

Iridium Communications Inc.
Form 10-Q
October 31, 2013

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2013

OR

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

Commission File Number 001-33963

Iridium Communications Inc.
(Exact name of registrant as specified in its charter)

DELAWARE
(State of incorporation)

26-1344998
(I.R.S. Employer Identification No.)

1750 Tysons Boulevard, Suite 1400, McLean, Virginia
(Address of principal executive offices)

22102
(Zip code)

703-287-7400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding as of October 28, 2013 was 76,660,401.

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

	September 30, 2013	December 31, 2012
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 196,997	\$ 254,418
Marketable securities	73,325	-
Accounts receivable, net	64,550	56,135
Inventory	28,188	26,335
Deferred tax assets, net	9,743	21,160
Income tax receivable	909	4,302
Prepaid expenses and other current assets	4,767	4,816
Total current assets	378,479	367,166
Property and equipment, net	1,451,311	1,210,693
Restricted cash	81,215	54,233
Other assets	7,708	2,912
Intangible assets, net	60,715	70,502
Deferred financing costs	127,205	123,796
Goodwill	87,039	87,039
Total assets	\$ 2,193,672	\$ 1,916,341
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 9,156	\$ 13,834
Accrued expenses and other current liabilities	39,968	26,704
Interest payable	16,912	5,359
Deferred revenue	44,244	42,755
Total current liabilities	110,280	88,652
Accrued satellite operations and maintenance expense, net of current portion	16,723	17,727
Credit facility	936,290	751,787
Deferred tax liabilities, net	184,776	167,821
Other long-term liabilities	20,433	13,796
Total liabilities	1,268,502	1,039,783
Commitments and contingencies		
Stockholders' equity		
Series A Preferred Stock, \$0.0001 par value, 1,000 shares authorized, issued and outstanding	-	-
Common stock, \$0.001 par value, 300,000 shares authorized, 76,660 and 76,461 shares issued and outstanding, respectively	77	76
Additional paid-in capital	800,879	793,511
Retained earnings	124,992	83,328
Accumulated other comprehensive loss, net of taxes	(778)	(357)

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Total stockholders' equity	925,170	876,558
Total liabilities and stockholders' equity	\$ 2,193,672	\$ 1,916,341

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,	
	2013	2012	2013	2012
Revenue:				
Services	\$ 75,381	\$ 71,403	\$ 215,569	\$ 206,736
Subscriber equipment	20,253	26,371	57,399	71,825
Engineering and support services	4,935	2,667	11,474	12,675
Total revenue	100,569	100,441	284,442	291,236
Operating expenses:				
Cost of services (exclusive of depreciation and amortization)	14,776	14,000	43,458	47,991
Cost of subscriber equipment	15,550	14,194	39,563	40,828
Research and development	3,125	3,623	6,525	12,741
Selling, general and administrative	18,290	16,452	55,054	52,570
Depreciation and amortization	19,377	20,484	56,205	63,056
Total operating expenses	71,118	68,753	200,805	217,186
Operating income	29,451	31,688	83,637	74,050
Other income (expense):				
Interest income, net	557	399	1,835	588
Undrawn credit facility fees	(1,886)	(2,488)	(6,002)	(7,849)
Other expense, net	(1,101)	(67)	(3,366)	(6)
Total other expense	(2,430)	(2,156)	(7,533)	(7,267)
Income before income taxes	27,021	29,532	76,104	66,783
Provision for income taxes	(10,436)	(11,693)	(29,172)	(18,863)
Net income	16,585	17,839	46,932	47,920
Series A Preferred Stock dividends	1,750	-	5,250	-
Net income attributable to common stockholders	\$ 14,835	\$ 17,839	\$ 41,682	\$ 47,920
Weighted average shares outstanding - basic	76,962	74,376	76,877	73,738
Weighted average shares outstanding - diluted	87,591	76,131	87,532	75,886
Net income attributable to common stockholders per share - basic	\$ 0.19	\$ 0.24	\$ 0.54	\$ 0.65
Net income attributable to common stockholders per share - diluted	\$ 0.19	\$ 0.23	\$ 0.54	\$ 0.63
Comprehensive income:				
Net income	\$ 16,585	\$ 17,839	\$ 46,932	\$ 47,920
Foreign currency translation adjustments, net of tax	(94)	5	(355)	(80)

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Unrealized gain (loss) on marketable securities, net of tax	219	-	(66)	-
Comprehensive income	\$ 16,710	\$ 17,844	\$ 46,511	\$ 47,840

See notes to unaudited condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net cash provided by operating activities	\$ 144,332	\$ 132,715
Cash flows from investing activities:		
Capital expenditures	(263,445)	(221,343)
Purchases of marketable securities	(100,794)	-
Sales and maturities of marketable securities	26,904	-
Investment in equity method affiliate	(5,000)	-
Net cash used in investing activities	(342,335)	(221,343)
Cash flows from financing activities:		
Borrowings under credit facility	184,503	171,805
Payment of deferred financing fees	(11,704)	(11,980)
Change in restricted cash - Credit Facility	(26,982)	(27,062)
Proceeds from exercise of stock options and warrants	15	9,143
Payment of offering costs	-	(245)
Payment of Series A Preferred Stock dividends	(5,250)	-
Net cash provided by financing activities	140,582	141,661
Net increase (decrease) in cash and cash equivalents	(57,421)	53,033
Cash and cash equivalents, beginning of period	254,418	136,366
Cash and cash equivalents, end of period	\$ 196,997	\$ 189,399
Supplemental cash flow information:		
Interest paid	\$ 5,096	\$ 2,907
Income taxes paid (refunded)	\$ (2,947)	\$ 351
Supplemental disclosure of non-cash investing activities:		
Property and equipment received but not paid for yet	\$ 6,382	\$ 2,821
Interest capitalized but not paid	\$ 16,912	\$ 11,317
Capitalized amortization of deferred financing costs	\$ 8,294	\$ 2,182
Capitalized paid-in-kind interest	\$ 11,667	\$ 6,677
Capitalized stock-based compensation	\$ 996	\$ 547

