and the U.S. Federal Aviation Administration.

Distribution Channels

We sell our products and services to customers through a wholesale distribution network of more than 70 service providers, 175 VARs and 50 VAMs. These distributors sell our products and services to end users, either directly or indirectly through service providers, VARs or dealers. Of these distributors, approximately 25 sell primarily to U.S. and international government customers. Our distributors often integrate our products and services with other complementary hardware and software and have developed individual solutions targeting specific lines of business. We also sell airtime services directly to U.S. government customers, including the DoD, for resale to other government agencies. The U.S. government and international government agencies may purchase additional services as well as our products and related applications through our network of distributors.

We provide our distributors with support services, including assistance with coordinating end user sales, strategic planning and training and second-tier customer support, as well as helping them respond to new opportunities for our products and services. We have representatives covering three regions around the world to better manage our distributor relationships: the Americas, which includes North, South and Central America; Asia Pacific, which includes Australia and Asia; and Europe, the Middle East, Africa and Russia. We have also established a global support service program to provide portside service for Iridium OpenPort® maritime customers at major ports worldwide. In addition, we maintain various online management tools that allow us to communicate efficiently with our distributors, and allow them to manage their customers' Iridium devices from anywhere in the world. By relying on our distributors to manage end user sales, we believe that we reduce some of the risks and costs related to our business, such as consumer credit risk and sales and marketing costs, while providing a broad and expanding distribution network for our products and services with access to diverse and geographically dispersed niche markets. We are also able to rely on the specialized expertise of our distributors, who continue to develop innovative and improved solutions and applications integrating our product and service offerings, providing us with an attractive platform to support our growth.

Commercial Markets

We view our commercial end user base as our primary growth engine. Service providers and VARs serve as our main distribution channel by purchasing our products and services and marketing them directly to their customers or indirectly through independent dealers. They are each responsible for customer billing, end user customer care, managing credit risk and maintaining all customer account information. If our service providers or VARs provide our services through dealers, these dealers will often provide such services directly to the end user. Service providers typically purchase our most basic products and services, such as mobile voice services and related satellite handsets, and offer additional services such as voice mail. Unlike service providers, our VARs typically focus more on data applications and provide a broader array of value-added services specifically targeted to the niche markets they serve, such as maritime, M2M, aviation and government markets, where high-use customers with specialized needs are concentrated. These VARs integrate our handsets, transceivers, high-speed data devices and short-burst data modems with other hardware and software to create packaged solutions for end users. Examples of these applications include cockpit voice and data solutions for use by the aviation sector and voice, data and tracking applications for industrial customers, the DoD and other U.S. and international government agencies. Our service providers include dedicated satellite service providers such as Astrium (an EADS company) and Inmarsat, as well as some of the largest telecommunications companies in the world, including Telstra Corporation Limited, KDDI Corporation and Singapore Telecommunications Limited. Our VARs include AirCell Inc., ARINC Incorporated, Blue Sky Network, LLC, DeLorme Publishing Company Inc., General Dynamics Corporation, Joubeh Technologies Inc., Kore Telematics Inc., NAL Research Corporation and Zunibal S.A.

We also sell our products to VAMs, who integrate our transceivers into their propriety hardware and software. These VAMs produce specialized equipment, including integrated ship communications systems, global asset tracking devices and secure satellite handsets, such as our Iridium 9505A handset coupled with U.S. National Security Agency Type I encryption capability, which they offer to end users in maritime, aviation, government and M2M markets. As with our service providers and VARs, VAMs sell their products either directly or through other distributors, including some of our service providers and VARs. Our VAMs include Applied Satellite Engineering, Inc., Beam Communications Pty Ltd., Digi International, Inc., InovarEMS, International Communications Group, Inc., ITT Exelis, Quake Global, Inc. and Thrane & Thrane A/S.

