

GEOEYE INC.

**Moderator: William Warren
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Operator: Good day, and welcome to the GeoEye Incorporated First Quarter 2009 Earnings Release and Investor Update Conference. Today's call is being recorded. At this time, I would like to turn the call over to Mr. William Warren, Senior Vice President and General Counsel for GeoEye. Please go ahead, sir.

William Warren: Good morning. This is William Warren. Thank you for joining us today, as we discuss GeoEye's first quarter 2009 earnings. Joining me today are Mr. Matthew O'Connell, Chief Executive Officer, President and Director; Mr. William Schuster, Chief Operating Officer; Steve Balthazor, Vice President, Finance; and Jeanine Montgomery, Vice President, Accounting and Controller. After our remarks, we will entertain questions. This call is being recorded.

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, or expect; 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, the level of government spending, competitive pricing pressures, level of new commercial imagery orders, production rates for advanced image processing, startup 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 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 Web site in the investor relations area, shortly after this call. We will replace that with the 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: Thanks, Will, and thank you all for taking part in our call. The main purpose of the call is to report our financial results for first quarter 2009 and update you on GeoEye-1 and our service level agreement with the National Geospatial-Intelligence Agency. I'll also talk a little about what we know and can say publicly about the U.S. government's announced plans regarding their future use of commercial imagery and about our growing international business and how we are doing with expanding our production capabilities.

Our Vice President of Finance Steve Balthazor will give you the details of our financial results.

Our Chief Operating Officer, Bill Schuster will update you on GeoEye-1 and the status for our r next satellite, GeoEye-2.

Our Vice President and Controller, Jeanine Montgomery is here to help us answer questions as well. Then I'll talk at the end about how we're looking at the way ahead now that GeoEye-1 is operational and then we'll take your questions.

Last month's Investor Call dealt with our results from 2008, a year that was focused on launch and check out. Now that GeoEye-1 is up and running, we are focused on the future and the new services we can offer rather than on the past. I will say more about that in a moment.

In the first quarter our revenue began to rise reflecting the fact that we were available to start GeoEye-1 operations and begin delivering large amounts of inventory to NGA. NGA certified GeoEye-1 on February 20th, but we didn't reach our full run rate during the quarter because it took us a few weeks to ramp-up. Under our Service Level Agreement, we earned \$12.5 million per month in return for providing a specified amount of imagery to NGA in specific timelines. Any shortfalls result in a maximum penalty of up to 10%. We didn't fully meet the Service Level Agreement minimum for March, but we did for April. In fact, we satisfied the Service Level Agreement delivery requirement for April several days before the end of the month.

Despite the late start, our results did show a marked increase over last year. Revenues for first quarter 2009 were up 26% over last year.

Steve will say more about our financials in a moment.

While, there's still a lot of uncertainty in the financial markets our primary customer base is defense and intelligence, not only in the U.S. but overseas. So while financial markets remain in

flux, we have a fundamental relationship with our largest customer the National Geospatial-Intelligence Agency.

Now I'd like to tell you where we are with NGA. Our current Service Level Agreement with them ends at the end of November. NGA notified us that they intend to extend the Service Level Agreement through the end of June 2010, or longer. The terms of next year's extension haven't been finalized yet.

Many of you have asked about the U.S. government's plan for acquiring commercial imagery in the years ahead. On April 7, the Director of National Intelligence, and the Secretary of Defense announced a plan to modernize the nation's classified satellite architecture and according to the press release, "increase the use of imagery available through U.S. commercial providers".

The President himself approved the plan approved, so there's high level support. We are certainly encouraged by this announcement and look forward to learning more specifics of the plan. At this point, we know that in response to this plan, the NGA established a new Commercial Remote Sensing Integrated Program Office that will handle their expanded use of imagery from commercial satellites. While we used to think that such developments would be years away, we now believe that this government effort could lead to a nearer term increase in their purchases of commercial imagery. There is basically a duopoly of suppliers for high resolution commercial satellite imagery to the U.S. government consisting of us and Digital Globe. Our analysis indicates that the current commercial capability, including near term launches, isn't going to be sufficient to satisfy the U.S. government's appetite for coverage and timeliness. That's why we've continued to invest in GeoEye-2 in order to shorten the development cycle.

