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OCTOBER 2, 2012 • NEW YORK, NY

TIME ARBITRAGE

GLENN TONGUE, T2 PARTNERS

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Time Arbitrage – Two Ideas

Glenn Tongue

Value Investing Congress

October 2, 2012

T2 Partners LLC

**T2 Partners Management L.P.
Manages Hedge Funds and Mutual Funds
and is a Registered Investment Advisor**

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Idea #1: AIG

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- AIG is a leading global multi-line insurance company with well-managed, sustainable global franchises
- AIG today is far different from the risky pre-crisis AIG
- Lingering taint from the crisis results in the stock trading at a 50% discount to book value
- We think AIG is worth at least 1x book value, and see numerous catalysts in the next 12-18 months to close the valuation discrepancy

- When we presented AIG at the Value Investing Congress in May, we highlighted how different the company is today from the risky pre-crisis AIG
- Since then, AIG has made substantial progress and book value has risen by 11%, yet the stock has risen by less than 5%, trailing the market
- At a 50% discount to book value, AIG is an even more compelling investment opportunity today

- Stock price (10/1/12): \$33.26
- Shares outstanding: 1.6 billion
- Market cap: \$52.4 billion
- Book value (06/30/12): \$104.7 billion
- Book value per share: \$66.51
- Price/book: 0.50x
- Short interest: ~1.4%

By May 2012, AIG Had Made Good Progress In Reducing the Government Stake

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Common Share Ownership

However, the Government Stake Was Forecasted to Remain Until at Least 2014

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Question to fund managers/analysts:

- “When will the government exit AIG?”

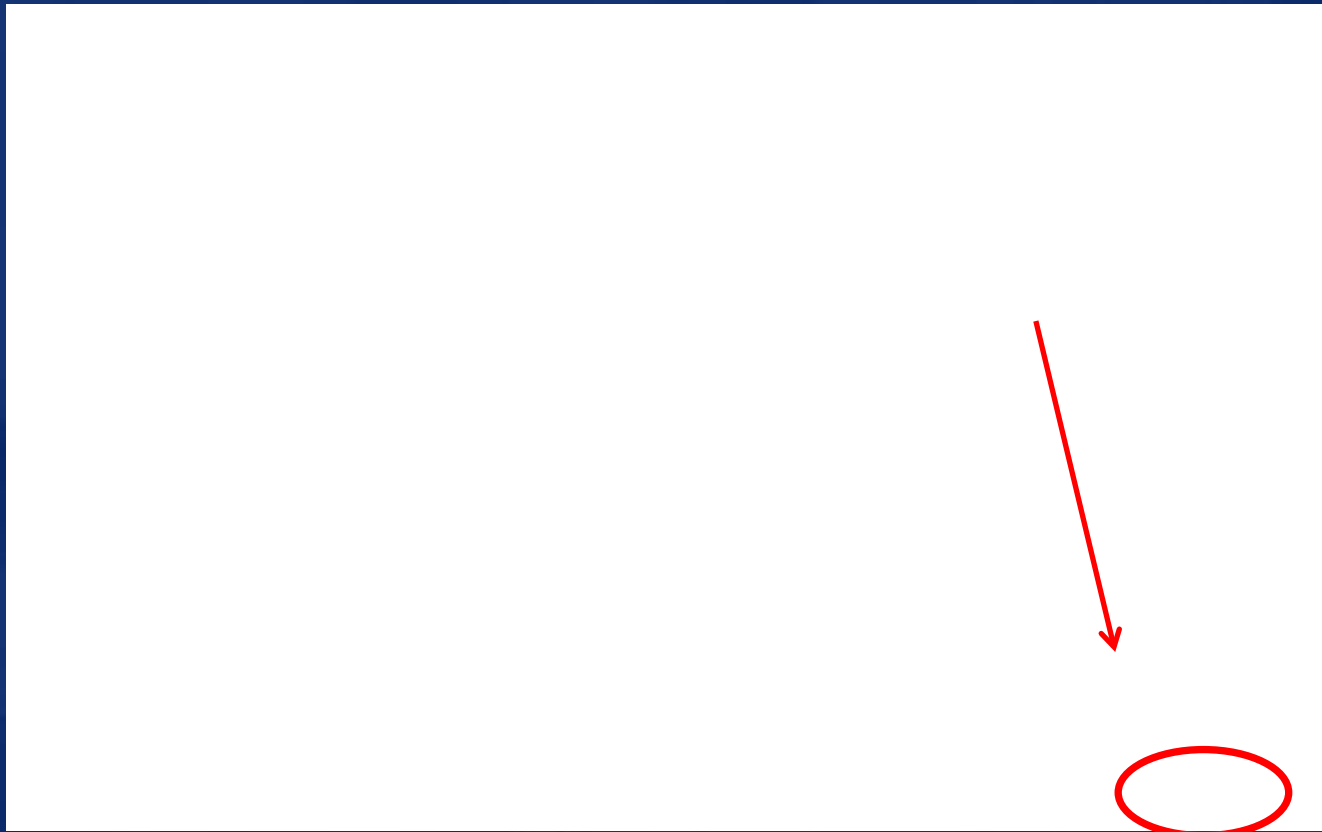
Answers:

- “The overhang will take years. Are there sufficient buyers for \$30B+ worth of AIG stock? Facebook only raised \$15B.”
 - Portfolio Manager, mutual fund
- “If the economy remains steady, I expect it is possible in 2015 or perhaps 2014, unlikely to be before, given the significant stake.”
 - Investment Manager, large pension fund

Only Five Months Later, the Government Overhang Is Nearly Gone

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In September 2012, the US Treasury's AIG stock sale was oversubscribed, with ~\$21B of AIG stock sold, leaving the Treasury with only ~16% ownership



What About the Treasury's Remaining ~\$8.5B Stake?

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Asset sales and cash flow more than cover remaining stake

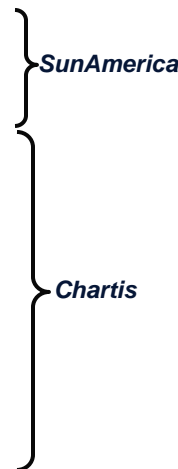
AIG Is a More Compelling Investment Today Than It Was in May

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- Of the \$21B sold by the Treasury, \$5B was bought back by AIG
- We would have liked to see a larger buyback but believe the company was prudent to maintain a strong relationship with the Fed (AIG's new regulator) and the rating agencies
- Earnings power is increasing and the company is well positioned to benefit from an improvement in P&C pricing



- Today AIG is a leading, financially sound multi-line insurance company focused on its core businesses
- High-quality, market-leading franchises in both property & casualty insurance (Chartis) and US life & retirement (SunAmerica) account for ~90% of revenue



Chartis – Property & Casualty Insurance

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- Chartis is a leading global property and casualty insurance franchise serving more than 45 million clients
- Writes a full suite of commercial (61% of premiums) and consumer (39% of premiums) insurance
- Restructuring initiatives being implemented; Chartis core results improving with premiums growing, prices increasing and reserve trends improving
- Better P&C results expected from cyclical turn in pricing, following severe global catastrophe losses in 2010 & 2011



