

EDWARD JURKEVICS REMARKS
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I'd like to focus on financial aspects of commercial remote sensing. From just about any perspective, things look pretty good in this industry today. Almost forgotten are the launch failures. And a veritable meteor shower of satellites is poised to ply the heavens, perhaps beginning with the German EADS Infoterra Terrasar-X, a 1-meter radar to be launched at the end of October. It's never been so good.

Let's recall some of the financial milestones that brought the US industry to today's position. Space Imaging's Ikonos satellite was past the half-way point of its 7-year design life before the company got its first significant order for imagery from the NGA – that was when NGA first issued Clearview contracts in January of 2003 to Space Imaging -- and to DigitalGlobe -- who had launched QuickBird II two years prior.

Then in April of 2003 the President authorized NSPD 23, directing the NGA to “*rely to the maximum practical extent*” on commercial remote sensing space capabilities for its imagery and geospatial needs. The commercial model reduces the costs to the government because non-government clients help defray operating costs and bear part of the expense of amortizing these expensive space assets.

As a result, NGA continued the Clearview program to buy imagery from the then-three US owner/operators; DigitalGlobe, Space Imaging and Orbimage. I project almost \$400 million to be spent over the life of the Clearview contract, which expires in January of 2008.

After that the NGA awarded two Nextview contracts, one each to DigitalGlobe and GeoEye, nominally valued at \$500 million each. These two contracts share the cost of construction and launch of satellites meeting the NGA's technical requirements for mapping and geospatial support. Construction cost-share accounts for approximately half of the value of the contracts; the remainder is for half-meter imagery that NGA will purchase after launch in 2007 until the Nextview contracts expire on 30 September of 2008.

Despite some slippages in the very aggressive schedules, the two Nextview satellite programs are on budget, and no major problems are anticipated. And I say this to provide contrast to, for instance, certain FIA program elements.

With Nextview, in the latter half of 2007 US commercial industry will be meeting a significant portion of the US Government's national security remote sensing needs – and in a highly cost effective manner. We estimate that NGA's expenditures on the commercial imagery programs Clearview and Nextview together will amount to just over \$300 million in 2007. That is - as long as the last option year of Clearview is authorized.

This leaves a concern about 2008, when the Clearview and Nextview contracts end in January and September respectively. These satellites are very expensive capital assets, and a stable continuity of revenues is vital to the firms' ability to service their financing. Any NGA funding gap in 2008 or afterwards would threaten the two-company industry, destabilizing the firms, alarming investors, and potentially disrupting the stable supply of imagery data that has become so critical for national security purposes.

You see, NGA is by far the largest customer, and in the period leading up to 2008, NGA will represent just over half of the total revenues of DigitalGlobe and GeoEye. And the carrying costs of the satellite are so high – and fixed – that non-NGA clients cannot make up for a funding shortfall or gap from NGA.

So What's After Nextview?

After Nextview's cost-sharing in a sort of public-private partnership, the NGA has indicated a preference for the Clearview model of simple purchase agreements for imagery of agreed quantity, quality, timeliness and price. This is acceptable with the proviso that NGA make a multi-year commitment with minimum purchase levels.

Because the government accounts for such a large portion of the industry's revenues, a firm long-term funding commitment is an absolute requirement for the commercial firms to attract the Wall Street investor financing required to maintain and renew a constellation of remote sensing satellites. With guaranteed long-term imagery supply contracts in place, the companies will be able to issue debt or equity instruments to fund the construction and launch of an appropriate ongoing constellation that meets the NGA's geospatial data requirements sustainably. NGA doesn't need to cost-share and risk-share as it has in Nextview, but the trade-off is NGA must provide a multi-year commitment.

It is in the Government's interest that the commercial industry is stable - so that it can be a reliable source of imagery source materials. But what industry configurations will assure long-run stability? We now have two firms, and we anticipate a steady-state mode where each operates two satellites. With seven-year design lives, the firms would each launch a replacement satellite every 3½ years. This is like a stable quantum state. This two-firm, 4-bird configuration has the following benefits:

- Two firms create industry competitiveness and drive innovation
- The double redundancy provides the government with assured supply, considering business risk, technical risk and acquisition urgency.
- There is now empirical evidence that one-satellite firms intrinsically are at best marginally economic businesses -- first because NGA's priority tasking often leaves little capacity for collection to serve commercial clients over many high-interest areas. Secondly, the scale properties of this capital-intensive business make greater collection capacities more economically attractive.

Considering where we are in the budget cycle, the US Government must act decisively to develop a budget plan for a program and contract vehicle for use beginning October 1, 2008, that will provide NGA continued access to imagery.

This long-term budget for commercial imagery has to provide a sufficiency of revenues for the commercial firms so they can establish and sustain a satellite constellation that meets the governments needs while maintaining a sound financial position. We have modeled this two-company, 4-satellite industry, and the budgetary guidance for the Nextview Next program is to anticipate spending something just in excess of \$300 million per year for this imagery, on a sustained basis.