Clearly, the pace at which the U.S. government initiative advances will affect the speed with which we move forward with our GeoEye-2 program. We've designed and invested in the GeoEye-2 program so that satellite could be operational in the 2012 timeframe, which is when we

expect the increase in demand to really pick up. Over the past year and a half, we've invested about \$43 million in the camera and camera electronics for GeoEye-2. We've designed the system so that, if our government wants it, the system could have a ground resolution as fine as a quarter meter or just under 10 inches. No other company has a program underway that could meet the government's imagery demand at this level of resolution. But before we pull the trigger on any major spending, we want a commitment from the U.S. government or another anchor customer. Once we have commitment, then we'll quickly select a vendor to build the satellite itself. We expect this to happen later this year.

Now, I want to update you on our international business. While the NGA is our largest single customer, our international business continues to account for nearly half of our revenue. The international customers provide valuable revenue. In addition, as we've said in the past, we like to have diversified revenue, so that we're not too dependent on any one customer group.

We recently met with many of our customers and heard first hand, how truly impressed they were by the quality of GeoEye-1's imagery. They love the color, resolution and the accuracy. Throughout our meetings with customers, we received clear indications that there's a continuing strong demand for imagery that needs to be satisfied around the world.

We're continuing to build on the decade-long relationship we've had with many of these key customers. They've come to rely on us for the accuracy of our imagery and products, with many allies getting direct access to IKONOS and now GeoEye-1. This means, they can directly task the satellite and downlink imagery into their ground station. Most of these key customers are in Asia and in the Middle East where there are rich economic zones, lots of borders that need to be monitored and areas of potential or actual conflict.

We're gratified that most of our customers have committed to receive GeoEye-1 imagery. They've also committed to continue to take imagery from IKONOS, at least for a while. In all, we

have contracts in place with about ten Commercial Regional Affiliates or Master Resellers, which account for many large U.S. allies. Many of those have been with us since the early days of the commercial remote sensing industry in the late 1990's. We have more work to do in the international arena. We have to complete upgrading a few ground stations to receive GeoEye-1 and finish some regulatory approvals before GeoEye-1 is firing on all cylinders in the international market, which should start in the third quarter. Then we'll focus on growing the international market by helping our partners deepen their market penetration, spreading into some secondary markets, and selling some new products.

As we said in our last call, we've made two significant changes in our international model with the GeoEye-1 capacity. First, we retain a significant amount of the imaging capability over any given area. In areas where we've granted direct access rights to government affiliates, we retained at least 50% of GeoEye-1's imaging capability for NGA and other customers. The percentage is slightly higher on a global basis. With IKONOS, there are some areas over which we seldom have the opportunity to collect imagery, because our international ground station customers have exclusive rights to most of IKONOS's air-time over their territories.

The second important change in our international model is that, for the most part, we will retain the rights to the actual images and be able to sell imagery worldwide outside those few territories where we've granted partners exclusive territorial sales rights. That's different from the model we inherited with our IKONOS satellite when we acquired Space Imaging, where our international partners retain these rights.

This change in our international model is especially important when you combine it with the new approach NGA adapted in the Service Level Agreement. In the Service Level Agreement, NGA gave us a broad mandate to collect the world, instead of the specific task orders that used to be the bulk of our NGA orders. That makes it easier to optimize our collections so that we can resell the images we collect. In addition, we have an agreement with Google, in which they buy a copy

of imagery we take. So, when you combine the effect of the re-sales permitted by the Service Level Agreement, our new international model and our Google deal, you can see that our industry is changing. We can and do plan our operations so that when we take an image we fulfill multiple orders and can deliver current information to multiple customers. For example, when we take a picture of Beijing, we know we've already sold that to a Chinese customer, and to NGA, and to Google.

Now I'm going to shift to our products, services and solutions business. We mentioned in earlier calls that our products and services business is growing. That continues to be the case. We've substantially completed work on the expansion at our production facility in St. Louis where we do the high-end value-added work that has made our St. Louis facility a world leader in creating innovative and complex information products. That expansion, combined with productivity improvements, will allow us to attain the levels of throughput required to reduce our current backlog there and keep up with growing demand.