P & C Comparison table

Sep 26 2012

Ticker	Company Name	Price/Book Value	Price/Earnings
ACE	ACE Limited	0.99x	12.6x
ALL	The Allstate Corporation	1.00x	9.8x
CB	The Chubb Corporation	1.30x	12.8x
CNA	CNA Financial Corporation	0.59x	10.5x
TRV	The Travelers Companies, Inc.	1.06x	12.3x
Average		0.99x	11.6x
Median		1.00x	12.3x

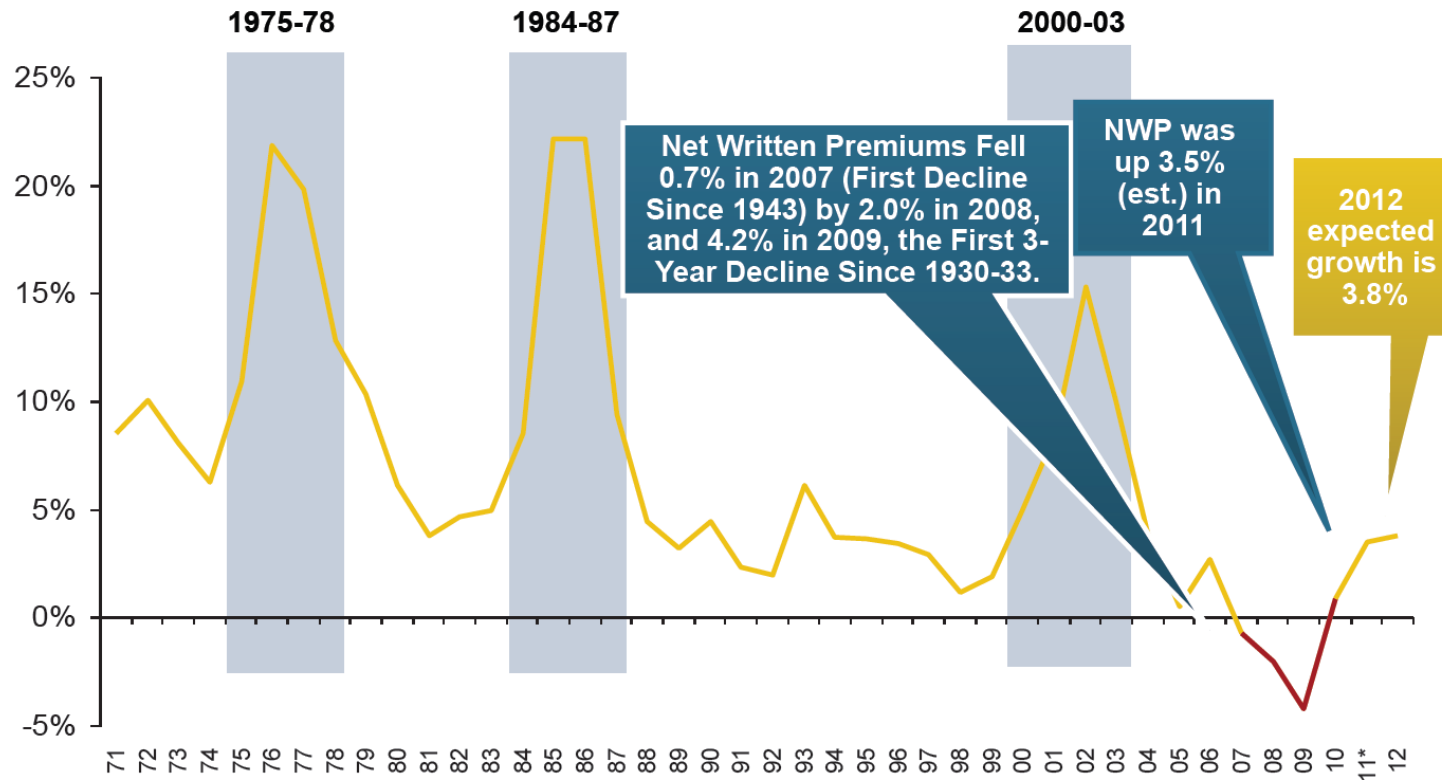
The Insurance Market Is Hardening, Which Will Benefit Chartis

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Soft Market Persisted into Early 2011 but Growth Returned: More in 2012?



(Percent)



*2011 and 2012 figures are A.M. Best Estimates

Shaded areas denote "hard market" periods

Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

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SunAmerica – Life Insurance and Retirement Services

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American General Life Companies

- SunAmerica is one of the largest life insurance and retirement services operations in the US, with 13,000 employees serving over 19 million clients
- SunAmerica is divided into two segments
 - Domestic Life for mortality and morbidity-based products
 - Domestic Retirement for investment, retirement savings and income solution products

Life Insurers Comparison table

Sep 26 2012

Ticker	Company Name	Price/Book Value	Price/Earnings
LNC	Lincoln National Corporation	0.48x	28.9x
MET	MetLife, Inc.	0.59x	5.3x
PFG	Principal Financial Group Inc.	0.84x	12.5x
PRU	Prudential Financial, Inc.	0.68x	7.8x
UNM	Unum Group	0.64x	26.2x
Average		0.65x	16.1x
Median		0.64x	12.5x

AIG's Intrinsic Value is ~50-130% Higher Than Today's Price

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- Our sum-of-the-parts valuation yields a value of ~\$49 to ~\$77 per share, a 50%-130% premium to today's price
- We also forecast normalized AIG earnings at ~\$5-6 per share, suggesting AIG is trading at ~6-7x normalized earnings

AIG Valuation Estimate				
	Book value @ June 30, 2012 (\$B)	Multiple range	Value low (\$B)	Value high (\$B)
Chartis	47.99	0.9 - 1.3	43.19	62.39
SunAmerica	36.46	0.7 - 1.1	25.52	40.10
United Guaranty	2.48	0.7 - 1.0	1.73	2.48
International Lease Finance Corp (ILFC)	7.76	0.9 - 1.3	6.98	10.08
AIA Holdings stake (AIG 20%)		Market value	5.00	5.00
Other			(5.00)	1.00
Total equity (\$B)			\$77.42	\$121.05
Total shares outstanding (B)			1.57	1.57
Intrinsic value per share (\$)			\$49.18	\$76.90
Upside %			48%	131%
Note: Valuation excludes ~\$11B (~\$6 per share) of 'other' deferred tax assets				

Investors Aren't Likely to Be Victimized By Unexpected Losses, as They Were When AIG Collapsed During the 2008 Financial Crisis

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- The level of disclosure and visibility into AIG is unparalleled
- There are no incentives to overstate book value – new management arguably had incentive to *minimize* book value
- Since the financial crisis unfolded, AIG has been overseen and analyzed by multiple regulators:



