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# EDITED TRANSCRIPT

ORB - Q1 2012 Orbital Sciences Corporation Earnings Conference Call

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## PRESENTATION

### Operator

Good morning. My name is Michelle and I will be your conference operator today. At this time, I would like to welcome everyone to the Orbital Sciences Corporation first-quarter 2012 financial results. (Operator Instructions). I would now like to turn the call over to Mr. David Thompson, President and Chief Executive Officer. Please go ahead, sir.

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### David Thompson - *Orbital Sciences Corporation - Chairman, President, CEO*

Thank you, Michelle, and good morning, everyone. Thank you for joining us to discuss Orbital's first-quarter financial results. I'm Dave Thompson, and with me on the phone today are Garrett Pierce and Barry Beneski.

Before we get underway, I'd like to ask everyone to take note of the Safe Harbor paragraph that appears at the end of our earnings release. This note emphasizes the major sources of uncertainties and risk in the forward-looking statements that we will make today. Please keep these factors in mind as we discuss our future operational plans and financial guidance during today's call.

We'll follow our customary outline for the discussion this morning. I'll begin by covering several highlights from the first quarter, and then turn it over to Garrett. He will discuss our financial results in greater detail and update our guidance for the remainder of the year. After that, I will recap recent space missions and development program progress and also provide a preview of upcoming operational events that we have planned over the next three months.

Finally, I'll address first-quarter new orders and contract backlog, as well as our new business outlook for the next couple of quarters. And at that point, we'll open up the call for your questions.

To begin, then, I'd like to highlight three areas which characterize the Company's first quarter. Garrett and I will come back and cover each of these in more depth a little later on in the call.

First, though, let's look at our financial performance. Orbital's revenue in the first quarter was \$338 million, an increase of about \$20 million, or roughly 6%, from the same quarter last year. Both our Launch Vehicles segment and our advanced programs segment registered healthy revenue gains, in the 20% range, but satellite segment revenues declined. As I'll describe a little later, a recent new commercial communications satellite order should result in stronger second-half revenues in our satellite segment.



Operating income was \$23.8 million in the quarter, up about 135% over last year's result, and reflecting approximately a 7.1% overall operating profit margin. Net income and EPS were \$13 million and \$0.22, respectively, 6% and 5% higher than last year's period, even though our GAAP tax rate this quarter of 38% was somewhat above the prior period's 35%.

Free cash flow was negative \$32.7 million, resulting in a quarter-end cash balance of \$227 million.

Second, let's turn to operational highlights. While the Company did not carry out any major space missions in the first quarter, we did conduct eight smaller sounding rocket launches for NASA, five of which took place just minutes apart from one another.

We also completed and delivered seven new satellites and rockets that will be used on five scheduled space missions coming up this quarter. The first of these was successfully conducted a few weeks ago, earlier in April.

On our Antares launch vehicle program, I'm happy to report that construction was substantially completed in March on the launch pad at Wallops Island, Virginia, with a few punch-list items being wrapped up there earlier this month. Safety and functional testing of the propellant handling and storage systems is now underway and is expected to be completed over the next five or six weeks. In the meantime, we rolled out the Antares ground test vehicle to the pad for initial test about 10 days ago to get a head start on practicing transport procedures and conducting mechanical and electrical fit (technical difficulty) in advance of the hot fire test that's planned for early July.

All of these events went very smoothly. I'll have more to say about our launch schedules for the summer and fall a little later in the call.

Finally, here is a summary of our new business activity. New contract awards and option exercises totaled \$380 million in the first quarter. They were highlighted by an important two-unit commercial communications satellite contract. Firm contract backlog was \$2.13 billion and total backlog was \$5.17 billion at the end of March, which boosted our 2012 revenue coverage for action to approximately 93% as of the end of the quarter. I'll provide more details on recent orders and our current new business pursuits a little later on in the call.

Now, though, I'd like to ask Garrett to take you through the financial results from the first quarter and to reaffirm our guidance for 2012 that we provided back in February.