In addition to VARs and VAMs, we maintain relationships with more than 35 value-added developers, or VADs. We typically provide technical information to these companies on our products and services, which they then use to develop software and hardware that complements our products and services in line with the specifications of our VARs and VAMs. These products include handset docking stations, airline tracking and flight management applications and crew e-mail applications for the maritime industry. We believe that working with VADs allows us to create new platforms for our products and services and increases our market opportunity while reducing our overall research and development, marketing and support expenses. Our VADs include Active Web Solutions Inc., Global Marine Networks, LLC, Hirschmann Automation and Controls, Inc., Maxtena, Inc. and Ontec Inc.

We maintain a pricing model for our commercial products and services with a consistent wholesale rate structure. Under our distribution agreements, we charge our distributors wholesale rates for commercial products and services, subject to discount and promotional arrangements and geographic pricing. We also charge fixed monthly access fees per subscriber for some of our services. Our distributors are in turn responsible for setting their own pricing to their customers. Our agreements with distributors typically have terms of one year and are automatically renewable for additional one-year terms, subject to termination rights. We believe this business model provides incentives for distributors to focus on selling our commercial product and service portfolio and developing additional applications. An additional benefit of this model is simplicity. This model reduces back-office complexities and costs and allows distributors to remain focused on revenue generation.

Our two largest distributors, Astrium and Inmarsat, each represented 10% of our revenue for the year ended December 31, 2012.

Government Markets

We provide mission-critical mobile satellite products and services to all military branches of the DoD as well as other U.S. government departments and agencies. These users require voice and two-way data capability with global coverage, low latency, mobility and security and often operate in areas where no other terrestrial or wireless means of communications are available. We believe we are well-positioned to satisfy demand from these users. Our 9505A satellite handset is the only commercial, mobile handheld satellite phone that is capable of Type I encryption accredited by the U.S. National Security Agency for Top Secret voice communications. In addition, the DoD has made significant investments in a dedicated gateway that provides operational security and allows users of encrypted DoD handsets to communicate securely with other U.S. government communications equipment. These investments include upgrading the gateway to take advantage of the enhanced capabilities of Iridium NEXT. This gateway is only compatible with our satellite network.

We provide Iridium airtime and airtime support to U.S. government and other authorized customers pursuant to our Enhanced Mobile Satellite Services, or EMSS, contract managed by the DoD's Defense Information Systems Agency, or DISA. The contract, entered into in April 2008, provides for a one-year base term and up to four additional one-year options exercisable at the election of the U.S. government. The U.S. government exercised all of the options, and the final EMSS contract option will expire on March 31, 2013, though based on federal acquisition regulations, the government has the ability to extend the agreement for six months, through September 30, 2013, and has elected to do so. We are pursuing a contract renewal with DISA to provide EMSS services after the current contract expires. The EMSS contract allows authorized customers to purchase Iridium airtime services, provided through DoD's dedicated gateway, under a set of rate schedules tailored for each of our services, including a fixed monthly per-user fee for voice and circuit-switched data, a fixed monthly per-user fee for paging services, a tiered pricing plan, based on usage per device, for short-burst data services, and a fixed monthly per-user fee for Netted Iridium usage plus a monthly fee for each active user-defined net. The U.S. government is not required to guarantee a minimum number of users under this agreement. While we sell airtime directly to the U.S. government for resale to end users, our hardware products are sold to U.S. government customers through our network of distributors, which typically integrate them with other products and technologies.

We also provide maintenance services for the DoD gateway through a separate contract managed by DISA, the Gateway Maintenance and Support Services, or GMSS, contract, which also was entered into in April 2008. As with the EMSS contract, the GMSS contract provides for a one-year base term and up to four additional one-year options exercisable at the election of the U.S. government. The U.S. government exercised all of the options, and the final GMSS contract option will expire on March 31, 2013, though based on federal acquisition regulations, the government has the ability to extend the agreement for six months, through September 30, 2013, and has informed us that it plans to do so. We are pursuing a contract renewal with DISA to continue providing GMSS services after the current contract expires. The U.S. government may terminate the EMSS and GMSS contracts, in whole or in part, at any time. In October 2012, we were also awarded a five-year indefinite-delivery/indefinite-quantity contract from DISA to upgrade the DoD gateway and ensure its compatibility with Iridium NEXT. This contract has a one-year base period and four one-year options, and has a maximum value of $47 million over the full five-year period.

