

— MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to the GeoEye Second Quarter 2009 Earnings Conference Call. Today's call is being recorded. [Operator Instructions].

At this time, I would like to turn the call over to William Warren, Senior Vice President, General Counsel. Please go ahead, sir.

William L. Warren, Senior Vice President, General Counsel, and Secretary

Good morning. Thank you for joining us today as we discuss GeoEye's second quarter 2009 earnings. Speaking today will be Mr. Matthew O'Connell, Chief Executive Officer and Mr. Joseph Greeves, Chief Financial Officer. Also present are Mr. William Schuster, Chief Operating Officer; Mr. Brian O'Toole, Chief Technology Officer, and Ms. Jeanine Montgomery, Vice President, Accounting and Controller.

After our remarks, we'll entertain questions. Before we begin the business portion of this morning's call, we would like to inform you that we expect to be making forward-looking statements during today's call. Statements including words such as "believe" "anticipate" "estimate" or "expect," conditional statements and statements in the future tense are forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties and are based on management's current views and assumptions regarding future events and operating performance. A number of factors could cause our actual future results to differ materially from our current expectations. Examples of these factors include, but are not limited to conditions in the remote sensing industry, level of government spending, competitive pricing pressures, the level of new commercial imagery orders, production rates for advanced image processing, start-up costs or overruns on new contracts, and technology and product development risks and uncertainties.

Listeners are encouraged to read the Risk Factors in our Form 10-K on file with the Securities and Exchange Commission for a discussion of the various factors, which could cause our actual performance to differ from our forward-looking statements. We assume no obligation to publicly update or revise our forward-looking statements. A copy of the prepared script for today's call will be made available on our website in the Investor Relations area shortly after this call. We will replace that with a final transcript once it is available.

At this time, I would like to turn the call over to the company's Chief Executive Officer, Matt O'Connell.

Matthew O'Connell, Chief Executive Officer and President

Thank you, Will, and thank you all for taking part in our second quarter 2009 earnings call. We're very pleased with the strong year-over-year revenue growth and operating results in the second quarter. The growth and our strong results are in large part because we are finally reaping the benefits of GeoEye-1, the world's best commercial imaging satellite.

On this call, we'll update you on our second quarter financial results, and new business developments and operations, and we'll discuss the U.S. Government's plans regarding the use of commercial imagery. We'll also discuss our long-term goals of providing best-in-class information technology products, systems, and services, and provide a financial outlook for fiscal 2009.

After my initial comments, Joe Greeves, our new Chief Financial Officer, will discuss the company's results and metrics in more detail, then I'll provide a short summary and we'll take questions from investors.

As to the second quarter results, we're pleased to announce that our second quarter total revenues were \$72.7 million, which increased 112% from \$34.2 million in the prior-year period. The strength and growth in second quarter revenues reflect the success of our GeoEye-1 satellite and the fact that we're delivering large amounts of imagery and services under our Service Level Agreement contract with the National Geospatial-Intelligence Agency and other customers.

Our strong revenue growth translated into strong EBITDA and operating income growth. Net income was \$9.6 million or \$0.46 per diluted share. Our EPS results exceeded the average analyst estimate of \$0.35 for the quarter. Joe will give you the details.

Now as to Joe, in June, we significantly enhanced our financial management team with the addition of a new Chief Financial Officer and Executive Vice President, Joe Greeves. Joe has a strong public accounting background with more than 20 years experience as a Chief Financial Officer, primarily for high tech companies. He has served as Chief Financial Officer for four publicly traded companies in his career.

Prior to joining GeoEye, Joe served as Chief Financial Officer of Managed Object Solutions, which was acquired by Novell in the fall of 2008. Before that, Joe was the Chief Financial Officer for OPNET Technologies Inc., and Fusion Systems Corporation.

Joe and began his career as a Certified Public Accountant at the firm now known as Deloitte & Touche. Joe brings a wealth of financial and accounting expertise to our executive management team and we're delighted he's here. We've also greatly enhanced our investor relations efforts by hiring Randy Scherago, who joined us two weeks ago as Vice President of Investor Relations. Randy has a strong background in investments and finance with more than 23 years experience in the investment business on both the buy and sell-side.

Randy brings a lot of public equity and investment industry experience to our management team, and he'll be proactive in communicating our values and goals to our long-term investors. Randy will be available after the conference call to answer your calls. He's a delightful guy and I'm sure you'll enjoy working with him.

Next, I'd like to discuss the key demand drivers for our business that are particularly relevant to our discussion today. The U.S. Government's plan for commercial imagery is the biggest driver of our revenue growth for the next few years. In April, the Director of National Intelligence, Admiral Dennis Blair, announced that the United States plans to rely more on the private sector for its satellite mapping and reconnaissance needs.

Admiral Blair said in an interview, "When it comes to supporting our military forces and the safety of Americans, we cannot afford any gaps in collection." The Government's pronouncements in April make it clear that as long as there are bad guys out there, the United States will have a need for commercial satellite mapping and reconnaissance. Obviously, this is favorable for the commercial industry. We also think it will be favorable for GeoEye.

I think you know that our single largest customer for satellite collection services is the National Geospatial-Intelligence Agency, often referred to in Washington as the NGA. For those new to the GeoEye story, the NGA is a Department of Defense combat support agency whose goal is to provide intelligence in support of national security objectives.