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**Garrett Pierce** - *Orbital Sciences Corporation - Vice Chairman, CFO*

Thank you, Dave, and good morning.

Before commenting on the financial results, I want to note that during this call we will provide certain non-GAAP financial measures. A reconciliation of these measures to comparable GAAP financial measures can be found in our earnings release, or, to the extent they're not addressed there but discussed in this call, will be available in an appendix to the transcript of this call. It will be posted under the investor relations heading on our website.

As reported in the Company's earnings release this morning, revenues for the first quarter of 2012 were \$338 million, as compared to \$318 million in the first quarter of 2011, an increase of \$20 million, or 6%.

The revenue increase was led by the Advanced Space Programs segment with an increase of \$22 million, or 24%, driven by increased activity in the national security satellites, or NSS, product line. Also, our Launch Vehicles segment revenues increased by \$21 million, or 20%, caused by increased activity for the target launch vehicles product line.

Finally, our Satellite and Space Systems segment revenues decreased \$41 million, or 27%, due largely to lower GEO satellite revenues.

Consolidated operating income was \$23.8 million in the first quarter of 2012, which resulted in a 7.1% operating margin, as compared to \$10.1 million operating income with a 3.2% operating margin in the first quarter of 2011. Operating income for the first quarter of 2011 included an

unfavorable adjustment of \$11.3 million related to a launch failure in the first quarter of last year. That adjustment was offset by an \$11.3 million insurance recovery recorded in other income in the first quarter of 2011.

I will now highlight certain factors in each of our three operating segments. Launch Vehicles segment revenues were \$126 million in the first quarter of 2012, up \$20.8 million compared to the first quarter of 2011. This is primarily due to an increase of \$30 million in target launch vehicle product line revenues and a reduction of \$6 million in Interceptor product line revenues.

Our Launch Vehicles segment operating income was \$8.9 million in the first quarter of 2012, as compared to an operating loss of \$5 million in the first quarter of 2011. The loss in the first quarter of 2011 reflects an unfavorable adjustment of \$11.3 million that I'd mentioned previously.

Satellites and Space Systems segment revenues were \$111 million in the first quarter of 2012, down \$41 million compared to the first quarter of 2011, as a result of a \$39 million decrease in GEO satellite revenues. This reduction in GEO revenues was anticipated in our plan. We forecast that our quarterly GEO revenues will grow in the three remaining quarters of 2012.

Satellites and Space Systems segment operating income was \$7.4 million for the quarter, a decrease of \$2.9 million, or 28%, relative to the first quarter of 2011, due to an operating income reduction of \$2.8 million in the GEO satellite product line.

The Advanced Space Programs segment revenues were \$115 million in the first quarter of 2012, up \$22 million compared to the first quarter of 2011 due to a \$32 million increase in the NSS product line revenues, partially offset by a \$10 million reduction in the CRS contract revenues.

Advanced Space Programs segment operating income was \$7.5 million for the quarter, an increase of \$2.7 million, or 56%, compared to the first quarter of 2011, driven by the NSS product line revenue growth. Relatedly, the operating margin in the Advanced Space Programs segment increased to 6.5% in the first quarter of 2012, as compared to 5.2% in the first quarter of 2011.

The GAAP tax rate for the first quarter of 2012 was 38%. This compares to a tax rate of 35% for the first quarter of 2011, which reflects the impact of R&D tax credits in 2011 that are not expected to be available for the Company in 2012. Our cash tax rate was approximately 4%.

As forecasted, free cash flow for the first-quarter 2012 was negative \$32.7 million. This was largely due to the result of a planned increased receivables related to the CRS contract. Capital expenditures included in free cash flow totaled \$11.8 million in the quarter. At the end of the quarter, we had cash balances of \$227 million and, as previously disclosed, we have a \$300 million revolving credit facility in place through 2016.

We are reaffirming our financial guidance provided in our fourth-quarter 2011 earnings release on February 21, 2012. Now back to Dave.

