



Straight Talk Series

GloboFone CEO Lou Altman in conversation with Iridium Communications CEO Matthew Desch

The Straight Talk Series is designed to provide you with information you will only find here – we cut out the marketing fluff, the ‘spin’ and provide you with, just plain old Straight Talk. The series consists of articles and interviews that shift the paradigm of the Emergency Preparedness and Response world to help provide thought leadership to the industry. Maintaining the highest level of preparedness and response is everybody’s business, not just that of the emergency planning and business continuity community. We intend this series to be thought-provoking, maybe controversial and genuine, always with the intent of extending the practice of the professionals in this work space.

This interview was conducted In late December of 2009.

Lou:

Hello there! This is Lou Altman, CEO of GloboFone. Welcome to another edition of the Straight Talk series. My special guest today is Matthew Desch – CEO of Iridium Communications. People may recall the original Iridium as one of the bad stories from the tech bubble in the late 1990’s, but today’s Iridium a very successful enterprise providing critical communications across the planet to a diverse client base. Matthew joined Iridium as CEO in 2006 at a pivotal time and with some big initiatives ahead. So, with that brief introduction, Matt – thanks for joining me on the Straight Talk Series.

Matt:

Sure Lou, honored to be here.

Lou:

Most of us know you from Iridium so how about a brief introduction: What’s your background and what journey brought you to the CEO’s Chair of this truly unique company?

Matt:

Sure, Lou. I've been in telecommunications for almost 30 years, though most of it has been on the technology supply side. Much of my career – at least since about 1990 – has been with the wireless industry, and I got to participate in its early growth as all the major population centers were built out with terrestrial wireless systems. I was invited to join Iridium almost four years ago and saw the incredible opportunity of extending wireless communications to the 90+ percent of the planet that still doesn't have a wireless connection after all these years, or that can lose its wireless connection through natural and man-made disasters as we saw after Hurricane Katrina.

Lou:

Sure, Hurricane Katrina certainly served as one of the realization points for people that satellite phones save lives.

So how did your background prepare you for the challenges you would face at Iridium? For example: Was there any leftover stigma from Iridium's previous and very public failure? What about the potential lack of customer education/understanding? Or the difference from cell handset/service/call costs most people understand?

Matt:

My experience certainly helped me understand the opportunity and technical challenges of mobile satellite service, and I've used it in helping the company develop new products for our customers. In regard to Iridium's initial failure in the late 90's, I was a vocal critic in those days of Motorola's business model, but never doubted the potential of a truly global, high quality voice and data connection. With the great growth and success we've had in the past 9 years, I don't really see any effects of the past anymore – some I've met might remember the previous failure, but once they understand how we're different and what we've accomplished, they get as excited as I am about the potential of the business.

Lou:

Sure I think it has been some time since I've personally heard about the 'old' Iridium.

Matt:

Probably as a result of our history and experience, we've been very careful about positioning Iridium's service as being complementary to cellular phone service, and I don't ever want to lead Iridium into repeating the mistakes of the original company into selling it as a "global cellular phone." We see it as a very important industrial and

enterprise tool that some consumers happen to use too, and believe we can continue to grow and create new products for the market on that premise.

Lou:

Iridium's past and current demographic clientele certainly supports that notion. Our retail clients buy Iridium because it works where nothing else will work.

So what has been Iridium's *biggest* challenge since your tenure began and what will be Iridium's biggest challenge in the future?

Matt:

The answer to both is really the same: it's extending this great system long into the future by replacing it with a new and even better network. We call that network "NEXT," and we are well on our way to launching it in the 2014 to 2016 time frame. It will be backward compatible with all of today's devices and services, but will bring many new services as well. With our profitability and history of success, we are funding it largely from internal cash flows as well as public equity and debt support. To do so, we recently went public through a merger with GHL Acquisition Corp., a subsidiary of Greenhill & Co., and that publicly listed us as IRDM on the NASDAQ, raising hundreds of millions of dollars for NEXT. We still need some debt to complete our financing plans, but are excited about moving forward in 2010 once we select our prime contractor and start to build NEXT.

Lou:

Yes, I was excited to see listed and publically traded, and in full disclosure I am a shareholder.

Matt:

And we appreciate that!

Lou:

Let's re-cap 2009, which was a truly exciting year for Iridium. I know that you spent a great deal of time on the road in 2009. What were your top three achievements?

