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GeoEye Takes on Equity Investor for NGA Contract Bid

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A U.S. government decision to take a harder line in negotiations on a multiyear contract to purchase high-resolution commercial satellite imagery has forced bidder GeoEye Inc. into the arms of private-equity investor Cerebrus Capital Management, which is likely to become a major GeoEye investor even if the company does not win

While Dulles, Va.-based GeoEye recently raised \$400 million in a bond offering and had \$209 million in cash on hand as of Dec. 31, providing the cash needed for the letter of credit would have been a stretch.

On March 4, GeoEye signed a binding commitment with New York-based Cerebrus under which Cerebrus will purchase \$115 million in preferred stock in GeoEye, with a guaranteed 5 percent annual interest rate, providing the company with a net of \$112 million after transaction fees are subtracted. In addition, Cerebrus will make available to GeoEye up to \$100 million in debt financing.

This commitment enabled GeoEye to respond to the NGA's EnhancedView bid request by the March 8 deadline.

In the event that NGA removes the letter-of-credit requirement, Cerebrus retains the right to purchase up to \$78 million in GeoEye preferred stock.

In a March 11 conference call with investors, GeoEye Chief Executive Matthew O'Connell said the NGA move appears to be part of a U.S. government policy to limit taxpayer cash exposure in contracts like EnhancedView.

It was not the case in 2004, when both GeoEye and DigitalGlobe were able to secure the equivalent of nearly 50 percent of the cost of their new satellites from NGA in advance as part of a multiyear imagery-purchasing contract called NextView.

GeoEye and DigitalGlobe are both operating under NextView contracts that pay them each \$12.5 million per month, with premiums for special imagery requests and penalties for underperformance.

the government contract, GeoEye officials said March 11.

In what GeoEye said was a surprise last-minute change to a request for proposals on the multiyear EnhancedView imagery-purchasing contract, the U.S. National Geospatial-Intelligence Agency (NGA) said it would not be co-financing the manufacturing of the necessary satellites. The NGA has co-financed com-

mercial imaging satellites in the past, and this type of arrangement was key to GeoEye's EnhancedView bid.

Instead, however, NGA asked bidders to provide a letter of credit matching the cost-sharing amount they would like the U.S. government to provide. The letter of credit could be cashed by NGA at its discretion at any time during the building of a future satellite,

and up to three years after the satellite is in orbit and operational, according to GeoEye.

GeoEye rival DigitalGlobe of Longmont, Colo., also is competing for an EnhancedView contract.

In the stricter loan environment since the financial crisis that started in 2008, banks demand that companies deposit cash equal to the amount of a letter of credit.

O'Connell said the change in the NGA approach to EnhancedView will mean NGA ultimately will be paying more for its imagery than it would have if the agency had co-financed the capital cost of the GeoEye-2 satellite.

O'Connell did not give an estimated cost for GeoEye-2, on which the company has already spent \$66 million for early work on the primary imaging camera. GeoEye recently signed an agreement with Lockheed Martin Space Systems of Sunnyvale, Calif., to provide the GeoEye-2 platform and other components, and to launch it, with a full contract to be signed once the EnhancedView contract with NGA is confirmed.

"I'm not sure the benefit [of refusing to share in satellite production costs] will outweigh the costs to NGA," O'Connell said. "Taking the cost-share does reduce our cost of capital and therefore we can produce imagery for the NGA at a better cost for them. Putting up the [letter-of-credit requirement] — if that's what they want, that's what they get."

GeoEye and DigitalGlobe both have said they expect an EnhancedView contract decision by midyear.

O'Connell said if GeoEye is selected for an EnhancedView award, it will immediately finalize its contract with Lockheed Martin and prepare for a GeoEye-2 launch in late 2012. Without EnhancedView, GeoEye will slow the construction for a launch in 2017 to replace GeoEye-1, which became operational early in 2009.

During the conference call, GeoEye officials said Lockheed Martin, which built GeoEye's Ikonos satellite launched in 1999, had recently reviewed Ikonos' health and concluded it could continue to operate for another two years, and perhaps longer.

With GeoEye-1 operational for most of the year, the company was able to generate more NextView revenue from

NGA. Total GeoEye revenue for the year was \$271.1 million up 85 percent from 2008 EBITDA, or earnings before interest, taxes, depreciation and amortization, was 49 percent of revenue.

NGA accounted for 58 percent of the company's revenue. When other agencies are added into the customer mix the U.S. government represented 67 percent of GeoEye's 2009 revenue.

GeoEye Chief Financial Officer Joseph F. Greeves said the company lost \$6 million in business in the fourth quarter of 2009 due to a defect in the GeoEye-1 antenna that down links imagery to certain ground stations. The anomaly, which GeoEye now says will reduce 2010 sales by much less than the 10 percent it originally feared, forced a five-day shutdown of GeoEye-1 as ground teams studied the problem.