

Iridium Communications Inc.  
Form 10-Q  
May 01, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

---

**FORM 10-Q**

---

(Mark One)

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

**For the Quarterly Period Ended March 31, 2014**

**OR**

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

**Commission File Number 001-33963**

---

**Iridium Communications Inc.**

(Exact name of registrant as specified in its charter)

---

**DELAWARE**

(State of incorporation)

**26-1344998**

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

**1750 Tysons Boulevard, Suite 1400, McLean, Virginia 22102**

(Address of principal executive offices)

**22102**

(Zip code)

**703-287-7400**

(Registrant's telephone number, including area code)

---

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

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

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

Large accelerated filer

Accelerated filer

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

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

Edgar Filing: Iridium Communications Inc. - Form 10-Q

The number of shares of the registrant's common stock, par value \$0.001 per share, outstanding as of April 28, 2014 was 76,838,663.

**IRIDIUM COMMUNICATIONS INC.**

**TABLE OF CONTENTS**

<b>Item No.</b>	<b>Page</b>
<b>Part I. Financial Information</b>	
Financial Statements	
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations and Comprehensive Income	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6
ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.	12
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.	19
ITEM 4. Controls and Procedures.	20
<b>Part II. Other Information</b>	
ITEM 1. Legal Proceedings.	20
ITEM 1A. Risk Factors.	20
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.	37
ITEM 3. Defaults Upon Senior Securities	37
ITEM 4. Mine Safety Disclosures	37
ITEM 5. Other Information.	37
ITEM 6. Exhibits.	37
Signatures	38

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

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 184,484	\$ 186,342
Marketable securities	70,724	76,647
Accounts receivable, net	58,356	54,758
Inventory	29,385	29,532
Deferred tax assets, net	4,989	9,076
Income tax receivable	692	685
Prepaid expenses and other current assets	12,852	12,518
Total current assets	361,482	369,558
Property and equipment, net	1,626,149	1,575,579
Restricted cash	94,573	81,223
Other assets	11,668	8,909
Intangible assets, net	54,190	57,452
Deferred financing costs	128,356	130,036
Goodwill	87,039	87,039
Total assets	\$ 2,363,457	\$ 2,309,796
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 6,437	\$ 12,934
Accrued expenses and other current liabilities	40,794	39,209
Interest payable	20,047	7,989
Deferred revenue	39,730	41,367
Total current liabilities	107,008	101,499
Accrued satellite operations and maintenance expense, net of current portion	16,054	16,389
Credit facility	1,064,487	1,039,203
Deferred tax liabilities, net	208,637	202,825
Other long-term liabilities	10,960	10,385
Total liabilities	1,407,146	1,370,301
Commitments and contingencies		

Edgar Filing: Iridium Communications Inc. - Form 10-Q

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, 76,839 and 76,690 shares issued and outstanding, respectively	77	77
Additional paid-in capital	803,069	801,262
Retained earnings	153,638	138,845
Accumulated other comprehensive loss, net of taxes	(473)	(689)
Total stockholders' equity	956,311	939,495
Total liabilities and stockholders' equity	\$ 2,363,457	\$ 2,309,796

See notes to unaudited condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2014	2013
Revenue:		
Services	\$73,430	\$68,787
Subscriber equipment	20,157	17,331
Engineering and support services	4,445	3,071
Total revenue	98,032	89,189
Operating expenses:		
Cost of services (exclusive of depreciation and amortization)	14,203	14,476
Cost of subscriber equipment	13,912	11,120
Research and development	2,121	1,659
Selling, general and administrative	19,186	18,365
Depreciation and amortization	20,266	18,231
Total operating expenses	69,688	63,851
Operating income	28,344	25,338
Other income (expense):		
Interest income, net	637	637
Undrawn credit facility fees	(1,499 )	(2,096 )
Other expense, net	(350 )	(1,396 )
Total other expense	(1,212 )	(2,855 )
Income before income taxes	27,132	22,483
Provision for income taxes	(10,589)	(7,549 )
Net income	16,543	14,934
Series A Preferred Stock dividends	1,750	1,750
Net income attributable to common stockholders	\$14,793	\$13,184
Weighted average shares outstanding - basic	77,082	76,768
Weighted average shares outstanding - diluted	87,711	87,397
Net income attributable to common stockholders per share - basic	\$0.19	\$0.17
Net income attributable to common stockholders per share - diluted	\$0.19	\$0.17

Comprehensive income:

Edgar Filing: Iridium Communications Inc. - Form 10-Q

Net income	\$16,543	\$14,934
Foreign currency translation adjustments, net of tax	156	(78 )
Unrealized gain (loss) on marketable securities, net of tax	60	(9 )
Comprehensive income	\$16,759	\$14,847

See notes to unaudited condensed consolidated financial statements



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

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net cash provided by operating activities	\$42,465	\$57,196
Cash flows from investing activities:		
Capital expenditures	(58,519 )	(19,244 )
Purchases of marketable securities	(10,123 )	(70,793 )
Sales and maturities of marketable securities	15,981	4,103
Investment in equity method affiliate	-	(5,000 )
Net cash used in investing activities	(52,661 )	(90,934 )
Cash flows from financing activities:		
Borrowings under the Credit Facility	25,284	-
Payment of deferred financing fees	(1,828 )	(130 )
Change in restricted cash - Credit Facility	(13,350 )	(13,490 )
Proceeds from exercise of stock options	2	-
Tax payment upon settlement of stock awards	(20 )	-
Payment of Series A Preferred Stock dividends	(1,750 )	(1,750 )
Net cash provided by (used in) financing activities	8,338	(15,370 )
Net decrease in cash and cash equivalents	(1,858 )	(49,108 )
Cash and cash equivalents, beginning of period	186,342	254,418
Cash and cash equivalents, end of period	\$184,484	\$205,310
Supplemental cash flow information:		
Income taxes paid (refunded)	\$229	\$(2,981 )
Supplemental disclosure of non-cash investing activities:		
Property and equipment received but not paid for yet	\$3,915	\$20,409
Interest capitalized but not paid	\$20,047	\$14,037
Capitalized amortization of deferred financing costs	\$3,508	\$1,715
Capitalized stock-based compensation	\$293	\$310
Supplemental disclosure of non-cash financing activities:		
Dividends accrued on Series A Preferred Stock	\$292	\$292

See notes to unaudited condensed consolidated financial statements

5

**Iridium Communications Inc.**

**Notes to Condensed Consolidated Financial Statements**

**1. Basis of Presentation and Principles of Consolidation**

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

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

**2. Significant Accounting Policies**

***Warranty Expense***

The Company provides the first end-user purchaser of its subscriber equipment a warranty for one to five years from the date of purchase by such first end-user, depending on the product. The Company maintains a warranty reserve based on historical experience of warranty costs and expected occurrences of warranty claims on equipment. Costs associated with warranties, including equipment replacements, repairs, freight, and program administration, are recorded as cost of subscriber equipment in the accompanying condensed consolidated statements of operations and comprehensive income. Changes in the warranty reserve during the three months ended March 31, 2014 were as follows:

	Three Months Ended March 31, 2014 (in thousands)
Balance at beginning of the period	\$ 8,853
Provision	2,409
Utilization	(2,145 )
Balance at end of the period	\$ 9,117

### *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 March 31, 2014 and December 31, 2013, the carrying values of short-term financial instruments (primarily cash and cash equivalents, prepaid expenses, deposits and other current assets, accounts receivable, accounts payable, accrued expenses and other current liabilities and other obligations) approximate their fair values because of their short-term nature. The fair value of the Company's investments in money market funds approximates its carrying value; such instruments are classified as Level 1 and are included in cash and cash equivalents on the accompanying condensed consolidated balance 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 accompanying condensed consolidated balance sheets.

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

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

#### *Cash and Cash Equivalents*

The Company considers all highly liquid investments with original maturities of ninety days or less to be cash equivalents. These investments, along with cash deposited in institutional money market funds, regular interest bearing and non-interest bearing depository accounts, are classified as cash and cash equivalents as of March 31, 2014 on the accompanying condensed consolidated balance sheet. The following table summarizes the Company's cash and cash equivalents:

	March 31, 2014 (in thousands)	December 31, 2013	Recurring Fair Value Measurement
Cash and cash equivalents:			
Cash	\$79,704	\$ 86,074	
Money market funds	88,780	88,769	Level 1
Commercial paper	16,000	11,499	Level 2
Total Cash and cash equivalents	\$ 184,484	\$ 186,342	

*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 March 31, 2014 and December 31, 2013, the Company's restricted cash balance, which includes a minimum cash reserve for debt service related to the Credit Facility and the interest earned on these amounts, was \$94.6 million and \$81.2 million, respectively.

*Marketable Securities*

Marketable securities as of March 31, 2014 and December 31, 2013 consisted of fixed-income debt securities and commercial paper with an original maturity in excess of ninety days. These investments are classified as available-for-sale as of March 31, 2014 and are included in marketable securities within current assets on the accompanying condensed consolidated balance sheet. All investments are carried at fair value. Unrealized gains and losses, net of taxes, are reported as a component of other comprehensive income or loss. The specific identification method is used to determine the cost basis of the marketable securities sold. There were no material realized gains or losses on the sale of marketable securities for the three months ended March 31, 2014 and 2013. The Company regularly monitors and evaluates the fair value of its investments to identify other-than-temporary declines in value. The Company determined that no other-than-temporary declines in value existed at March 31, 2014.

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

	March 31, 2014 (in thousands)	December 31, 2013	Recurring Fair Value Measurement
Marketable securities:			
Fixed-income debt securities	\$53,091	\$ 57,032	Level 2
Commercial paper	17,633	19,615	Level 2
Total Marketable securities	\$70,724	\$ 76,647	

The following tables present the contractual maturities of the Company's marketable securities as of March 31, 2014 and December 31, 2013:

	As of March 31, 2014		
	Amortized Cost (in thousands)	Unrealized Gain	Estimated Fair Value
Fixed-income debt securities:			
Mature after one year and within three years	\$53,011	\$ 80	\$ 53,091
Commercial paper:			
Mature within one year	17,633	-	17,633
Total	\$70,644	\$ 80	\$ 70,724

	As of December 31, 2013		
	Amortized Cost (in thousands)	Unrealized Loss	Estimated Fair Value
Fixed-income debt securities:			
Mature within one year	\$3,004	\$ -	\$ 3,004
Mature after one year and within three years	54,044	(16 )	54,028
Commercial paper:			
Mature within one year	19,615	-	19,615
Total	\$76,663	\$ (16 )	\$ 76,647

The Company's gross and net-of-tax unrealized gain on marketable securities for the three months ended March 31, 2014 was approximately \$96,000 and \$60,000, respectively. The Company's gross and net-of-tax unrealized loss on marketable securities for the three months ended March 31, 2013 was \$14,000 and \$9,000, respectively. The change in unrealized gain and loss on marketable securities, net of tax, is included within comprehensive income on the accompanying 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 \$2.3 billion, and the Company expects payment obligations under the FSD to extend into the fourth quarter of 2017. As of March 31, 2014, the Company had made aggregate payments of \$1,118.6 million to Thales, including \$950.8 million from borrowings under the Credit Facility, 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 March 31, 2014, the Company had made aggregate payments of \$85.4 million to SpaceX, which were capitalized as construction in progress within property and equipment, net in the accompanying condensed consolidated balance sheet. Aggregate payments to SpaceX include a \$3.0 million refundable deposit made in the first quarter of 2014 for the reservation of additional future launches.

*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. As of March 31, 2014, the Company had made aggregate payments of \$18.3 million to Kosmotras, which were capitalized within property and equipment, net in the accompanying condensed consolidated balance sheet. The option to purchase two dedicated launches expired as of December 31, 2013. By amendment dated April 21, 2014, the option to purchase the remaining three dedicated launches was extended through December 31, 2014.