We have a Service Level Agreement or SLA with the NGA. An SLA is a type of contract that provides a predictable level of service to the U.S. Government and a predictable revenue stream to the contractor. You'll hear those two acronyms a lot.

Our current Service Level Agreement calls for the NGA to pay us \$12.5 million per month for imagery. We're measured against five performance metrics. If we don't hit all them, the NGA can defer payment of up to 10% of the monthly payment.

We're pleased to report that we had a successful ramp up of revenues in the second quarter and we met all of the NGA's metrics in July. I'm happy to say that we recognized \$34.5 million of imagery revenue from NGA under the NextView contract in the second quarter and \$49 million for the first six months of 2009. Joe will go into more detail about the nuances of the NGA contract later.

GeoEye-1, the satellite that generates most of the revenues under the NextView program, began commercial operations in February of this year. In our recent discussions with NGA, they seem very satisfied with the very high quality and accuracy of the imagery they are getting from GeoEye-1. We've already supplied them with millions of square kilometers of imagery. We're currently negotiating the terms of an extension to the Service Level Agreement that would take us through March 2010, with an option for NGA to extend the agreement through December 2010.

In May, the NGA established a new Commercial Remote Sensing Integrated Program Office to handle their expanded use of imagery from commercial imagery providers. We expect to learn more during the second half of 2009. We don't yet know what revenues will be generated by this new initiative, but it's good news for all of us that our government is fully embracing the benefits of our high-resolution commercial satellite imagery.

U.S. Government agency contracts amounted to 65% or \$47.5 million of sales in the quarter versus 11.7 million in the year-ago period. No other customer accounted for more than 10% of revenues. Within our government business, we're handling, on average, two new proposals per week. We have awards and agreements in place with 10 U.S. Government agencies including NGA, Department of Homeland Security, the Coast Guard, NASA, NOAA, U.S. Army, and U.S. Navy, to name a few.

We have the highest quality and highest resolution color imaging satellite available in the global commercial marketplace, so we're seeing strong demand from numerous domestic government agencies. In addition to the Service Level Agreement with NGA, we received new awards from NGA during the first and second quarters of 2009 totaling more than 25 million to supply geospatial products and services. One of these – an award under the program referred to as RDOG – is particularly exciting, because it changes the way imagery is delivered to NGA. The program calls for NGA to get on-line delivery of and access to our imagery on a near-real-time basis.

Now, some of you are new to our industry, so I'll take a look at the industry and give you an overview for a second. Frost & Sullivan estimated in their 2003 industry report that worldwide market demand for the Commercial Sensing Imagery would grow from approximately \$990 million in 2003 to \$1.6 billion in 2010. We believe this is an understated estimate as 2003 was the year that the NGA, our largest client, gained greater prominence and granted the first big NextView contract.

According to Frost & Sullivan, the North American market should account for 44% of worldwide demand. There are only two commercial imagery providers in the U.S. With strong ties to the defense and intelligence community, we believe we're in a good position for future government business. We and other industry experts believe that worldwide imagery demand for surveillance and change monitoring is recession resistant. The capability to observe one's borders and countries in other regions of the world is a highly coveted tool.

Commercial satellites have an advantage over airborne platforms, which are not as cost-effective on a global basis and can't monitor unfriendly territory. Our satellite imagery helps many countries and companies around the world monitor infrastructure and their region-of-influence. By purchasing

our imagery and data, they save the costs and avoid the risks of developing indigenous space-based imagery systems.

That brings us to our next topic, international sales. Our international sales force generated terrific revenue growth in the second quarter, up 41.2%, as demand in many regions of the world responded favorably to the launch of GeoEye-1. International revenues were \$22.3 million or 30.6% of total revenues.

In all, we now have a network of 12 partners that we consider affiliates, commercial and government and more than 60 international resellers. In the second quarter, we won contract awards with the King Abdulaziz City for Science and Technology in Saudi Arabia, another with Japan Space Imaging in Tokyo, and one with the Centre for Remote Imaging, Sensing and Processing in Singapore. Many other contract awards we cannot disclose for security and privacy reasons.

During the quarter we also signed a Master Reseller agreement in Brazil with Space Imaging South America. They have the exclusive rights to sell GeoEye-1 and IKONOS imagery in Brazil.

As we mentioned before, it's also worth noting that in addition to negotiating contracts for GeoEye-1 last year, we were able to change our business model with our international customers so that we own the imagery that we collect over their territories. They just have the right – the exclusive right – to sell that imagery to customers in their territories. That was a crucial change, since it lets us capture an image for one customer, but sell it to people outside their territories also.

On our last earnings call, we disclosed that we were seeing a minor glitch in the color imagery from GeoEye-1 in one method of calculation. Our engineering team has developed operating methods to avoid the problem entirely. Our customers have responded favorably and we've added new customers since this aberration was disclosed. As you can see from our strong financial results, it hasn't affected our operations.

Our customers continue to receive high quality color imagery and the customer feedback is very positive. We're particularly gratified to have accuracy results on GeoEye-1 substantiated from the first non-governmental source. Independent research done by experts at the University of Melbourne in Australia was just published in the June 2009 Photogrammetric Engineering & Remote Sensing technical journal. The experts concluded that GeoEye-1 is producing "unprecedented levels of ground point determination accuracy."