See notes to unaudited condensed consolidated financial statements

Iridium Communications Inc.
Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation and Principles of Consolidation

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

In the opinion of management, the condensed consolidated financial statements reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of its results of operations and cash flows for the interim periods covered, and of the financial position of the Company at the date of the interim condensed consolidated balance sheet. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the U.S. Securities and Exchange Commission (“SEC”). While the Company believes that the disclosures are adequate to make the information not misleading, these interim condensed consolidated financial statements should be read in conjunction with the 2012 annual consolidated financial statements and notes included in its Form 10-K filed with the SEC on March 5, 2013.

2. Significant Accounting Policies

Property and Equipment

Property and equipment is carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Satellites	estimated useful life
Ground system	5-7 years
Equipment	3-5 years
Internally developed software and purchased software	3-7 years
Building	39 years
Building improvements	estimated useful life
Leasehold improvements	shorter of useful life or remaining lease term

The estimated useful lives of the Company’s satellites are the remaining period of expected use for each satellite. Satellites are depreciated on a straight-line basis through the earlier of the estimated remaining useful life or the date they are expected to be replaced by Iridium NEXT satellites. Based on the current launch schedule, the Company expects Iridium NEXT satellites to begin deployment in early 2015, with the final launch expected to occur by mid-2017.

Repairs and maintenance costs are expensed as incurred.

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. Due to an increase in the warranty provision related to projected higher warranty claims and other warranty-related initiatives for the Iridium Pilot[®] terminals, the Company recorded an additional \$5.5 million to the warranty provision during the nine months ended September 30, 2013. Changes in the warranty reserve during the nine months ended September 30, 2013 were as follows:

	Nine Months Ended September 30, 2013 (in thousands)
Balance at beginning of the period	\$ 4,050
Provision	9,524
Utilization	(4,707)
Balance at end of the period	\$ 8,867

Fair Value Measurements

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

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

As of September 30, 2013 and December 31, 2012, the carrying values of short-term financial instruments (primarily cash and cash equivalents, prepaid expenses, deposits and other current assets, accounts receivable, accounts payable, accrued expenses and other current liabilities and other obligations) approximate their fair values because of their short-term nature. The fair value of the Company's investments in money market funds approximates their carrying value; such instruments are classified as Level 1 and are included in cash and cash equivalents on the condensed consolidated balance sheet. The fair value of the Company's investments in commercial paper and short-term U.S. agency securities with original maturities of less than ninety days approximates their carrying value; such instruments are classified as Level 2 and are included in cash and cash equivalents on the condensed consolidated balance sheet.

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.

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. The cash and cash equivalents balance as of December 31, 2012 consisted of cash deposited in institutional money market funds and regular interest bearing and non-interest bearing depository accounts. In 2013, the Company began making investments in commercial paper and government-issued debt securities with original maturities within ninety days of purchase. These investments, along with cash deposited in institutional money market funds, regular interest bearing and non-interest bearing depository accounts, are classified as cash and cash

equivalents as of September 30, 2013 on the condensed consolidated balance sheet. The following table summarizes the Company's cash and cash equivalents as of September 30, 2013 and December 31, 2012:

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	September 30, 2013 (in thousands)	December 31, 2012	Recurring Fair Value Measurement
Cash and cash equivalents:			
Cash	\$ 91,911	\$ 166,326	
Money market funds	88,589	88,092	Level 1
Commercial paper	14,496	-	Level 2
Government-issued debt securities	2,001	-	Level 2
Total Cash and cash equivalents	\$ 196,997	\$ 254,418	

Restricted Cash

The Company is required to maintain a minimum cash reserve for debt service related to its \$1.8 billion loan facility (the "Credit Facility"). As of September 30, 2013 and December 31, 2012, 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 \$81.2 million and \$54.2 million, respectively.