U.S. government services accounted for approximately 20% of our total revenue for the year ended December 31, 2012. Our reported U.S. government revenue includes airtime revenue derived from the EMSS contract and services provided through the GMSS contract and other engineering and support contracts with the U.S. government. This revenue does not include airtime services purchased by U.S. or non-U.S. government agencies that are provided through our commercial gateway, which we report as commercial service revenue, or equipment purchased by government customers from third-party distributors. We are unable to determine the specific amount of U.S. government revenue derived from these commercial sources.

Lines of Business

The specialized needs of our global customers span many markets. Our system is able to offer our customers cost-effective communications solutions with true global coverage in areas unserved or underserved by existing

telecommunications infrastructure. Our mission-critical communications solutions have become an integral part of the communications and business infrastructure of many of our end users. In many cases, our service is the only connectivity for these critical applications or is used to complement terrestrial communications solutions.

Our current principal lines of business include land-based handset, M2M, maritime, aviation, and government.

Land-based Handset

We are the leading provider of mobile satellite communications services to the land-based handset sector, providing handset services to areas not served or inconsistently served by existing terrestrial communications networks. In a 2012 report, Northern Sky Research estimated that approximately 708,000 satellite handsets were in operation worldwide in 2011. Mining, forestry, construction, oil and gas, utilities, heavy industry and transport companies as well as the military, public safety and disaster relief agencies constitute the largest portion of our land-based handset end users. We believe that demand for mobile communications devices operating outside the coverage of terrestrial networks, combined with our small, lightweight, durable handsets with true global coverage, will allow us to capitalize on growth opportunities among these users.

Our land-based handset end users utilize our satellite communications services for:

- *Voice and data:* Multinational corporations in various sectors use our services for business telephony, e-mail and data transfer services, location-based services and to provide pay telephony services for employees in areas inadequately served by terrestrial networks. Oil and gas and mining companies, for example, provide their personnel with our equipment solutions while surveying new drilling and mining opportunities and while conducting routine operations in remote areas that are not served by terrestrial wireless communications networks. In addition, a number of recreational, scientific and other outdoor segments rely on our mobile handheld satellite phones and services for use when beyond terrestrial wireless coverage.

- *Mobile and remote office connectivity:* A variety of enterprises use our services to make and receive voice calls, and to establish data, e-mail, internet and corporate network connections.

- *Public safety and disaster relief:* Relief agencies, such as FEMA, and other agencies, such as the Department of Homeland Security, use our products and services in their emergency response plans, particularly in the aftermath of natural disasters such as Hurricanes Sandy, Katrina and Rita, the Haitian and Chilean earthquakes, and the Japanese earthquake and tsunami. These agencies generate significant demand for both our voice and data products, especially in advance of the hurricane season in North America.

- *Public telephone infrastructure:* Telecommunications service providers use our services to satisfy regulatory mandates to provide communications services to rural populations currently not served by terrestrial infrastructure. Telstra Corporation, for example, uses our services to comply with its obligations to provide communications services to customers in certain remote parts of Australia.

Machine-to-Machine

We are one of the leading providers of satellite-based M2M services. We believe the early stage of this market and its significant under-penetration present opportunities for future growth. As with land-based handsets, our largest M2M users include mining, construction, oil and gas, utilities, heavy industry, maritime, forestry and transport companies, as well as the military, public safety and disaster relief agencies. We believe increasing demand for automated data collection processes from mobile and remote assets operating outside the coverage of terrestrial wireline and wireless networks, as well as the continued need to integrate the operation of such assets into enterprise management and information technology systems, will likewise increase demand for our M2M applications.