Matt:

The GHQ merger that took us public was obviously the top achievement for the company in 2009. I'm also very pleased with the acceptance of the new 9555 phone

that we introduced just before the beginning of the year – it's been very well received and has demonstrated itself to be as high quality and capable as its predecessor, the 9505A. We're also very pleased with the growth of our new high speed maritime system called "Iridium OpenPort," which already has more than 1000 units sailing on ships all over the world in its first year of introduction. But overall, I'm most pleased that Iridium continued to grow in one of the worst recessions in history. Our operational earnings and service revenues grew well, even as equipment sales fell compared to previous years like other mobile satellite service companies experienced. That really showed to the world that Iridium's business could thrive, even in a global downturn.

Lou:

I know people really do like the new 9555 handset. And I know OpenPort has been very successful. Did you accomplish all you set out to accomplish?

Matt:

Yes we did. Iridium is a great company with a lot of people who are passionate about how our service performs, whether it's for aviation, maritime, the military, first responders, or for fast growing "Machine to Machine" communications customers. We were careful about adding staff during the recession like everyone else, and that put a lot of pressure on the team, but I'm very proud of how everyone achieved our goals regardless.

Lou:

You list a great many segments and functionality there. With so many things going on, what was the most complex 2009 initiative?

Matt:

Clearly it was completing our public transaction, but we had many other business challenges we achieved as well. Making OpenPort into a high quality service for our customers is near the top – it's a very complex system and we'd never developed anything like that before. There were some early hiccups as we learned some things about our partners' business that we didn't know, but as a result, we have the best value product on the market today, and believe we're going to see a lot of success with this product in the future.

Lou:

I've heard it said that mistakes or maybe we'll call them hiccups are what create experience. Was there a real <whew> moment in 2009?

Matt:

Well, I guess that had to be when a defunct Russian satellite ran into one of our satellites over Siberia in February. That created a lot of news and public interest, but overall, demonstrated how resilient the Iridium satellite network is. We quickly took one of our 8 operational satellite spares that we have in space and "flew it" into the gap created by the collision in the period of a few weeks, and many of our customers never told us they even knew there was an occasional "hole" in our network over them for the minutes in a day it occurred during those several weeks. We still have 7 more spares, but certainly don't plan to have to use any of them for a similar problem – we're now working very closely with the Air Force and are getting much more precise information from them about the location of space debris, which makes us confident that it is unlikely for us to experience a satellite collision the future.

Lou:

I know some of Iridium's detractors used the event as a 'we told you so' opportunity but Iridium's response was exceptional and quieted that crew. I'll speculate that morning had you reaching for the antacid. By contrast, what was most enjoyable initiative for you?

Matt:

I have to say it's visiting with our partners. As you know, one of the biggest reasons for Iridium's success is that we focus on being a wholesale supplier of mobile satellite service though an increasing array of user devices, but we leave the creation of solutions and the selling of them to distribution service partners.

Lou:

And I just love the creativity of what some of the partners have come up with- there are some outstanding Iridium products out there.

Matt:

Those partners are the experts in their respective markets, and they are the ones who really understand the end customer's needs. As you know, Globafone isn't a direct partner of ours – it obtains service through one or more of our direct partners. That said GlobaFone is the true expert at what end-use customers need, and I think that

model is why customers like Iridium service so much – it's not just the service we provide, but the customer service and relationship they have with a distributor like GlobaFone.

Lou:

Why thank you for that compliment. We certainly set high expectations with our clients and the Iridium distribution channel enables us to meet or exceed them. Clients really do love that, even if they measure success as a lack of complaints from their users – the old 'no news is good news' adage. So we had a powerhouse year in 2009 – Anything NOT get accomplished?

Matt:

There's nothing that didn't get completed that was expected to be completed in 2009. Going public took longer than expected, which has delayed the final financing for NEXT, but we're pretty confident we will be able to get that done in 2010 and move NEXT into the building phase this year.

Lou:

That will be great to hear about as we move through the year. There is some speculation on both sides whether NEXT will fly. So this is a nice transition to the financial discussion. A big part of 2009 was raising capital, totaling hundreds of millions. Did Iridium raise all it needs?

Matt:

NEXT is going to cost about \$2.7B in cumulative capex once it's complete in 2016.