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Okay. Thanks, Garrett. I'll now update everyone on the Company's major operational events that took place in the first quarter and preview what's ahead for the next couple of quarters this year.

As we noted during our fourth-quarter call in February, the Company plans to conduct about 20 major space missions this year. These satellites and launch vehicles for 10 of these missions have already been built and delivered, and construction is well advanced on 10 or 11 more that are expected to be delivered between now and the early fall.

At this time, we expect to carry out five space missions in the second quarter, six or seven additional missions are on schedule for the third quarter, and up to eight missions are anticipated in the final quarter of the year.

For the full year, the product mix will likely include seven satellite launches and deployments, four space launch vehicle flights, and between seven and nine Interceptor and target vehicle missions.



Now to add a bit to my introductory comments on Antares, construction of the launch pad was completed and, with just a few small exceptions, all elements of the related liquid propulsion fueling equipment were also in place by the end of March.

Yesterday, the first Antares rocket's stage 1 airframe and engines wrapped up about 10 days of transportation runs to and from the launch complex itself. This included testing of the mechanical and electrical interfaces between the launch vehicle and the launch pad, as well as exercise of the hydraulic systems that rotate the vehicle from horizontal to vertical position on the launch pad. All of these activities went very smoothly.

Over the next six weeks, the following four activities are scheduled to be completed, leading to final launch-pad certification and turnover to us in the first half of June. First, the completion of all construction documentation reviews that are carried out by NASA and Orbital should be completed over the course of the next two weeks. Second, liquid nitrogen cryogenic pumping and fueling operations to begin about two weeks from now and to take about one week.

Third, liquid oxygen cryogenic pumping and fueling operations starting a week after that and expected to be completed approximately four weeks from now. And then, finally, the liquid oxygen and kerosene propellant performance testing and final system certification, which we expect to complete about six weeks from now.

Adding in two additional weeks of contingency time for any unexpected problems that could crop up, we expect final pad turnover to occur around the middle of June. As soon as that happens, the first Antares rocket that was on the pad earlier this week will go back to the launch pad for cold flow fueling exercises and the important hot fire stage 1 test, which is planned for early July. This test will be followed by the second Antares rocket taking its place on the pad for the first actual launch, the test launch in August.

Assuming these milestones have been successfully accomplished, we anticipate being ready to conduct the second Antares launch carrying the first active Cygnus spacecraft to the space station in October or November on the COTS demonstration mission.

Beyond the launch complex, the Antares rocket and its companion Cygnus cargo spacecraft continued to make good progress in the first quarter. As I mentioned in our February call, Orbital now has four Antares vehicle airframes and four flight-ready main engines at Wallops Island, with additional engines due to complete acceptance testing in May and June.

The first two Cygnus spacecraft have completed most of their space environmental testing at our Dulles, Virginia, satellite manufacturing facility, and the third, fourth, and, beginning just a few weeks ago, fifth Cygnus spacecraft are now in manufacturing or final assembly as well.

So it looks like all of the launch vehicle and spacecraft hardware will be ready on schedule for major events this year, as well as additional launches well into 2013.

I'll now take you through first-quarter new business results and also discuss our outlook for the next couple of quarters. As I noted earlier, first-quarter new business totaled \$380 million, of which \$295 million was in the form of new contracts and \$85 million was in existing option exercises.

Orbital's Satellite and Space Systems segment led the way with about \$255 million in new orders and options in the first quarter, followed by our Launch Vehicles segment with \$75 million and our advanced programs segment with about \$50 million.

The most noteworthy order in the first quarter was a two-satellite contract with what is for us a new customer, one of the world's top 10 commercial satellite operators. Although the configuration is yet to be finalized, the second of these two satellites may be the first to use our new GEOStar-3 platform that the Company has been developing for the past two years. This GEOStar-3 satellite will provide both increased payload power and mass capabilities and provide greater launch vehicle flexibility than our current GEOStar-2 model.