Our M2M services are used for:

- *Fleet management:* Our global coverage permits our products and services to be used to monitor the location of vehicle fleets, hours of service and engine telemetry data, as well as to conduct two-way communications with drivers around the world. Long distance drivers need reliable communication with both dispatchers and their destinations to coordinate changing business needs, and our satellite network provides continuous communications coverage while they are in transit. We expect that the need for more efficient, cost-effective and safer fleet operations as well as the imposition of regulatory mandates related to driver safety, such as drive-time monitoring, will increase demand for our services in this area.

- *Fixed-asset monitoring:* Multinational corporations, such as oil-field service companies, like Schlumberger Limited and ConocoPhillips Company, use our services to run applications that allow remote monitoring and operation of equipment and facilities around the globe, such as oil pipelines and offshore drilling platforms.

- *Asset tracking:* Leveraging M2M applications developed by several of our distributors, companies use our services and related devices to track assets, including personnel, for logistics, theft-prevention and safety purposes. Transportation companies, such as Horizon Lines, Inc., employ M2M applications developed by Cubic Global Tracking Solutions, Inc. to track shipping containers while in transit.

- *Resource management:* Our global coverage and data throughput capabilities support natural resource management applications such as fisheries management systems. Marine Instruments and Zunibal S.A., two of our VARs, have developed applications for the fishing industry to assist fishing fleets in pursuing more efficient fishing practices.

- *Scientific data monitoring:* The global coverage of our network supports many scientific data collection applications such as the Argo float program of the National Oceanographic and Atmospheric Administration, or NOAA. This program relies on our M2M services to collect climate data from buoys located throughout the world's oceans for monitoring and analysis. We believe the increased need for monitoring climate and environmental data associated with global climate change and human impact on the planet will increase demand for these services.

- *Personal Tracking Devices and Location-Based Services:* Several of our VAMs and VARs, such as Briartek, Inc., DeLorme, Global Satellite Engineering, NAL Research, Pieps GmbH and Solara Remote Data Delivery Incorporated, have introduced small, portable personal tracking devices that will provide personal tracking and data communications services to commercial end users. In addition, the Iridium Extreme® handset offers personal tracking and location-based services. These devices use M2M data services to send location information and other data to web-based portals for tracking of and messaging with users.

Maritime

We believe the maritime market is one of our most significant market opportunities. End users of our services in the maritime sector include companies engaged in merchant shipping, passenger transport, fishing, energy and recreation. Merchant shipping accounts for a significant portion of our maritime revenue, as those ships spend the majority of their time at sea away from coastal areas and out of reach of terrestrial communications services. Our products and services targeting the maritime market typically have high average revenue per subscriber, with multiple users utilizing a single device. Once a system is installed on a vessel, it often generates a multi-year recurring revenue stream from the customer. As a consequence, from time to time we may offer equipment promotions or rebates to accelerate new activations and a long-term revenue stream.

We believe increased regulatory mandates and increased demand for higher-speed, low-cost data services will allow us to capitalize on growth opportunities in this market. We believe Iridium Pilot®, which uses our Iridium OpenPort service to offer uncompressed data speeds of up to 128 kbps and up to three independent voice lines, presents a cost-competitive, broadband communication alternative to end users in the maritime market.

Maritime end users utilize our satellite communications services for the following:

- *Data and information applications:* Ship operators and crew use our services to send and receive e-mail and data files, and to receive other information services such as electronic media, weather reports, emergency bulletins and electronic charts. We believe Iridium Pilot provides an attractive alternative for shipping operators and fishing fleets looking for cost savings, as well as for yachts, work boats and other vessels for which traditional marine satellite systems have typically been costly and underperforming.

- *Voice services:* Maritime global voice services are used for both vessel operations and communications for crew welfare. Merchant shipping operators use prepaid phone cards for crew use at preferential around-the-clock flat rates.

- *Vessel management, procurement and asset tracking:* Shipping operators, such as Exmar Shipmanagement N.V., Lauritzen Fleet Management A/S and Zodiac Shipping Ltd., use our services to manage operations on ships and to transmit data, such as course, speed and fuel stock. Our services can be integrated with a GPS to provide a position reporting capability. Many fishing vessels are required by law to carry terminals using approved mobile satellite services for tracking purposes as well as to monitor catches and to ensure compliance with geographic fishing restrictions. European Union regulations, for example, require EU-registered fishing vessels of over 15 meters to carry terminals for the purpose of positional reporting of those vessels. Furthermore, new security regulations in some jurisdictions are expected to require tracking of merchant vessels in territorial waters, which would provide an additional growth opportunity for us.