Now while GeoEye-1 is doing well, the IKONOS satellite continues to be a workhorse and takes excellent imagery for both our domestic and international customers

In the past, we've talked about production. We've finished the expansion of our production facility in St. Louis, where we perform our high-end value added work for our clients. The St. Louis facility is a leader in creating innovative and complex information products for our government clients from all sources of imagery.

Unlike our competitors in that business, we're truly source agnostic. St. Louis is where we create highly accurate, seamless, large area image databases. The facility expansion, combined with productivity improvements, will allow us to reduce our current backlog there and keep up with growing demand for our products and services.

We've also tripled the classified production area in our Thornton office near Denver to keep up with the demand for the airport mapping databases as well as other classified work we do for the NGA. Our production facilities are unique in the commercial satellite industry. If the government wants quality image analysis and refinement in a time-sensitive manner, they often send other satellite operators' imagery to us for analysis.

Many in our industry proclaim that libraries are important and there's no doubt that they are. We have vast libraries, too. We currently have nearly 350 million square kilometers of color imagery in our library. But what will really matter more is the capability to refine and interpret the data and images in those libraries and deliver them seamlessly.

We are not trying to be the New York Public Library of imagery. We are trying to be the highest margin, highest quality company in the industry. As you can imagine, it's not easy to break into the commercial remote sensing business. The barriers are extremely high for those who want to provide resolution to the degree we are already providing it. We have no new American competition anywhere on the horizon. We're just beginning to realize the potential revenues in this emerging geospatial sector of the information services industry and we have many years of profitable growth ahead of us.

The commercial business applications are just beginning to emerge. We're growing, we're excited about the possibilities this new industry holds for all of us, and we invite you investors out there to come grow with us.

The strong fundamentals of our business model have soundly positioned us for growth in both government and commercial markets. Because of our high visibility into our revenue and earnings for the second half of this year, we can provide revenue, EBITDA, and earnings per share guidance for fiscal 2009. We're forecasting revenues in a range of \$270 to \$280 million, earnings per diluted share in a range of \$1.10 to \$1.37 per share. Given the high demand for our services for the next few years from both government and commercial sectors, we're confident that we can grow this business in double digits for the next three to five years.

Now, I'll turn the call over to our Chief Financial Officer, Joe Greeves, so he can talk about our second-quarter results. After Joe is done, I'll be back to sum up and then we'll take questions.

Joseph F. Greeves, Executive Vice President and Chief Financial Officer

Thank you, Matt, for your kind introduction. Good morning everyone. As GeoEye's new CFO, I am honored to take the position and happy to be here. Although I'm new to the company, I believe my background and experience match well to GeoEye's current and future financial needs. I know many of you have been patient investors who have been waiting for the company to scale after the successful launch of the GeoEye-1 satellite. I think the strong Q-2 results demonstrate that the company is well on its way to achieving that goal.

One of our financial team's primary goals will be to make sure you get timely, accurate, and useful financial information. Our team is working hard to build a strong financial organization and upgrade our financial systems and controls, so we can re-establish our credibility with the investment community.

I started eight weeks ago and we've added several new people to the financial team. These include Randy Scherago, who will help Matt and me develop a stronger Investor Relations function. We've also hired a new Vice President, who will start at the end of August, to lead our Financial Systems Development and Sarbanes-Oxley control programs; plus, we have made several new hires in Jeanine's accounting organization. We appreciate your patience as we make these improvements and we look forward to achieving these goals for you in the near future.

Now, to move on to the financial results. The company has just recorded record-setting revenues for the second quarter of 2009. The second quarter revenues were \$72.7 million or a 112% increase from the \$34.2 million reported in the same period last year. For the first six-months of 2009, revenues were up 68%. From a quarterly sequential standpoint, revenues were up 60.8%.

The Q2 revenue breakdown includes the following. Domestic revenues were \$50.4 million and accounted for 69.4% of total revenues. International revenues were \$22.3 million, which accounted for the remaining 30.6% of total revenues. Domestic revenues rose 173%, while International revenues rose 41%.

Our imagery revenues of \$56.4 million accounted for 77.5% of the quarterly revenues and grew by 146% compared to last year. Our NextView Cost Share revenues accounted for \$6 million or 8.3% of total revenues. Production and other service revenues of \$10.3 million or 14.2% of total revenues, were somewhat disappointing and were down 9% compared to the prior year, but did show a 3% sequential increase from the first quarter. The slight year-over-year decline in production services was primarily due to the effects of the economic downturn on our aerial and SeaStar businesses and a slower than initially anticipated ramp up of our expanded production capability. Our production services backlog is currently very strong and we expect these production services revenues to grow substantially in future quarters.

We believe the aerial and SeaStar businesses are stabilizing and will recover as the economy improves. In terms of customers, our U.S. Government work amounted to \$47.5 million or 65% of revenues and represented a 306% increase over the \$11.7 million reported in the same quarter last year.

Our U.S. Government customers include the NGA, Department of Homeland Security, Department of Interior, Department of Defense, and other agencies. No other customer accounted for more than 10% of revenues in the quarter or for the first six months.