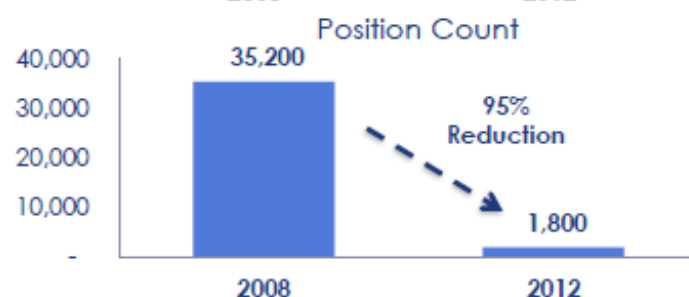
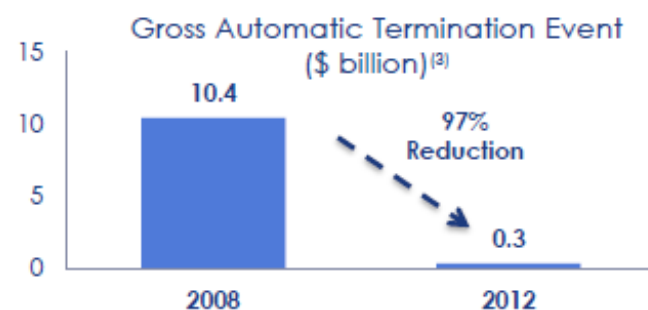
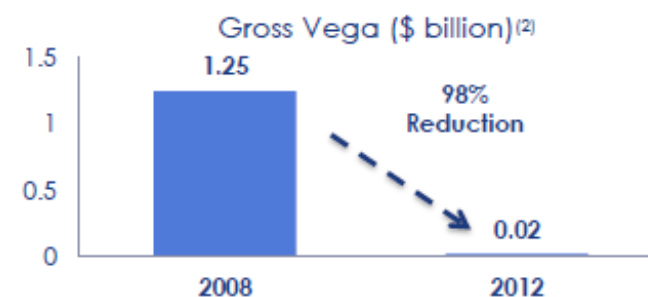
Derivative Risk Has Been Greatly Reduced

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Legacy AIGFP: What We've Accomplished

AIG will continue to reduce the risk of the legacy AIGFP portfolio with the goal of retaining the maximum economic benefit possible.

Derivatives Book	Net Notional Exposures (\$ billion)			% Reduction	
	December 31, 2008 ⁽¹⁾	December 31, 2011	June 30, 2012	2008 – 2012	2011 – 2012
Market Derivatives	~1,450	131	118	92%	10%
Multi-sector CDS	~13	6	5	62%	17%
Corporate Arbitrage	~52	12	12	77%	0%
Regulatory Capital CDS	~245	7	3	99%	57%
Stable Value Wraps	~40	20	19	53%	5%
Total Legacy Derivatives ⁽⁴⁾	~\$1,800	\$176	\$157	91%	11%



- The overhang of the US Treasury ownership is nearly gone
- Additional sales of non-core assets
- ROE expansion and operating improvements in core business driven by restructuring initiatives, price increases and an improving insurance market
- Use of appropriate leverage to boost returns (AIG has a low debt-to-capital ratio versus peers)
- Offense vs. defense: going forward, AIG can focus growing its business and allocating its strong cash flows instead of selling assets and managing government ownership
 - Additional buybacks and initiation of dividend likely
- Fading of institutional taint

AIG's Warrants Are a Unique, Leveraged Way to Invest in the Company

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- AIG issued 75 million warrants to existing shareholders as part of the government reorganization of the company in January 2011
 - Expiration: January 19, 2021
 - Strike price: \$45
 - Option Price (@ October 1): \$13.70
 - Stock Price (@ October 1): \$33.26
 - Warrants are subject to anti-dilution adjustments for various events. The warrant exercise price is adjusted accordingly if cash dividends exceed \$0.67 per year
- If AIG grows book value at 6-8% per year and the stock trades at book value upon expiration, the warrants will increase in value by approximately 8x (vs. 4x for the stock)

- Deteriorating macroeconomic environment
- Reserve shortfalls
- Exposure to derivatives
- Exposure to super cat risks (hurricanes, etc.)
- Exposure to Europe
- Management succession
- Volatility (not a concern for a patient investor)

- A strong global franchise trading well below intrinsic value
- Government overhang almost gone
- Core businesses improving
- Insurance market hardening
- Management executing on strategic plan
- Multiple catalysts to close valuation gap

Idea #2: Iridium

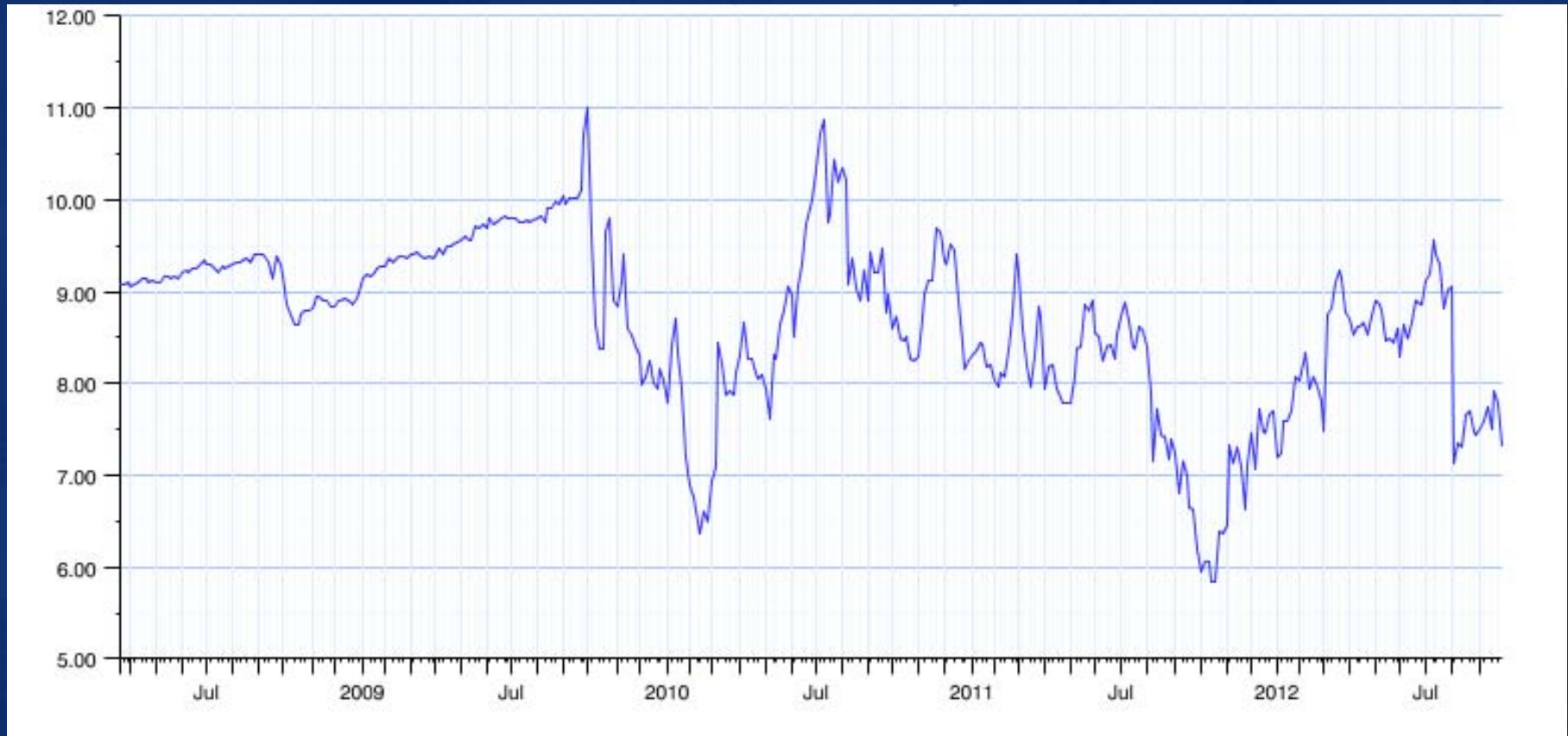
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Iridium's Stock Has Declined Since It Began Trading Despite Significant Growth In Business Value