Safety applications: Ships in distress, including as a result of potential piracy, hijack or terrorist activity, rely on mobile satellite voice and data services. The Ship Security and Alert Systems regulations were adopted by the International Maritime Organization, or IMO, to enhance maritime security in response to the threat from terrorism and piracy. Most deep-sea passenger and cargo ships must be fitted with a device that can send an alert message containing the ship's ID and position whenever the ship is under threat or has been compromised. We and our distribution partners are developing several solutions to meet this requirement for merchant vessels. The Global Maritime Distress and Safety System, or GMDSS, is an application built to alert a maritime rescue coordination center of each vessel's situation and position, information that can then be used to coordinate rescue efforts among ships in the area. The IMO requires all cargo vessels over 300 gross tons and certain passenger vessels, irrespective of size, that travel in international waters to carry distress and safety terminals that use GMDSS applications. Although our products and services are currently not certified to be used in GMDSS applications, we are exploring implementing services that could meet the GMDSS requirements.

Aviation

We are one of the leading providers of mobile satellite communications services to the aviation sector. Our services are increasingly used in commercial and global military aviation applications, principally by corporate jets, corporate and government helicopter fleets, specialized general aviation fleets, such as medevac companies and fire suppression and other specialized transport fleets, and high-end personal aircraft. Our services are also employed by commercial airline operators for cockpit voice and data link services for aircraft operational and safety communications. As a result of the 2011 FAA announcement that it will approve Iridium for flight safety data communications, commercial operators are installing Iridium-based avionics on the flight deck to enable air navigation services datalinks for position reporting and other safety information. Our voice and data devices from our VAMs and VADs have become factory options for a range of airframe manufacturers in business aviation and air transport, such as Gulfstream Aerospace Corporation, Bombardier Inc. and Cessna Aircraft Company, and have become standard equipment on some aircraft models. Our devices are also installed in the aftermarket on a variety of aircraft.

Aviation end users utilize our satellite communications services for:

Aviation operational communications: Aircraft crew and ground operations use our services for air-to-ground telephony and data communications. This includes the automatic reporting of an aircraft's position and mission-critical condition data to the ground and controller-pilot data link communication for clearance and information services. We provide critical communications applications for airlines and air transport customers such as Delta Airlines, United Airlines, UPS, Cathay Pacific Airways and El Al Airlines. These operators rely on our services because other forms of communication may be unaffordable or unreliable in areas such as the polar regions. ARINC Incorporated and SITA, SC, two of the leading providers of voice and data link communications services and applications to the airline industry, integrate our products and services into their offerings.

- *Aviation passenger communications:* Corporate and private fleet aircraft passengers use our services for air-to-ground telephony and data communications. Operators are currently using our services to enable passengers to e-mail using their own Wi-Fi-enabled mobile phones, including smartphones, without causing interference with aircraft operation. We believe our distributors' small, lightweight, cost-effective solutions offer an attractive alternative for aircraft operators, particularly small fleet operators.

- *Rotary and general aviation applications:* We are also a major supplier for rotary aviation applications to end users in a number of markets, including medevac, law enforcement, oil and gas, and corporate work fleets. Companies such as Air Logistics, EagleMed and Air Evac Lifeteam rely on applications from our distributors for traditional voice communications, fleet tracking and management and real-time flight diagnostics. VARs and VAMs such as Avidyne Corporation, Flightcell International Ltd., Garmin International, Inc., Honeywell International, Inc., SkyTrac and Spider Tracks Limited incorporate Iridium products and services into applications for this market.