Marketable Securities

Marketable securities as of September 30, 2013 consisted of corporate and foreign fixed-income debt securities and commercial paper with an original maturity in excess of ninety days. These investments are classified as available-for-sale as of September 30, 2013 and are included in current assets on the condensed consolidated balance sheet. All investments are carried at fair value. Unrealized gains and losses, net of taxes, are reported as a component of other comprehensive income or loss. The specific identification method is used to determine the cost basis of the marketable securities sold. There were no realized gains on the sale of marketable securities for the three or nine months ended September 30, 2013. The Company regularly monitors and evaluates the fair value of its investments to identify other-than-temporary declines in value. The Company determined that no other-than-temporary declines in value existed at September 30, 2013. The Company did not have any marketable securities at December 31, 2012. The following table summarizes the Company's marketable securities as of September 30, 2013:

	September 30, 2013 (in thousands)	Recurring Fair Value Measurement
Marketable securities:		
Fixed-income debt securities	\$ 57,109	Level 2
Commercial paper	16,216	Level 2
Total Marketable securities	\$ 73,325	

The following table presents the contractual maturities of the fixed income debt securities and commercial paper held as of September 30, 2013:

	Amortized Cost (in thousands)	Unrealized Gain (Loss)	Estimated Fair Value
Fixed-income debt securities:			
Mature within one year	\$ 5,953	\$ 2	\$ 5,955
Mature after one year and within three years	51,264	(110)	51,154
Commercial paper:			
Mature within one year	16,216	-	16,216

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Total	\$ 73,433	\$ (108)	\$ 73,325
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The Company's gross and net-of-tax unrealized loss on marketable securities for the nine months ended September 30, 2013 was approximately \$108,000 and \$66,000, respectively. The change in unrealized loss on marketable securities, net of tax, is included within comprehensive income on the condensed consolidated statements of operations and comprehensive income.

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 Company’s next-generation satellite constellation. The total price under the FSD is \$2.2 billion, and the Company expects payment obligations under the FSD to extend into the third quarter of 2017. As of September 30, 2013, the Company had made aggregate payments of \$993.6 million to Thales, which were capitalized as construction in progress within property and equipment, net in the accompanying condensed consolidated balance sheet.

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 (the “SpaceX Agreement”). In August 2012, the Company entered into an amendment to the SpaceX Agreement (the “SpaceX Amendment”). The SpaceX Amendment reduced the number of contracted launches and increased the number of satellites to be carried on each launch vehicle. The maximum price under the SpaceX Amendment is \$453.1 million. As of September 30, 2013, the Company had made aggregate payments of \$65.1 million to SpaceX, which were capitalized as construction in progress within property and equipment, net in the accompanying condensed consolidated balance sheet.

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”). The Kosmotras Agreement provides for the purchase of up to six launches with options to purchase additional launches. Each launch can carry two satellites. In June 2013, the Company exercised an option for one launch to carry the first 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. Prior to December 31, 2013, the Company may exercise its remaining option to purchase up to five additional launches. If all six launches are purchased, the Company will pay Kosmotras a total of \$184.3 million. As of September 30, 2013, the Company had made aggregate payments of \$18.3 million to Kosmotras, which were capitalized as construction in progress within property and equipment, net in the accompanying condensed consolidated balance sheet. The remaining amounts owed under the contract will be paid through 2015 or 2016, depending on the number of launches purchased and the launch schedule.

Operating Leases

The Company leases land, office space, and office and computer equipment under noncancelable operating lease agreements. In the first quarter of 2013, the Company renewed the lease term for its technical support center (the “TSC”) located in Chandler, Arizona. The lease for the TSC was extended from 2014 to 2024. Future minimum lease payments, by year and in the aggregate, under the noncancelable operating lease starting in 2014 for the TSC are as follows:

Year ending December 31,	Operating Lease (In thousands)
2014	\$ 359
2015	730

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2016	755
2017	779
2018	804
Thereafter	4,621
Total	\$ 8,048

Credit Facility

In October 2010, the Company entered into the Credit Facility with a syndicate of bank lenders (the “Lenders”). The Credit Facility was subsequently amended and restated in August 2012. The Company had borrowed an aggregate total of \$936.3 million as of September 30, 2013. The unused portion of the Credit Facility as of September 30, 2013 was \$863.7 million. Pursuant to the Credit Facility, the Company maintains a minimum cash reserve for repayment. As of September 30, 2013, the minimum required cash reserve balance was \$81.0 million. This amount is included in restricted cash in the accompanying condensed consolidated balance sheet. This minimum cash reserve requirement will increase over the term of the Credit Facility and will be \$189.0 million at the beginning of the repayment period, which is expected to begin in 2017.

Interest costs incurred under the Credit Facility were \$10.3 million and \$28.2 million for the three and nine months ended September 30, 2013, 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 each semi-annual due date through a combination of a cash payment and a deemed additional loan. The \$10.3 million in interest incurred during the three months ended September 30, 2013 consisted of \$3.1 million payable in cash and \$7.2 million payable by deemed loans. The \$28.2 million in interest incurred during the nine months ended September 30, 2013 consisted of \$8.6 million payable in cash of which \$3.5 million was paid during the period and \$5.1 million was accrued at period-end, and \$19.6 million payable by deemed loans, of which \$7.9 million was paid during the period and \$11.7 million was accrued at period-end. Total interest payable associated with the Credit Facility was \$16.8 million and is included in interest payable in the accompanying condensed consolidated balance sheet as of September 30, 2013.

The Company also pays a commitment fee of 0.80% per year, in semi-annual installments, on any undrawn portion of the Credit Facility. The total commitment fee payable on the undrawn portion of the Credit Facility was \$3.8 million and is included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet as of September 30, 2013.

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. 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.

During 2012, the Company’s stockholders approved a stock incentive plan (the “2012 Stock Incentive 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. As of September 30, 2013, 13,416,019 shares of common stock were authorized for issuance as awards under the 2012 Stock Incentive Plan.