*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 \$1,064.5 million as of March 31, 2014. The unused portion of the Credit Facility as of March 31, 2014 was \$735.5 million. Pursuant to the Credit Facility, the Company maintains a minimum cash reserve for repayment. As of March 31, 2014, the minimum required cash reserve balance was \$94.5 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 \$12.0 million for the three months ended March 31, 2014. 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 \$12.0 million in interest incurred during the three months ended March 31, 2014 consisted of \$3.7 million payable in cash and \$8.3 million payable by deemed loans. There were no payments made during the three months ended March 31, 2014. Total interest payable associated with the Credit Facility was \$20.0 million and is included in interest payable in the accompanying condensed consolidated balance sheet as of March 31, 2014.

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 \$3.1 million and is included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet as of March 31, 2014.

### ***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 accompanying 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 March 31, 2014, 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 2014 annual compensation in the form of equity awards, in an aggregate amount of approximately 112,000 stock options and 108,000 RSUs. These stock options and RSUs were granted in January 2014 and vest through the end of 2014, with 25% vesting on the last day of each calendar quarter. The estimated aggregate grant-date fair value of the stock options was \$0.3 million. The estimated aggregate grant-date fair value of the RSUs was \$0.7 million.

During the three months ended March 31, 2014, the Company granted approximately 823,000 stock options, 786,000 service-based RSUs, and 207,000 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, subject to continued service. 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 values of the stock options, service-based RSUs, and performance-based RSUs granted to employees during the three months ended March 31, 2014 were \$2.3 million, \$5.1 million, and \$1.3 million, respectively.

## **6. Equity Transactions and 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. 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 March 31, 2014, 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 March 31, 2014.

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 2013, the Company paid \$7.0 million in cash dividends to its holders of Series A Preferred Stock. In March 2014 and 2013, the Company paid cash dividends of \$1.75 million to holders of the Series A Preferred Stock. As of March 31, 2014, we have accrued \$0.3 million in cash dividends for the holders of the Series A Preferred Stock, which is included within accrued expenses and other current liabilities on the accompanying condensed 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 March 31,	
	2014	2013
	(in thousands, except per share data)	
Numerator:		
Net income attributable to common stockholders	\$ 14,793	\$ 13,184
Net income allocated to participating securities	(19 )	(21 )
Numerator for basic net income per share	14,774	13,163

Edgar Filing: Iridium Communications Inc. - Form 10-Q

Dividends on Series A Preferred Stock	1,750	1,750
Numerator for diluted net income per share	\$ 16,524	\$ 14,913
Denominator:		
Denominator for basic net income per share - weighted average outstanding common shares	77,082	76,768
Dilutive effect of contingently issuable shares	27	27
Dilutive effect of Series A Preferred Stock	10,602	10,602
Denominator for diluted net income per share	87,711	87,397
Net income per share attributable to common stockholders - basic	\$ 0.19	\$ 0.17
Net income per share attributable to common stockholders - diluted	\$ 0.19	\$ 0.17

For the three months ended March 31, 2014, 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 three months ended March 31, 2014, 1.2 million unvested RSUs were excluded from the computation of basic and diluted net income per share.

For the three months ended March 31, 2013, warrants to purchase 0.6 million shares of common stock and options to purchase 5.3 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 March 31, 2013, 0.8 million unvested RSUs were excluded from the computation of basic and diluted net income per share.

**ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS  
2. OF OPERATIONS.**

You should read the following discussion along with our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed on March 4, 2014 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, 2013 filed on March 4, 2014, 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 sell our products and services to commercial end-users through a wholesale distribution network, encompassing more than 70 service providers, more than 190 value-added resellers, or VARs, and more than 50 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 March 31, 2014, we had approximately 674,000 billable subscribers worldwide, an increase of 9% from approximately 621,000 billable subscribers at March 31, 2013. 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, our next-generation satellite constellation, 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 substantial majority of the funds available under our \$1.8 billion loan facility, or the Credit Facility, together with cash and marketable securities on hand, internally generated cash flows, including potential cash flows from hosted payloads and Iridium PRIME<sup>SM</sup>, and the proceeds from capital raises that we expect to be required in connection with the planned amendment to our Credit Facility. The remaining portion of the Credit Facility will be utilized for capitalized interest and COFACE insurance premiums. As discussed below in "Liquidity and Capital Resources," we were in compliance with all our financial covenants as of March 31, 2014 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<sup>®</sup> product, and our secondary payload cashflow covenant, primarily due to expected timing of payments.



In addition, recent developments in our business, including the slowdown in our handset business and higher projected warranty claims on our Iridium Pilot terminals, reduced our estimates for operational EBITDA, for the twelve months ending June 30, 2014 and December 31, 2014. In addition, we now anticipate that payment of hosted payload fees from Aireon LLC will be later than previously expected when we amended the Credit Facility in August 2012. In order to remove any uncertainty regarding our covenant compliance while we work to get the longer-term modifications in place, we requested and received waivers from our Credit Facility lenders, providing us with additional headroom on our operational EBITDA covenant and hosted payload cash flow covenant for those periods. As adjusted by such waivers, we were in compliance with all our financial covenants as of December 31, 2013, the most recent measurement date. As of April 30, 2014, we had borrowed a total of \$1,082.1 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.

### **Material Trends and Uncertainties**

Our industry and customer base has historically grown as a result of:

- demand for remote and reliable mobile communications services;
- increased demand for communications services by disaster and relief agencies, and emergency first responders;
- a broad wholesale distribution network with access to diverse and geographically dispersed niche markets;
  - a growing number of new products and services and related applications;
  - improved data transmission speeds for mobile satellite service offerings;
  - regulatory mandates requiring the use of mobile satellite services;
- a general reduction in prices of mobile satellite services and subscriber equipment; and
- geographic market expansion through the 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 new and innovative 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 to obtain any required 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 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 and to raise the funds to pay its hosting fees to us;

our ability to maintain the health, capacity, control and level of service of our existing satellite network through the transition to Iridium NEXT;

- changes in general economic, business and industry conditions;

- 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, as a result of which the loss or decline in business with any of these customers may negatively impact our revenue and collectability of related accounts receivable.

### Comparison of Our Results of Operations for the Three Months Ended March 31, 2014 and 2013

(\$ in thousands)	Three Months Ended March 31,		Three Months Ended March 31,		Change				
	2014	% of Total Revenue	2013	% of Total Revenue	Dollars	Percent			
<b>Revenue:</b>									
Services	\$73,430	75 %	\$68,787	77 %	\$4,643	7 %			
Subscriber equipment	20,157	21 %	17,331	19 %	2,826	16 %			
Engineering and support services	4,445	4 %	3,071	4 %	1,374	45 %			
Total revenue	98,032	100 %	89,189	100 %	8,843	10 %			
<b>Operating expenses:</b>									
Cost of services (exclusive of depreciation and amortization)	14,203	14 %	14,476	16 %	(273 )	(2 )%			
Cost of subscriber equipment	13,912	14 %	11,120	12 %	2,792	25 %			
Research and development	2,121	2 %	1,659	2 %	462	28 %			
Selling, general and administrative	19,186	20 %	18,365	21 %	821	4 %			
Depreciation and amortization	20,266	21 %	18,231	21 %	2,035	11 %			
Total operating expenses	69,688	71 %	63,851	72 %	5,837	9 %			
Operating income	28,344	29 %	25,338	28 %	3,006	12 %			
<b>Other income (expense):</b>									
Interest income, net	637	1 %	637	1 %	-	0 %			
Undrawn credit facility fees	(1,499 )	(2 )%	(2,096 )	(2 )%	597	(28 )%			
Other expense, net	(350 )	0 %	(1,396 )	(2 )%	1,046	(75 )%			
Total other expense	(1,212 )	(1 )%	(2,855 )	(3 )%	1,643	(58 )%			
Income before income taxes	27,132	28 %	22,483	25 %	4,649	21 %			
Provision for income taxes	(10,589)	(11 )%	(7,549 )	(8 )%	(3,040)	40 %			
Net income	\$16,543	17 %	\$14,934	17 %	\$1,609	11 %			

### Revenue

Total revenue increased 10% to \$98.0 million for the three months ended March 31, 2014 compared to \$89.2 million for the three months ended March 31, 2013. This increase in revenue was primarily due to an increase in service revenue, driven by a 9% year-over-year increase in billable subscribers and an increase in prepaid revenue resulting from the change in our prepaid airtime policy. Also contributing to the increase in total revenue was an increase in

subscriber equipment sales due to increased unit sales and an increase in government-sponsored engineering and support contracts.

*Commercial Service Revenue*

	Three Months Ended						Change		
	March 31, 2014			March 31, 2013					
	(Revenue in millions and subscribers in thousands)								
	Billable		ARPU (2)	Billable		ARPU (2)	Billable		ARPU
Revenue	Subscribers (1)			Revenue	Subscribers (1)			Revenue	
Commercial voice and data	\$43.9	338	\$ 43	\$42.4	332	\$ 43	\$ 1.5	6	\$ -
Commercial M2M data	13.5	283	16	11.3	238	16	2.2	45	-
Total Commercial	\$57.4	621		\$53.7	570		\$3.7	51	

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

Average monthly revenue per unit, or ARPU, is calculated by dividing revenue in the respective period by the (2) 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 due to a higher number of subscribers and to the combined effects of our 2013 targeted price increases and the change in our prepaid airtime policy which became effective at the end of 2013. Commercial M2M data revenue growth was driven principally by a 19% increase in billable subscribers. We anticipate continued growth in billable commercial subscribers for the remainder of 2014.

*Government Service Revenue*

	Three Months Ended				Change	
	March 31, 2014		March 31, 2013			
	(Revenue in millions and subscribers in thousands)					
	Billable		Billable		Billable	
Revenue	Subscribers (1)	Revenue	Subscribers (1)	Revenue	Subscribers	
Government service revenue	\$ 16.0	53	\$ 15.1	51	\$ 0.9	2

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

We provide Iridium airtime and airtime support to U.S. government and other authorized customers pursuant to a five-year Enhanced Mobile Satellite Services, or EMSS, contract managed by the Defense Information Systems Agency which we executed in October 2013. The EMSS contract replaced our previous EMSS contract which we originally entered into in April 2008. Under the terms of this new agreement, authorized customers utilize Iridium

airtime services, provided through the U.S. Department of Defense's, or DoD's, dedicated gateway. These services 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. DTCS is a service that provides beyond-line-of-sight, push-to-talk tactical radio service for user-defined groups. The fixed-price rates in each of the five contract years, which run from October 22 through the following October 21, are \$64 million and \$72 million in years one and two, respectively, and \$88 million in each of the years three through five.

Government service revenues for the three months ended March 31, 2014 increased to \$16.0 million from \$15.1 million in the prior year period as a result of the execution of the new EMSS contract. Under this contract, revenue is a fixed monthly amount and is no longer based on subscribers or usage, allowing an unlimited number of users access to existing services. As we continue to innovate and better meet the needs of our customers, additional services not contemplated under the new EMSS contract may be provided in future periods at an amount mutually agreed upon by both parties. We anticipate government service revenue for 2014 will exceed 2013 government service revenue.

#### *Subscriber Equipment Revenue*

Subscriber equipment revenue increased 16%, or \$2.8 million, for the three months ended March 31, 2014 compared to the prior year period. This increase was primarily due to higher sales of handsets and M2M devices. We anticipate subscriber equipment revenue for the full year 2014 to exceed full year 2013 due to higher overall unit sales.

*Engineering and Support Service Revenue*

	Three Months Ended		
	March		
	31,	March 31, 2013	Change
	2014		
	(In millions)		
Government	\$ 3.8	\$ 2.6	\$ 1.2
Commercial	0.6	0.5	0.1
Total	\$ 4.4	\$ 3.1	\$ 1.3

Engineering and support service revenue increased by \$1.3 million for the three months ended March 31, 2014 compared to the prior year period due to the execution of government-sponsored contracts during the second half of 2013 related to the DoD's gateway modernization efforts as we transition to Iridium NEXT capabilities. We anticipate an increase in the scope of work for government contracts in 2014 resulting in overall growth in engineering and support service revenue compared to 2013.