Other significant new business in the quarter included a new Minotaur space launch vehicle award from the U.S. Air Force and several additional target vehicle orders for the Missile Defense Agency.



Looking ahead to the second and third quarters, Orbital currently has about \$1.4 billion of proposals for new contracts and existing option exercises under evaluation by customers, who are expected to make their purchase decisions over the course of the next three or four months. We are targeting between \$800 million and \$1 billion in new business wins from these active pursuits. With additional proposals now being prepared, we also anticipate roughly an equal amount of new business in the second half of the year from proposals that will be submitted over the coming three or four months.

All three of our business segments have good prospects for new business, both this quarter and next, but with perhaps the strongest opportunities to be found in our advanced programs segment. And for the year as a whole, we are still targeting around \$2.25 billion in new business for 2012.

So in summary, Orbital is off to a solid start this year with a respectable first quarter in 2012. Our quarterly revenue growth, operating margin expansion, and free cash flow were all on plan for the year, and our new business results and new proposal opportunities were also in line with our expectations. We are looking forward to an eventful second and third quarters with major operational milestones coming up in our Antares and Cygnus programs in the months ahead, together with accelerating revenue growth and new business wins as well.

Thank you very much for your attention. We are now ready to open up the call for your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Patrick McCarthy, FBR.

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### Patrick McCarthy - FBR & Co. - Analyst

Good morning, and thank you very much for taking my call. I had a couple of questions, but maybe if I could just start with some discussions up on Capitol Hill about easing the satellite export regulations, and whether or not that could be helpful for your business.

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### David Thompson - Orbital Sciences Corporation - Chairman, President, CEO

Good morning, Patrick. Yes, I've seen a couple of announcements this week reflecting a joint Department of Defense and Department of State report that looked at -- actually made recommendations for easing the export controls on commercial communications and imaging satellites.

From Orbital's perspective, we think that would be a smart move and it would be beneficial to our international opportunities.

The State Department has been the lead regulatory agency for the last dozen or so years for U.S. manufacturers' exports of commercial communications satellites, and the State Department has gotten pretty efficient at processing export licenses and so on. But it would be at least incrementally more beneficial to remove those satellites from the munitions control list, and I think that would have a positive impact on U.S. export sales.

U.S. satellite builders have done pretty well in recent years with about 55% of the global market for new commercial communications satellites, but I think we could do even better with an easing of export restrictions.

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### Patrick McCarthy - FBR & Co. - Analyst

Great, thank you. And on Antares, obviously a very busy several months here. What are the major points of risk that are out there, in your opinion, or is there a specific event where you'll start to breathe a little bit easier over the next couple of months, once it occurs?



**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

I think the remaining work we have in the next six weeks or so, centered around testing out the systems and certifying they're safe and effective operations, is fairly straightforward. I don't want to say there that we couldn't have some unexpected setbacks, but I am not overly concerned about any problems that might come up during that time.

I think the major risk-reduction event coming up before we all talk next, later in the summer, is going to be the stage 1 hot fire test on the launch pad in the early part of July. With that successfully accomplished, I think we'll have reduced risk considerably as we move into the first launch a month or so after that, in August.

Of course, the first launch will also give us a lot more information on the performance of the vehicle, and so that will be the second big risk-reduction event to occur over the course of the summer. I think those are the two -- they're really the two big ones.

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**Patrick McCarthy** - *FBR & Co. - Analyst*

Just one final quick one. The new customer that you signed up, what would make them choose a STAR 2 over a STAR 3? Is there something in particular?

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

I think with regard to the second of the two satellites, there's still an assessment underway of their particular geographic market and what level of capacity is correct for that market in the near term.

And I don't expect that decision will be finalized for a number of months yet, so we're off and running on the first satellite. Things are finalized there. The second one will get -- the configuration will be settled on, and we'll start on that a little later on in the year.

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**Patrick McCarthy** - *FBR & Co. - Analyst*

Great, thank you.

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**Operator**

Howard Rubel, Jefferies.