And, as we've said before, we're in the process of tripling our classified production area in our Thornton office, near Denver to keep up with the demand for one of our new information products, the Airport Mapping Database. One reason we're so enthusiastic about that product is that it not only generates nice revenue, but as we said before in other calls, we're increasingly offering it as a subscription product, both in the U.S. and overseas. Those facilities expansions require a little Cap Ex, but production and the related revenue should increase too. Besides, as I've mentioned, although production revenue is lower margin than simply delivering raw pixels, the investment capital required for the production is a lot lower than that required to build more satellites.

Our production services are going to be increasingly important in the future. In the next 5 to 10 years, more nations will launch imagery satellites, so it will be important to be able to differentiate our imagery and our services and not just be an imagery wholesaler. Although we'll continue to

sell a lot of imagery to the U.S. government, they are increasingly looking to us for more production services and advanced solutions. And our ability to provide these services and solutions will give us a competitive advantage. Production services and advanced solutions will allow us to extract from the raw content, the information that our customers need. And we can process imagery from any satellite. As more satellites launch, our source-agnostic ability to combine information will be increasingly valuable. In short, what we do with images will be at least as important, if not more important, than simply collecting images. And growing our products and solutions business helps us continue to diversify our revenue mix and also gives us closer ties with customers.

Now, one specific vertical in which we work has gotten a lot of attention lately. There's been a lot written about infrastructure, environmental, and energy initiatives, since the President signed the stimulus package in February. There's a geospatial component in just about every large infrastructure, environmental, and energy project. Our customers have used our satellite imagery and the aerial imagery from our subsidiary MJ Harden, to monitor infrastructure projects like oil and gas pipelines for years. We continue to do well in that area and look forward to growth.

Now turning to the financial markets. We're pleased that our competitor Digital Globe is doing their initial public offering. Their IPO will increase the attention the investing community pays to the entire geospatial industry. We need our industry to have more investor attention, more financial analyst attention and more media attention. And we know that customers like the increased transparency that comes with public companies. We wish Digital Globe well, and I want to personally congratulate their CEO, Jill Smith; and their Founder, Walter Scott.

Now I'll turn the call over to our Vice President, Finance, Steve Balthazor. So Steve can talk about our first quarter results. After Steve is done you'll hear from Bill Schuster, our COO.

Steve Balthazor: Thanks Matt. As Matt mentioned, both revenues and EBITDA increased in the first quarter of 2009 from Q1 of 2008. This resulted primarily from the National Geospatial-Intelligence Agency increasing its imagery orders for GeoEye-1 under the service level agreement.

Our revenues for the first quarter of 2009 were \$45.2 million, compared to \$35.9 million for the first quarter of 2008. The 26% increase is due primarily to increased imagery orders from the National Geospatial-Intelligence Agency, again related to the Service Level Agreement. We also recognized \$2.9 million of deferred revenue from NGA's contribution related to half of the cost of constructing the GeoEye-1 system.

We indicated in our last investor call that we anticipated revenues related to international ground stations to be between \$15 million and \$20 million in 2009 with minimal gross profit on these sales. We're going to collect the amount of money we expected, but we've determined that we should recognize the revenue and associated cost of the ground stations over the life of the associated imagery contracts, many of which are multi-year arrangements. This accounting treatment will reduce our expected ground station revenue this year to a range of between \$5 million to \$10 million. Ground station upgrade sales are included in the imagery revenues on our financial statements while the cost of the ground station upgrade software and installations are included in direct cost of revenue.

Direct cost of revenue for the first quarter were \$24.8 million, compared to \$18.7 million for the same period in 2008. The increase of \$6.1 million in the first quarter was due primarily to the amortization of \$5 million of on-orbit insurance premiums for GeoEye-1 and \$2.5 million related to labor and overhead costs. We expect our direct cost of revenue will increase by \$25 million for the full year 2009, due to the amortization of on-orbit insurance premiums.