Lou:

That is a significant investment.

Matt:

Yes and the merger with GHQ was only one part of that funding, though it was a critical milestone and did raise all we expected it to – and has allowed us to be debt free now with a significant cash balance sheet.

Lou:

Was the IPO as successful as you had planned?

Matt:

It wasn't technically an IPO, but did basically have the same effect as one. Yes, it raised more than \$200m immediately for Iridium with the potential for more than \$250m in future warrant proceeds, so it was financially very successful. Even more importantly, becoming a public company creates a lot more options for Iridium with the transparency it creates in the business operations, and it allows us to work on the remainder of the financing.

Lou:

I stand corrected on the terminology. Not that you have the famous crystal ball but Iridium's stock has slid from the \$10.00 'option' price since November. Do you attribute this to anything or do you see this as significant?

Matt:

Lou, when you figure out the markets, please let us me know! (laughs) We've actually achieved everything and more than we promised before the merger was complete, and so I assume the stock price is a function of investors waiting until we complete the rest of the financing for NEXT. Personally, I'm really only worried about the long term value of our stock, and I'm pretty confident about that – so much so that I used the recent dip as an opportunity to buy some myself.

Lou:

No, I'm not going to even try to figure out the markets (laughs). Is there an ideal size capitalization for Iridium?

Matt:

If you mean how much capital does Iridium need, we need enough to pay for NEXT over the next 7 – 8 years, and after that is complete, we don't require much capital again for almost 15 years, so we'll become a "cash machine" quickly after completion of NEXT. If you mean the ideal size for Iridium – we're there now. One of the great things about our business model is that we have a primarily fixed cost base. Increasing revenues don't drive increasing costs, so additional revenues fall to the bottom line.

Lou:

That's a very enviable model – growing revenues and maintaining costs, very nice. What other plans are there for raising capital? What would it be used for?

Matt:

All our capital is primarily used to pay for the development of NEXT. We do use some capex for ongoing maintenance of our ground stations and in the development of new products, but that's pretty small compared to the replacement of our satellites. To complete the financing of NEXT, we recently hired Goldman Sachs as advisors, and we're primarily focused now on export credit agency debt – it's very valuable financing since it primarily comes as a guarantee without the requirement to actually take the debt until you need it, saving a lot in interest fees. With Iridium's current profitability and the modest early stage development funding requirements of NEXT, we don't really need all the funding today – we just want to make sure we have access to it. Since we're in a final stage of a competitive process with two potential satellite suppliers – Lockheed Martin and Thales Alenia – we're using the process to see if we can't get a significant amount of "vendor financing" along with the best deal on the satellites.

Lou:

I would think in this economy, you may have some leverage on that vendor financing. Is there a limit to how big Iridium can become?

Matt:

If you mean in terms of revenues and subscribers, we think we have a huge potential. We have more than 359,000 subscribers today, but our network can eventually support almost ten times that amount, so we have plenty of room to grow. As we create more products – like Iridium OpenPort or new handsets or low cost "M2M" devices – we're going to see our partners create even more innovative and valuable applications that customers will buy. Expectations for wireless connections continue to grow around the world, and there aren't any other "magic technologies" that will come along and fill the gap that Iridium provides over the next 20 years. So over the long term, we think our revenues and subscribers can continue to expand greatly in the coming years.

Lou:

That's pretty exciting. I heard it said someplace that our kids will take the internet to places we never thought of; I see a similar opportunity with Iridium; we've only started to see what can be done. Is there a ratio of subscribers-to-market cap that can be attributed?

Matt:

There's a relationship there, but it's not direct. What investors want to see from us is continued earnings growth, and since we're primarily a fixed cost business, that means that most of any new subscriber's revenue falls to the bottom line. That leverage is very powerful, but it means adding subscribers and service revenues is very important to our growth. That's why we continue to invest in new subscriber devices, in better value propositions for our partners, in opening up new markets like Mexico, Russia and China, and why we keep working to make sure Iridium can be used for new regulations around the world that require a satellite connection.

Lou:

The truly global satellite phone goes truly global! Let's talk a bit about the current constellation and NEXT. People look to the February Russian satellite collision and wonder about the status of the constellation. How is it doing?