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IRDM's share price since listing



- Deeply misunderstood situation
- Attractive business
- Unique competitive advantages
- Rapid growth
- Significant optionality through Aireon
- Compelling valuation
- Recent financing removes uncertainty and creates trading opportunity

Financial Summary

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\$M	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012E</u>
Revenue	\$320.9	\$318.9	\$348.2	\$384.3	\$393.0
Op EBITDA	\$111.1	\$133.9	\$158.9	\$190.4	\$210.0

- Fully diluted shares outstanding: 87 million
- Market capitalization: \$730 million
- Less: net debt (2012E): \$500 million
- Enterprise value: \$1.24 billion
- EV/EBITDA (2012E) : 5.9x
 - Comparables trade at 9-10x

A vital, global communications provider of mobile voice and data services via 66 in-orbit satellites

- Serving 576,000 customers across the land-based handset, maritime, aviation, machine-to-machine (M2M) and government markets
- Anchor U.S. DoD customer represents 23% of revenue⁽¹⁾
- LTM net income of \$50 million, revenue of \$388 million and Operational EBITDA (OEBITDA) of \$195 million
- 2007-2011 service revenue and OEBITDA CAGRs of 15% and 24%



Mobile Satellite Service (MSS) Is a Large, High-Growth Opportunity











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- MSS market generated \$1.4 billion in 2011 revenue⁽¹⁾
- MSS industry revenue CAGR of 11% expected between 2010 and 2015⁽¹⁾
- Differentiated network technology creates sustainable competitive advantages
- Revenue quality and diversity from serving multiple core markets
- Superior functionality and device innovations

MSS Provider	2011 Revenue ⁽²⁾	Network Architecture	Core Markets
Inmarsat	\$720M ⁽³⁾	GEO with no polar coverage, bent pipe architecture	Maritime & Land Broadband, Aviation, Handheld Voice
Iridium	\$384M	LEO with 100% coverage and crosslinks	Handheld Voice, M2M, Maritime Broadband, Aviation
Thuraya	\$165M	Regional GEO with no polar or western hemisphere coverage	Regional Handheld Voice & Land Broadband
Globalstar	\$73M	LEO with satellite failures; bent pipe architecture; new launch campaign	One-Way Personal Locator Beacons & M2M
Orbcomm	\$46M	LEO with no polar coverage, bent pipe architecture	M2M