*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) decreased \$0.3 million, or 2%, for the three months ended March 31, 2014 from the prior year period primarily due to a decline in support services related to our Iridium Pilot units and a decline in operations and maintenance costs relating to our existing constellation as we continue to focus on Iridium NEXT development efforts. This decrease is partially offset by an increase in scope of work for government-sponsored contracts and related costs.

*Cost of Subscriber Equipment*



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

Cost of subscriber equipment increased by \$2.8 million, or 25%, for the three months ended March 31, 2014 compared to the prior year period. This increase was primarily due to increased sales of handsets and M2M devices discussed above. In addition, increased costs per unit for the Iridium Pilot due to product enhancements contributed to an increase in cost of subscriber equipment.

#### *Research and Development*

Research and development expenses increased by \$0.5 million, or 28%, for the three months ended March 31, 2014 compared to the prior year period due to new subscriber equipment product development and Iridium NEXT projects.

#### *Depreciation and Amortization*

Depreciation and amortization expense increased by \$2.0 million, or 11%, for the three months ended March 31, 2014 compared to the prior year period, in part due to a \$0.9 million impairment charge related to an in-orbit satellite with which we lost communication in January 2014. Additionally, property and equipment additions subsequent to March 31, 2013 for Iridium NEXT-related ground infrastructure resulted in a \$1.0 million increase in depreciation expense.

***Other Income (Expense)***

*Undrawn Credit Facility Fees*

Commitment fees on the undrawn portion of the Credit Facility were \$1.5 million for the three months ended March 31, 2014 compared to \$2.1 million for the prior year period. The decrease of the commitment fee is directly proportional to the increase in the amounts borrowed under the Credit Facility as we continue to finance the development of Iridium NEXT.

*Other Expense, Net*

Other expense, net, was \$0.4 million for the three months ended March 31, 2014 compared to \$1.4 million for the prior year period. This change primarily resulted from our share of the loss from our equity method investment in Aireon LLC. Aireon is accounted for as an equity method investment within our financial statements, and our investment is included within other assets on our accompanying condensed consolidated balance sheet.

*Provision for Income Taxes*

For the three months ended March 31, 2014, our income tax provision was \$10.6 million compared to \$7.5 million for the prior year period. The increase in the income tax provision and rate is primarily related to an increase in our income before income taxes combined with a benefit in 2013 for research and development tax credits related to 2012 and 2013. No such credit is permitted in 2014 as the related law expired as of December 31, 2013. As our current estimates change in future periods, the impact on the deferred tax assets and liabilities may change correspondingly.

***Net Income***

Net income was \$16.5 million for the three months ended March 31, 2014, an increase of \$1.6 million from the prior year period. This increase in net income was primarily driven by a \$4.6 million increase in service revenue due to increased commercial billable subscribers, the favorable impact of the new EMSS contract, and a \$1.4 million increase in engineering and support services revenue due to the execution of new government-sponsored contracts. These increases to net income were partially offset by a \$2.0 million increase in depreciation due to Iridium NEXT-related asset additions and a current period impairment charge related to an in-orbit satellite with which we lost

communication in January 2014. Additionally, the increases in net income were partially offset by a \$3.0 million increase in income taxes primarily due to the increase in our income before income taxes combined with a benefit in 2013 for research and development tax credits which expired as of December 31, 2013.

## **Liquidity and Capital Resources**

As of March 31, 2014, our total cash and cash equivalents balance was \$184.5 million and our marketable securities balance was \$70.7 million. Our principal sources of liquidity are cash, cash equivalents and marketable securities, internally generated cash flows, and the Credit Facility. Our principal liquidity requirements are to meet capital expenditure needs, principally the design, build and launch of Iridium NEXT, as well as for working capital, research and development expenses, and dividends payable on our Series A Preferred Stock.

We expect to utilize the Credit Facility to fund construction associated with the development of our Iridium NEXT satellites, capitalized interest and COFACE insurance premiums, however, we are in discussions with our Credit Facility lenders regarding modifications to the financial covenants and other amendments to the Credit Facility. Developments in our business during 2013, including the slowdown in our handset business and higher projected warranty claims on our Iridium Pilot terminals and the related impact on our maritime revenues, reduced our estimates for operational EBITDA. In addition, we now anticipate that payment of hosted payload fees from Aireon will be later than we expected when we last amended the Credit Facility in August 2012. To remove any uncertainty regarding our covenant compliance while we work to get the longer-term modifications in place, we requested and received waivers from our Credit Facility lenders, providing us with additional headroom on our operational EBITDA covenant for the twelve months ending June 30, 2014 and December 31, 2014 and waiving our hosted payload cash flow covenant for the twelve months ending December 31, 2014. We believe that our liquidity sources will provide sufficient funds for us to meet our liquidity requirements for at least the next 12 months. We expect to fund the remainder of the costs of Iridium NEXT from cash and marketable securities on hand, internally generated cash flows, including potential cash flows from hosted payloads and Iridium PRIME, and with additional external debt or equity financing that we expect to be required in connection with the planned amendment of the Credit Facility.

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

Holders of Series A Preferred Stock are entitled to receive cumulative cash dividends at 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. For each full quarter that the Series A Preferred Stock is outstanding, and assuming that no shares of Series A Preferred Stock have been converted into shares of our common stock, we would be required to pay cash dividends of \$1.75 million. We expect that we would satisfy dividend requirements, if and when declared, from internally generated cash flows.

As of March 31, 2014, we had borrowed a total of \$1,064.5 million under the Credit Facility. The unused portion of the Credit Facility as of March 31, 2014 was \$735.5 million. Under the terms of the Credit Facility, we were required to maintain a minimum cash reserve for debt service of \$94.5 million as of March 31, 2014, which is classified as restricted cash on the accompanying condensed consolidated balance sheet. This minimum cash reserve requirement will increase over the term of the Credit Facility to \$189.0 million at the beginning of the repayment period, which is expected to be in 2017.

In addition to the minimum debt service levels, financial covenants under the Credit Facility include:

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

a debt-to-equity ratio, which is calculated as the ratio of total net debt to the aggregate of total net debt and total stockholders' equity, of no more than 0.7 to 1, measured each June 30 and December 31;

specified maximum levels of annual capital expenditures (excluding expenditures on the construction of Iridium NEXT satellites) through the year ending December 31, 2024;

specified minimum levels of consolidated operational earnings before interest, taxes, depreciation and amortization, or operational EBITDA, for the 12-month periods ending each December 31 and June 30 through June 30, 2017;

specified minimum cash flow requirements from customers who have hosted payloads on our satellites during the 12-month periods ending each December 31 and June 30, beginning December 31, 2014 and ending on June 30, 2017;

a debt service coverage ratio, measured during the repayment period, of not less than 1 to 1.5; and

specified maximum leverage levels during the repayment period that decline from a ratio of 4.75 to 1 for the twelve months ending June 30, 2017 to a ratio of 2.5 to 1 for the twelve months ending June 30, 2025.

Our available cash balance, as defined by the Credit Facility, was \$202.1 million as of March 31, 2014. Our debt-to-equity ratio was 0.48 to 1 as of December 31, 2013, the last point at which it was measured. We were also in compliance with the operational EBITDA and annual capital expenditure covenants set forth above as of December 31, 2013, the last point at which they were measured, as modified by the waivers from our Credit Facility lenders.

The covenants regarding capital expenditures, operational EBITDA and hosted payload cash flows are calculated in connection with a measurement, which we refer to as available cure amount, that is derived using a complex calculation based on overall cash flows, as adjusted by numerous measures specified in the Credit Facility. In a period in which our capital expenditures exceed, or our operational EBITDA or hosted payload cash flows falls short of, the amount specified in the respective covenant, we would be permitted to allocate available cure amount, if any, to prevent a breach of the applicable covenant. As of December 31, 2013, the last point at which it was measured, we had available cure amount of \$0.7 million, though it was not required to maintain compliance with the covenants. We note that available cure amount, due to the complexity of its calculation, has fluctuated significantly from one measurement period to the next, and we expect that it will continue to do so.

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

### *Cash Flows*

The following section highlights our cash flows:

	Three Months Ended		
	March 31,		Change
	2014	2013	
	(in thousands)		
Cash provided by operating activities	\$42,465	\$57,196	\$(14,731)
Cash used in investing activities	\$(52,661)	\$(90,934)	\$38,273
Cash provided by (used in) financing activities	\$8,338	\$(15,370)	\$23,708

#### *Cash Flows from Operating Activities*

Net cash provided by operating activities for the three months ended March 31, 2014 decreased by \$14.7 million from the prior year period. The decrease was primarily due to the receipt of \$7.0 million in hosted payload customer deposits and a \$3.1 million tax refund received in the first quarter of 2013, both of which did not recur in 2014. Additionally, we made a \$3.0 million refundable deposit in the first quarter of 2014 with one of our launch service providers.

#### *Cash Flows from Investing Activities*

Net cash used in investing activities for the three months ended March 31, 2014 decreased by \$38.3 million compared to the prior year period primarily due to a \$72.5 million decrease in the net purchase of securities. We began investing

in marketable securities in March 2013. This decrease was partially offset by a \$39.3 million increase in capital expenditures primarily related to Iridium NEXT.

#### *Cash Flows from Financing Activities*

Net cash provided by financing activities for the three months ended March 31, 2014 increased by \$23.7 million from the prior year period primarily due to a \$25.3 million increase in borrowings under the Credit Facility.

#### **Off-Balance Sheet Arrangements**

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

#### **Seasonality**

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

#### **Recent Accounting Developments**

None.

#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Interest income earned on our cash, cash equivalents and marketable securities balances is subject to interest rate fluctuations. For the three months ended March 31, 2014, a one-half percentage point increase or decrease in interest rates would not have had a material effect on our interest income.





We had borrowed \$1,064.5 million under the Credit Facility as of March 31, 2014. A portion of the draws we make under the Credit Facility bear interest at a floating rate equal to the London Interbank Offered Rate, or LIBOR, plus 1.95% and will, accordingly, subject us to interest rate fluctuations in future periods. Had the currently outstanding borrowings under the Credit Facility been outstanding throughout the three months ended March 31, 2014, a one-half percentage point increase or decrease in the LIBOR would have changed our interest cost by less than \$0.2 million.

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, accounts receivable and accounts payable. At times we maintain cash and cash equivalent deposit balances in excess of Federal Deposit Insurance Corporation limits, and we may have marketable securities balances in excess of Securities Investment Protection Corporation limits. However we maintain our cash, cash equivalents and marketable securities with financial institutions with high credit ratings. The majority of our cash is swept nightly into funds that invest in or are collateralized by U.S government-backed securities. During 2013, we invested in marketable securities consisting of fixed income and commercial paper debt instruments with fixed interest rates and maturity dates within three years of original purchase. Due to the credit quality and nature of these debt instruments, we do not believe there has been a significant change in our market risk exposure since December 31, 2013. Accounts receivable are due from both domestic and international customers. We perform credit evaluations of our customers' financial condition and record reserves to provide for estimated credit losses. Accounts payable are owed to both domestic and international vendors.

#### **ITEM 4. CONTROLS AND PROCEDURES.**

##### *Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our chief executive officer, who is our principal executive officer, and our chief financial officer, who is our principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this report. In evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a control system, misstatements due to error or fraud may occur and not be detected.

Based on this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms, and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

***Changes in Internal Control Over Financial Reporting***

During the quarter ended March 31, 2014, there were no changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II.**

**OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

Neither we nor any of our subsidiaries are currently subject to any material legal proceeding, nor, to our knowledge, is any material legal proceeding threatened against us or any of our subsidiaries.

**ITEM 1A. RISK FACTORS.**

Our business is subject to risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our securities. You should carefully consider the factors discussed below in connection with an investment in our securities.

*Our business plan depends on increased demand for mobile satellite services, among other factors.*

Our business plan is predicated on growth in demand for mobile satellite services. Demand for mobile satellite services may not grow, or may even contract, either generally or in particular geographic markets, for particular types of services or during particular time periods. A lack of demand could impair our ability to sell products and services, develop and successfully market new products and services and could exert downward pressure on prices. Any decline in prices would decrease our revenue and profitability and negatively affect our ability to generate cash for capital expenditures, investments and other working capital needs.