Matt:

As I said before, it's doing very well. We still have a full complement of 66 operational satellites along with an additional 7 spares in orbit, and we don't expect to use those up until 2013 to 2014, so we should have a very high quality network service until we're replacing the network with NEXT starting in 2014.

Lou

The original end-of-life is upon us; Iridium/Boeing used some creative techniques to extend the life of the satellites. Are those extensions coming to a close – how much more can be squeezed out of these birds?

Matt:

Boeing continues to find ways to working around the hardware or software problems a satellite can have, and we see their success in the life we're currently expecting from our network. There are still a lot of ideas they want to try but we've been keeping them too busy building new features and products like OpenPort.

Lou:

What is the overlap plan - Launch NEXT and let old satellite de-orbit?

Matt:

When we launch NEXT, each satellite is not only backward compatible with all our user's current devices, but it's backward compatible with the other satellites in the network and with our ground stations. So, as each satellite is launched, it will replace a working satellite that will then be moved down to a storage orbit until we're sure it's no longer needed. At that point each is de-orbited – which means its rocket engine fires to move the satellite to an orbit where it will eventually burn up in the atmosphere sometime within the following year.

Lou:

While it will be unfortunate to see them go, those will be some spectacular Iridium flares! (laughs). When is NEXT scheduled to launch?

Matt:

Current plans call for first launch in late 2014, with all the satellites replaced by end of 2016.

Lou:

That may seem a long way from now but I'll bet it really isn't that far off in your mind.

Matt:

No, not really; there is a lot to be done between now and then.

Lou:

How many payload-for-hire partners do you see as being realistic and what will be their financial contribution?

Matt:

Each of the 66 satellites can host a secondary payload, but we don't expect that we'll sell room on every new satellite in the constellation. I wouldn't be surprised though if more than half of the satellites have a sensor onboard for some government or commercial customer, with Iridium bringing back the data from that payload to the customer for a fraction of the cost it would have cost them to put their payload into space themselves. We think this is going to generate significant additional revenues for Iridium both before we complete NEXT, as well as for the 15 years or so those satellites will be in orbit.

Lou:

And that additional revenue is very attractive. Unfortunately the naysayers (mostly competitors?) like to say that Iridium will follow in Globalstar's footsteps. Can anyone say for sure if we'll see constellation deterioration before NEXT flies?

Matt:

Well, there are a lot of differences between Iridium's network and Globalstar's. The biggest is that Globalstar went public with many of their 48 satellites not working (for voice), and they had no spares in space. Iridium has all of our satellites working, and we have additional satellites in space for when they occasionally fail. There are other big differences as well – our satellites are much more “repairable” in space than Globalstar's, since we can upload new operating software to our satellites rather than doing all the call processing on the ground as Globalstar does. We're also fortunate that our orbit flies through considerably (maybe one-tenth) the radiation that Globalstar has to contend with.

Lou:

Certainly not an apples-to-apples comparison is it?

Matt:

No, it isn't. Additionally Globalstar only has a handful of satellites working today for voice. Their new network will now only be composed of half the original number of satellites, so it won't work the same way as the previous 48 satellite system worked. It also will take them time to launch and position their new satellites, so despite their allusions to the contrary, I doubt there will be significant improvements in their service quality until well into 2011, if not later.

Lou:

So you don't see the June 2010 target as ever having been realistic?

Matt:

It may have been at one time, but then reality set in.

Lou:

Without giving away the details, how will Iridium achieve the 10 MB data speed I've seen bantered about?

Matt:

I assume you're talking about faster data rates with NEXT satellites.

Lou:

Yes, that's precisely what I mean.

Matt:

Sure, we're planning to offer a variety of new speeds for handheld devices up through fixed satellite devices mounted on airplanes, ships and other vehicles. We're only targeting up to close to 1 Mb per second on the smaller fixed and mobile devices – higher might be possible, but only to larger fixed satellite dishes. When it comes to speed, we might still be faster than all other competitors when we launch on our data rates, but what we're really targeting is to be less expensive – both in the device cost, as well as ongoing voice and data costs. And, of course, our truly global coverage is often a deciding factor for customers.

Lou:

Truly global coverage has been that deciding factors for many years. So you'll recall that satellite-based internet in your hand was the vision of Craig McCaw and ICO 10 years ago - Has Iridium borrowed any pages from their playbook?