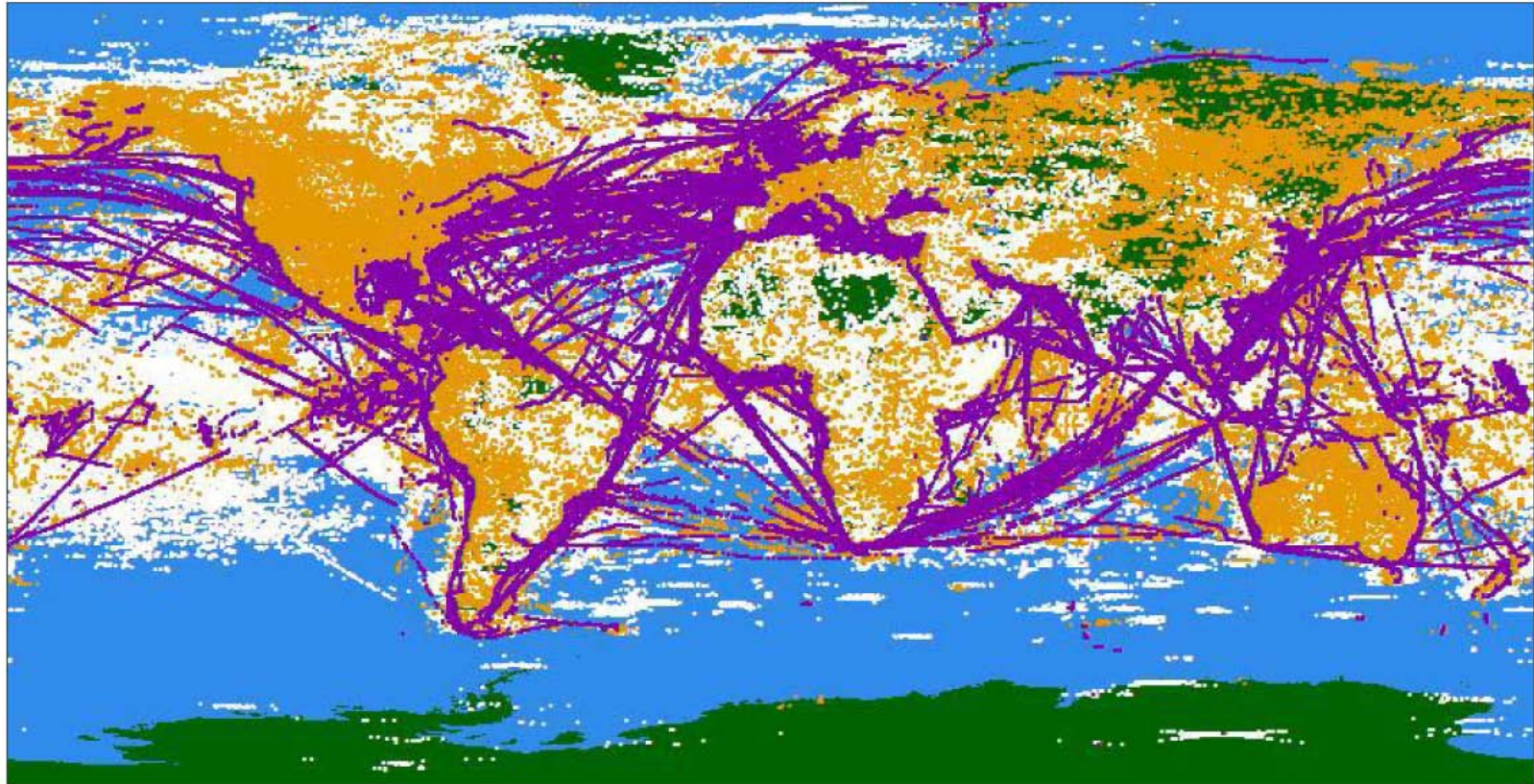
IRDM Is Well Positioned in the Market

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	Position	Market Growth ⁽¹⁾	Key Competitors	Iridium Advantage	Growth Strategy
 Land	<ul style="list-style-type: none"> • #1 position • Premium provider 	 2-3% CAGR thru 2015	<ul style="list-style-type: none"> • Inmarsat • Thuraya (regional) • Globalstar 	<ul style="list-style-type: none"> • True mobility • Coverage • Reliability 	<ul style="list-style-type: none"> • Multi-device portfolio • Profitable hardware cost structure
 M2M	<ul style="list-style-type: none"> • Fastest growing; best prospects • Premium provider 	 18% CAGR thru 2015	<ul style="list-style-type: none"> • Orbcomm • Inmarsat • Globalstar 	<ul style="list-style-type: none"> • Coverage • Low latency • Throughput • Two-way service 	<ul style="list-style-type: none"> • Hardware cost reduction • IP licensing
 Maritime	<ul style="list-style-type: none"> • #2 position • Fastest growing • Value provider 	 13% CAGR thru 2015	<ul style="list-style-type: none"> • Inmarsat 	<ul style="list-style-type: none"> • Coverage • Low cost • Small antenna 	<ul style="list-style-type: none"> • #1 in 128 kbps • Cost-effective • Expand value markets (VSAT)
 Aviation	<ul style="list-style-type: none"> • #1 in general aviation • Value provider 	 19% CAGR thru 2015	<ul style="list-style-type: none"> • Inmarsat 	<ul style="list-style-type: none"> • Coverage • Low cost • Small device 	<ul style="list-style-type: none"> • Iridium OpenPort AeroSM • Safety services
 Government	<ul style="list-style-type: none"> • #1 low-speed data and voice 	 6-8% CAGR thru 2015	<ul style="list-style-type: none"> • Inmarsat 	<ul style="list-style-type: none"> • True mobility • Coverage • Netted • Security 	<ul style="list-style-type: none"> • Netted • M2M solutions • Proprietary secure voice

Iridium's Customers Are Using Its Services All Over the Globe

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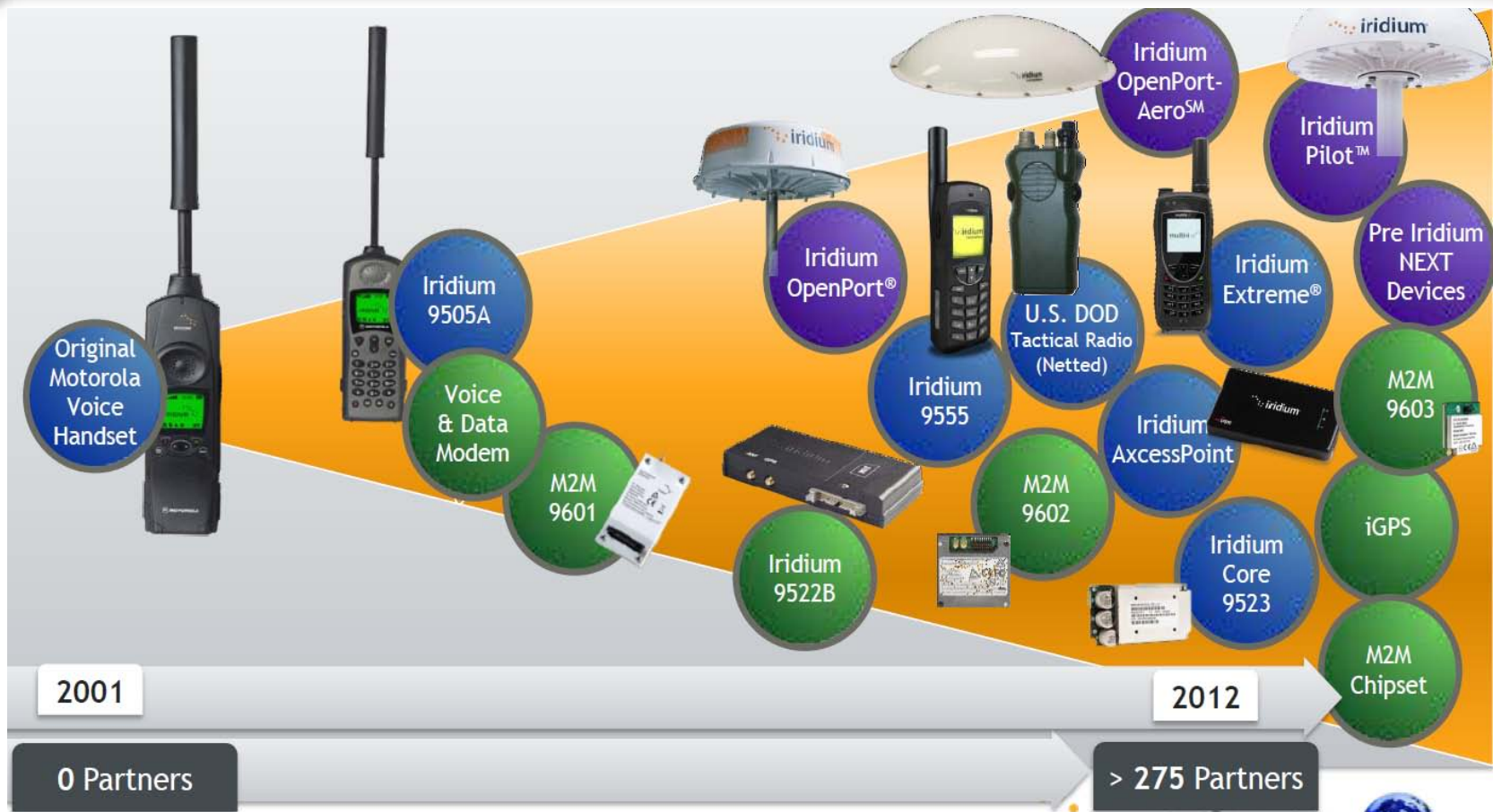
○ M2M (SBD) Data Transmission

● Voice Call

● Iridium OpenPort® High-Speed Data Traffic

Partners Drive Innovation

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Iridium Has a Sustainable Competitive Advantage

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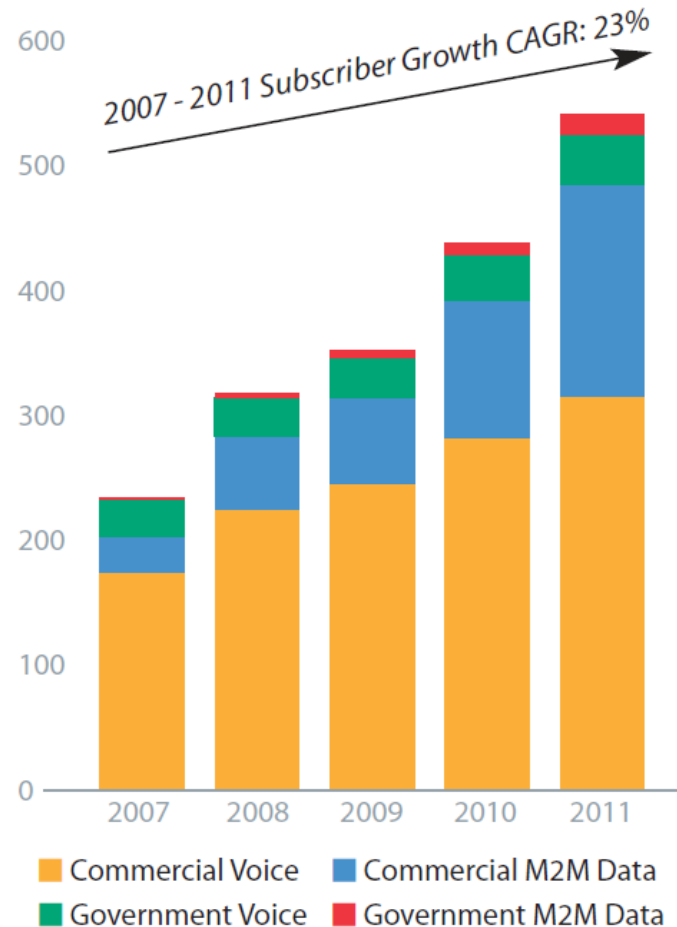
Iridium's satellite network offers a superior service to customers