Members of the Company's board of directors elected to receive a portion of their 2013 annual compensation in the form of equity awards, in an aggregate amount of approximately 68,000 stock options and 112,000 RSUs. These stock options and RSUs were granted in January 2013 and vest through the end of 2013, with 25% vesting on the last day of each calendar quarter. The estimated aggregate grant-date fair value of the stock options was \$0.2 million. The estimated aggregate grant-date fair value of the RSUs was \$0.8 million.

During the three months ended September 30, 2013, the Company granted approximately 92,000 stock options to its employees. During the nine months ended September 30, 2013, the Company granted approximately 1,226,000 stock options, 523,000 service-based RSUs, and 228,000 performance-based RSUs to its employees. 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. The performance-based RSUs were awarded to the Company's executives. Vesting of the performance-based RSUs is dependent upon the Company's achievement of defined performance goals over a two-year measurement period. The number of performance-based 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 RSU awards will vest at the end of two years and the remaining 50% will vest at the end of the third year. The Company records stock-based compensation expense related to performance-based RSUs when it is considered probable that the performance conditions will be met. The estimated aggregate grant-date fair value of the stock options granted to employees during the three months ended September 30, 2013 was \$0.3 million. The estimated aggregate grant-date fair values of the stock options, service-based RSUs, and performance-based RSUs granted to employees during the nine months ended September 30, 2013 were \$3.2 million, \$3.2 million, and \$1.4 million, respectively.

During the nine months ended September 30, 2013, the Company granted 45,000 stock options to non-employee consultants. The consultant options vest over a two-year period with ratably quarterly vesting. Expense related to stock options granted to non-employees is recognized over the vesting period of the award, which is the period during which services are rendered. At each vest date, the value of these options is re-measured. The aggregate estimated grant-date fair value of the consultant stock options was approximately \$0.1 million.

6. Equity Instruments

\$7.00 Warrants

In connection with the Company's initial public offering in February 2008, the Company sold 40.0 million units at a price of \$10.00 per unit. Each unit consisted of one share of common stock and one common stock purchase warrant (a "\$7.00 Warrant"). Each \$7.00 Warrant entitled the holder to purchase from the Company one share of common stock at a price of \$7.00 per share.

During 2012, the Company issued 1.3 million shares of common stock resulting from the exercise of 1.3 million \$7.00 Warrants. The Company received proceeds of \$9.1 million as a result of these warrant exercises.

During 2012, the Company entered into privately negotiated warrant exchange agreements with the largest holder of the outstanding \$7.00 Warrants. Pursuant to these agreements, the Company issued 562,370 new shares of its common stock in exchange for 3,374,220 of the \$7.00 Warrants (equivalent to approximately 0.1667 common shares for every \$7.00 Warrant tendered), representing approximately 27% of the outstanding \$7.00 Warrants.

In addition, during 2012, the Company initiated and completed a tender offer to exchange outstanding \$7.00 Warrants for shares of its own common stock (the "2012 Tender Offer"). The Company offered holders of its \$7.00 Warrants one share of common stock for every six of the \$7.00 Warrants tendered (equivalent to approximately 0.1667 common shares for every \$7.00 Warrant tendered). As a result of the 2012 Tender Offer, the Company issued an aggregate of 1,386,941 shares of its common stock in exchange for an aggregate of 8,321,433 of the \$7.00 Warrants.

On February 14, 2013, the remaining 655,499 outstanding and unexercised \$7.00 Warrants expired in accordance with their terms.

\$11.50 Warrants

On September 29, 2009, in connection with the acquisition of Iridium Holdings LLC, holders of approximately 14.4 million \$7.00 Warrants exchanged their existing warrants for new warrants to purchase the Company's common stock at an exercise price of \$11.50 per share (the "\$11.50 Warrants").

The Company may redeem each of the \$11.50 Warrants at a price of \$0.01 upon 30 days prior notice, provided that the warrants are exercisable and the registration statement covering the common stock issuable upon exercise of the warrants remains effective and available, and provided further that such redemption can only be made if the closing price of the common stock is at least \$18.00 per share for any 20 trading days within a 30-trading-day period ending on the third day prior to the date on which notice of redemption is given. If the registration statement is not still effective at the time of exercise, the holders of the \$11.50 Warrants will not be entitled to exercise the warrants, and in no event (whether in the case of a registration statement not being effective or otherwise) will the Company be required to net cash settle any such warrant exercise. Consequently, the \$11.50 Warrants may expire unexercised and unredeemed. The number of shares of the Company's common stock issuable upon the exercise of each \$11.50 Warrant is subject to adjustment from time to time upon the occurrence of specified events. As of September 30, 2013, 277,021 of the \$11.50 Warrants remained outstanding. Any remaining outstanding \$11.50 Warrants will expire in February 2015.

Series A Cumulative Convertible Perpetual Preferred Stock

The Company is authorized to issue 2.0 million shares of preferred stock with a par value of \$0.0001 per share. In the fourth quarter of 2012, the Company issued 1.0 million shares of its 7.00% Series A Cumulative Convertible Perpetual 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 additional offering costs. The Company intends to use the net proceeds of the private offering to partially fund the construction and deployment of Iridium NEXT and for other general corporate purposes. The remaining 1.0 million authorized shares of preferred stock remain undesignated and unissued as of September 30, 2013.

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 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 initially at a 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).