We stated in our last investor call that we expected to see direct cost of revenues increase because certain existing staff and external contractors will no longer be capitalized against the GeoEye-1 program. Additionally, we plan to hire up to 100 new employees in 2009 to work in our production and service areas to meet the growing demand. We've hired 28 new employees in the first quarter of 2009 in these functions.

Depreciation and amortization expense increased \$5.2 million in the first quarter compared to the same period in 2008 due primarily to GeoEye-1's commencement of operations in mid-February 2009. We previously stated that GeoEye-1 would be depreciated over 7 years; however, we have concluded that it is more appropriate to depreciate it for book purposes over 9 years.

SG&A increased \$3 million in the first quarter compared to the same period in 2008 due primarily to professional fees for accounting and tax services related to filling our annual Form 10-K. We plan to hire up to 20 new employees during this year within the SG&A functions including sales and marketing, accounting and business development. We have added nine new employees in the first quarter.

Our income from operations in the first quarter of 2009 were \$1.7 million, compared to \$5.6 million in the first quarter of 2008.

Our adjusted EBITDA represents our company's net earnings adjusted to exclude depreciation and amortization expense, net interest income or expense, income tax expense or benefit, non-cash loss on inventory and investment impairments and non-cash stock compensation expense. Additionally, we are excluding non-cash income from the NGA NextView deferred revenue.

Our adjusted EBITDA for the first quarter 2009 was \$7.6 million compared to \$9.4 million for 2008. This 19% decrease was due to ramp-up of costs outpacing ramp-up of revenues.

Net interest expense for the first quarter of 2009 was \$5.6 million compared to \$3.7 million for the same period in 2008, due primarily to no longer capitalizing interest expense related to GeoEye-1.

Income tax benefits for the first quarter of 2009 included \$700,000 benefit from the settlement of penalties and interest claims from our 2007 income tax filing. We expect our effective tax rate for the year to be close to 38%.

Our net loss for the first quarter 2009 was \$1.7 million compared to a net loss of \$800,000 for the first quarter of 2008. Our cash and short-term investments balance was \$95.7 million at March 31, 2009, compared to \$110.5 million at December 31, 2008. The decrease from the year-end 2008 cash balance primarily reflects capital expenditures of \$13.5 million for GeoEye-2 and \$3.8 million for other capital investments. As of March 31, 2009, total capitalized costs for GeoEye-2 were approximately \$43 million. We anticipate spending at least \$35 million more on the GeoEye-2 program in 2009, but the actual amount we spend will be determined by the pace with which we proceed with that program. We currently have sufficient cash to meet these projected expenditures without bumping into the restrictions in our indenture.

Now, I'll turn the call back to Matt.

Matthew O'Connell: Thanks Steve. By the way we are adding some new people to our accounting and finance areas; our search for CFO is going well and has generated a lot of very qualified candidates. We expect to make an announcement on that in the next few weeks. And we expect to have a Manager of Revenue on Board in about 2 weeks.

Now, I'll turn over the call over to our COO, Bill Schuster, so that he can update you on GeoEye-1.

William Schuster: Thanks Matt. We're pleased with GeoEye-1's performance other than an issue that I'll talk about in a second, and have been especially pleased with the accuracy of the imagery. In February, NGA certified that GoeEye-1 imagery meets their stringent requirements for resolution and accuracy. Now, we have the results from the first non-governmental analysis. Independent research done by experts of the University of Melbourne in Australia, and soon be published in a remote sensing technical journal, said GeoEye-1 is capable of producing "unprecedented levels of ground point determination accuracy" and "exceeds design specifications." The satellite can see an object on the ground the size of home plate on a baseball diamond, but just as important as resolution is the ability of the satellite's sensor to precisely locate or map an object that size on the ground and tie it to the GPS grid. We are consistently getting accuracies of 3 to 5 meters and 90% of the imagery has accuracies better than 3.5 meters. Since many of our customers use our imagery for keeping mapping databases up to date, this means those databases are more accurate. Stated another way, our accuracy allows our imagery to be more useful "out of the box" and our customers don't have to do as much work, which makes our imagery a better value.