In regards to the NGA SLA contract, we recognized \$34.5 million of imagery revenue in the second quarter and \$49 million in the first six months of 2009. GeoEye-1, our satellite that does most of the work in NGA's NextView program, began operations in mid-February. Our current SLA contract calls for the NGA to pay us 12.5 million per month for images, subject to a maximum reduction of 10% based on performance metrics.

Under the SLA contract, NGA has given us a standing order to collect imagery over a large part of the Earth. In addition, the SLA contract gives the government the right to make special orders. In essence, the NGA can ask us to direct the satellite to take images of hotspots where they determine they need more time-sensitive images. For these special-order requests, we are given additional credit toward the incentives I mentioned above. We are on a learning curve with the new satellite, and we believe we will improve our ability to consistently meet the incentive targets as we gain more experience.

In addition to the NGA SLA contract, we received new awards for NGA during the first and second quarters of 2009 totaling more than \$25 million to supply geospatial products and services. We began delivering products and services to the NGA under these new awards in the first quarter of 2009 and recognized \$1.2 million of revenue during the first three months ended June 30, 2009. These awards are expected to be completed before the end of 2010.

The company's revenue visibility improved dramatically with the ramp up of revenues from the new NGA SLA contract. We are handling, on average, two new proposals per week. With the new capabilities provided by GeoEye-1, we are seeing increasing demand from numerous U.S. government agencies, foreign governments, and commercial customers here and abroad.

Now let's talk about some other financial metrics. One metric of our operating performance is adjusted EBITDA. We define adjusted EBITDA as net income before interest, taxes, depreciation, amortization, and non-cash recognition of stock compensation expense. Adjusted EBITDA increased by \$31.6 million to \$40.5 million for the second quarter of 2009, from \$8.8 million during the same period in 2008.

The adjusted EBITDA margin was 55.6% in 2009 compared to 25.7% in 2008. The strong EBITDA growth we generated in the second quarter was attributable to the exceptional revenue growth, excellent expense controls, and higher depreciation associated with the new GeoEye-1 satellite.

We feel comfortable that we can sustain these EBITDA margins in the 50% range for the foreseeable future. Direct costs for the second quarter of 2009 were \$22.8 million and declined as a percentage of revenues from 50.6% to 31.4%. As the revenues grew this quarter, the company benefited from positive operating leverage in the quarter. As a result of launching GeoEye-1, the company was able to substantially reduce the amount of imagery it buys from third parties. We also reevaluated our estimated on-orbit insurance expense, which substantially reduced the expense as compared to the first quarter.

As a result of this change in estimate, the second quarter benefited from a \$2 million expense reduction, which will not be repeated in future quarters. We expect these direct costs to range between 30% and 35% of revenue going forward.

Depreciation expense and amortization rose from \$3.2 million to \$15.9 million due to the commencement of operations for the new GeoEye-1 satellite. We began depreciating GeoEye-1 and its related ground system in mid-February 2009. GeoEye-1 will be depreciated over nine years of its stated useful life.

The second quarter was the first full accounting period in which we depreciated GeoEye-1 over the full period. We feel comfortable that depreciation and amortization expenses should remain in the \$16 to \$16.5 million per quarter range.

Sales, general, and administrative expenses were \$10.1 million or 13.4% of sales in the quarter. As a percentage of revenue, this represents a substantial reduction from the 25% rate from last year and the first quarter of 2009. The company has made good progress on reducing its expenditures for professional services, but we will still need to continue to make investments expanding our sales and financial teams of the future.

We believe SG&A expenses as a percentage of revenues should range between 13 to 16% of revenues on a go-forward basis. Income from operations for the second quarter of 2009 was \$23.9 million, a healthy increase of \$18.8 million from the comparable period in 2008. The operating margin was 32.8% for the second quarter of 2009 compared to 14.9% in the same period in 2008.

Going forward, we believe 30% is a reasonable target for our operating income margin. At that level, we can continue to make investments in our professional delivery and services and sales staff and expand our research and development programs, which will allow us to grow the business while still providing a strong return to shareholders. This is a target margin and may be subject to quarterly fluctuations.

Interest expense for the quarter was \$8.6 million compared to \$2 million last year. Interest expense primarily increased due to the commencement of GeoEye-1's operations. The interest costs associated with the development of the GeoEye-1 satellite, which were previously capitalized in accordance with generally accepted accounting principles, are now being expensed as the satellite is now fully operational.

Our effective tax rate for the quarter was 37.3%. We believe the company's effective tax rate for the full year will be approximately 37.2%, before the effect of any discrete items. Net income for the quarter was \$9.6 million or \$0.46 per diluted share compared with a loss of 558,000 or a negative \$0.03 per diluted share in the second quarter of last year. The number of shares used to make our fully diluted EPS calculation was 20,570,000 shares in 2009.

Turning to contracted backlog, we have historically had or currently have a substantial backlog, which provides some assurance regarding our future revenue expectations. Backlog reduces the volatility of our net cash position provided by operating activities more than would be typical of a company outside of our industry.

Our backlog was approximately \$325 million at June 30, 2009. Backlog includes our SLA with the NGA, access agreements with our international regional affiliates, regional affiliate ground station operations and maintenance contracts, commercial imagery contracts, and contracts for value-added products and services.