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**Howard Rubel** - *Jefferies & Company - Analyst*

Thank you very much. Just -- were you hesitant to say -- can you give us a little hint or indication of where this particular customer is, David?

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Not at this point, Howard, at the customer's request. But I would expect it won't take too long to be in a position where that will be announced.

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**Howard Rubel** - *Jefferies & Company - Analyst*

And just to follow on, in terms of the dynamics in the commercial satellite market, it's my sense that things are actually starting to improve a little bit, and that if one wanted to get a bird, it would be hard -- one would be hard-pressed to find one for delivery before 2014. Is that fair or is that a little too optimistic?

**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

I think that's fair. At this point, our projections call for between 20 and 22 new satellites to be purchased this year, up from 18 satellites that were purchased last year.

After a somewhat slow start in January and February, order activity really picked up quite a bit in March. And through the first three months of the year, 11 new satellites were ordered. And so at this point, we're roughly halfway to the full-year outlook.

Given that we're the spring of 2012, I think most new orders are going to be for deliveries either right at the end of 2013 or well into the first quarter or two of 2014. But the outlook, at least in the near term, seems to be a bit on the upside there.

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**Howard Rubel** - *Jefferies & Company - Analyst*

Thank you very much, David.

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**Operator**

Chris Quilty, Raymond James.

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**Chris Quilty** - *Raymond James & Associates - Analyst*

David, just as a follow-up, amongst that breakdown of 20 to 22, still the same expectations for satellites in your class?

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Yes, I think so, Chris. We're expecting five or six orders in our class, and our baseline plan has the Company capturing three of those, maybe with an upside of four.

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**Chris Quilty** - *Raymond James & Associates - Analyst*

Separate item, I've seen some news stories indicating that perhaps they might be looking at adding a second field of interceptors in Fort Greely. Is that a possibility?

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Chris, I've seen the same reports that I think you have. I don't know at this point whether there is a lot of substance to that. And I am not sure that we'll have a lot better insight into the plans there until later this year.

We have a couple of important GMD flight tests coming up late in 2012 and early in 2013 with the new kill vehicle on our interceptors, and it's important that those go smoothly. But I don't right now have a lot of insight into how much momentum may well be behind the East Coast third site.

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**Chris Quilty** - *Raymond James & Associates - Analyst*

Okay. And you're still doing regular deliveries of orbital boost vehicles for that program. Margin still staying in the sort of mid-teens level?



**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Yes, that's right. We delivered one orbital boost vehicle in the first quarter. We have eight more under the original contract scheduled for deliveries through the end of next year, so about one per quarter, a little faster delivery rates over the next seven or eight quarters.

And then, under the new contract that was awarded at the beginning of this year, at present we expect to build -- I believe the number is 11 additional orbital boost vehicles and to refurbish and upgrade a variety of previously-built interceptors as well. Most of those new deliveries should take place in the period of -- between 2015 and either late 2016 or early 2017. So we see the outlook there being pretty much like it has been, for the next four or five years.

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**Chris Quilty** - *Raymond James & Associates - Analyst*

Okay. And speaking of the outlook, any change from the guidance you gave in the fourth quarter on a segment-level basis for growth amongst the three major segments?

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

No. No changes of any significance there.

Just to recap that, the Launch Vehicles segment is expected to be the fastest-growing business this year with something in the neighborhood of 8% revenue growth to a range of about \$515 million to \$525 million this year.

Satellites and Space Systems, although expected to show stronger growth in the second half of the year, for the full year should only be up a few percent compared to last year, putting them in the range of about \$560 million to \$570 million.

And then, finally, the Advanced Space Programs segment being pretty much level with last year, somewhere in the range of \$430 million to, say, \$445 million for 2012.

So those are the same numbers with also approximately the same profit margins that we talked about back in February.

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**Chris Quilty** - *Raymond James & Associates - Analyst*

Okay. And final question, management reserves on the COTS program?