Our ability to successfully implement our business plan will also depend on a number of other factors, including:

- our ability to maintain the health, capacity and control of our existing satellite constellation;
- our ability to complete the design, build and launch of Iridium NEXT and related ground infrastructure, products and services, and, once launched, our ability to maintain the health, capacity and control of the new satellite constellation;
- the level of market acceptance and demand for our products and services;
- our ability to introduce innovative new products and services that satisfy market demand, including new service offerings on Iridium NEXT;
- our ability to obtain additional business using our existing spectrum resources both in the United States and internationally;
- our ability to sell our products and services in additional countries;
- our ability to maintain our relationship with U.S. government customers, particularly the DoD;
- the ability of our distributors to market and distribute our products, services and applications effectively and their continued development of innovative and improved solutions and applications for our products and services;
- the effectiveness of our competitors in developing and offering similar services and products; and

our ability to maintain competitive prices for our products and services and to control our costs.

***Our business plan depends in large part on the success of our subsidiary, Aireon LLC, which is our primary hosted payload customer.***

In June 2012, we announced our plans to host a payload being developed by our subsidiary, Aireon LLC, as our primary hosted payload on Iridium NEXT. We currently expect to rely on the cash flows generated from this hosted-payload arrangement with Aireon to satisfy a portion of our capital requirements for the development and deployment of Iridium NEXT. Aireon's payload will be a satellite-based automatic dependent surveillance-broadcast, or ADS-B, system for global air traffic monitoring, and Aireon's success will depend on its ability to successfully develop and manufacture this system. Deploying an ADS-B system on satellites is a new and unproven method for providing this service and will require significant technological development. Aireon will need to complete the development and manufacture of its ADS-B payloads in time to include them on our Iridium NEXT satellites, which we expect to begin launching in 2015.

In addition, Aireon's success will depend on the development of the market for a space-based ADS-B service among Air Navigation Service Providers, or ANSPs, particularly the U.S. Federal Aviation Administration, or FAA. Aireon does not have a contract with the FAA to provide ADS-B services, and there can be no assurance that it will be successful in securing such a contract. The FAA's financial commitment to Aireon to date has been limited to a \$10 million contract for assistance in its analysis of space-based ADS-B, and no funds have been allocated by the FAA for a larger Aireon commitment. If Aireon is not successful in entering into a contract with the FAA for the provision of ADS-B services, it may not be able to make its hosting reimbursement payments to us when we currently anticipate or at all.

Aireon will itself require significant additional capital to complete the successful development, deployment and operation of its system. The Aireon LLC Agreement provides for the purchase by NAV CANADA Satellite and three other ANSP investors of additional membership interests in multiple tranches through late 2017 for an aggregate investment of up to \$270 million. Each tranche, however, is subject to the satisfaction of various operational, commercial, regulatory and financial conditions, some of which will be out of our control, and the investors have significant discretion in the determination of whether those conditions have been met.

The management of Aireon is not entirely within our control given the significant veto rights and other protective provisions provided to NAV CANADA and the other investors, and for accounting purposes we treat Aireon as a subsidiary that we do not control. Further, as the other investors continue to purchase additional equity interests, our ownership of Aireon will decrease, and eventually we expect that Aireon will no longer be a subsidiary. As a result, we may not be able to cause Aireon to take actions that we believe are necessary for its ultimate success.

If Aireon is not successful and fails to pay its hosting reimbursement costs, our ability to pursue our business plan would be compromised unless we were able to replace those amounts with capital from other sources. In addition, Aireon's failure to pay our data fees and make the anticipated redemption of a portion of our equity interest would negatively affect our expected future results of operations.

***We expect to need additional capital to design, build and launch Iridium NEXT and related ground infrastructure, products and services, and to pursue additional growth opportunities. If we fail to maintain access to sufficient capital, we will not be able to successfully implement our business plan.***

Our business plan calls for the development of Iridium NEXT, the development of new product and service offerings, upgrades to our current services, hardware and software upgrades to maintain our ground infrastructure and upgrades to our business systems. We estimate the costs associated with the design, build and launch of Iridium NEXT and related ground infrastructure upgrades through 2017 to be approximately \$3 billion. Our funding plan for these costs includes the substantial majority of the funds available under our \$1.8 billion Credit Facility together with cash on hand, internally generated cash flows, including potential cash flows from hosted payloads and Iridium PRIME, and the proceeds from capital raises that we expect to be required in connection with the planned amendment to our Credit Facility.

Our ability to continue to make draws under the Credit Facility will depend upon our satisfaction of the borrowing conditions provided for in the Credit Facility at the time of the borrowing, some of which will be outside of our control. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Facility" in our Annual Report on Form 10-K for the year ended December 31, 2013, or our 2013 Form 10-K.

There can also be no assurance that our internally generated cash flows will meet our current expectations, or that we will not encounter increased costs. For example, Aireon may be unable to pay its hosting reimbursement costs, and the market for Iridium PRIME may not develop as we expect. If internally generated cash flows, including potential cash from hosted payload arrangements or Iridium PRIME, are less than we expect, we might need to finance the remaining cost of Iridium NEXT by raising additional debt or equity financing. In addition, we may need additional capital to design and launch new products and services on Iridium NEXT. Such additional financing may not be available on favorable terms, or at all.

If we are unable to raise additional capital for one or more of these needs, our ability to maintain our network, design, build and launch Iridium NEXT and related ground infrastructure, develop new products and services and pursue additional growth opportunities will be impaired, which would significantly limit the development of our business and impair our ability to provide a commercially acceptable level of service. We may experience overall liquidity levels lower than our recent liquidity levels. Inadequate liquidity could compromise our ability to pursue our business plans and growth opportunities and make borrowings under the Credit Facility, delay the ultimate deployment of Iridium NEXT or otherwise impair our business and financial position.

***If we fail to satisfy the ongoing borrowing conditions of the Credit Facility, or are unsuccessful in obtaining modifications to such conditions, we may be unable to fund Iridium NEXT.***

We plan to use borrowings under the Credit Facility to partially fund the construction of our Iridium NEXT satellites, including borrowing to capitalize interest otherwise due under the Credit Facility. Our ability to continue to draw funds under the Credit Facility over time will depend on the satisfaction of borrowing conditions at the time of each draw, including:

- compliance with the covenants under the Credit Facility, including financial covenants and covenants relating to hosted payloads;

- accuracy of the representations we make under the Credit Facility;

- compliance with the other terms of the Credit Facility, including the absence of events of default; and

- maintenance of the insurance policy with COFACE.

Some of these borrowing conditions may be outside of our control or otherwise difficult to satisfy. If we do not continue to satisfy those and other borrowing conditions under the Credit Facility and cannot obtain a waiver from the lenders, we would need to find other sources of financing. We would have to seek the permission of the lenders under the Credit Facility in order to obtain many alternative sources of financing, and there can be no assurance that we would have access to other sources of financing on acceptable terms, or at all.

***If we default under the Credit Facility, the lenders may require immediate repayment in full of amounts borrowed or foreclose on our assets.***

The Credit Facility contains events of default, including:

non-compliance with the covenants under the Credit Facility, including financial covenants and covenants relating to hosted payloads;

- cross-default with other indebtedness;
- insolvency of any obligor under the Credit Facility;
- revocation of the COFACE policy;
- failure to maintain our current satellite constellation or complete Iridium NEXT by a specified time; and
- a determination by the lenders that we have experienced a material adverse change in our business.

Some of these events of default are outside of our control or otherwise difficult to satisfy. If we experience an event of default, the lenders may require repayment in full of all principal and interest outstanding under the Credit Facility. It is unlikely we would have adequate funds to repay such amounts prior to the scheduled maturity of the Credit Facility. If we fail to repay such amounts, the lenders may foreclose on the assets we have pledged under the Credit Facility, which includes substantially all of our assets and those of our domestic subsidiaries.

***The Credit Facility restricts the manner in which we may operate our business, which may prevent us from successfully implementing our business plan.***

The Credit Facility contains restrictions on the operation of our business, including limits on our ability to:

- make capital expenditures;
- carry out mergers and acquisitions;
- dispose of, or grant liens on, our assets;
- enter into transactions with our affiliates;
- pay dividends or make distributions to our stockholders;
  - incur indebtedness;
  - prepay indebtedness; and
- make loans, guarantees or indemnities.

The Credit Facility also prohibits us from paying dividends to holders of our preferred stock, including our series A preferred stock, if we are unable to certify that we anticipate being able to comply with the financial covenants of the Credit Facility for the next twelve months each time we declare a dividend. If we are unable to make that certification, we will not be able to pay the dividends on our outstanding preferred stock. If we do not pay dividends on our preferred stock for six quarterly periods (whether or not consecutive), the holders of the series A preferred stock will have the power to elect two members of our board of directors. The interests of the holders of our preferred stock may differ from those of our other stockholders. In addition, any dividend we fail to pay will accrue, and the holders of our series A preferred stock will be entitled to a preferential distribution of \$100 per share plus all accrued and unpaid dividends before any distribution may be made to holders of our common stock in connection with any liquidation event.



Complying with these restrictions may cause us to take actions that are not favorable to holders of our common stock and may make it more difficult for us to successfully execute our business plan and compete against companies who are not subject to such restrictions.

***If we are unable to effectively develop and deploy Iridium NEXT before our current satellite constellation ceases to provide a commercially acceptable level of service, our business will suffer.***

We are currently developing Iridium NEXT, which we expect to commence launching in 2015. While we expect our current satellite constellation to provide a commercially acceptable level of service through the transition to Iridium NEXT, we cannot guarantee it will do so. If we are unable to effectively deploy Iridium NEXT for any reason, whether as a result of insufficient funds, manufacturing or launch delays, launch failures, in-orbit satellite failures, inability to achieve or maintain orbital placement, failure of the satellites to perform as expected, interference between any hosted payload and our network, or delays in receiving regulatory approvals or otherwise, before our current constellation ceases to provide a commercially acceptable level of service, or if we experience backward compatibility problems with our new constellation once deployed, we would likely lose customers and business opportunities to our competitors, resulting in a potentially material decline in revenue and profitability and the inability to service our debt.

***Iridium NEXT may not be completed on time, and the costs associated with it may be greater than expected.***

We estimate that the costs associated with the design, build and launch of Iridium NEXT and related ground infrastructure upgrades through 2017 will be approximately \$3 billion, although our actual costs could substantially exceed this estimate. We may not complete Iridium NEXT and related ground infrastructure on time, on budget or at all. We expect to delay our first launch, previously scheduled for the first quarter of 2015, to June of 2015 because of delays in software development by our satellite manufacturer. The design, manufacture and launch of satellite systems are highly complex and historically have been subject to delays and cost overruns. Development of Iridium NEXT may suffer from additional delays, interruptions or increased costs due to many factors, some of which may be beyond our control, including:

- lower than anticipated internally generated cash flows, including from Aireon and other hosted payloads;

· the failure to maintain our ability to make draws under the Credit Facility, including by reason of our failure to satisfy any ongoing financial or other condition to making draws;

- operating and other requirements imposed by the lenders under the Credit Facility;

- engineering or manufacturing performance falling below expected levels of output or efficiency;

- - interference between any hosted payload and our network;

- complex integration of our ground segment with the Iridium NEXT satellites and the transition from our current constellation;

- denial or delays in receipt of regulatory approvals or non-compliance with conditions imposed by regulatory authorities;

- - the breakdown or failure of equipment or systems;

- - non-performance by third-party contractors, including the prime system contractor;

- the inability to license necessary technology on commercially reasonable terms or at all;

- use of a new or unproven launch vehicle or the failure of the launch services provider to sustain its business;

- launch delays or failures or in-orbit satellite failures once launched or the decision to manufacture additional replacement satellites for future launches;

- labor disputes or disruptions in labor productivity or the unavailability of skilled labor;

- - increases in the costs of materials;

changes in project scope;

additional requirements imposed by changes in laws; or

severe weather or catastrophic events, such as fires, earthquakes or storms.