In 2012, the Company paid \$1.4 million in cash dividends to its holders of Series A Preferred Stock. In March 2013, June 2013, and September 2013, the Company paid cash dividends of \$1.75 million to holders of the Series A Preferred Stock. As of September 30, 2013, holders of the Series A Preferred Stock have accrued \$0.3 million in cash dividends, which is included within accrued expenses and other current liabilities on the consolidated balance sheet.

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.

7. Net Income Per Share

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

	Three Months Ended September 30,	
	2013	2012
	(in thousands, except per share data)	
Numerator:		
Net income attributable to common stockholders	\$ 14,835	\$ 17,839
Net income allocated to participating securities	(11)	(11)
Numerator for basic net income per share	14,824	17,828
Dividends on Series A Preferred Stock	1,750	-
Numerator for diluted net income per share	\$ 16,574	\$ 17,828
Denominator:		
Denominator for basic net income per share - weighted average outstanding common shares	76,962	74,376
Dilutive effect of warrants	-	1,731
Dilutive effect of stock options	3	1
Dilutive effect of contingently issuable shares	24	23
Dilutive effect of Series A Preferred Stock	10,602	-
Denominator for diluted net income per share	87,591	76,131
Net income attributable to common stockholders per share - basic	\$ 0.19	\$ 0.24
Net income attributable to common stockholders per share - diluted	\$ 0.19	\$ 0.23

For the three months ended September 30, 2013, warrants to purchase 0.3 million shares of common stock and options to purchase 4.8 million shares of common stock were not included in the computation of diluted net income per share as the effect would be anti-dilutive. Additionally, for the three months ended September 30, 2013, 0.9 million unvested RSUs were excluded from the computation of basic and diluted net income per share.

For the three months ended September 30, 2012, warrants to purchase 0.3 million shares of common stock and options to purchase 4.3 million shares of common stock were not included in the computation of diluted net income per share as the effect would be anti-dilutive. Additionally, for the three months ended September 30, 2012, 0.6 million unvested RSUs were excluded from the computation of basic and diluted net income per share.

	Nine Months Ended September 30,	
	2013	2012
	(in thousands, except per share data)	
Numerator:		
Net income attributable to common stockholders	\$ 41,682	\$ 47,920
Net income allocated to participating securities	(48)	(47)
Numerator for basic net income per share	41,634	47,873
Dividends on Series A Preferred Stock	5,250	-
Numerator for diluted net income per share	\$ 46,884	\$ 47,873
Denominator:		
Denominator for basic net income per share - weighted average outstanding common shares	76,877	73,738
Dilutive effect of warrants	1	2,092
Dilutive effect of stock options	-	8
Dilutive effect of contingently issuable shares	52	48
Dilutive effect of Series A Preferred Stock	10,602	-
Denominator for diluted net income per share	87,532	75,886
Net income attributable to common stockholders per share - basic	\$ 0.54	\$ 0.65
Net income attributable to common stockholders per share - diluted	\$ 0.54	\$ 0.63

For the nine months ended September 30, 2013, warrants to purchase 0.3 million shares of common stock and options to purchase 5.2 million shares of common stock were not included in the computation of diluted net income per share as the effect would be anti-dilutive. Additionally, for the nine months ended September 30, 2013, 0.9 million unvested RSUs were excluded from the computation of basic and diluted net income per share.

For the nine months ended September 30, 2012, warrants to purchase 0.3 million shares of common stock and options to purchase 4.1 million shares of common stock were not included in the computation of diluted net income per share as the effect would be anti-dilutive. Additionally, for the nine months ended September 30, 2012, 0.5 million unvested RSUs were excluded from the computation of basic and diluted net income per share.

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, 2012, filed on March 5, 2013 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, 2012 filed on March 5, 2013, and in this Quarterly Report, 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 100% global coverage. Our satellite network provides communications services to regions of the world where wireless or wireline networks do not exist or are impaired, including extremely remote or rural land areas, airways, open oceans, 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 commercial end-users. We provide these services using our constellation of in-orbit satellites and related ground infrastructure, including a primary commercial gateway. We utilize an interlinked, mesh architecture to route traffic across the satellite constellation using radio frequency crosslinks. This unique architecture minimizes the need for ground facilities to support the constellation, which facilitates the global reach of our services and allows us to offer services in countries and regions where we have no physical presence.

We also recently announced a new planned service, Iridium PRIMESM, to host third-party payloads on stand-alone satellites within the Iridium NEXT satellite network, our next generation satellite constellation. The Iridium PRIME program is expected to reduce the complexity, delays and costs typically associated with building, launching and operating a satellite mission, while avoiding the timing constraints of a typical hosted payload program by offering customers dedicated satellites and a flexible launch schedule.

We sell our products and services to commercial end-users through a wholesale distribution network, encompassing 75 service providers, more than 185 value-added resellers, or VARs, and 55 value-added manufacturers, who either sell directly to the end-user or indirectly through other service providers, VARs or dealers. These distributors often integrate our products and services with other complementary hardware and software and have developed a broad suite of applications for our products and services targeting specific vertical markets.

At September 30, 2013, we had approximately 655,000 billable subscribers worldwide, an increase of 10% from approximately 595,000 billable subscribers at September 30, 2012. 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 than in the past. Revenues from providing voice and data service historically have generated higher gross margins than sales of subscriber equipment.