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Unchanged. We have not reduced the reserves. We are not yet to the point that we think that's the right thing to do.

We are -- probably by mid-year this year, we'll be around 40% complete on the contract, so we have a pretty good history of the costs, which are so far coming in as expected without tapping into any of the reserves. But until we get through those first few launches, we want to be on the conservative side about what the final profit rate will be on the contract.

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**Chris Quilty** - *Raymond James & Associates - Analyst*

I'm sorry, can you also remind us of what was the size of the NASA contract award for the demo flight, which I believe is being booked at no profit, and flowing through the launch segment?



**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Yes, correct. Both the test flight, which will be the summer -- the first flight of Antares this summer without an active spacecraft onboard, as well as the second flight of Antares that will carry the first active Cygnus spacecraft with a limited amount of cargo for delivery to the space station, are covered by the COTS shared research and development agreement between NASA and Orbital.

At our level, that business is booked at breakeven. So there is no profit associated with that.

When you look at our Launch Vehicles segment over the last couple of years, you'll see something like \$60 million of eliminations in 2010 and \$120 million of eliminations in 2011 for that work. That number will be considerably smaller this year as we wrap up the breakeven work on the COTS program sometime in the third quarter. The value of that add-on from -- I guess it was in the first quarter of last year for the test flight, if I recall, was about \$115 million or \$120 million. It included not only the test flight, but a few other things, but the test flight was the majority of that add-on.

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**Chris Quilty** - *Raymond James & Associates - Analyst*

Great. Thank you very much.

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**Operator**

Gary Liebowitz, Wells Fargo.

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**Gary Liebowitz** - *Wells Fargo Securities, LLC - Analyst*

Thank you, operator, and good morning, gentlemen.

Dave, have you had a chance to gain any insights on the classified portion of the defense budget? On the last call, you mentioned that you were still waiting to see some of those details.

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Yes, we have. From -- I'll stay away from comments on the overall budget, although I think there are some -- there's increasing public visibility of the total amounts. I won't comment on those, other than to say that, like in many other national security areas, the trend at an aggregate level is down.

At our level, we have several ongoing national security programs that are funded at expected levels, with no adverse changes being reflected in the requested budgets for 2013 or the planned future years in those programs.

We also have three major new pursuits that we are engaged in this year that appear to have solid funding. I'm happy to say we did win one of those earlier this month. It's not reflected in first-quarter orders, but it will be by the time we report second quarter, and there are two more that are pending. One of those is expected to be decided in the summer, and the other sometime in the latter half of the year. And based on what we can see in the budget requests, those -- all three of those new pursuits seem to be in pretty good shape.

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**Gary Liebowitz** - Wells Fargo Securities, LLC - Analyst

Thanks. And then, the one other question I had was, you gave the percentage of 2012 sales that are already in the backlog. I wonder if you have the number for 2013. And should we assume that your internal 2013 revenue forecast is consistent with your -- I think your three-year revenue outlook, which calls for 8% to 10% type growth?

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**David Thompson** - Orbital Sciences Corporation - Chairman, President, CEO

With regard to the last part of that question, yes. I think that's a good assumption.

With regard to the first part, I do not have that number. I don't know if Garrett does, but it would be up a bit from where we began the year, and if I recall right, I think the coverage at the beginning of the year was either 60% or -- I think it was around 60%.

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**Garrett Pierce** - Orbital Sciences Corporation - Vice Chairman, CFO

Actually, it was a bit higher than that, Dave. We're about 70% right now for (multiple speakers)

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**David Thompson** - Orbital Sciences Corporation - Chairman, President, CEO

Okay, about 70%?

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**Garrett Pierce** - Orbital Sciences Corporation - Vice Chairman, CFO

Right.

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**David Thompson** - Orbital Sciences Corporation - Chairman, President, CEO

Okay.

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**Gary Liebowitz** - Wells Fargo Securities, LLC - Analyst

Great. Thank you very much.

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**Operator**

Michael Ciarmoli, KeyBanc Capital Markets.