- *Air traffic control communications, and safety applications:* The International Civil Aviation Organization, or ICAO, has approved standards and recommended practices allowing us to provide Aeronautical Mobile Satellite (Route) Services to commercial aircraft on long-haul routes. This allows member states to evaluate and approve our services for safety communications on transoceanic flights. After several years of working with the Performance Based Aviation Rules Making Committee, or PARC, and illustrating a successful operational evaluation using Iridium data services, in 2011 the FAA announced that it would approve Iridium for use in the Future Air Navigation Services (FANS) and Automatic Dependent Surveillance – Contract (ADS-C) datalink communications with Air Traffic Control, or ATC. We are currently coordinating with PARC on an operational evaluation of our voice communications services for ATC. As our services become approved by regulatory organizations and member states, aircraft crew and air traffic controllers will be able to use our services for data and voice communications between the flight deck and ground-based air traffic control facilities. We are the only satellite provider capable of offering such critical flight safety applications around the entire globe, including the polar regions. We believe this particular sector of the market will present us with significant growth opportunities, as our services and applications will serve as a cost-effective alternative to systems currently in operation.

Government

We are one of the leading providers of mobile satellite communications services to the U.S. government, principally the DoD. We provide mobile satellite products and services to all branches of the U.S. armed forces. Our voice products are used for a variety of primary and backup communications solutions, including logistical, administrative, morale and welfare, and emergency communications. In addition, our products and related applications are installed on ground vehicles, ships, helicopters and fixed-wing aircraft, embedded in unattended sensors and used for command and control and situational awareness purposes. Global security concerns are among the factors driving demand for our products and services in this sector. See "—U.S. Government Services" for more information.

Seasonality

Our business is subject to seasonal usage changes for commercial customers, and we expect it to be affected by similar seasonality going forward. March through October are typically the peak months for commercial voice traffic and related subscriber equipment sales, given the predominance of population and activity in the northern hemisphere. U.S. government usage and commercial M2M usage have been less subject to seasonal changes.

Services and Products

At December 31, 2012, we had approximately 611,000 billable subscribers worldwide. Our principal services are mobile satellite services, including mobile voice and data services, M2M services and high-speed data. Sales of our commercial services collectively accounted for approximately 55% of our total revenue for the year ended December 31, 2012. We also sell related voice and data equipment to our customers, which accounted for approximately 25% of our total revenue for the year ended December 31, 2012. In addition, we offer services to U.S. government customers, including the DoD. U.S. government services accounted for approximately 20% of our total revenue for the year ended December 31, 2012.

Commercial Services

Postpaid Mobile Voice and Data Satellite Communications Services

We sell our mobile voice and data services to service providers and VARs who in turn offer such services to end users, either directly or indirectly through dealers, using various packaged solutions such as monthly plans with differing price levels that vary depending upon expected usage. In exchange for these services, we typically charge service providers and VARs a monthly access fee per subscriber, as well as usage fees for airtime minutes used by their respective subscribers. A small number of our postpaid customers purchase monthly blocks of airtime minutes that must be used in a given month or are forfeited. In September 2011, we launched Iridium AxcessPoint, a portable and lightweight Wi-Fi hotspot accessory that connects smartphones or laptops to the Iridium network using an Iridium Extreme or Iridium 9555 satellite handset. This accessory uses postpaid circuit-switched data services, and we believe it increases the use of data services through the handsets.

Prepaid Mobile Voice Satellite Communications Services

We also offer mobile voice services to service providers and VARs through prepaid plans. Service providers and VARs pay us in advance for defined blocks of airtime minutes with expiration periods in various configurations, typically one year. These services are then generally sold to subscribers in the form of prepaid scratch cards and e-vouchers that enable subscribers to use our services on a per-minute basis. Unused minutes are forfeited on the applicable expiration date. We believe service providers and VARs are drawn to these services because they enable greater cost control by eliminating the need for monthly billings and reducing collection costs, and can be sold in countries where credit may not be readily available for end users. Our distributors often offer our prepaid voice services through fixed devices to subscribers in rural villages, at remote industrial, commercial and residential sites and on ships at sea, among other places. Fixed voice satellite communications services are in many cases an attractive alternative to handheld mobile satellite communications services in situations where multiple users will access the service within a defined geographic area and terrestrial wireline or wireless service is not available. Fixed phones, for example, can be configured as pay phones that accept prepaid scratch cards and can be installed at a central location, for example in a rural village or maritime vessel.