In addition, there can be no assurance the ground infrastructure needed to complete Iridium NEXT will be completed on time, on budget or at all. If the design, manufacture and deployment of Iridium NEXT costs more or takes longer than we anticipate, our ability to continue to develop Iridium NEXT and related ground infrastructure could be compromised.

***Our Iridium NEXT launch strategy includes an initial launch using a Russian launch services provider, which could be jeopardized by instability in the region or diplomatic sanctions, and in turn could result in a delay to our initial launch and additional launch and insurance costs.***

Our strategy to launch our 72 Iridium NEXT satellites includes a planned first launch in June of 2015 of two satellites on a Dnepr launch vehicle under contract with International Space Company Kosmotras, or Kosmotras, a Russian launch services provider, with the remaining 70 satellites to be launched on seven Falcon 9 launch vehicles under contract with Space Exploration Technologies Corporation, or SpaceX. Many of Kosmotras's operations are in Ukraine, a country that has recently experienced significant political instability. In addition, the United States has imposed restrictions on exports to Russia, which, if still in place next year, could affect our ability to launch our first two satellites on schedule. If we cannot launch the first two satellites on schedule, our first launch would likely be of ten satellites on the first of our SpaceX launches, currently planned for the second half of 2015, which launch out of the United States and would be unaffected by the delay. The loss of the ability to launch two satellites and test them before launching the next ten satellites would likely increase our insurance costs, and any alternative launch strategy for the first two satellites would likely increase our launch costs.

***Loss of any Iridium NEXT satellite during launch or delays in our launch schedule could delay or impair our ability to offer our services or increase our costs, and launch insurance, to the extent available, will not fully cover this risk.***

The launch of our Iridium NEXT satellites will be subject to the inherent risk of launch failures, which could result in the loss or destruction of one or more satellites. We have entered into our launch services agreement with SpaceX, pursuant to which SpaceX will provide launch services to us in connection with our deployment of Iridium NEXT. The SpaceX agreement contemplates seven launches of ten satellites each on SpaceX's Falcon 9 launch vehicle over a two-year period. SpaceX is a rapidly growing company in a technically complicated industry and is working to meet an aggressive launch manifest. A failure by SpaceX to maintain its launch schedule could expose us to delay or

the need to utilize an alternate launch services provider, which could substantially increase our launch costs. We have also entered into a launch services agreement with Kosmotras pursuant to which Kosmotras will provide supplemental or alternative launch services for Iridium NEXT. We have exercised an option to have Kosmotras launch the first two Iridium NEXT satellites. The use of Kosmotras to replace one or more of the contemplated SpaceX launches would increase our launch costs.

We are required under the terms of the Credit Facility to insure a portion of the launch of our Iridium NEXT satellites, and we expect to self-insure the remaining portion. Launch insurance currently costs approximately 4% to 11% of the insured value of the satellites launched, including launch costs, but costs may vary depending on market conditions and the safety record of the launch vehicle. In addition, we expect any launch insurance policies that we obtain to include specified exclusions, deductibles and material change limitations. Typically, these insurance policies contain exclusions customary in the industry for damage arising from acts of war, lasers and other similar potential risks. If launch insurance rates were to rise substantially, our future launch costs could increase. It is also possible that insurance could become unavailable or prohibitively expensive, either generally or for a specific launch vehicle, or that new insurance could be subject to broader exclusions on coverage or limitations on losses, in which event we would bear the risk of launch failures. Even if a lost satellite is fully insured, acquiring a replacement satellite may be difficult and time-consuming and could delay the deployment of Iridium NEXT. Furthermore, launch insurance does not cover lost revenue.

***Our satellites have a limited life and may fail prematurely, which would cause our network to be compromised and materially and adversely affect our business, prospects and profitability.***

Since we introduced commercial services in 2001, we have experienced ten satellite losses, most recently in January 2014. Nine of our satellites have failed in orbit, which has resulted in either the complete loss of the affected satellites or the loss of the ability of the satellite to carry traffic on the network, and one satellite was lost as a result of a collision with a non-operational Russian satellite. Also, our satellites have already exceeded their original design lives. While actual useful life typically exceeds original design life, the useful lives of our satellites may be shorter than we expect, and additional satellites may fail or collide with space debris or other satellites in the future. Although to date we have had an in-orbit spare available to replace each lost satellite, we can provide no assurance that our in-orbit spare satellites will be sufficient to replace all future lost satellites, that we will be able to replace them in a timely manner, or that the spare satellite will provide the same level of performance as the lost satellite. As a result, while we expect our current constellation to provide a commercially acceptable level of service through the transition to Iridium NEXT, we cannot guarantee it will be able to do so. In-orbit failure may result from various causes, including component failure, loss of power or fuel, inability to control positioning of the satellite, solar or other astronomical events, including solar radiation and flares, and space debris. Other factors that could affect the useful lives of our satellites include the quality of construction, gradual degradation of solar panels and the durability of components. Radiation-induced failure of satellite components may result in damage to or loss of a satellite before the end of its expected life. As our constellation has aged, some of our satellites have experienced individual component failures affecting their coverage or transmission capacity, and other satellites may experience such failures in the future, which could adversely affect the reliability of their service or result in total failure of the satellite. As a result, fewer than 66 of our current in-orbit satellites are fully functioning at any time. Although we do not incur any direct cash costs related to the failure of a satellite, if a satellite fails, we record an impairment charge in our statement of operations to reduce the remaining net book value of that satellite to zero, and any such impairment charges could significantly depress our net income for the period in which the failure occurs.

From time to time, we are advised by our customers and end users of temporary intermittent losses of signal cutting off calls in progress, preventing completions of calls when made or disrupting the transmission of data. If the magnitude or frequency of such problems increase and we are no longer able to provide a commercially acceptable level of service, our business and financial results and our reputation would be hurt and our ability to pursue our business plan would be compromised.

We may be required in the future to make further changes to our constellation to maintain or improve its performance. Any such changes may require prior Federal Communications Commission, or FCC, approval, and the FCC may subject the approval to other conditions that could be unfavorable to our business. In addition, from time to time we may reposition our satellites within the constellation in order to optimize our service, which could result in degraded service during the repositioning period. Although we have some ability to remedy some types of problems affecting the performance of our satellites remotely from the ground, the physical repair of our satellites in space is not feasible.

***Our agreements with U.S. government customers, particularly the DoD, which represent a significant portion of our revenue, are subject to termination.***

The U.S. government, through a dedicated gateway owned and operated by the DoD, has been and continues to be, directly and indirectly, our largest customer, representing 19% of our revenue for the year ended December 31, 2013, and 20% of our total revenue for the quarter ended March 31, 2014. We provide the majority of our services to the U.S. government pursuant to our Gateway Maintenance and Support Services, or GMSS, and EMSS contracts. We entered into new versions of these contracts in September 2013 and October 2013, respectively. The new 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, and the new EMSS contract provides for a five-year term. The U.S. government may terminate these agreements, in whole or in part, at any time for its convenience. If the U.S. government terminates either of the agreements or decides not to exercise options under the GMSS agreement, we would lose a significant portion of our revenue.

***We are dependent on intellectual property licensed from third parties to operate our constellation and sell our devices and for the enhancement of our existing products and services.***

We license critical system technology, including software and systems, to operate and maintain our network as well as technical information for the design, manufacture and sale of our devices. This intellectual property is essential to our ability to continue to operate our constellation and sell our services, handsets and data devices. In addition, we are dependent on third parties to develop enhancements to our current products and services even in circumstances where we own the intellectual property. If any third-party owner of such intellectual property were to terminate any license agreement with us or cease to support and service this technology or perform development on our behalf, or if we are unable to renew such licenses on commercially reasonable terms or at all, it may be difficult, more expensive or impossible to obtain such services from alternative vendors. Any substitute technology may also be costly to develop and integrate, or could have lower quality or performance standards, which would adversely affect the quality of our products and services. In connection with the design, manufacture and operation of Iridium NEXT and related ground infrastructure and the development of new products and services to be offered on Iridium NEXT, we may be required to obtain additional intellectual property rights from third parties. We can offer no assurance that we will be able to obtain such intellectual property rights on commercially reasonable terms or at all. If we are unable to obtain such intellectual property rights on commercially reasonable terms, we may not be able to complete Iridium NEXT and related ground infrastructure on budget or at all or may not be able to develop new products and services to be offered on Iridium NEXT.

***Our products could fail to perform or could perform at reduced levels of service because of technological malfunctions or deficiencies or events outside of our control which would seriously harm our business and reputation.***

Our products and services are subject to the risks inherent in a large-scale, complex telecommunications system employing advanced technology. Any disruption to our satellites, services, information systems or telecommunications infrastructure could result in the inability of our customers to receive our services for an indeterminate period of time. These customers include government agencies conducting mission-critical work throughout the world, as well as consumers and businesses located in remote areas of the world and operating under harsh environmental conditions where traditional telecommunications services may not be readily available. Any disruption to our services or extended periods of reduced levels of service could cause us to lose customers or revenue, result in delays or cancellations of future implementations of our products and services, result in failure to attract customers or result in litigation, customer service or repair work that would involve substantial costs and distract management from operating our business. The failure of any of the diverse elements of our system, including our satellites, our commercial gateway, or our satellite network operations center, to function as required could render our system unable to perform at the quality and capacity levels required for success. Any system failures, repeated product failures or shortened product life or extended reduced levels of service could reduce our sales, increase costs or result in warranty or liability claims or litigation, cause us to extend our warranty period and seriously harm our business.

***As our product portfolio expands, our failure to manage growth effectively could impede our ability to execute our business plan, and we may experience increased costs or disruption in our operations.***

We currently face a variety of challenges, including maintaining the infrastructure and systems necessary for us to operate as a public company and managing the growth of our business. As our product portfolio continues to expand, the responsibilities of our management team and other company resources also grow. Consequently, we may further strain our management and other company resources with the increased complexities and administrative burdens associated with a larger, more complex product portfolio. For example, we have in the past experienced quality issues in connection with the introduction of new products and services, and we may experience such issues in the future. Our failure to meet these challenges as a result of insufficient management or other resources could significantly impede our ability to execute our business plan. To properly manage our growth, we may need to hire and retain additional personnel, upgrade our existing operational management and financial and reporting systems, and improve our business processes and controls. Failure to effectively manage the expansion of our product portfolio in a cost-effective manner could result in declines in product and service quality and customer satisfaction, increased costs or disruption of our operations.

***As we and our distributors expand our offerings to include more consumer-oriented devices, we are more likely to be subject to product liability claims, recalls or litigation, which could adversely affect our business and financial performance.***

Through our network of distributors, we offer several products and services aimed at individual consumers, and we and our distributors continue to introduce additional products and services. These products and services, such as satellite handsets, personal locator devices and location-based services, may be used in isolated and dangerous locations, including emergency response situations, and users who suffer property damage, personal injury or death while using the product or service may seek to assert claims or bring lawsuits against us. We seek to limit our exposure to such claims through appropriate disclosures, indemnification provisions and disclaimers, but these steps may not be effective. We also maintain product liability insurance, but this insurance may not cover any particular claim or litigation, or the amount of insurance may be inadequate to cover the claims brought against us. Product liability insurance could become more expensive and difficult to maintain and might not be available on acceptable terms or at all. In addition, it is possible that our products would become the subject of a product recall as a result of a product defect. We do not maintain recall insurance, so any recall could have a significant effect on our financial results. In addition to the direct expenses of product liability claims, recalls and litigation, a claim, recall or litigation might cause us adverse publicity, which could harm our reputation and compromise our ability to sell our products in the future.

***The collection, storage, transmission, use and disclosure of user data and personal information could give rise to liabilities or additional costs as a result of laws, governmental regulations and evolving views of personal privacy rights.***

We transmit, and in some cases store, end user data, including personal information. In jurisdictions around the world, the transmission and storage of personal information is becoming increasingly subject to legislation and regulations intended to protect consumers' privacy and security. The interpretation of privacy and data protection laws and regulations regarding the collection, storage, transmission, use and disclosure of such information in some jurisdictions is unclear and evolving. These laws may be interpreted and applied in conflicting ways from country to country and in a manner that is not consistent with our current data protection practices. Complying with these varying international requirements could cause us to incur additional costs and change our business practices. Because our services are accessible in many foreign jurisdictions, some of these jurisdictions may claim that we are required to comply with their laws, even where we have no local entity, employees or infrastructure. We could be forced to incur significant expenses if we were required to modify our products, our services or our existing security and privacy procedures in order to comply with new or expanded regulations.