Matt:

I think they've shown that playbook doesn't work very well, as ICO went bankrupt in 2009, and the other companies focusing on competing with cellular phones (Terrestar and Skyterra) are having a lot of problems raising money and getting into service. I wish them well, but given the past experience of Iridium, doubt they'll be successful – I'd rather focus on doing what we're doing to provide a cost effective global service where cellular doesn't work, rather than spend all the money it would take to compete with the 9 or 10 cellular carriers who are competing for the small percentage of the planet where they work.

Lou:

Sure, nothing else matters except results: Iridium working and growing and the others, well, I think we've reviewed their results. But turning to the competition more closely; How real is the Globalstar threat to Iridium?

Matt:

I'm not sure what threat you're referring to – that they get back into business?

Lou:

Yes, that they get their satellite launched, service restored and subscribers start paying for the service.

Matt:

We were growing in excess of 20% a year when their service worked well – why would we assume we couldn't still grow and thrive if and when they return? From what I hear, Globalstar is trying to reposition themselves to be a consumer business, based on their early success with "Spot." That's a tough, expensive proposition, and will require a lot more money than they currently have in the bank to pull off. I think they are making a mistake by planning to bypass distributors like GlobaFone, who are the ones who can really service and support their customers.

Lou:

Oh Matt, the accolades (laughs). Kidding aside, I tend to agree – SPoT has certainly led Globalstar down the consumer product path. With a SKU in thousands of retail stores, adding their handset enables them to replicate the cellular model – comp for the handset and a spiff for service activations. I'm unconvinced that consumers will spend \$600 on a phone in the big box stores or that the stores will even want to take on customer service for a retail customer for a satellite phone. 97% of GlobaFone's business is Government and Enterprise for a reason. It's very expensive to sell and service one phone at a time. But sticking with Globalstar for a moment, how would you describe the success of the "Trade-Up to Iridium" program for Globalstar owners?

Matt:

It's been a big success. We've had many thousands of Globalstar customers come over to Iridium service. In addition to getting a product that works, they've seen how it works anywhere on the globe, rather than just where Globalstar ground receivers are located. The Trade-Up program has made Iridium's quality affordable to Globalstar customers who really needed a service that worked.

Lou:

Will the Trade-In be extended or renewed?

Matt:

I think most of the Globalstar customers that really needed the program have probably taken advantage of it already, so we'll probably work with our distributors on supporting specific Globalstar customers who still want to move. I'm still expecting another round of frustrated users since Globalstar is implying that its service will improve in 2010 with the first launch of its new satellites. They will be disappointed to find little changes for at least another 12 – 18 months after that.

Lou:

So when we have a specific case we may be able to work with our Service Partners? That's great to know. So Iridium must have quite a collection of Globalstar phone now What will happen to all those traded-in Globalstar phones?

Matt:

I think we've sent them to a reclamation service that tries to recycle any materials that are usable.

Lou:

All we've discussed AND Iridium is participating in the green movement? I love it! (laughs) So What about INMARSAT's iSAT phone? Given the difference in operability, how credible a threat is it?

Matt:

Inmarsat has been promising this phone for more than 3 years, and the only thing they've told the market about it is that it will be cheap. I think the reason for their delay is how hard it is to get a mobile satellite phone to work on a geostationary satellite system that wasn't designed to support it. Their satellites are almost 25,000 miles away from the customer, rather than the 485 miles that ours are, so they have some real physics challenges to get an acceptable quality of service. When the phone is finally available, I think their customers will be disappointed with how much effort they'll be spending to make the service work – so the phone had better be cheap. Regardless, we're not standing still. We're investing in our handheld products too, and will have some interesting new features to offer in the next 12 – 18 months as well as bringing down the cost.

Lou:

And we're all looking forward to those features and the lower price. I tend to agree with you on the iSAT phone even if just for the simple reason that if you are on the

wrong side of the mountain or building, good luck. I just don't see it working as well as Iridium. Matt, we've discussed Skyterra before – do you see a viable product from them or Terrestar?

Matt:

Perhaps, though I'd be very concerned for their early customers in relation to their financial viability. I expect they will need to go through a bankruptcy or some other restructuring before they are able to do as we did and turn its service into a viable business. From what we can see, they are still a long way from a sustainable, profitable business model.

Lou:

What about O3B? Will they impinge on Iridium's client base?