Broadband Data Services

Our broadband data service, Iridium OpenPort, offers maritime and aviation end users speeds of up to 128 kbps and up to three independent voice lines that can be used simultaneously without interference. We believe Iridium OpenPort offers a competitive alternative to other satellite broadband services that offer fewer features at higher costs. Data rates on this service can be adjusted up or down at any time without making hardware or software changes, giving subscribers options that allow them to balance needs for data transmission speeds against cost considerations on a real-time basis. In conjunction with our distributors, we offer additional services that permit service providers and VARs to offer complete integrated solutions for prepaid calling, e-mail and IP-based data communications. For example, in January 2012, KVH Industries, Inc., one of our distribution partners, began offering a product that integrates Iridium OpenPort with its mini-VSAT^{SM} broadband service to provide backup connectivity when the mini-VSAT terminal is out of its coverage area or out of service. For our Iridium OpenPort service, we typically charge service providers and VARs a monthly access fee per subscriber as well as usage fees for airtime minutes used by the respective subscribers above their monthly quotas.

Machine-to-Machine Services

Our M2M services are designed to address the market need for a small and cost-effective solution for sending and receiving data, such as location, from fixed and mobile assets in remote locations to a central monitoring station. This service operates through a two-way short-burst data transmission between our network and a telemetry unit, which may be located, for example, on a container in transit or a buoy monitoring oceanographic conditions. The small size of the units makes them attractive for use in applications such as tracking asset shipments, monitoring unattended

remote assets, including oil and gas assets, vehicle tracking and mobile security. We sell our M2M services to our distributors, who in turn offer them to a number of U.S. and international governmental agencies, including NOAA, as well as commercial and other entities such as Schlumberger Limited and ConocoPhillips. Increasingly, our M2M modems are being built into products for consumer markets, such as personal location devices that provide two-way messaging. As with our mobile voice and data offerings, we typically charge service providers and VARs a monthly access fee per subscriber as well as usage fees for data used by their respective subscribers.

Other Services

In addition to access and usage fees, we generate revenue from several ancillary services related to our core service offerings, such as inbound connections from the public switched telephone network, or PSTN, short message services, or SMS, subscriber identity module, or SIM, activation, customer reactivation and other peripheral services. We also provide research and development services to assist customers in developing new technologies compatible with our system, which we may leverage for use in service and product offerings in the future. We charge our distributors fees for these services.

We also offer hosted payload services on our next-generation constellation, Iridium NEXT, which will replace our current satellite constellation. We have entered into agreements with our subsidiary, Aireon, to host its ADS-B payload on our satellites in exchange for hosting cost reimbursement fees plus recurring service revenue to be paid during the life of the hosted application.

U.S. Government Services

We provide U.S. government customers bulk access to our services, including voice, netted voice, data, messaging and paging services, as well as maintenance services for the DoD's dedicated gateway. We provide airtime to U.S. government subscribers through DoD's gateway, under a set of rate schedules tailored for each of our services, including a fixed monthly per-user fee for voice and circuit-switched data, a fixed monthly per-user fee for paging services, a tiered pricing plan, based on usage per device, for short-burst data services, and a fixed monthly per-user fee for Netted Iridium usage plus a monthly fee for each activity user-defined net. To comply with U.S. government regulations, we ensure handsets sold for use by the U.S. government are manufactured in the United States. U.S. government customers procure our voice and data products through our network of distributors. Our VARs and VAMs typically integrate our products with other products, which they then offer to U.S. government customers as customized products. Our voice and data solutions include:

- personnel tracking devices;
- asset tracking devices for equipment, vehicles and aircraft;
- beyond-line-of-sight aircraft communications applications;
- submarine communications applications;
- specialized communications solutions for high-value individuals; and
- specialized,