- A unique LEO constellation sets it apart from MEO and GEO systems -- shorter distance to satellites results in a better customer experience
- Cross-linked and overlapping “mesh” architecture delivers superior availability, efficiency, flexibility and reliability
- Near-polar orbit constellation truly means “Iridium Everywhere”
- A healthy current constellation supports ongoing growth and takes us to the Iridium NEXT era



Iridium Has 576,000 Subscribers and Continues to Grow at a Rapid Rate

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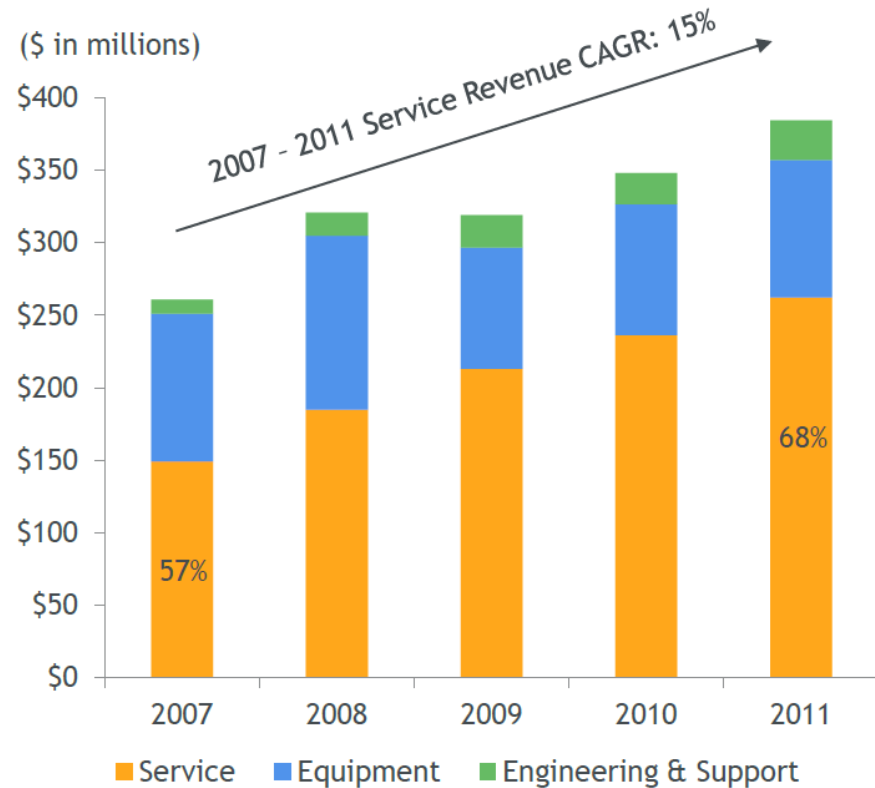


Source: Company presentation,

Recurring Service Revenues Drive Value

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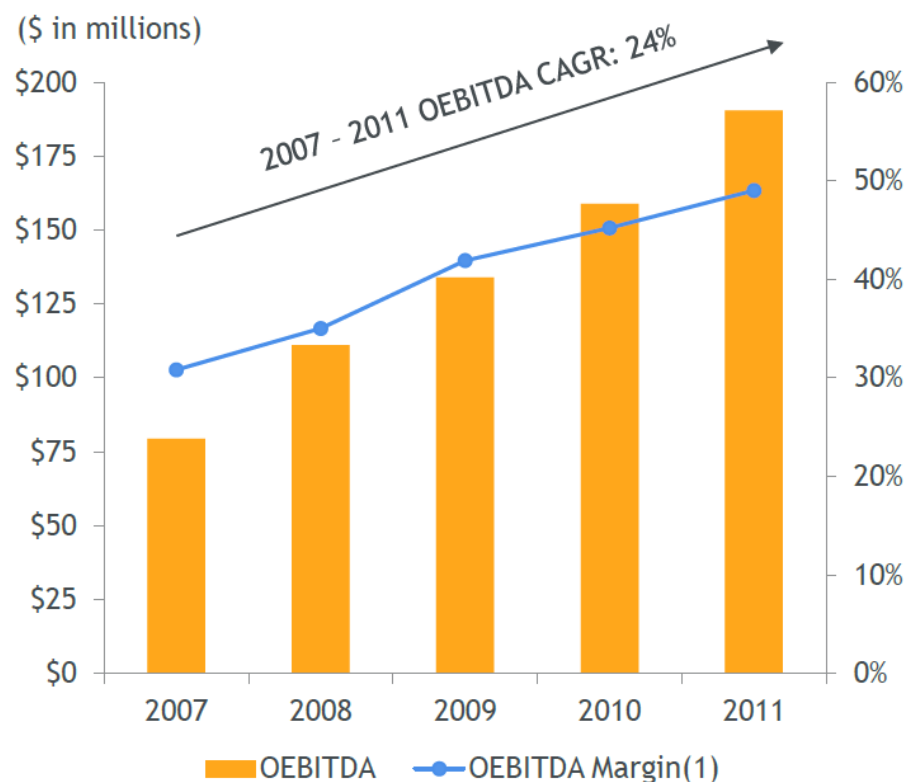
- Consistent and expanding service revenue
- Commercial service revenue is an important growth engine -- 54% of total revenue in 2Q12
- Voice leadership and growing contributions from M2M data services and maritime
- M2M represented 16% of total service revenue and 37% of total subscribers in 2Q12