Last week, we discovered a potential issue with some of GeoEye-1's imagery collections. The satellite has different collection profiles. Our investigation team including our camera provider, ITT, has determined that the issue is only present in one profile but not in the others. In a collection that is affected by the issue, a small part of the image lacks color, but the black and white is unaffected. The issue doesn't affect resolution or accuracy. It is too early in our review to determine what the cause is for this issue or the specific remedies which might apply. There is little or no impact to collections for our Service Level Agreement with NGA. We're still analyzing whether there maybe some impact on our ability to satisfy selected needs of our other customers. We won't be able to determine if this will impact our collections at all; or if it does, how much until we have finish the review, which may take a little while. We're currently operating in a way that avoids the issue.

IKONOS continues to operate well, though demand has eased somewhat because some of our customers shifted to GeoEye-1.

We have hired a new Vice President of Engineering, Carl Alleyne. Since I've been fulfilling the role of Chief Operating Officer and Vice President of Engineering, I can assure you he is a welcome addition to the management team. He'll focus on all aspects of ground station and product engineering, manage the GeoEye-1 maintenance program, and he'll lead the development of the GeoEye-2 program, which as Matt said, could pick up steam later this year.

Now I'll turn the call over to Matt for some final thoughts.

Matthew O'Connell: Thanks Bill. Let me sum up. As I said before GeoEye-1 is up and running and the customers love the resolution and the accuracy. We have to resolve the issue Bill mentioned and we'll let you know as soon as we do.

During the rest of the year, we'll keep focused on fully servicing our customers all the way from collection through value-added services. With the Service Level Agreement in place, we can maximize our collection activities to meet NGA's needs and at the same time optimize our collection, so that each image satisfies multiple orders. And we'll keep emphasizing our strong international program that allows our many partners the autonomy and flexibility to get access to our imagery so that they can sell into the markets they are close to and know well.

As we grow, we want to continue to have a diversified customer base, so that we're not overly dependent on the U.S. government or any other customer. We'll continue to focus on new products and services. We'll continue to focus on the business to business market. For example, it's clear that there are opportunities for us to do more business using the Web and 'cloud computing' platforms. Our Chief Technology Officer is leading an effort to expand our architecture to support increased Web-enabled business.

With GeoEye-1 up and running, we can shift some of our energies to building for the future. We have a heritage of over 10 years building multi-source information products and we're going to keep expanding that. As I've said for years, collecting imagery isn't the goal; the goal is providing timely, accurate, and accessible location intelligence to our customers to help them solve challenging needs.

While financially last quarter was little slow getting started, it's a good increase over last year. And the year as whole is shaping up to be significantly better than 2008. We're meeting NGA's requirements under the Service Level Agreement, GeoEye-1 is operational, IKONOS is operating well, we continue to sign up overseas customers and should have most of our major international partners upgraded to GeoEye-1 by the start of the third quarter. Soon, we're going to open up talks with the government on expanding our relationship with them.

For those of interested in learning more about geospatial technology and how this industry has progressed over the years, please check out the short promotional video for a Public Broadcasting production called "Geospatial Revolution". You can watch the 5 minute trailer by going to our Web site.

Now we know that some of you have expressed interest in asking questions and we'll take those questions now, understanding that some questions may involve proprietary, commercially sensitive information and that might limit our ability to respond. Thanks again for joining the call.

Operator: At this time if you would like ask a question please do so by pressing the star key followed by the digit 1, on a touchtone telephone. If you are using a speakerphone, please make sure your mute function has being turned off to ensure your signal reaches our equipment. Once again, that is star 1 to ask a question. We will take our first question from Jeff Evanson with Dougherty & Company.

Jeff Evanson: Good afternoon, gentlemen, congratulations on the quarter.

Matthew O'Connell: Thanks Jeff.

Jeff Evanson: A couple of housekeeping questions on the quarter; and then I'd like to get a little more detail from Bill on the satellite. The \$5 million in insurance expense in the quarter, was that related to the risk and benefit of that insurance around achieving FOC?

Steve Balthazor: We required to maintain insurance on the satellite and that is the operating expense that's going through the P&L that represented the first quarter's operating expense. We expect that to be about \$25 million for the year.