Our backlog as of June 30 included approximately \$111.3 million of contracts with the U.S. Government, including approximately \$67.1 million related specifically to the SLA. Most of our government contracts are funded incrementally on a year-to-year basis, however, certain foreign government and commercial customers have signed multi-year contracts.

Now turning to the balance sheet. The balance sheet continues to be strong. The company finished the second quarter with \$47.8 million in cash, the total assets of \$785 million, and stockholders' equity of \$241 million and long-term debt of \$247.8 million.

Accounts receivable grew in the quarter to almost \$53 million, up from \$37.7 million last quarter and \$28.4 million for the same period last year. This increase is primarily due to the revenue growth associated with the new NGA SLA contract. This represents 66 days of sales outstanding, DSO's, and is within our targeted range of 60 to 70 days outstanding.

In terms of capital expenditures, we paid out \$53.3 million in the first six months of 2009. Of this, \$22.3 million was invested in the new GeoEye-2 program with the balance primarily funding the final GeoEye-1 program expenditures. Matt will address our future plans for the GeoEye-2 program shortly.

Now, let's talk about cash. Unrestricted cash has declined from the beginning of the year by \$59 million to \$47.8 million. The decline was primarily caused by three things. First, the unusual increase in the accounts receivable balance, as a result of the increased NGA activity. Second, \$20 million being segregated to a restricted cash account to back up a new letter of credit, which we provided to a customer in exchange for a multi-year contract that the customer prepaid to us in the third quarter. And third, the large amount of capital expenditures we have made to date.

As the company continues to generate working capital each quarter, we believe our cash balance will grow substantially in the future. Our head count was 534 employees at the end of the second quarter. We expect to continue to add additional employees each quarter as we invest in growing our production, sales and marketing, and financial organization.

To reiterate Matt's guidance earlier and add a little color, we are comfortable with our revenue visibility in the range of \$270 million to \$280 million for fiscal 2009, earnings per share in the range of \$1.10 per share to \$1.37 per share, and adjusted EBITDA in a range of \$125 million to \$133 million, a targeted EBITDA margin in the 50% range with operating margins targeted at approximately 30%.

Since we are in a business where customer contracts can be lumpy, these margins can vary from quarter to quarter, and should be considered targets and goals. Finally, I'd like to thank Jeanine Montgomery and the rest of our team for all their hard work to file the 10-Q on time. I know that some of you were curious about the timetable for our 10-Q filing and our press release. We're glad we had a timely filing. And in the future, we plan to try and coordinate these filings better with our press releases and investor calls.

Now I'll turn the call back to Matt.

Matthew O'Connell, Chief Executive Officer and President

Thanks, Joe. In summary, we're very pleased with the revenues and earnings we just reported. It's a positive reflection of all the hard work and dedication of our GeoEye employees over the last few years. We also want to thank our investors for supporting us as we won the NextView program, against pretty long odds, and then successfully launched GeoEye-1 and put it into business.

We're excited about our industry and our position. According to the U.S. Department of Labor, geospatial technology is one of three technologies poised for dramatic growth. GeoEye-1 is the world's highest-resolution and highest-accuracy commercial imagery satellite, and our expanded production capabilities are among the most advanced in the world. We are developing more advanced products and services and delivery platforms that will provide our customers with timely, accessible, and useful location-based information that they can use to make vital decisions.

As a result, we're very comfortable with our market position, our current revenue and earnings visibility, and our expanding market opportunities. There's growing demand and real excitement out there for our products and services, and it's translating into new business for GeoEye. That's something that you, our investors, can get excited about, too.

We believe our solid financial position and strong operating cash flow will allow us to continue to invest for future growth. And that's what I'm going to talk about now. We believe that demand for our satellite imagery from the U.S. Government will increase beyond the supply that will be available in the 2013 to 2014 timeframe.

There's a long-lead time associated with building the satellites that are needed to provide additional capacity. We anticipated the increase in demand and entered into a contract with ITT Corporation during the third quarter of 2007 pursuant to which ITT has commenced work on the advanced camera for GeoEye-2. ITT's work could be used to accelerate the development of GeoEye-2, so that it could begin commercial operations in 2013. We think the work we did was a good investment and believe it will position us to move quickly should an opportunity arise to expand our NGA relationship to a new satellite.

We've designed the satellite so that, if our Government wants it, the system could have a ground resolution as fine as a quarter meter or just less than 10 inches. No other company in the world has a program underway that could meet the government's imagery demand at this level of resolution. We don't expect to build or commission an accelerated GeoEye-2 satellite without assurances of an expanded NGA agreement. Only when we have visibility on the expected contractual demand for a new satellite from the NGA, do we expect to invest all the capital necessary to build and commission GeoEye-2 on an accelerated basis. So when the government is ready to make its move, we'll be there.

On that note, I'd like to open the call to financial analysts and investors for questions. For all others, we invite you to stay on the call and listen in. Of course, as we discussed earlier on the call, many of the statements we've made and will make during the Q&A period are forward-looking statements, which are subject to risks and uncertainties.

QUESTION AND ANSWER SECTION

Operator: [Operator instructions]. Our first question today comes from Paul Coster of J.P.Morgan.