Significant Operating Leverage

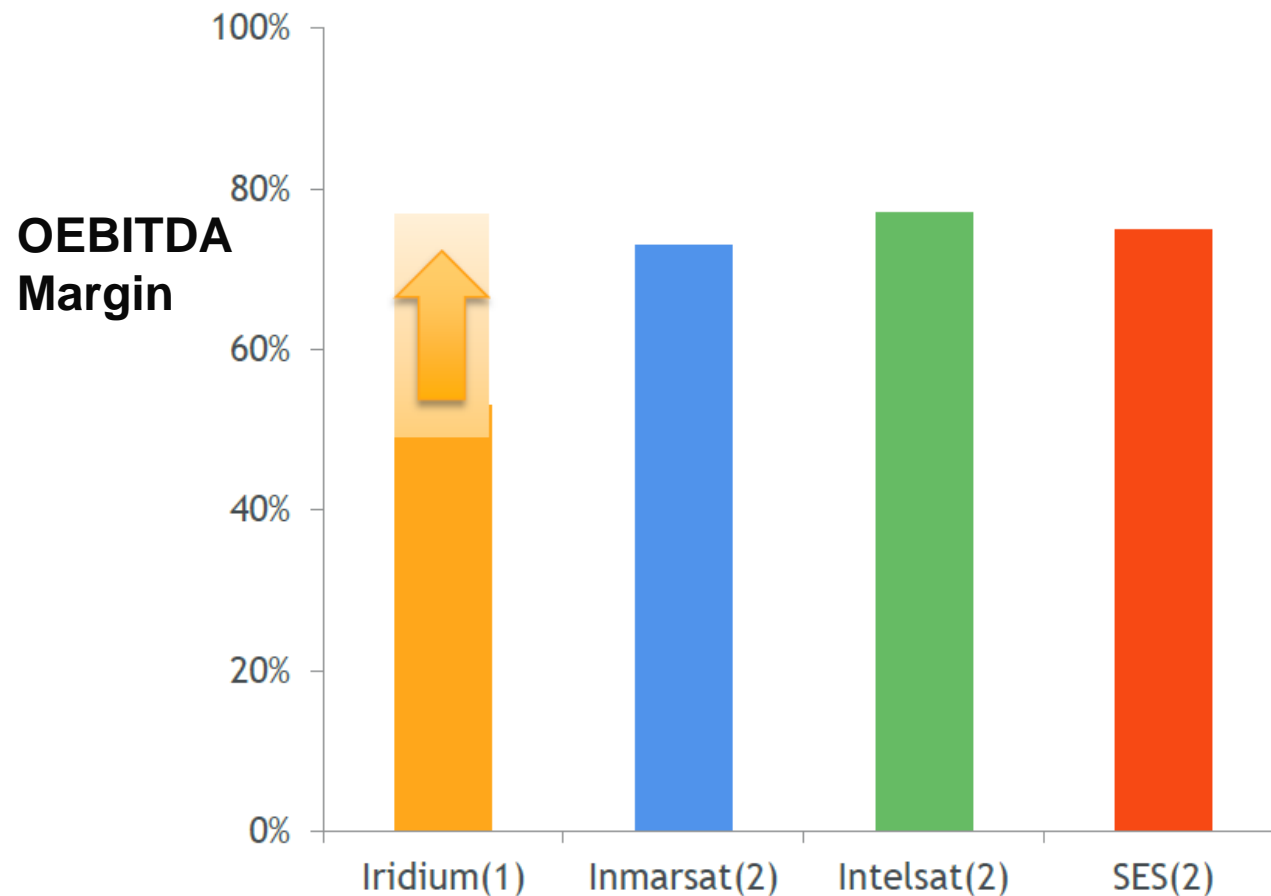
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- Incremental sales at a high gross margin contribute to growing profitability
- High-quality, recurring service revenue is cornerstone of expanding margins
- Wholesale distribution channels lower costs and risks, while expanding market reach and product development opportunities



As Iridium Scales, Margins Should Rise to Its Peers' Levels

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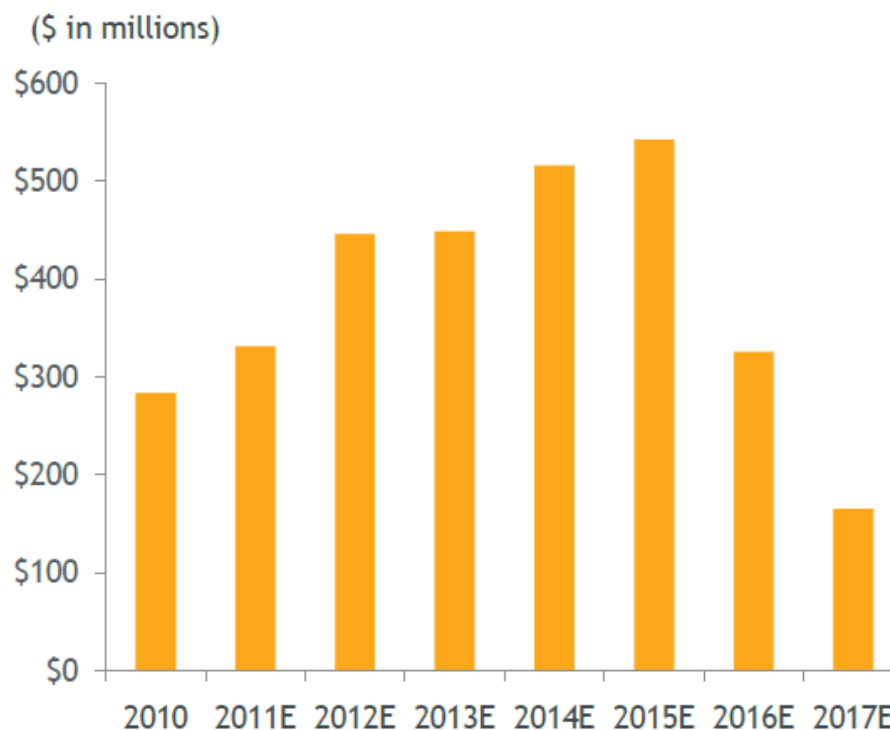
Source: Company presentation

- Current satellite constellation is being replaced
 - Scheduled deployment between early 2015 and 2017
 - Backwards compatible (existing customers will not need to replace equipment)
 - Improved capacity and data rates: 9x improvement in throughput and 125x improvement in memory capacity
- Total cost: \$3.0 billion
 - Satellites: \$2.0 billion
 - Launch: \$0.7 billion
 - Other: \$0.3 billion
- Funding
 - Internally generated cash flow
 - Debt
 - Equity
 - Revenue offsets (hosted payloads)

Iridium's Cap Ex Requirements Will Rise to Fund Iridium NEXT, and Then Fall

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- Iridium NEXT capex through 2011 of approximately \$600 million -- COFACE draw of \$400 million in capex with financed interest of \$40 million
- Expect Net Debt/OEBITDA of approximately 2x in 2011; 3x in 2012; 4x-5x in 2015 and deleveraging beginning in 2016
- Fully funded



Cost of Iridium NEXT Is Fraction of Future Estimated Cash Flows

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Significant cash flow potential during constellation life supports the investment

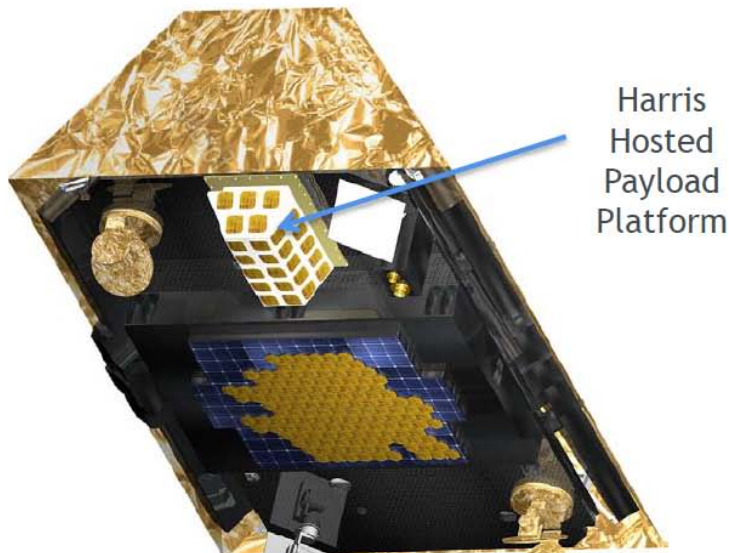
- Approximately \$3 billion expected total cost for constellation
- Capital expenditures occur from 2010 to 2017 as OEBITDA grows
- Assumes constellation provides commercially acceptable service through 2030