Matt:

Not from what we can tell. They are focused on broadband connections to fixed assets like cell towers, so they are more of a threat to fixed satellite operators who are in that business.

Lou:

And it occurred to me that the market segments were different as well. What about Thuraya? How realistic is it that they will be granted permission to launch a satellite over the US?

Matt:

I wasn't aware that they were even trying. Thuraya doesn't appear to have the financial resources to do that, and it wouldn't seem to make sense from a competitive perspective either. If they were even interested, I believe it would take them many, many years to get into service over the US.

Lou:

Hmmm. Perhaps I mis-read but I was under the impression that after they covered Asia, the Americas were next. Could be my mistake. So which constellation poses Iridium's biggest competitive threat?

Matt:

I guess I don't look at it that way. We all provide a different value proposition than each other, and each company in our sector has attracted a different customer base. We've clearly historically grown much faster than all the other satellite companies, so I think we're doing something right. We've focused on the quality oriented segment of the market -- customers who want to know that their phone or data device will work anywhere on the planet, no questions asked. We're the fastest growing in the aviation segment, where our systems are far more lightweight, less expensive and work in more places than anyone else. We really only compete with INMARSAT in the maritime segment, and have more upside potential there than any other service. I don't think we've even started to tap the immense potential of our real time, two way "machine to machine" short burst data business -- with lower cost devices on the horizon, we'll be more cost competitive and better performing than any other satellite solution now and into the future. We stack up very well against all the other mobile satellite service companies, and will continue to do so well into the future with all the investments we're currently making.

Lou:

Certainly as companies look to reduce costs, the M2M segment holds significant potential. With all those Partners, VAMs and VARs, it's pretty crowded, isn't it? Who are Iridium's biggest Service Partners and what makes them successful?

Matt:

On the voice side, Stratos and Vizada are by far our largest Service Partners in terms of revenue, but revenue isn't our only metric and there are many other strong Service Partners around the world. On the data side, there are probably more than 100 different companies developing Iridium solutions for transportation, oil & gas, aviation, asset tracking, and a host of other industries. I think our partners are most successful when they really understand their end customers, and are relentless at providing them great customer service and competitive prices.

Lou:

Are there attractive Distributors that currently are not selling Iridium?

Matt:

I'm sure there are, but we're focused on quality, rather than volume of distributors. As you well know, independent distributors are real key players in our distribution channels -- our direct Service Partners provide Iridium service through independent distributors such as GlobaFone. It's clearly a very competitive market out there, and we

aren't really looking to add more Service Partners unless they bring something to bear that isn't available from anyone else – like access to a new country, or a different industry segment, etc.

Lou:

Will Iridium ever become a 'retail' product?

Matt:

I think some of our partners are taking our product in that direction – particularly on the data side. Our new data modems are getting so small and inexpensive, that their chips could be embedded into all kinds of consumer devices. I don't see Iridium doing that directly though – we'd rather work through our partners with the technical expertise, market knowledge, and marketing prowess to take those products to market. I think you're going to see a number of innovative two-way Personal Navigation and Messaging Devices hit the market in 2010 from a number of our partners – taking on the new market created by "Spot".

Lou:

How would bringing an Iridium phone to the 'masses' change the distribution landscape?

Matt:

Again, I don't currently have any plans or vision to going around our distribution partners to go to "the masses." Globalstar, or even Inmarsat, might be planning that, but I believe our distribution partners are the best to sell and service a high quality Iridium experience to the market. If our service partners want to take us through catalog, internet, or other mass market channels, we'd certainly support them, but don't want to compete with them.

Lou:

That is a great philosophy. As we've discussed, I'm lost on the concept of a Service Partner building a Reseller base to then actively compete against them. Thank you for not doing that. So how feasible is it to have a consumer-based version of Iridium?

Matt:

I think it's very feasible, but we would want a consumer oriented partner, with consumer brands and relationships, to do the work. Iridium isn't best suited for that effort.

Lou:

You and I have discussed handset pricing before; with a new Globalstar and the iSAT phone, how much pressure is there then on Iridium to lower hardware prices?

Matt:

I think there will be pressure – we’ve been in the market with little real competition the last several years, and we’ll need to respond to the competition when it comes – Inmarsat potentially later in 2010, and Globalstar probably in about 2012. We’ll find ways to work with our distribution channels to not only make Iridium more affordable, but to deliver new services and features that haven’t been available before.