<Q – Paul Coster>: Thanks, Matt. Just taking up on the last point, I think previously you've said that in order to hit the 2013 date with GeoEye-2, you'd need to make a go/no-go decision perhaps in the third or fourth quarter of this year. Is that still true? What should we be looking for that tells us that the decision has been made?

<A – Matthew O'Connell>: Paul, we'll come back to you when we have more information, obviously. The government has actually just publicly admitted that they released a statement of requirements. So they're moving forward with their program. We will obviously make our decisions based in large part on what we hear from them. We have cash available that carries us forward to that time period you discussed. And at that time, we'll look at how things are going with the government. We'll look at the cash we have available. Obviously, we're generating a lot of cash and we'll let the investors know around that timeframe how our plans are developing.

<Q – Paul Coster>: You believe that the government might be prepared to fund the projects as they did with GeoEye-1?

<A – Matthew O'Connell>: I don't think I should speculate on what the government wants to do, Paul.

<Q – Paul Coster>: Got it. What's your latest thoughts on the useful life of IKONOS?

<A – Matthew O'Connell>: I can turn that over to Bill, but the satellite is operating well and continues to take great pictures.

<A – William Schuster>: I think the answer is the same one that we've provided in the past and that is that, right now there are no problems with the satellite and we cannot accurately predict any particular end of life. So it could go on for some considerable amount of time.

<Q – Paul Coster>: Okay. Got it. And the last question I've got at the moment is, have you kind of run out of room for regional affiliates or is it possible that you can add yet more of these programs on to GeoEye-1?

<A – Matthew O'Connell>: Well, Paul, as we've said in the past, the business we are in traditionally has been kind of like Prime-time TV. There are a couple of prime time zones, northeast Asia and the Middle East. And we are very heavily subscribed in those areas. And that's the good news.

There are other areas of the world that are less heavily subscribed and you've seen growth in that. We just announced a deal in Brazil. I think I've said in the past that although the Wall Street Journal uses the acronym BRIC, we tend to think of the CRIB as the place for future growth. That's China, Russia, India, and Brazil.

Brazil is a nice one to add. We have operations in China. They continue to be strong. We are seeing growth in Russia and we believe there's upside in India. I'm not sure that we will put ground stations in all of those areas, but we have strong relationships in, I'd say, three of the areas already. We need to do more work in India, but that's good. There's a lot of upside there.

<Q – Paul Coster>: One last question. I apologize. You said that you believe you can achieve double-digit growth for three to five years. Does that include the launch of the new satellite or is that based upon the existing constellation?

<A – Matthew O’Connell>: No that’s just the existing constellation, Paul.

<Q – Paul Coster>: Wow. Okay, thanks very much.

Operator: And our next question today comes from Jeff Evanson of Dougherty & Company.

<Q – Jeff Evanson>: Good morning, gentlemen. Thanks for taking my questions.

<A – Matthew O’Connell>: Thanks for calling, Jeff.

<Q – Jeff Evanson>: So, Matt, now that you have achieved a level of \$12.5 million per month on the SLA in the month of July, are you going to be able to remain at that level? Should we read that as kind of a measure of the performance of GeoEye-1?

<A – Matthew O’Connell>: I think that is going to be the level we strive for, Jeff. I’m not sure that we’ll hit it every week, every month, because we do have five metrics that we have to hit. I think some months we’ll go over and some months we may fall a little short. It kind of depends on the ordering patterns of the government and conditions around the globe. So I think it’s a reasonable target. As you can see from the first quarter, we did ramp up. I’m not sure that we’ll hit it every month.

<Q – Jeff Evanson>: Okay. That’s fair. The way you’ve restructured your foreign access contracts, where might we see purchased imagery spend go to on a quarterly basis? Could that migrate below \$1 million sustainably going forward?

<A – Matthew O’Connell>: Joe is nodding his head and I’ll take that as a yes.

<A – Joseph Greeves>: Yeah, that was an important change for us, Jeff, is getting rid of the sort of old space imaging way of doing business where we gave people the ownership of their imagery in their territory. It not only gave us high cost of goods sold, but also made it harder to work in a global environment where we want to take images from one area and sell them to more than one person.

<Q – Jeff Evanson>: Great. Now more on those foreign programs, was that what drove the strength in the non-U.S. Government backlog?

<A – Matthew O’Connell>: I think the strength in the non-U.S. Government backlog came from the fact that the market likes GeoEye-1. It’s a terrific bird. We have a heritage overseas through Space Imaging of serving these people for 10 years and they were happy to renew those relationships and to get the best satellites that are out there.

<Q – Jeff Evanson>: It’s ground station contracts?

<A – Matthew O’Connell>: Ground station contracts?

<Q – Jeff Evanson>: Yes.

<A – Matthew O’Connell>: That’s part of it, too, is we did have ground station contracts that we had sold in the past, but they started to kick in this year as we got that satellite into operation.

<Q – Jeff Evanson>: How much revenue in the quarter was related to ground station sales if it’s possible to break that out?

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<A – Matthew O’Connell>: It looks like about \$1 million. We’re actually ratably recognizing the ground station revenues over their periods of performance. So we’ve signed multi-year contracts in recognizing ground station revenue over those multi-year periods.