In addition, if end users allege that their personal information is not collected, stored, transmitted, used or disclosed appropriately or in accordance with our privacy policies or applicable laws, we could have liability to them, including claims and litigation resulting from such allegations. Any failure on our part to protect end users' privacy and data could result in a loss of user confidence, hurt our reputation and ultimately result in the loss of users.

***Our satellites may collide with space debris or another spacecraft, which could adversely affect the performance of our constellation.***

In February 2009, we lost an operational satellite as a result of a collision with a non-operational Russian satellite. Although we have some ability to actively maneuver our satellites to avoid potential collisions with space debris or other spacecraft, this ability is limited by, among other factors, uncertainties and inaccuracies in the projected orbit location of and predicted conjunctions with debris objects tracked and cataloged by the U.S. government. Additionally, some space debris is too small to be tracked and therefore its orbital location is completely unknown; nevertheless, this debris is still large enough to potentially cause severe damage or a failure of our satellites should a collision occur. If our constellation experiences additional satellite collisions with space debris or other spacecraft, our service could be impaired.

***The space debris created by the February 2009 satellite collision may cause damage to other spacecraft positioned in a similar orbital altitude.***

The 2009 collision of one of our satellites with a non-operational Russian satellite created a space debris field concentrated in the orbital altitude where the collision occurred, and thus increased the risk of space debris damaging or interfering with the operation of our satellites, which travel in this orbital altitude, as well as satellites owned by third parties, such as U.S. or foreign governments or agencies and other satellite operators. Although there are tools used by us and providers of tracking services, such as the U.S. Joint Space Operations Center, to detect, track and identify space debris, we or third parties may not be able to maneuver the satellites away from such debris in a timely manner. Any such collision could potentially expose us to significant losses and liability if we were found to be at fault.

***If we experience operational disruptions with respect to our commercial gateway or operations center, we may not be able to provide service to our customers.***

Our commercial satellite network traffic is supported by a primary ground station gateway in Tempe, Arizona, and we operate our satellite constellation from our satellite network operations center in Leesburg, Virginia. Currently, we do not have a backup facility for our gateway, and we would not be able to immediately implement our backup to the Virginia operations center if that facility experienced a catastrophic failure. Both facilities are subject to the risk of

significant malfunctions or catastrophic loss due to unanticipated events and would be difficult to replace or repair and could require substantial lead-time to do so. Material changes in the operation of these facilities may be subject to prior FCC approval, and the FCC might not give such approval or may subject the approval to other conditions that could be unfavorable to our business. Our gateway and operations center may also experience service shutdowns or periods of reduced service in the future as a result of equipment failure, delays in deliveries or regulatory issues. Any such failure would impede our ability to provide service to our customers.

***We do not maintain in-orbit insurance covering our losses from satellite failures or other operational problems affecting our constellation.***

We do not maintain in-orbit insurance covering losses that might arise as a result of a satellite failure or other operational problems affecting our constellation. The terms of the Credit Facility, however, require us to obtain and maintain such insurance for the Iridium NEXT satellites for a period of 12 months after launch. We may not be able to obtain such insurance on acceptable terms, or at all. If we are not able to obtain in-orbit insurance on the terms required by the Credit Facility, we would be required to obtain a waiver under the Credit Facility of the requirement to maintain this insurance, but our lenders may be unwilling to grant such waiver, which would trigger an event of default under the Credit Facility and would likely accelerate repayment of all outstanding borrowings. Even if we obtain in-orbit insurance in the future, the coverage may not be sufficient to compensate us for satellite failures and other operational problems affecting our satellites, as it may either contain large deductible amounts or provide reimbursement only after a specified number of satellite failures. As a result, a failure of one or more of our satellites or the occurrence of equipment failures and other related problems could constitute an uninsured loss and could harm our financial condition.

***We may be negatively affected by current global economic conditions.***

Our operations and performance depend significantly on worldwide economic conditions. Uncertainty about current global economic conditions poses a risk as individual consumers, businesses and governments may postpone spending in response to tighter credit, negative financial news, declines in income or asset values or budgetary constraints. Reduced demand would cause a decline in our revenue and make it more difficult for us to operate profitably, potentially compromising our ability to pursue our business plan. While we expect the number of our subscribers and revenue to continue to grow, we expect the future growth rate will be slower than our historical growth and may not continue in every quarter of every year. We expect our future growth rate will be affected by the sluggish global economy, increased competition, maturation of the satellite communications industry and the difficulty in sustaining high growth rates as we increase in size. Any substantial appreciation of the U.S. dollar may also negatively affect our growth by increasing the cost of our products and services in foreign countries.

***If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements on a timely basis could be impaired.***

We are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the rules and regulations of the SEC and The Nasdaq Global Select Market. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. We perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting in our Annual Reports on Form 10-K, as required by Section 404 of the Sarbanes-Oxley Act. If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if we are unable to maintain proper and effective internal controls, we may not be able to produce timely and accurate financial statements, and we may conclude that our internal controls over financial reporting are not effective. If that were to happen, the market price of our stock could decline and we could be subject to sanctions or investigations by The Nasdaq Global Select Market, the SEC or other regulatory authorities.

Maintaining effective internal controls over financial reporting is necessary for us to produce reliable financial statements. In connection with the preparation of our quarterly report for the three months ended September 30, 2012, management discovered an error caused by a previously existing material weakness in internal controls over financial reporting relating to accounting for income taxes. This material weakness led to the need for the restatement of our financial statements for the years ended December 31, 2009, 2010 and 2011 and for the quarters ended December 31, 2009 through December 31, 2011. If we fail to maintain effective controls over financial reporting in the future, it could result in a material misstatement of our financial statements that would not be prevented or detected on a timely basis and which could cause investors and other users to lose confidence in our financial statements.

***We could lose market share and revenue as a result of increasing competition from companies in the wireless communications industry, including cellular and other satellite operators, and from the extension of land-based communications services.***

We face intense competition in all of our markets, which could result in a loss of customers and lower revenue and make it more difficult for us to enter new markets. We compete primarily on the basis of coverage, quality, portability and pricing of services and products.

The provision of satellite-based services and products is subject to downward price pressure when capacity exceeds demand or as a result of aggressive discounting by some operators under financial pressure to expand their respective market share. In addition, we may face competition from new competitors, new technologies or new equipment. For example, we may face competition for our land-based services in the United States from incipient ancillary terrestrial component, or ATC, service providers who are currently raising capital and designing a satellite operating business and a terrestrial component around their spectrum holdings. In addition, some of our competitors have announced plans for the launch of additional satellites. As a result of competition, we may not be able to successfully retain our existing customers and attract new customers.

In addition to our satellite-based competitors, terrestrial voice and data service providers, both wireline and wireless, could further expand into rural and remote areas and provide the same general types of services and products that we provide through our satellite-based system. Although satellite communications services and terrestrial communications services are not perfect substitutes, the two compete in some markets and for some services. Consumers generally perceive terrestrial wireless voice communication products and services as cheaper and more convenient than those that are satellite-based. Many of our terrestrial competitors have greater resources, wider name recognition and newer technologies than we do. In addition, industry consolidation could hurt us by increasing the scale or scope of our competitors, thereby making it more difficult for us to compete.

***Some of the hardware and software we use in operating our gateway was designed and manufactured over ten years ago, and portions are becoming more difficult and expensive to service, upgrade or replace.***

Some of the hardware and software we use in operating our gateway was designed and manufactured over ten years ago, and portions are becoming obsolete. As they continue to age, they may become less reliable and will be more difficult and expensive to service, upgrade or replace. Although we maintain inventories of some spare parts, it nonetheless may be difficult or impossible to obtain all necessary replacement parts for the hardware. Our business plan contemplates updating or replacing some of the hardware and software in our network, but the age of our existing hardware and software may present us with technical and operational challenges that complicate or otherwise make it infeasible to carry out our planned upgrades and replacements, and the expenditure of resources, both from a monetary and human capital perspective, may exceed our estimates. If we are not able to suitably upgrade and replace our equipment, obsolescence of the technologies that we use could hurt our ability to provide our services and therefore to generate revenue.

***Rapid and significant technological changes in the satellite communications industry may impair our competitive position and require us to make significant additional capital expenditures.***

The satellite communications industry is subject to rapid advances and innovations in technology. We may face competition in the future from companies using new technologies and new satellite systems. New technology could render our system obsolete or less competitive by satisfying customer demand in more attractive ways or through the introduction of incompatible standards. Particular technological developments that could adversely affect us include the deployment by our competitors of new satellites with greater power, flexibility, efficiency or capabilities than our current constellation or Iridium NEXT, as well as continuing improvements in terrestrial wireless technologies. For us to keep up with technological changes and remain competitive, we may need to make significant capital expenditures, including capital to design and launch new products and services on Iridium NEXT, which are not included in our current cost estimates. Customer acceptance of the products and services that we offer will continually be affected by technology-based differences in our product and service offerings compared to those of our competitors. New technologies may also be protected by patents or other intellectual property laws and therefore may not be available to us. Any failure on our part to implement new technology within our system may compromise our ability to compete.

***Use by our competitors of L-band spectrum for terrestrial services could interfere with our services.***

In February 2003, the FCC adopted ATC rules that permit satellite service providers to establish terrestrial wireless networks in previously satellite-only bands, subject to certain requirements intended to ensure that terrestrial services remain ancillary to primary satellite operations. In November 2012, Globalstar, Inc. filed a petition for rulemaking, asking the FCC to permit it to provide terrestrial service in L-band spectrum and to eliminate the requirements for primary satellite operations, which we are opposing. The implementation of ATC services by satellite service providers in the United States or other countries may result in increased competition for the right to use L-band

spectrum in the 1.6 gigahertz band, which we use to provide our services, and such competition may make it difficult for us to obtain or retain the spectrum resources we require for our existing and future services. In addition, the FCC's decision to permit ATC services was based on assumptions relating to the level of interference that the provision of ATC services would likely cause to other satellite service providers that use the L-band spectrum. If the FCC's assumptions prove inaccurate, or the level of ATC services provided exceeds those estimated by the FCC, ATC services could interfere with our satellites and devices, which may adversely affect our services. Outside the United States, other countries have implemented or are considering implementing regulations to facilitate ATC-like services.

***Our networks and those of our third-party service providers may be vulnerable to security risks.***

We expect the secure transmission of confidential information over public networks to continue to be a critical element of our ability to compete for business and protect our customers and our reputation. Our network and those of our third-party service providers and our customers may be vulnerable to unauthorized access, computer viruses and other security problems. Persons who circumvent security measures could wrongfully obtain or use information on the network or cause interruptions, delays or malfunctions in our operations, any of which could harm our reputation, cause demand for our products and services to fall and compromise our ability to pursue our business plans. Recently, there have been reported a number of significant, widespread security breaches that have compromised network integrity for many companies and governmental agencies, in some cases reportedly originating from outside the United States. In addition, there are reportedly private products available in the market today which attempt to unlawfully intercept communications made on our network. We may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems, including reputational harm and litigation, caused by any breaches. In addition, our customer contracts may not adequately protect us against liability to third parties with whom our customers conduct business. Although we have implemented and intend to continue to implement industry-standard security measures, these measures may prove to be inadequate and result in system failures and delays that could lower network availability, which could harm our business and our reputation.