Illustrative Example	Cumulative Operational EBITDA Generation ⁽²⁾	
Operational EBITDA CAGR ⁽¹⁾	10%	15%
2010 - 2030:	\$10.1 Billion	\$18.7 Billion

Iridium NEXT Hosted Payloads

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- New business opportunity to host third-party payloads on Iridium NEXT
- Payload customer shares infrastructure of the Iridium NEXT satellite and global networked communications architecture
- Aireon selected as the primary payload (global aviation monitoring), with one or more complementary payloads still expected to be announced in 2012



Iridium NEXT Hosted Payload Specifications

Weight	50 kg
Payload Dimensions	30 x 40 x 70 cm
Payload Power	50 W average (200 W peak)
Payload Data Rate	<1 Mbps, Orbit average ~100Kbps

Aireon Is a Significant New Business Opportunity

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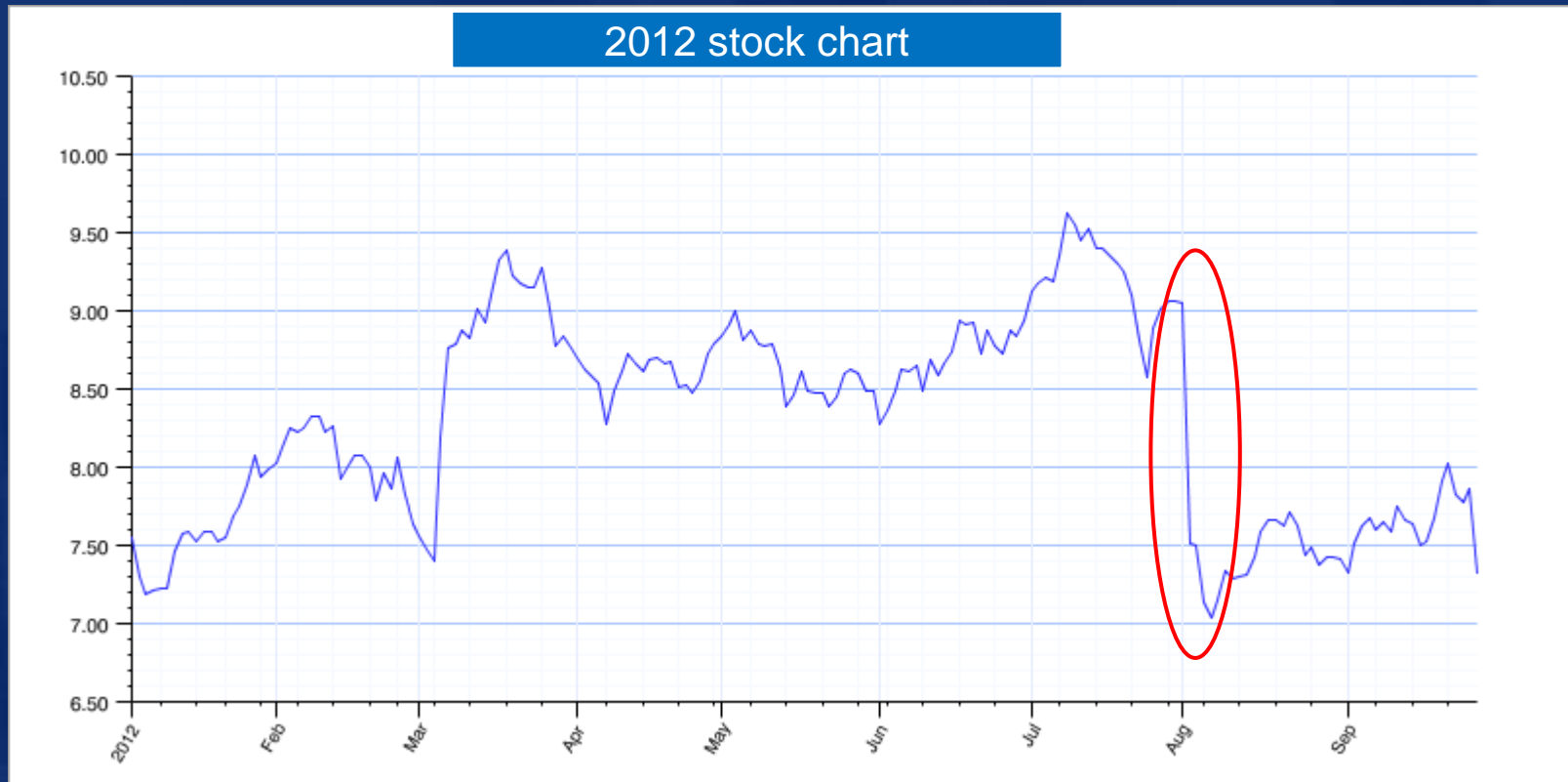
- Payload will monitor aircraft and then supply information in near real-time to Air Navigation Service Providers
- Teaming up with commercial partners such as Harris and ITT Exelis to develop payload and system engineering
- NAV CANADA plans to be a significant Aireon investor and customer for North Atlantic flight information
- FAA has been working with Iridium to evaluate the capabilities of space-based ADS-B systems



- Benefits to aviation industry
 - \$6-8 billion estimated fuel savings over 12 years
 - Enhanced safety
 - Reduced emissions
- Financial impact on Iridium
 - Hosted payload revenues estimated at \$200 million up front plus ongoing fee stream
 - Estimated > \$4.00 NPV per share
- Additional hosted payload opportunities

- From recent 10Q

“...also the supplemental agreement requires the Company to raise convertible preferred or common equity by April 30, 2013 in amount equal to unexercised portion of the warrants...”



- Company announced on Sept. 28th the issuance of \$100 million Perpetual Convertible Preferred Stock
 - Conversion price: \$9.43 (up 20%)
 - Dividend rate: 7%
- IRDM announced an offer to exchange its outstanding \$7.00 warrants for Iridium common stock at a 6:1 ratio (market price)
 - Funds managed by T2 Partners exchanged 3.4 million warrants, representing 27% of the total outstanding
- Together, these transactions
 1. Remove all financing uncertainty
 2. Remove overhang on stock
 3. Materially simplify capital structure
- Convert arb buyers shorting stock creates short-term pressure on stock
 - Very short term trading pressure creates buying opportunity

- Valuation today:
 - 8x EBITDA => \$12.50 (60% premium to current stock price)
Competitors trade at 9-10x
- Future valuation
 - Debt peaks in 2015 at 4-5x Op EBITDA
 - Delevers close to 1 multiple point per year after 2015
 - Significant cash generation with minimal maintenance capex should drive stock for many years

Implied stock price		
Multiple	2016	2017
8x	\$17.50	\$23.40
10x	\$25.30	\$32.20

- Huge barriers to entry
- Industry leader
- Rapidly growing
- Significant operating leverage
- Powerful cash flows
- Underfollowed/Misunderstood company
- Discount valuation for premium business
- Valuable optionality (Aireon)