<Q – Jeff Evanson>: Okay. So we should be at about that level for the rest of the year at least?

<A – Matthew O’Connell>: Actually, it’ll probably go up a little bit. It probably looks like to me like it’s \$1.5 million per quarter.

<Q – Jeff Evanson>: Okay. And that’s pretty de minimis.

<A – Matthew O’Connell>: Yes.

<Q – Jeff Evanson>: Matt, this comment about demand exceeding supply in the 2013, ‘14 timeframe, I’ve never heard you utter such a bullish statement. So I have a couple of questions around that. First of all, what is driving your level of conviction to make that statement? And does that include all existing and planned capacity in the U.S. at this point?

<A – Matthew O’Connell>: Jeff, you make me nervous when you say that I’m bullish. The government in April announced the 2-plus-2 programs that I know you’ve read about, we’ve talked about it. And I believe that you will find quotes where the government says, they need more capacity. I believe that was the basic theme of the April discussion.

America needs more capacity. As you’ve heard, I read a quote saying Admiral Blair does not want any gaps in collection capability. So it’s clear that the U.S. Government feels that there needs to be more collection capability up there. They will build two of their own, but then they will buy at least two from the commercial sector. Actually they won’t buy the satellites, they’ll buy the capacity from satellite providers. So that’s where that statement comes from.

<Q – Jeff Evanson>: And what sensors in existence or planned are included in that? That all market participants in the U.S.?

<A – Matthew O’Connell>: Yes. I believe that exceeds what we know about current capabilities.

<Q – Jeff Evanson>: Yeah. Okay. My last question is for Joe. Joe, this customer who the letter of credit was required for, were there any material sales from that customer recognized in Q2?

<A – Joseph Greeves>: No.

<Q – Jeff Evanson>: Okay. Great.

<A – Joseph Greeves>: No. Actually it’s one of the ground stations being ratably recognized over a five-year period of time, \$20 million commitment and they actually paid some cash in the third quarter.

<A – Matthew O’Connell>: Just to revisit that, the customer is a long-standing customer. We have a signed a new agreement for GeoEye-1 that will go for several years, Jeff. And they prepaid us. So we have the cash upfront. So we have recognized revenue from that customer. Just to be technical, it was not the revenue to which the letter of credit relates, that relates to the going forward contract.

<A – Joseph Greeves>: That's true.

<Q – Jeff Evanson>: Got it. Okay. Perfect. Thank you, gentlemen.

<A – Joseph Greeves>: Thank you.

<A – Matthew O'Connell>: Thank you.

Operator: And our next question today comes from James McIlree of Collins Stewart.

<Q – Jim McIlree>: Thanks. Good morning.

<A – Matthew O'Connell>: Good morning.

<Q – Jim McIlree>: To hit the midpoint of your revenue guidance, you'll need to ramp up your quarterly revenues to about 79 million, which is about six million higher than the Q2 numbers. Is that delta, that six million, is that coming primarily out of production or is that a combination of production and imagery?

<A – Joseph Greeves>: It's a combination of production, imagery, backlog, the ground stations and review of our sales forecasts. We feel pretty comfortable with that, those levels of increases for the next quarter.

<Q – Jim McIlree>: And is there anything about the second half that would suggest that there's a drop-off when 2010 begins?

<A – Joseph Greeves>: No. We should be able to sustain that into for at least the foreseeable future of 2010.

<Q – Jim McIlree>: Okay. And I think the prior questioner asked about purchased imagery. I just want to make sure, did you suggest that purchased imagery costs could dip below \$1 million per quarter?

<A – Joseph Greeves>: Yes. We do believe that. Before we were actually spending a substantial amount buying imagery that was shot through the IKONOS through our regional affiliates. The new GeoEye-1 basically has allowed us to take the shots ourselves. We should see the amount of purchased imagery diminishing over time.

<Q – Jim McIlree>: Okay. And so when you talked about direct expenses being 30% to 35% of revenues, if you have purchased imagery going down, then other things have to go up. And I'm assuming the other things would be, because of the production increases at St. Louis and Thornton. Is that fair?

<A – Joseph Greeves>: Correct. There's a higher labor component in that, although that's still a high-margin business for us.

<Q – Jim McIlree>: Right, right, of course. Okay and lastly, can you give some indication about either the capacity utilization or the revenue generation on IKONOS at the current time?

<A – Matthew O'Connell>: Capacity utilization, it's still pretty fully booked. We were happy, Jim, that many of our international customers kept their IKONOS contracts and signed GeoEye-1 contracts. Now that will probably taper down over time, but right now, they're getting two great looks at their targets. IKONOS is not as high resolution as GeoEye-1, but it's terrific color imagery. And so they're keeping those contracts for the moment. NGA has tended more towards GeoEye-1.

They paid half of the capital for the satellite. It's kind of logical that they would want to use that one. That's about all I can say right now, I think, Jim.

<Q – Jim McIlree>: It's very helpful. Thank you.

Operator: [Operator Instructions]. Our next question today comes from Anthony Klarman of Deutsche Bank.

<Q – Anthony Klarman>: Hi, guys. Thank you. I wanted to delve a little bit further into the AR rise this quarter. I know that a lot of it is probably due to the first full quarter with the full impact of the NGA contract. The revenue is being recognized in the take-or-pay form of up to the \$12.5 million per month. I was wondering, what is the collection cycle like? Is the government paying you quarterly or in that sort of 60 to 70-day sales outstanding period such that we would expect the AR delta to have corrected itself by the second or third quarter?

<A – Joseph Greeves>: Yes. Basically what happens is we go through the month and produce results in the 12.5 and then we turn around and bill the government shortly into the next period, they have 30 days pay. So effectively we end up with 60 days of receivables or about \$25 million worth of receivable. And that's the majority of the increase that took place. That's really a one-time increase that will self-correct itself and will not take place again. So that as the company continues to perform, we'll drop to cash and increase cash balance.

<Q – Anthony Klarman>: Gotcha. So as we think about that for the next quarter, in effect, you've already billed in for the next quarter. So really what we should see is a sort of auto-correct of the AR – of the change in AR from second quarter to the third quarter?

<A – Joseph Greeves>: Yes. That's correct.

<Q – Anthony Klarman>: Okay. The question about cash and the cash balances and I'm wondering you break out the cash in the Q between guarantor and non-subsidiary guarantor or non-guarantor subsidiaries I should say, does that also correlate between cash that sits inside the restricted group for the bonds and outside the restricted group?

<A – Joseph Greeves>: That is correct.

<Q – Anthony Klarman>: And so if we take a look at that, I guess my question really comes to, I think the bonds now have a free cash flow suite mechanism that will come into play. And given that the bonds are trading – currently trading above where the free cash flow sweep would take place, if you offer the free cash flow sweep and bondholders do not take that, does that cash then become unencumbered such that you could then spend that cash on GeoEye-2 development, thereby giving you access to some additional cash to build that out?

<A – Joseph Greeves>: Will, do you know that answer? I'm not certain.

<A – William Schuster>: Yeah, if you make the tender and people don't take it, what they don't take that was in your free cash remains in free cash for another quarter and then goes out to another period before you need to make the next free cash flow tender and then it frees up. So they get two bites.

<A – Joseph Greeves>: Okay.

<Q – Anthony Klarman>: Gotcha. Okay. So they get two passes at the cash before that it would become totally unencumbered and you could use it for GeoEye-2?

<A – Matthew O'Connell>: That's correct.

<Q – Anthony Klarman>: And then a question on the GeoEye-2 side. Your competitor, I guess maybe you wouldn't call them your competitor, maybe your peer, DigitalGlobe, on their call the other night was sort of making more comments about certainly the 2-plus-2 program and the extent to which the government might be willing to at least anchor the tenancy of that satellite. And I think the first question that was asked was sort of bringing up a position you guys had made a while ago about when you would have sort of a go or a no-go date on the more aggressive launch of the CapEx. As that all ties in together, how are you responding to commercial customers or other touch of customers who are looking for inquiry as to when you might expand the ability, the imagery capacity with the new satellite?

<A – Matthew O'Connell>: Well, in a normal rebuild cycle, Anthony, we'd probably rebuild to launch in 2014, because that's when we need a real overlap with GeoEye-1. Absent a change in the U.S. Government buying habits, I'm not sure that there's going to be a big spike in demand prior to the time period we talked about before the 2013, 2014 timeframe that's been referred to by people in the April time period.

We certainly have a lot of interest around the world in certain peak and could use more capacity there. I think that the government is looking at various ways of anchoring a program to use your word. Certainly in the past, we could make an easy case for the fact that the government saved money by paying half of the capital upfront.

I'm not sure in this economic environment the government wants to do that, but a long-term contract with assured purchases at assured prices could be equally attractive and equally financeable. So we're in discussion with the government and at the end of the day, whatever makes most sense for the government and the taxpayer will be the deal that we cut with them. And we think that they do need more capacity and we look forward to supporting the government with their future needs.

<Q – Anthony Klarman>: Okay. Final question from me. If you look at the performance in the quarter relative to the guidance that you have outstanding, it would appear that the incremental EBITDA margins that were generated by the full quarter of the NGA revenue were significantly above the 50% margin target that you have because your blended margin was already at or above the 50% rate. And I guess I was wondering how we should think about the incremental margins that were coming along with that and I'm wondering if your guidance of the 50% margin rate was based upon the assumption that you'll be loading some additional costs throughout the year to expand the sales and marketing side of the equation.

<A – Joseph Greeves>: Will and I gave the guidance on the operating income of a 30% model. We actually have achieved that this quarter. So I think based on the mix of business and growth opportunities we have for expanded production services and we're probably going to be making some – the excess above the 30% operating income I think we'll choose to expand our sales force, do some R&D development, so we can continue to grow the business. I think that 30% yields a fairly consistent 50% EBITDA target.

<Q – Anthony Klarman>: Okay. Thank you.

<A – Joseph Greeves>: Thank you.

Operator: And having no further questions in queue, I'd like to turn the conference back over to management for any additional or closing remarks.

Matthew O'Connell, Chief Executive Officer and President

Well, thank you all for joining in. Thanks for your support as we built and launched GeoEye-1. We're happy to be reaping the benefits and we look forward to talking to you next quarter. Thank you all.

Operator: And that does conclude today's conference, ladies and gentlemen. Again, we appreciate everyone's participation today.

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