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**Michael Ciarmoli** - KeyBanc Capital Markets - Analyst

Thanks for taking my questions. Maybe, Garrett, just to stay on that topic, on the backlog coverage, how should we think about the Antares demo missions and launches as being a part of that revenue coverage? Is that baked in there or is that the missing component in terms of the recognition of any milestones?

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**Garrett Pierce** - Orbital Sciences Corporation - Vice Chairman, CFO

Let me make sure I understand the question. You're asking about how we handle Antares in the backlog, in the coverage?

**Michael Ciarmoli** - *KeyBanc Capital Markets - Analyst*

Yes, I mean, I'm just trying to maybe fill in the missing component. You're saying you've got 90% of full-year backlog or full-year revenues in hand. Is that missing variable related to some of the work and maybe milestones as you execute on the Antares program?

**Garrett Pierce** - *Orbital Sciences Corporation - Vice Chairman, CFO*

No, no. The Antares is in the number, and that's business that we've got identified that we need to book.

**Michael Ciarmoli** - *KeyBanc Capital Markets - Analyst*

Okay. And then, maybe just on the orders, David, you talked about \$1.4 billion of opportunities. Can you maybe parse out those orders, give us a sense -- are they more commercial satellite, national security, even missile targets, and maybe where that the highest probabilities of wins are?

**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Sure, Mike. I'll somewhat blur the timeline between the second quarter and really, I'd say, the rest of the year because it's difficult to predict to the month when some of these decisions are going to be made.

But looking out over the next -- or the balance of the year, we have actually a pretty robust set of new opportunities that we're very actively and aggressively pursuing now, and you'll see that reflected both in the first quarter and probably again in the second quarter with respect to our bid and proposal spending rate, which is part of our SG&A cost. That will drop off -- at least as we see it now, it will drop off a little bit in the second half of the year, but it's unusually high in the first quarter and will probably still be above average in the second quarter.

Just to run through some of the more promising opportunities, as I mentioned earlier in response to Garry's question, we started the quarter with three active national security program pursuits. One of those was decided in our favor a few weeks back, and two are still in the pursuit phase.

In addition, we have a couple of new commercial satellite pursuits. I don't expect the commercial satellite opportunities to materialize as contracts until the second half of the year. But with our first quarter win there, I think we're in pretty good shape.

And then in the launch vehicle area, we have -- actually, we have four missile defense target programs that we're in pursuit of now. Those, I think, mostly have second-half decision schedules associated with them. But they cover quite a wide variety of short-, medium-, and long-range target vehicles, which could amount to as many as 20 or 25 vehicles. And it's a pretty -- just like it was last year, it continues to be a pretty strong area of new business opportunities for us this year as well.

In addition, we are in the process of bidding on two fairly long-term, five- or seven-year durations, ID/IQ type contracts for Antares and Minotaur launch vehicles. One of those is with NASA and another, a little later on in the year, is with the Air Force. Although those may not produce much in the way of firm backlog this year, they will put in place a mechanism for those customers to order launches on and using Antares and Minotaur vehicles between 2014 and almost the end of the decade. And together, those could involve as many as a dozen or more space launch vehicles.

We also are pursuing several technical services contracts that support NASA's science satellite programs, and finally, several sizable option exercises under existing contracts, ranging from the next CRS operational missions for cargo delivery to a variety of other programs in the civil and defense markets.

So overall, we expect to see something at or above \$3 billion of customer decisions in our addressable areas over the next three quarters, and we're aiming to come in around the high \$1 billion to \$2 billion range in terms of new orders from those \$3 billion or so of pursuits.



**Michael Ciarmoli** - *KeyBanc Capital Markets - Analyst*

Great, that's extremely helpful.

And just to shift gears, I want to make sure I've got the nomenclature straight here. The satellite contract with the new customer, the medium-sized -- the GEOStar-3, that's the medium-sized satellite you guys have been talking about for a couple -- probably a couple of years now, I guess?