We are currently devoting a substantial part of our resources to develop Iridium NEXT and on hardware and software upgrades to our ground infrastructure in preparation for Iridium NEXT, the development of new product and service offerings, upgrades to our current services, and upgrades to our information technology systems. We estimate the aggregate costs associated with the design, build and launch of Iridium NEXT and related infrastructure upgrades through 2017 to be approximately \$3 billion. Our funding plan for these costs includes the funds available under our \$1.8 billion loan facility, or the Credit Facility, together with internally generated cash flows, including potential cash flows from hosted payloads and Iridium PRIME, and cash on hand. As discussed below in "Liquidity and Capital Resources," we were in compliance with all our financial covenants as of September 30, 2013 and believe that our liquidity sources will provide sufficient funds for us to meet our liquidity requirements for at least the next twelve months. As previously reported, we expect to need modifications to our Credit Facility for some financial covenants with measurement dates beyond the next twelve months. For measurement dates beyond the next twelve months, we expect to need modifications to the Credit Facility from our lenders for our operational EBITDA covenant, primarily because of recent developments in our telephony business and challenges associated with our Iridium Pilot product, and our secondary payload cashflow covenant, primarily due to timing of payments. In addition, developments in our business during the period covered by this report, including the recent slowdown in our handset business and higher projected warranty claims on our Iridium Pilot terminals, have reduced our estimates for operational EBITDA for the twelve months ending December 31, 2013 and June 30, 2014. Accordingly, to remove any uncertainty regarding our covenant compliance while we work to get the longer-term modifications in place, we requested and received a waiver from our Credit Facility lenders, providing us with additional headroom on our operational EBITDA covenant for those periods. As of October 28, 2013, we had borrowed a total of \$936.3 million under the Credit Facility. For more information about our sources of funding and the anticipated modifications to our Credit Facility, refer to "Liquidity and Capital Resources" below.

Recent Developments

U.S. Government Contracts

We provide maintenance services for the U.S. Department of Defense, or DoD, gateway pursuant to our Gateway Maintenance and Support Services, or GMSS, contract managed by the DoD's Defense Information Systems Agency, or DISA. We entered into the GMSS contract in April 2008. This contract had a one-year base year and four additional one-year options exercisable at the election of the U.S. government. The U.S. government exercised all of the options under the April 2008 contract and exercised its ability under federal acquisition regulations to extend the agreement for an additional six months. During September 2013, and upon expiration of the April 2008 contract, we entered into a new GMSS contract. This new agreement is structured similar to the April 2008 agreement and provides for a one-year base term and up to four additional one-year options exercisable at the election of the U.S. government. If the U.S. government elects to exercise all available one-year options, the total value of the contract is approximately \$38.0 million. The U.S. government may terminate the GMSS contract, in whole or in part, at any time.

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 DISA. The EMSS contract, entered into in April 2008, provided for a one-year base term and four additional one-year options which were exercised at the election of the U.S. government. After the exercise of all available optional contract extensions, the EMSS contract as signed in April 2008 expired. Effective October 22, 2013, we executed a new five-year EMSS contract. Under the terms of this new agreement, authorized customers will continue to utilize Iridium airtime services, provided through the DoD's dedicated gateway. These services will include unlimited global secure and unsecure voice, low and high-speed data, paging, and Distributed Tactical Communications System, or DTCS, services for an unlimited number of DoD and other federal subscribers. The fixed-price rates in each of the five contract years, which run from October 22 through the following October 21 of each year, are \$64 million and \$72 million in years one and two, respectively, and \$88 million in each of the years three through five. 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. Pursuant to federal acquisition regulations, the U.S. government may terminate the EMSS contract, in whole or in part, at any time.

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 and expanding wholesale distribution network with access to diverse and geographically dispersed niche markets;
- a growing number of new products and services and related applications;
- improved data transmission speeds for mobile satellite service offerings;
- regulatory mandates requiring the use of mobile satellite services;
- a general reduction in prices of mobile satellite services and subscriber equipment; and

- geographic market expansion through the receipt of licenses to sell our services in additional countries.

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

- our ability to develop Iridium NEXT and related ground infrastructure, and to develop products and services for Iridium NEXT;
- our ability to access the Credit Facility to meet our future capital requirements for the design, build and launch of the Iridium NEXT satellites, including our ability to negotiate modifications to the Credit Facility with our lenders and, if required by our lenders, to obtain additional external debt or equity financing;
- our ability to obtain sufficient internally generated cash flows, including potential cash flows from hosted payloads and Iridium PRIME, to fund a portion of the costs associated with Iridium NEXT and support ongoing business;
- Aireon LLC's ability to successfully fund, develop and market its space-based automatic dependent surveillance-broadcast, or ADS-B, global aviation monitoring service to be carried as a hosted payload on the Iridium NEXT system;
- 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;
- 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 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 for a substantial portion of our revenue, where the loss or decline in business with any of these customers may negatively impact our revenue and collectability of related accounts receivable.