Jeff Evanson: Got it, OK, and that's helpful. And then you had \$3.9 million in purchased imagery. Could you give us your thoughts on where that is going to go in future quarters? Is that a level that'll remain at or could it go higher or lower? What do you think?

Steve Balthazor: I think the purchased imagery, we will see that trend down. Of course, that amount in the first quarter was related to GeoEye-1's delay for hitting FOC.

Jeff Evanson: Yes.

Steve Balthazor: So I expect that to go downward in the future.

Jeff Evanson: OK. In the past, you guys have disclosed a backlog figure. Do you have that for us today?

Steve Balthazor: I don't have that readily at hand for you right now, Jeff.

Jeff Evanson: All right. If you can just get that to me after the call, that would be great. And then for Bill.

Give me some more color on this issue of GeoEye-1. Is this impacting collection capacity at this point or is it causing you to bump into capacity constraints with GeoEye-1?

William Schuster: What we had to do is to eliminate the operating board that exhibits the issue and we have yet to be able to optimize and automate those operations. But we are quickly overcoming those limitations. And as I said, I don't expect that this issue will have any impact on the large area of collections such as we do for our Service Level Agreement with the NGA.

Jeff Evanson: OK. Is this a software issue, a hardware issue, or a combination; any sense on that?

William Schuster: I think we're still working through the investigation and have yet to identify, firmly identify a cause. However, I don't suspect that it is a software issue.

Jeff Evanson: Got it. OK. And then, a couple of questions for Matt. Matt can you give us an update on where you are at with your archive size and how much of that archive you guys have the ability to resell?

Matthew O'Connell: Sure. We have over 300 million square kilometers and we own that. There is other area we have collected for Regional Affiliates that is not included in that amount. So we can resell all of that. We have never sold a large amount historically. The industry's sales have been for current or very recent collections, because that's what our customers want. They want current information. So, we've really never sold much imagery over 1 year old. Stuff that's over a year old declines dramatically in value. I'd say that our sales have been less than 1% when you get to that level. Short of a year, you can sell some stuff but people always want the most current image they can. I guess, the Wall Street Journal probably can sell back issues, but they don't.

So, we can sell the library, but I don't want to overstate that. It's been a small revenue source for us. I think as we go forward we can work on technologies that might help us use it. Change detection will become more valuable in a while, but so far that has not proven to be a major source of revenue.

Jeff Evanson: OK. So just to clarify, you are able to resell imagery collected by your customers that had bought time on the satellites.

Matthew O'Connell: Yes. Under GeoEye-1, yes. With IKONOS, no. But again, the IKONOS imagery, once you get the imagery of any age you can't resell it, there is just not that much demand for it. When I say, we can resell the library, Jeff, we don't. If we do a current collection, we don't call that archive or library, it's a current collection, so we resell a lot of stuff. As I said, we are not routinely doing multiple sales of an image, but that's with GeoEye-1, not IKONOS.

Jeff Evanson: OK. And then Matt, my last question, could you give us your thoughts about your current capital structure and what changes you see coming in the next to that capital structure?

Matthew O'Connell: Sure. We have talked about GeoEye-2, and as we said we have kept that program going for year and a half, because we wanted to be in a position to launch in 2012. Now that the government has made it clear that they will be relying more on the commercial imagery industry, that gives us more courage to go forward and in fact there are some references to the fact that the 2012 timeframe is one that is appealing to a lot of people. So, we are in further discussions with U.S. government. We don't want to raise money just on the come for something as big as this satellite. When we get a commitment from the government, we will then go out and raise a substantial amount of money. I mean, the new satellite won't be an expense. It will be – since it's better than GeoEye-1, it will probably cost a little more.

The timing of that remains to be seen. We have current cash that we can spend to keep the program going for a while. That's in the unrestricted group. Under our debenture, we have a restricted group and an unrestricted group. We have unrestricted cash and that will carry us through certainly the second quarter. As we get into the third quarter, the rate at which we continue spending will depend in part on what we hear from the U.S. government. So once we have a clear indication from our anchor tenant and we assume that will be the U.S. government though it could be somebody else. Once we have a clear anchor tenant commitment, then we'll go forward to the capital markets for the larger rates. In the meantime, we can rely on the cash we have. We may raise some money when we hear the kind of things we want to hear from the government, even if we don't get a clear commitment. The commitment is something we'll have to do before we go out and raise a lot of debt.