***We are dependent on third parties to market and sell our products and services.***

We rely on third-party distributors to market and sell our products and services to end users and to determine the prices end users pay. We also depend on our distributors to develop innovative and improved solutions and applications integrating our product and service offerings. As a result of these arrangements, we are dependent on the performance of our distributors to generate most of our revenue. Our distributors operate independently of us, and we have limited control over their operations, which exposes us to significant risks. Distributors may not commit the necessary resources to market and sell our products and services and may also market and sell competitive products and services. In addition, our distributors may not comply with the laws and regulatory requirements in their local jurisdictions, which could limit their ability to market or sell our products and services. If our distributors develop faulty or poorly performing products using our technology or services, we may be subject to claims, and our reputation could be harmed. If current or future distributors do not perform adequately, or if we are unable to locate competent distributors in particular countries and secure their services on favorable terms, we may be unable to increase or maintain our revenue in these markets or enter new markets, we may not realize our expected growth, and our brand image and reputation could be hurt.

In addition, we may lose distributors due to competition, consolidation, regulatory developments, business developments affecting our distributors or their customers, or for other reasons. In 2009, one of our largest competitors, Inmarsat, acquired our then largest distributor, Stratos Global Wireless, Inc., or Stratos. Inmarsat does not dedicate the same level of effort to distributing our products and services as did Stratos and may further reduce such efforts in the future. For example, Inmarsat has essentially stopped promoting sales of our handsets. In addition, in January 2014, Inmarsat acquired Globe Wireless, one of our service providers, and we can provide no assurance that Inmarsat will dedicate the same level of effort to distributing our products and services as Globe Wireless did. Any future consolidation of our distributors would further increase our reliance on a few key distributors of our services and the amount of volume discounts that we may have to give such distributors. Our two largest distributors, Airbus Defense and Space and Inmarsat, each represented 8% of our revenue for the year ended December 31, 2013 and our ten largest distributors represented, in the aggregate, 43% of our revenue for the year ended December 31, 2013. The loss of any of these distributors, or a decrease in the level of effort expended by any of them to promote our products and services, could reduce the distribution of our products and services as well as the development of new products and applications.

***We rely on a limited number of key vendors for supply of equipment and services.***

We rely on two single-source contracts for the manufacture of our current devices, including our mobile handsets, L-Band transceivers and short-burst data devices. Either of these manufacturers may choose to terminate its business relationship with us when its current contractual obligations are completed, or at such earlier time as contemplated by our current agreement. If a manufacturer terminates its relationship with us, we may not be able to find a replacement supplier in a timely manner, at an acceptable price, or at all. We are highly dependent on these manufacturers' performance as the sole suppliers of our devices. We also utilize sole source suppliers for some of the component parts of our devices.

These manufacturers and suppliers may become capacity-constrained as a result of a surge in demand, a natural disaster or other event, resulting in a shortage or interruption in supplies or an inability to meet increased demand. Although we might be able to replace sole source suppliers, there could be a substantial period of time in which our products would not be available; any new relationship may involve higher costs and delays in development and delivery, and we might encounter technical challenges in successfully replicating the manufacturing processes. If our manufacturers or suppliers terminate their relationships with us, fail to provide equipment or services to us on a timely basis or fail to meet our performance expectations, we might be unable to provide products or services to our customers in a competitive manner, which could in turn negatively affect our financial results and our reputation.

In addition, we depend on Boeing to provide operations and maintenance services with respect to our satellite network, including engineering, systems analysis, integration and testing of new equipment and operations and maintenance services, from our technical support center in Chandler, Arizona and our satellite network operations center in Leesburg, Virginia. Technological competence is critical to our business and depends, to a significant degree, on the work of technically skilled personnel, such as our Boeing contractors. If Boeing's performance falls below expected levels or if Boeing has difficulties retaining the personnel servicing our network, the operations of our satellite network could be compromised. In addition, if Boeing terminates its agreement with us, we may not be able to find a replacement provider on favorable terms or at all, which could impair the operations and performance of our network. Replacing Boeing as the operator of our satellite system could also trigger de-orbit rights held by the U.S. government, which, if exercised, would eliminate our ability to offer satellite communications services altogether.

***We have been and may in the future become subject to claims that our products violate the patent or intellectual property rights of others, which could be costly and disruptive to us.***

We operate in an industry that is susceptible to significant intellectual property litigation. As a result, we or our products may become subject to intellectual property infringement claims or litigation. The defense of intellectual property suits is both costly and time-consuming, even if ultimately successful, and may divert management's attention from other business concerns. An adverse determination in litigation to which we may become a party could, among other things:



- subject us to significant liabilities to third parties, including treble damages;
- require disputed rights to be licensed from a third party for royalties that may be substantial;
- require us to cease using technology that is important to our business; or
- prohibit us from selling some or all of our products or offering some or all of our services.

***Conducting and expanding our operations outside the United States creates numerous risks, which may harm our operations and compromise our ability to expand our international operations.***

We have significant operations outside the United States. According to our estimates, commercial data traffic originating outside the United States, excluding our broadband data service, or Iridium OpenPort<sup>®</sup>, traffic, accounted for 67% of total commercial data traffic for the year ended December 31, 2013 and 77% of total commercial data traffic for the quarter ended March 31, 2014, while commercial voice traffic originating outside the United States, excluding Iridium OpenPort traffic, accounted for 90% of total commercial voice traffic for the year ended December 31, 2013 and 92% of total commercial voice traffic for the quarter ended March 31, 2014. We cannot provide the precise geographical distribution of revenue from end users because we do not contract directly with them. Instead, we determine the country in which we earn our revenue based on where we invoice our distributors. These distributors sell services directly or indirectly to end users, who may be located or use our products and services elsewhere. We and our distributors are also seeking authorization to sell our services in additional countries.

Conducting operations outside the United States involves numerous risks and, while expanding our international operations would advance our growth, it would also increase our exposure to these risks. For example, in 2013 we commenced the provision of satellite communications services in Russia through a local subsidiary and its authorized Russian service providers and secured a site and commenced construction on dedicated earth station facilities in Russia. The United States has recently imposed economic sanctions on Russia and might impose additional sanctions in the future. If such sanctions, or any Russian response to such sanctions, affects our operations in Russia, it could limit our growth in Russia or prevent us from continuing to operate there at all, which would reduce our revenues.

Other such risks include:

- difficulties in penetrating new markets due to established and entrenched competitors;
- difficulties in developing products and services that are tailored to the needs of local customers;

- lack of local acceptance or knowledge of our products and services;
- lack of recognition of our products and services;
- unavailability of or difficulties in establishing relationships with distributors;

significant investments, including the development and deployment of dedicated gateways, as some countries require physical gateways within their jurisdiction to connect the traffic coming to and from their territory;

- instability of international economies and governments;
- changes in laws and policies affecting trade and investment in other jurisdictions;
- exposure to varying legal standards, including intellectual property protection in other jurisdictions;
  - difficulties in obtaining required regulatory authorizations;
  - difficulties in enforcing legal rights in other jurisdictions;
  - local domestic ownership requirements;

- requirements that operational activities be performed in-country;
- changing and conflicting national and local regulatory requirements; and
- foreign currency exchange rates and exchange controls.

These risks could affect our ability to successfully compete and expand internationally.

Government organizations, foreign military and intelligence agencies, natural disaster aid associations and event-driven response agencies use our commercial voice and data satellite communications services. Accordingly, we may experience reductions in usage due to changing global circumstances, including as a result of changes in the nature of the conflicts in Afghanistan and Iraq, or continued reductions in U.S. and foreign personnel in those countries.

The prices for our products and services are typically denominated in U.S. dollars. Any appreciation of the U.S. dollar against other currencies will increase the cost of our products and services to our international customers and, as a result, may reduce the competitiveness of our international offerings and make it more difficult for us to grow internationally.

***We are currently unable to offer service in important regions of the world due to regulatory requirements, which limits our growth.***

Our ability to provide service in some regions is limited by local regulations. Some countries have specific regulatory requirements such as local domestic ownership requirements or requirements for physical gateways within their jurisdiction to connect traffic coming to and from their territory. While we have had discussions with parties in these countries to satisfy these regulatory requirements, we may not be able to find an acceptable local partner or reach an agreement to develop additional gateways, or the cost of developing and deploying such gateways may be prohibitive, which could impair our ability to expand our product and service offerings in such areas and undermine our value for potential users who require service in these areas. Also, other countries where we already provide service may impose similar requirements, which could restrict our ability to continue to provide service in those countries. The inability to offer to sell our products and services in all major international markets could impair our international growth. In addition, the construction of such gateways in foreign countries may trigger and require us to comply with various U.S. regulatory requirements that could conflict with or contravene the laws or regulations of the local jurisdiction. Any of these developments could limit, delay or otherwise interfere with our ability to construct gateways or other infrastructure or network solutions around the world.

***The U.S. government, Motorola Solutions and Boeing may unilaterally require us to de-orbit our current constellation upon the occurrence of specified events.***

When Iridium Satellite purchased the assets of Iridium LLC, a non-affiliated debtor in possession, out of bankruptcy, Boeing, Motorola and the U.S. government required specified de-orbit rights as a way to control potential liability exposure arising from future operation of the constellation. As a result, Iridium Satellite, Boeing, Motorola and the U.S. government entered into an agreement giving the U.S. government the right, in its sole discretion, to require us to de-orbit our constellation upon the occurrence of specified events, including if more than four of our satellites have insufficient fuel to execute a 12-month de-orbit, which is currently the case. In addition, the U.S. government has the right to require us to de-orbit any of our individual functioning satellites, including in-orbit spares that have been in orbit for more than seven years, unless the U.S. government grants a postponement. All of our functioning satellites have been in orbit for more than seven years.

Motorola Solutions, as successor to Motorola, and Boeing each also have the right to require us to de-orbit our constellation pursuant to our agreements with them upon the occurrence of specified events.

We cannot guarantee that the U.S. government, Motorola Solutions or Boeing will not unilaterally exercise their de-orbiting rights upon the occurrence of any of the specified events. If we were required to de-orbit our constellation, we would be unable to continue to provide mobile satellite communications services.

***We may be unable to obtain and maintain contractually required liability insurance, and the insurance we obtain may not cover all liabilities to which we may become subject.***

Under our agreement with Motorola, we are required to maintain an in-orbit liability insurance policy with a de-orbiting endorsement. The current policy, together with the de-orbiting endorsement, covers amounts that we and other specified parties may become liable to pay for bodily injury and property damages to third parties related to processing, maintaining and operating our satellite constellation and, in the case of the de-orbiting endorsement, de-orbiting our satellite constellation. Our current policy has a one-year term, which expires on December 8, 2014, and excludes coverage for all third-party damages relating to the 2009 collision of our satellite with a non-operational Russian satellite. The price, terms and availability of insurance have fluctuated significantly since we began offering commercial satellite services. The cost of obtaining insurance can vary as a result of either satellite failures or general conditions in the insurance industry. Higher premiums on insurance policies would increase our cost. In-orbit liability insurance policies on satellites may not continue to be available on commercially reasonable terms or at all. In addition to higher premiums, insurance policies may provide for higher deductibles, shorter coverage periods and additional policy exclusions. For example, our current de-orbit insurance covers only twelve months from attachment and therefore would not cover losses arising outside that timeframe. Our failure to renew our current in-orbit liability insurance policy or obtain a replacement policy would trigger de-orbit rights held by the U.S. government and Boeing described in the immediately preceding risk factor, which, if exercised, would eliminate our ability to provide mobile satellite communications services. In addition, even if we continue to maintain an in-orbit liability insurance policy, the coverage may not protect us against all third-party losses, which could be material.

Our current in-orbit liability insurance policy contains, and we expect any future policies would likewise contain, specified exclusions and material change limitations customary in the industry. These exclusions may relate to, among other things, losses resulting from in-orbit collisions such as the one we experienced in 2009, acts of war, insurrection, terrorism or military action, government confiscation, strikes, riots, civil commotions, labor disturbances, sabotage, unauthorized use of the satellites and nuclear or radioactive contamination, as well as claims directly or indirectly occasioned as a result of noise, pollution, electrical and electromagnetic interference and interference with the use of property.