Critical Accounting Policies and Estimates

Long-Lived Assets

We assess the recoverability of long-lived assets when indicators of impairment exist. We assess the possibility of impairment by comparing the carrying amounts of the assets to the estimated undiscounted future cash flows expected to be generated by those assets. If we determine that an asset is impaired, we estimate the impairment loss by determining the excess of the asset's carrying amount over its estimated fair value. Estimated fair value is based on market prices, when available, or various other valuation techniques. These techniques often include estimates and assumptions with respect to future cash flows and incremental borrowing rates. If actual results are not consistent with our estimates and assumptions, we may be exposed to impairment losses that could be material to our results of operations.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Property, equipment and intangible assets with finite lives are depreciated or amortized over their estimated useful lives. We apply judgment in determining the useful lives based on factors such as engineering data, our long-term strategy for using the assets, contractual terms related to the assets, laws and regulations that could impact the useful lives of the assets and other economic factors. In evaluating the useful lives of our satellites, we assess the current estimated operational life of the satellites, including the potential impact of environmental factors on the satellites, ongoing operational enhancements and software upgrades. Additionally, we review engineering data relating to the operation and performance of our satellite network.

We depreciate our satellites over the shorter of their potential operational life or the period of their expected use. The appropriateness of the useful lives is evaluated on a quarterly basis. Satellites are depreciated on a straight-line basis

through the earlier of the estimated remaining useful life or the date they are expected to be replaced by Iridium NEXT satellites, which defines the period of their expected use, because we expect this will occur before the end of their operational lives. Based on the current launch schedule, we expect Iridium NEXT satellites to begin deployment in early 2015, with the final launch expected to occur by mid-2017. If actual operational results are not consistent with our estimates and assumptions, we may experience changes in depreciation and amortization expense that could be material to our results of operations. In the event there are changes to the launch schedule of Iridium NEXT satellites, the period of intended use for our current satellites could be impacted, also resulting in changes to depreciation and amortization expense that could be material to our results of operations.

Assets under construction primarily consist of costs incurred associated with the design, development and launch of the Iridium NEXT satellites, upgrades to our current infrastructure and ground systems and the internal software development costs. Once these assets are placed in service, they will then be depreciated using the straight-line method over their respective estimated useful lives. We capitalize interest on our Credit Facility during the construction period of Iridium NEXT. Capitalized interest is added to the cost of our next-generation satellites.

Comparison of Our Results of Operations for the Three Months Ended September 30, 2013 and 2012

(\$ in thousands)	Three Months Ended September 30,								
	2013	% of Total Revenue		2012	% of Total Revenue		Change Dollars	Percent	
Revenue:									
Services	\$ 75,381	75	%	\$ 71,403	71	%	\$ 3,978	6	%
Subscriber equipment	20,253	20	%	26,371	26	%	(6,118)	(23)	%
Engineering and support services	4,935	5	%	2,667	3	%	2,268	85	%
Total revenue	100,569	100	%	100,441	100	%	128	0	%
Operating expenses:									
Cost of services (exclusive of depreciation and amortization)	14,776	15	%	14,000	14	%	776	6	%
Cost of subscriber equipment	15,550	16	%	14,194	14	%	1,356	10	%
Research and development	3,125	3	%	3,623	4	%	(498)	(14)	%
Selling, general and administrative	18,290	18	%	16,452	16	%	1,838	11	%
Depreciation and amortization	19,377	19	%	20,484	20	%	(1,107)	(5)	%
Total operating expenses	71,118	71	%	68,753	68	%	2,365	3	%
Operating income	29,451	29	%	31,688	32	%	(2,237)	(7)	%
Other income (expense):									
Interest income, net	557	1	%	399	0	%	158	40	%
Undrawn credit facility fees	(1,886)	(2)	%	(2,488)	(2)	%	602	(24)	%
Other expense, net	(1,101)	(1)	%	(67)	0	%	(1,034)	1,543	%
Total other expense	(2,430)	(2)	%	(2,156)	(2)	%	(274)	13	%
Income before income taxes	27,021	27	%	29,532	30	%	(2,511)	(9)	%
Provision for income taxes	(10,436)	(10)	%	(11,693)	(12)	%	1,257	(11)	%
Net income	\$ 16,585	17	%	\$ 17,839	18	%	\$ (1,254)	(7)	%

Revenue

Total revenue remained relatively flat at \$100.6 million for the three months ended September 30, 2013 compared to \$100.4 million for the three months ended September 30, 2012. This slight increase in revenue was due to an increase in service revenue resulting primarily from a targeted increase in access fee pricing, a 10% year-over-year increase in billable subscribers, and an increase in government-sponsored engineering and support contracts. These increases were largely offset by a decrease in subscriber equipment revenue due to reduced handset sales.

Service Revenue

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012					
	(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	\$ 48.5	345	\$ 47	\$ 45.2	333	\$ 46	\$ 3.3	12	\$ 1
Commercial M2M data	12.8	259	17	10.9	213	18	1.9	46	(1)
Total Commercial	61.3	604		56.1	546		5.2	58	
Government voice and data	13.1	32	135	14.5	35	136	(1.4)	(3)	(1)
Government M2M data	1.0	19	17	0.8	14	19	0.2	5	(2)
Total Government	14.1	51		15.3	49		(1.2)	2	
Total Service Revenue	\$ 75.4	655		\$ 71.4	595		\$ 4.0	60	

(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.

Commercial voice and data revenue increased principally due to an increase in access fee revenue resulting from targeted price increases, driving an increase in ARPU. Also contributing to the increase in commercial voice and data revenue was an increase in billable subscribers. These increases were partially offset by declines in telephony usage. For the remainder of 2013, growth in commercial voice and data revenue may be negatively affected by our recently addressed product issues related to our Iridium OpenPort® service. Commercial M2M data revenue growth was driven principally by an increase in billable subscribers. We anticipate continued growth in billable commercial subscribers for the remainder of 2013.