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Yes, that's right, Mike. Good point. I should have clarified that.

Yes, we adopted a new -- there's more than just naming convention. It reflects kind of a rationalization of supply chains and subsystem technology and so on in our satellite product lines last year. And GEOStar-3 is the new name for the medium-class commercial satellite. GEOStar-2 is the designation for what has been our workhorse, a smaller satellite. We even have a GEOStar-1, which is a yet smaller product used primarily in government programs as opposed to in commercial activities.

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**Michael Ciarmoli** - *KeyBanc Capital Markets - Analyst*

So, obviously, it's probably premature, but when you look at that annual satellite market of 20 to 22, and you see five to six in the small class, does the GEOStar-3 open up that aperture to allow you to compete for a bigger portion of that 20 to 22? Maybe not so much this year, but in the coming years?

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Yes, it does. And that's why we've invested in that product's development so far and are excited about what may well be the first sale of that in this two-unit contract.

It has the potential over a couple of years from boosting our average annual orders, which have been about 3.5 satellites per year, if you look back over the last five years or so, to maybe five satellites per year looking ahead a few years. And since the sales price of the medium-class would be a little higher, the potential revenue increase would be even greater. So we might have a 40% increase in unit sales and a 50% increase in revenue once that product has really been accepted in the market.

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**Michael Ciarmoli** - *KeyBanc Capital Markets - Analyst*

Great. Outstanding, guys. Thanks for taking my questions.

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**Operator**

Tyler Hojo, Sidoti & Company.

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**Tyler Hojo** - *Sidoti & Company - Analyst*

Thanks for squeaking me in there. So just on CRS, with kind of the modified schedule, I was just curious. Does the \$375 million in revenue expectation for 2012, does that still hold there?

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Tyler, I think it's going -- it's still going to hold pretty closely to the estimate. I mean, we could see some slippage, but I don't think we're talking about a lot.

We will be -- in terms of how we -- on a percentage of completion accounting approach to that and all of our other contracts, the hardware, the rockets and the spacecraft are being built now. And even though one of that first CRS operational mission, which we had previously been trying to squeeze into the end of this year, may well move into the first month or two of next year, that won't have a major impact on the revenue we generate this year.

So could it be \$10 million light? Yes, it could be. But at this point, I don't expect it to be significantly reduced by virtue of moving that launch a couple months.

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**Tyler Hojo** - *Sidoti & Company - Analyst*

Got you. And just one follow-on to that. Do you have the amount of revenues you generated in the first quarter of the year on CRS?

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

I don't have -- we're -- actually, Garrett and I are in two different places right now. I don't have that, so I'll hand that one to Garrett.

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**Garrett Pierce** - *Orbital Sciences Corporation - Vice Chairman, CFO*

Yes, I've got the information. We generated about, in round numbers, about \$75 million of revenue in the first quarter for CRS.

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**Tyler Hojo** - *Sidoti & Company - Analyst*

Great. And then, the last one, I just wanted -- the NSS revenues came in pretty impressive number this quarter. I was just -- I was hoping that maybe you could just talk a little bit about what your overall expectation is for that product line in 2012.

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

In our first look at the year, and it's still what we are assuming now, we had that business being fairly flat between 2011 and 2012. There may well turn out to be some upside, depending on how some of the remaining new business pursuits pan out in the middle of the year. But I think it's too early at this point to factor that in.

So in both our earlier and, continuing today, in our current outlook, we see that business being fairly flat between last year and this year, after a five- or six-year period of pretty rapid growth. There is some upside on that, but it's too early to say whether that upside will materialize.

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**Tyler Hojo** - *Sidoti & Company - Analyst*

Got it. Great. Thanks a lot.

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**David Thompson** - *Orbital Sciences Corporation - Chairman, President, CEO*

Thanks to all of you. I think at this point we will bring the discussion to a close, and thanks again, everyone, for joining us this morning.

**Operator**

This concludes today's conference call. You may now disconnect.

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