

# Satellite imagery firms in battle for federal business

By Darlene Darcy  
Staff Reporter

## The big picture

As federal demand for high-resolution satellite images increases so does competition between leading satellite companies GeoEye and DigitalGlobe.

|                      | GeoEye Inc.                       |  | DigitalGlobe Inc. |
|----------------------|-----------------------------------|--|-------------------|
| HEADQUARTERS         | Dulles                            |  | Longmont, Colo.   |
| CEO                  | <b>Matthew O'Connell</b>          |  | Jill Smith        |
| EMPLOYEES            | 484                               |  | 460               |
| TICKER               | NASDAQ: GEOY                      |  | NYSE: DGI         |
| IPO                  | Sept. 2006; Jan. 2004 OTCBB: ORBM |  | Expected May 2009 |
| REVENUE '08          | \$146.7 million                   |  | \$275.2 million   |
| BACKLOG DEC. '08     | \$236.2 million                   |  | \$166.2 million   |
| PROFIT '08           | \$26.6 million                    |  | \$53.8 million    |
| TOTAL DEBT           | \$247.5 million                   |  | \$341.8 million   |
| OPERATING SATELLITES | Three                             |  | Two               |

The competition between two leading satellite image providers is heating up.

With the government's increasing demand for satellite imagery, executives at Dulles-based GeoEye Inc., which launched its latest multimillion-dollar satellite last fall, are waiting to find out just how much contracts from a federal program announced in April could be worth. They aren't the only ones.

GeoEye's biggest competitor, Longmont, Colo.-based DigitalGlobe Inc. is making moves to seize more business. The 16-year-old company has expanded its London and Singapore operations, consolidated its Washington-area government relations and business development teams and is set to go public this month, raising at least \$16.6 million, according to documents filed with the Securities and Exchange Commission.

DigitalGlobe opened an Arlington office April 27, bringing together 10 employees from its D.C. and Tysons Corner offices, which were responsible for lobbying and the company's national security programs for the last six years. The new space, at 1000 Wilson Blvd., also has room for operational expansion to serve federal customers, said Dawn Sienicki, vice president of government relations.

Nevertheless, GeoEye says its competitor's initial public offering is a boost for the entire geospatial industry because the IPO will draw more attention from financial analysts and investors to the relatively young field.

"Two strong geospatial companies serving the government is good because that means there is competition, and the government likes competition," said GeoEye spokesman Mark Brender.

However, "the barriers to entry are high because [significant] capital is required, and it takes four years to build and launch" imaging satellites, he added. "We have stabil-

ity with two commercial data providers and don't see other U.S. competitors coming" into the market."

Both existing companies are in the right space at the right time. President Barack Obama just approved the "Imagery Way Ahead" program, an intelligence initiative to update the government's aging imagery. And the National Geospatial-Intelligence Agency (NGA), the largest purchaser of satellite imagery and biggest customer for both DigitalGlobe and GeoEye, starts operating its new Commercial Remote Sensing Program Office in Bethesda this month.

All of which suggests potential growth for companies serving the remote sensing market, which includes the sale of earth imagery from space. That market reached \$7.3 billion in 2007 and is expected to grow to \$9.9 billion by 2012, according to analysts at Wellesley, Mass.-based BCC Research. Analysts estimate that sales of satellite imagery alone totaled \$1.9 billion in 2007 and could grow to \$3.2 billion by 2012.

So the race is on to see which company

will get the lion's share of work from various agencies using imagery for things like national security, intelligence, weather forecasts and environmental research.

"U.S. companies have led this effort over the years," Brender said. "And despite increasing foreign competition, favorable U.S. policies and commitment from the U.S. government have helped keep American commercial data providers in the lead."

International competitors for high-resolution satellite imagery products include India's Department of Space, Canada-based Radarsat International, ImageSat International NV in Israel and Spot Image SA with operations in France, Taiwan and Korea.

In addition, companies such as Google Inc. and Microsoft Corp. provide imagery-related products and services.

GeoEye, formed in January 2006 through Dulles-based Orbimage's purchase of Denver-based Space Imaging, has had its share of fits and starts, including Orbimage's management and financial restructuring in a 2002 Chapter 11 bankruptcy filing.

But now GeoEye is gaining some momentum. Its new satellite is giving DigitalGlobe a run for its money, and in February NGA certified the spacecraft, which allows GeoEye to generate revenue from a \$12.5 million-a-month service agreement with the government through at least Nov. 30.

In 2008, the U.S. government provided GeoEye with \$56.5 million in revenue, about 39 percent of the company's total revenue.

DigitalGlobe's U.S. government sales were \$205.5 million in 2008, about 75 percent of its total revenue, with the majority coming from sales to the NGA.

"The loss or significant reduction of the [NGA service level agreement] would materially reduce our revenue," according to DigitalGlobe financial statements. One of DigitalGlobe's agreements with the NGA is worth \$238 million in revenue, recognized from January 2008 until July 2009.

Both companies also rely on sales to foreign governments and are beginning to see greater opportunities selling images for commercial use.

DigitalGlobe is preparing to launch its third satellite, WorldView-2, this October as use of older satellites is phased out.

GeoEye just launched GeoEye-1 last September and has begun development of GeoEye-2, which it expects to launch in 2012. The company began work on the camera for that satellite in October 2007 through a contract with ITT Corp. of White Plains, N.Y., and expects to contract with a satellite builder this year. GeoEye-2 has cost the company at least \$30 million to date.

But foreign satellite builders also are forging ahead. Spot Image plans to launch two high-resolution satellites in 2010 and 2011. And the U.S. government is considering a program to build and launch its own satellites, which could put a major crimp in growth for commercial providers.