Lou:

If the price dropped enough, would Iridium become ‘retail’?

Matt:

If you mean would more end users see the value in having a mobile satellite phone as a backup to their cellular phones or for certain activities – sure, though it’s very difficult for us to measure that elasticity of demand. Long term (over a number of years), we expect Iridium phones to be available “retail” for \$500 – \$600 – perhaps even lower after service credits, etc. How many more will buy Iridium service as a result than those who are currently paying \$1200 or so today for a phone? I don’t know, and don’t know that anyone does, but I’m pretty sure it’s more than today.

Lou:

Will Netted Iridium ever become a viable competitor to standard radios?

Matt:

Netted Iridium is a service we’re developing with technical partners such as Boeing and ITT for the military. They are quite excited about using Iridium as a replacement or to augment current tactical radios in the field. I think we’ll be offering a commercial version of this in the future, and I’m sure there are a number of enterprise businesses that would be attracted to it, just as there is a market for Nextel “push-to-talk” phones.

Lou:

Globalstar’s SPoT has created a new product segment; Any plans for Iridium to join the category and compete?

Matt:

Absolutely. There are probably 5 – 8 different Iridium value added resellers or service partners planning offerings in this space, some with initial “industrial strength” products out today, and some planning lower cost “consumer strength” products in 2010 and 2011. Spot has really opened up the market, but everyone sees Spot’s limitations – it’s one way and only works on part of the planet. There are a lot of false alarms, which are really putting off emergency and rescue agencies. With a two-way Iridium-based product, I think you’re going to see some exciting new products in this new market segment.

Lou:

Any thoughts to reverting to the original concept: cell/sat phone in one handset?

Matt:

It sounds like a great concept, but in practice, there really hasn’t been much demand from end users for it. While Globalstar and Thuraya have had dual mode products available for a long time, we’ve noted that they don’t sell very many compared to “single mode” satellite phones. People seem to want their Blackberries, iPhones, etc., for day-to-day life and keep their satellite phone battery fully charged for when they really need its functionality. It wouldn’t take much for us to offer a dual mode phone – our partners haven’t told us they think they could sell very many.

Lou:

And I agree, just asking the question. So no snap-in cartridges or multi-chip phones any time soon then?

Matt:

(laughs) No, not likely.

Lou:

How does Iridium keep its value proposition and differentiation?

Matt:

Well, the most important differentiation we have is true global coverage – no one can make the promise that we do about coverage. I think we’re also viewed for our reliability – we always work, no matter what. We offered a “money back” network

quality guarantee a few years ago, and you know what? To date, we've had NO requests – NONE! I think that speaks pretty well for the overall quality of our network compared to others. We continue to invest to make sure that continues to be our trademark.

Lou:

That really speaks to the reliability of the network and how well it is functioning. Very impressive. Shifting gears (again!), How long until we see a handset the size of a standard cell phone? What needs to happen?

Matt:

Frankly, it's pretty much possible today, at least in a form factor that might have been possible just a few years ago. Again, smaller for a satellite phone is appreciated by customers, but not so much if it impinges on battery life, the ability to use the phone in an emergency, or with gloved hands, etc. The 9555 is quite a bit smaller than the previous 9505A, and future versions might be smaller yet, but we aren't really driving for too small in that it won't be the industrial strength tool it is today for our customers.

Lou:

I like it –cater to the client's need. Okay we've coverage about everything. Let's tie this up in a nice little package. Looking at 2010 – 2013 - What are the top three initiatives for each of the next few years?

Matt:

The most important is to get going on NEXT, and ensure the success of the company well into the next decade and beyond. After that, we have a number of new products we want to bring to market in the next year or two, well in advance of NEXT. Finally, I would say we want to be the best satellite network operator for our partners – we want to make it even easier to do business with us, and for us to help them serve their customers.

Lou:

And I look forward to Iridium's progress and success in these areas. Well, Matthew Desch, thanks so much for talking with me today. You've brought some great information and a lot to consider. Thanks so much for being my guest on the Straight Talk Series!

Matt:

You're welcome Lou, my pleasure.

Lou:

Well, this includes this edition of the Straight Talk Series. This interview will be posted at our website www.satellitephonestraighttalk.com. Thanks everyone for listening.