Government voice and data revenue decreased principally due to a reduction in telephony billable subscribers, a higher ARPU service. Also contributing to this decline was a higher proportion of billable subscribers on lower priced plans for Netted Iridium®, a service that provides beyond-line-of-sight, push-to-talk tactical radio service for user-defined groups. The increase in government M2M data revenue was driven primarily by billable subscriber growth, offset by a decline in average data usage, negatively impacting ARPU. As discussed above, in October 2013, we executed a new EMSS contract with DISA. While this contract will have a favorable impact on our fourth quarter 2013 results, compared to the year ago period, we still anticipate a slight decline in government service revenue for the full-year 2013 compared to 2012.

Subscriber Equipment Revenue

Subscriber equipment revenue decreased 23%, or \$6.1 million, for the three months ended September 30, 2013 compared to the prior year period. This decline was primarily due to lower handset sales.

Engineering and Support Service Revenue

Engineering and support service revenue increased by \$2.3 million, or 85%, for the three months ended September 30, 2013 compared to the prior year period due the execution of government-sponsored engineering and support contracts in the third quarter of 2013 related to gateway modernization efforts as we transition to Iridium NEXT capabilities. We anticipate an increase in the scope of work for government contracts during the remainder of 2013, resulting in overall growth in engineering and support service revenue compared to the prior year period.

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 \$0.8 million, or 6%, for the three months ended September 30, 2013 from the prior year period primarily due to an increase in scope of work for government-sponsored contracts.

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 increased by \$1.4 million, or 10%, for the three months ended September 30, 2013 compared to the prior year period. This increase was primarily due a \$3.6 million warranty expense recorded during the three months ended September 30, 2013 related to projected higher warranty claims and other warranty-related initiatives for the Iridium Pilot terminals. This increase was partially offset by the decrease in handset sales as discussed above.

Research and Development

Research and development expenses decreased by \$0.5 million, or 14%, for the three months ended September 30, 2013 compared to the prior year period primarily due to decreases in Iridium NEXT research and development projects.

Selling, General and Administrative

Selling, general and administrative expenses increased by \$1.8 million, or 11%, for the three months ended September 30, 2013 compared to the prior year period primarily due to an increase in employee-related costs and professional fees.

Depreciation and Amortization

Depreciation and amortization expense decreased \$1.1 million, or 5%, for the three months ended September 30, 2013 from the prior year period. The decline in depreciation expense was due to a \$2.0 million impairment charge that we recorded during 2012 as a result of having lost communication with one of our in-orbit satellites. This decrease was partially offset by an increase in depreciation expense resulting from an increase in property and equipment compared to the prior year.

Other Income (Expense)

Undrawn Credit Facility Fees

Commitment fees on the undrawn portion of the Credit Facility were \$1.9 million for the three months ended September 30, 2013 compared to \$2.5 million for the prior year period. The decrease of the commitment fee on the undrawn portion is directly proportionate to the increase in the amounts borrowed under the Credit Facility as we finance the development of Iridium NEXT.

Other Expense, Net

Other expense, net, was \$1.1 million for the three months ended September 30, 2013 compared to less than \$0.1 million for the prior year period. This change primarily resulted from our share of the loss from our equity method investment in Aireon LLC, or Aireon. Following NAV CANADA's purchase of Aireon preferred membership interests in the fourth quarter of 2012, Aireon is accounted for as an equity method investment within our financial statements, and our investment is included within other assets on the consolidated balance sheet. Prior to NAV CANADA's investment, we consolidated Aireon's results with our results as a wholly owned subsidiary. As our equity investment in Aireon did not commence until the fourth quarter of 2012, there were no similar amounts during the three months ended September 30, 2012.

Provision for Income Taxes

For the three months ended September 30, 2013, our income tax provision was \$10.4 million compared to \$11.7 million for the prior year period. The change in the income tax provision is primarily related to the decrease in our income before income taxes compared to the prior year period.

Net Income

Net income was \$16.6 million for the three months ended September 30, 2013, a decrease of \$1.3 million, from the prior year period. This decline in net income was driven by a \$2.4 million increase in operating expenses, largely due to increases in employee-related costs and Iridium Pilot warranty expenses incurred during the period, and a \$1.0 million increase in other expenses, net, driven by our share of the loss from our equity method investment in Aireon. These decreases to net income were partially offset by a \$1.3 million decline in the provision for income taxes, primarily related to the decrease in our income before income taxes compared to the prior year period.

Comparison of Our Results of Operations for the Nine Months Ended September 30, 2013 and 2012

(\$ in thousands)	Nine Months Ended September 30,					Change Dollars	Percent	
	2013	% of Total Revenue	2012	% of Total Revenue				
Revenue:								
Services	\$ 215,569	76 %	\$ 206,736	71 %	\$ 8,833	4 %		
Subscriber equipment	57,399	20 %	71,825	25 %	(14,426)	(20) %		
Engineering and support services	11,474	4 %	12,675	4 %	(1,201)	(9) %		
Total revenue	284,442	100 %	291,236	100 %	(6,794)	(2) %		

Operating expenses: