

Defense players shun imaging firm



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by Lou Whiteman

A decade after trying to make commercial use of spy satellites, defense industry titans **Lockheed Martin Corp.** and **Raytheon Co.** are ready to throw in the towel.



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Space Imaging Inc., a Thornton, Colo.-based seller of images taken from the cosmos, is likely to be put on the block in the weeks to come by owners Lockheed, Raytheon and other minority shareholders, sources said. The company, founded in 1994 to bring to the public technology deployed in Pentagon ([news](#) - [web sites](#)) spy satellites, is expected to fetch about \$50 million at auction.

Space Imaging spokesman Mark Brender confirmed that the company is considering strategic options, but said nothing has been decided. He declined further comment on a sale or whether the satellite firm has retained advisers, although sources said that **Banc of America Securities LLC** is likely to be hired to conduct the auction.

A spokesman with Bethesda, Md.-based Lockheed declined comment; officials with Raytheon of Waltham, Mass., did not return calls.

One industry source estimated that the aerospace firms have spent nearly \$1 billion on the research and development of the technology used by Space Imaging, although some of that cost was absorbed by the defense companies' sales to the Pentagon.

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A sale would mark an important milestone in the commercial space imaging industry, a business that once hoped to draw considerable revenue from the private sector but that has instead relied on government agencies. Although foreign governments and state agencies have used the satellites, the companies have principally depended on Washington for the capital they needed to survive.

"Beyond niche users, corporate America never saw the need for the services these companies provided," one analyst said. "They built it, but no one came."

Edward Jurkevics, a principal with Arlington, Va.-based research and consulting firm **Chesapeake Analytics Corp.**, said Space Imaging's fate was likely sealed over the last year when the National Geospatial-Intelligence Agency, the Pentagon's mapmaking unit that has been the industry's principle customer, awarded more than \$1 billion in contracts to the company's two rivals.

Jurkevics said that, without those contracts and revenues, Space Imaging will have a difficult time justifying the hundreds of millions of dollars needed to commission a new satellite. The company's one satellite, launched in September 1999, is due to cease operation in 2008.

"Without government contracts it is going to be very hard to finance a new bird," Jurkevics said.

The limited life of Space Imaging's satellite also makes it unlikely that private equity firms or other outside buyers would consider purchasing Space Imaging. Jurkevics said that minority shareholder **Mitsubishi Corp.**, which has a lucrative contract selling images to the Japanese government, could consider a bid if it found partners willing to help finance a replacement satellite.

Space Image's two major rivals also would face hurdles in putting together a deal. One company, Dulles, Va.-based **Orbimage Inc.**, is publicly traded but lightly followed and could find it difficult to launch a secondary offering needed to finance a deal. Longmont, Colo.-based **DigitalGlobe Inc.**, meanwhile, is owned by investors including **Ball Aerospace & Technologies Corp.**, **Hitachi Ltd.**, **Morgan Stanley** and others who industry sources said could be more interested exiting their investment than supplying further capital.

A spokesman for DigitalGlobe said the company is "waiting to see what happens." Officials with Orbimage did not return calls seeking comment.

Jurkevics said that DigitalGlobe's shareholders might finance a bid for Space Imaging as a way to build the company to a critical mass that would allow them to trigger a liquidity event. And if that company does bid, Orbimage is likely to follow.

"It would be very difficult for either of these companies to let the other one get Space Imaging," he said. "Whoever gets this is going to be in a much stronger position in the market."

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