In addition to our in-orbit liability insurance policy, we are required to purchase product liability insurance to cover the potential liability of Motorola Solutions, as the manufacturer of the satellites in our current constellation. We may not in the future be able to renew this product liability coverage on reasonable terms and conditions, or at all. Our failure to maintain this insurance could increase our exposure to third-party damages that may be caused by any of our satellites. If we are unable to obtain such insurance on commercially reasonable terms and the U.S. government has not agreed to cover the amounts that would have otherwise been paid by such insurance, Motorola Solutions could invoke its de-orbit rights which, if exercised, would eliminate our ability to provide mobile satellite communications services.

***Wireless devices' radio frequency emissions are the subject of regulation and litigation concerning their environmental effects, which includes alleged health and safety risks. As a result, we may be subject to new***

*regulations, demand for our services may decrease, and we could face liability based on alleged health risks.*

There has been adverse publicity concerning alleged health risks associated with radio frequency transmissions from portable hand-held telephones that have transmitting antennas. Lawsuits have been filed against participants in the wireless industry alleging a number of adverse health consequences, including cancer, as a result of wireless phone usage. Other claims allege consumer harm from failures to disclose information about radio frequency emissions or aspects of the regulatory regimes governing those emissions. Although we have not been party to any such lawsuits, we may be exposed to such litigation in the future. While we comply with applicable standards for radio frequency emissions and power and do not believe that there is valid scientific evidence that use of our phones poses a health risk, courts or governmental agencies could determine otherwise. Any such finding could reduce our revenue and profitability and expose us and other wireless providers to litigation, which, even if frivolous or unsuccessful, could be costly to defend.

If consumers' health concerns over radio frequency emissions increase, they may be discouraged from using wireless handsets. Further, government authorities might increase regulation of wireless handsets as a result of these health concerns. Any actual or perceived risk from radio frequency emissions could reduce the number of our subscribers and demand for our products and services.

*Our business is subject to extensive government regulation, which mandates how we may operate our business and may increase our cost of providing services and slow our expansion into new markets.*

Our ownership and operation of a satellite communications system and the sale of products that operate on that system are subject to significant regulation in the United States, including by the FCC, the U.S. Department of Commerce, or the Commerce Department, and others, and in foreign jurisdictions by similar local authorities. The rules and regulations of these U.S. and foreign authorities may change, and such authorities may adopt regulations that limit or restrict our operations as presently conducted or currently contemplated. Such authorities may also make changes in the licenses of our competitors that affect our spectrum. Such changes may significantly affect our business. Further, because regulations in each country are different, we may not be aware if some of our distribution partners or persons with whom we or they do business do not hold the requisite licenses and approvals. Our failure to provide services in accordance with the terms of our licenses or our failure to operate our satellites or ground stations as required by our licenses and applicable laws and government regulations could result in the imposition of government sanctions on us, including the suspension or cancellation of our licenses. Our failure or delay in obtaining the approvals required to operate in other countries would limit or delay our ability to expand our operations into those countries. Our failure to obtain industry-standard certifications for our products could compromise our ability to generate revenue and conduct our business in other countries. Any imposition of sanctions, loss of license or failure to obtain the authorizations necessary to use our assigned radio frequency spectrum and to distribute our products in the United States or foreign jurisdictions could cause us to lose sales, hurt our reputation and impair our ability to pursue our business plan.

In addition, one of our subsidiaries, Iridium Carrier Services LLC, holds a common carrier radio license and is thus subject to regulation as a common carrier, including limitations and prior approval requirements with respect to direct or indirect foreign ownership. A change in the manner in which we provide service, or a failure to comply with common carrier regulations or pay required fees, could result in sanctions including fines, loss of authorizations, or the denial of applications for new authorizations or the renewal of existing authorizations.

***Security and emergency services regulations in the U.S. and other countries may affect our ability to operate our system and to expand into new markets.***

Our operations are subject to regulations of the U.S. State Department's Office of Defense Trade Controls relating to the export of satellites and related technical data, the U.S. Treasury Department's Office of Foreign Assets Control relating to transactions involving entities sanctioned by the United States, and the Commerce Department's Bureau of Industry and Security relating to our subscriber equipment. We are also required to provide U.S. and some foreign government law enforcement and security agencies with call interception services and related government assistance, in respect of which we face legal obligations and restrictions in various jurisdictions. Given our global operations and unique network architecture, these requirements and restrictions are not always easy to harmonize. In addition, some countries require providers of telecommunications services to connect specified emergency numbers to local emergency services. We have discussed and continue to discuss with authorities in various countries the procedures used to satisfy our obligations, and have had to, and may in the future need to, obtain amendments or waivers to licenses or obligations in various countries. Countries are not obligated to grant requested amendments or waivers, and there can be no assurance that relevant authorities will not suspend or revoke our licenses or take other legal actions to attempt to enforce the requirements of their respective jurisdictions.

These U.S. and foreign obligations and regulations may limit or delay our ability to offer products and services in a particular country. As new laws and regulations are issued, we may be required to modify our business plans or operations. In addition, changing and conflicting national and local regulatory requirements may cause us to be in compliance with local requirements in one country, while not being in compliance with the laws and regulations of another. If we fail to comply with regulations in the United States or any other country, we could be subject to sanctions that could make it difficult or impossible for us to operate in the United States or such other country.

***If the FCC revokes, modifies or fails to renew or amend our licenses, our ability to operate will be harmed or eliminated.***

We hold FCC licenses, specifically a license for our current satellite constellation, licenses for our U.S. gateway and other ground facilities and blanket earth station licenses for U.S. government customers and commercial subscribers, that are subject to revocation if we fail to satisfy specified conditions or to meet prescribed milestones. The FCC licenses are also subject to modification by the FCC. We have pending requests for renewal of our satellite constellation authorization and for replacement satellites. Our U.S. gateway earth station and the U.S. government

customer and commercial subscriber earth station licenses expire between September 2018 and the year 2026. There can be no assurance that the FCC will renew the FCC licenses we hold. If the FCC revokes, modifies or fails to renew or amend the FCC licenses we hold, or if we fail to satisfy any of the conditions of our respective FCC licenses, we may not be able to continue to provide mobile satellite communications services.

***Pursuing strategic transactions may cause us to incur additional risks.***

We may pursue acquisitions, joint ventures or other strategic transactions from time to time. We may face costs and risks arising from any such transactions, including integrating a new business into our business or managing a joint venture. These risks may include adverse legal, organizational and financial consequences, loss of key customers and distributors and diversion of management's time.

In addition, any major business combination or similar strategic transaction would require approval under the Credit Facility and may require significant external financing. Depending on market conditions, investor perceptions of our company and other factors, we might not be able to obtain approvals under the Credit Facility or financing on acceptable terms, in acceptable amounts or at appropriate times to implement any such transaction. Any such financing, if obtained, may further dilute existing stockholders.



*Spectrum values historically have been volatile, which could cause the value of our business to fluctuate.*

Our business plan is evolving, and it may in the future include forming strategic partnerships to maximize value for our spectrum, network assets and combined service offerings in the United States and internationally. Values that we may be able to realize from such partnerships will depend in part on the value placed on our spectrum authorizations. Valuations of spectrum in other frequency bands historically have been volatile, and we cannot predict at what amount a future partner may be willing to value our spectrum and other assets. In addition, to the extent that the FCC takes action that makes additional spectrum available or promotes the more flexible use or greater availability of existing satellite or terrestrial spectrum allocations, for example by means of spectrum leasing or new spectrum sales, the availability of such additional spectrum could reduce the value of our spectrum authorizations and, as a result, the value of our business.

*Our ability to operate our company effectively could be impaired if we lose members of our senior management team or key technical personnel.*

We depend on the continued service of key managerial and technical personnel and personnel with security clearances, as well as our ability to continue to attract and retain highly qualified personnel. We compete for such personnel with other companies, government entities, academic institutions and other organizations. The unexpected loss or interruption of the services of such personnel could compromise our ability to effectively manage our operations, execute our business plan and meet our strategic objectives.

*The market price of our common stock may be volatile.*

The trading price of our common stock may be subject to substantial fluctuations. Factors affecting the trading price of our common stock may include:

- failure in the performance of our current or future satellites or a delay in the launch of Iridium NEXT;
  - failure of Aireon to successfully develop and market its service;
  - failure to comply with the terms of the Credit Facility;
  - failure to maintain our ability to make draws under the Credit Facility;

actual or anticipated variations in our operating results, including termination or expiration of one or more of our key contracts, or a change in sales levels under one or more of our key contracts;

- sales of a large number of shares of our common stock or the perception that such sales may occur;
- dilutive effect of outstanding stock options;

changes in financial estimates by industry analysts, or our failure to meet or exceed any such estimates, or changes in the recommendations of any industry analysts that elect to follow our common stock or the common stock of our competitors;

actual or anticipated changes in economic, political or market conditions, such as recessions or international currency fluctuations;

- actual or anticipated changes in the regulatory environment affecting our industry;
- changes in the market valuations of our competitors;
- low trading volume; and

announcements by our competitors regarding significant new products or services or significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives.

The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. If our stock, the market for other stocks in our industry, or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations.

*We do not expect to pay dividends on our common stock in the foreseeable future.*

We do not currently pay cash dividends on our common stock and, because we currently intend to retain all cash we generate to fund the growth of our business and the Credit Facility restricts the payment of dividends, we do not expect to pay dividends on our common stock in the foreseeable future.

*Our common stock ranks junior to the series A preferred stock with respect to dividends and amounts payable in the event of our liquidation.*

Our common stock ranks junior to the series A preferred stock with respect to the payment of dividends and amounts payable in the event of our liquidation, dissolution or winding-up. This means that, unless accumulated dividends have been paid or set aside for payment on all outstanding shares of series A preferred stock for all past completed dividend periods, no dividends may be declared or paid on our common stock. Likewise, in the event of our voluntary or involuntary liquidation, dissolution or winding-up, no distribution of our assets may be made to holders of our common stock until we have paid to holders of the series A preferred stock the applicable liquidation preference plus accrued and unpaid dividends.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

See the exhibit index.

37

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**IRIDIUM COMMUNICATIONS INC.**

By: /s/ Thomas J. Fitzpatrick  
Thomas J. Fitzpatrick  
Chief Financial Officer  
(as duly authorized officer and as principal  
financial officer of the registrant)

Date: May 1, 2014

## EXHIBIT INDEX

### Exhibit Description

- 10.1† Second Amended and Restated Limited Liability Company Agreement of Aireon LLC, between Aireon LLC; Iridium Satellite LLC; NAV CANADA; NAV CANADA Satellite, Inc.; Enav S.p.A.; ENAV North Atlantic LLC; Naviair; Naviair Surveillance A/S; and Irish Aviation Authority Limited, dated as of February 14, 2014.
- 10.2 Amendment No. 4 to the Contract for Launch Services No. IS-10-008 between Iridium Satellite LLC and Space Exploration Technologies Corp., dated as of January 27, 2014.
- 10.3†† Iridium Communications Inc. 2014 Executive Performance Bonus Plan.
- 10.4†† Performance Share Program established under the Iridium Communications Inc. 2012 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 3, 2014.
- 10.5†† Form of Performance Share Award Grant Notice and Performance Share Award Agreement for use in connection with the Performance Share Program established under the Iridium Communications Inc. 2012 Equity Incentive Plan, incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on March 3, 2014.
- 31.1 Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to section 302 of The Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to section 302 of The Sarbanes-Oxley Act of 2002.
- 32.1\* Certifications of Principal Executive Officer and Principal Financial Officer pursuant to Rules 13a-14(b) and 15d-14(b) promulgated under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to section 906 of The Sarbanes-Oxley Act of 2002.
- 101\*\* The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, filed with the Securities and Exchange Commission on May 1, 2014, formatted in XBRL (eXtensible Business Reporting Language):
- (i) Condensed Consolidated Balance Sheets at March 31, 2014 and December 31, 2013;
  - (ii) Condensed Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2014 and 2013;
  - (iii) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013; and
  - (iv) Notes to Condensed Consolidated Financial Statements.

†

Confidential treatment has been requested for certain portions omitted from this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. Confidential portions of this exhibit have been separately filed with the Securities and Exchange Commission.

††

Denotes compensatory plan, contract or arrangement.

These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section \* 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Furnished electronically herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files included in \*\* Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.