Jeff Evanson: And you're thinking debt at this point?

Matthew O'Connell: We could do some debt, we could do some equity. I think that as we get through the year, we said in the third quarter, we'll have most of the internationals up and running. So we'll be at a more full run-rate at that point and I think that it's logical since we launched the big asset, that our results should be more attractive than last year and I think that would give us basis for going to the equity markets if we start to see government pace was one that we wanted to keep up with.

Jeff Evanson: Great. Thank you very much.

Operator: We'll take our next question from Paul Coster with JP Morgan.

Paul Coster: Yes, since I always want to make sure that I understand this correctly, the issue with new – satellite, with the GeoEye-1 camera for a certain acquisition mode does not impact the NGA SLA, is that correct?

William Schuster: That is what I said. We are not having any appreciable impact to the NGA collection.

Paul Coster: OK. Let me first start with, perhaps Steve, you can help out a little bit here, shaping the revenue for the rest of the year, re-launching or showing explicit guidance, but just coming back to the first of all the recent affiliates. We should expect revenue to increase from the current level in the third quarter as some of these contracts start to roll into related to GeoEye-1 starts to roll in to the business is that correct?

Steve Balthazor: That is correct. We will recognize the revenues from the access and ground station revenues from the international and obviously we'll see a ramp up in the SLA once we're at full run mode.

Paul Coster: OK. And then the NGA, the pre-launch amortized revenues they are recognized now over 9 years as well or is that still 7 years?

Steve Balthazor: That will be 9 years as well, thank you for clarifying that.

Paul Coster: OK. So that will be like \$6.6 million per quarter, approximately?

Steve Balthazor: Yes.

Paul Coster: Yes, OK. And then Matt, in the event that the government does upsize the NGA revenue with you guys. Will it be part of the same SLA agreement or do you think it will be a separate contract?

Matthew O'Connell: Good question. I think they have room to do it under the current SLA. There was reference in the Admiral Blair announcement and others to the phrase Service Level Agreements.

So if it's not under our current SLA, which by the way is what we expect, then it would be under a new one. I frankly think it would be under the existing one, just because it's easier for people to do an amendment instead of a whole new deal.

Paul Coster: Do you have capacity to respond to the increased demand from the NGA, from GeoEye-1?

Matthew O'Connell: Good question. GeoEye-1 is very well subscribed in a couple of markets. There are other markets in which it's not as heavily subscribed. I think in the past we've – on this call we have analogized satellites operations to primetime TV and non-primetime TV. With the Service Level Agreement, our mandate as I said before is really to map the world. There is not full demand in some parts of the world, so it kind of depends on where NGA, and its presumed end customers, the Director of National Intelligence, and the Department of Defense, want to look. If they want to look in some of the primetime areas it will be a little tight.

Paul Coster: OK. Now you haven't disclosed backlog at the moment. Is it correct to assume that there is some pent up demand there that starts to get satisfied now that the capacity has been increased and that we should therefore see sequential growth through the remainder of the year in production services?

Matthew O'Connell: Yes I think that's true. And going back to your last question Paul. On the demand as I said, we didn't think that the demand would have a dramatic pick up in the near-term. I think it will begin to pick up in the near-term that's a change in our thinking. We don't see the dramatic pick up in demand until sort of a mid-term and that's why we timed our satellite to launch around 2012.

Paul Coster: OK and then lastly while gross margins I think will obviously improve with the revenue ramp but you know decisions that sort of give us some sort of sense of the magnitude as the expansion

from this point forth and or even operating margin, it's obviously very difficult to model at the moment?

Steve Balthazor: Yes, Paul we have tried to avoid giving specific guidance in terms of percentages that we would expect to see increases for direct and SG&A. What we have tried to do is indicate that we had planned to hire as many as 120 people for the year. Most of those people will be in production related services. So you can take a look at the Q1 and sort of factor in that employment factor I should say that the salary related effect from those employees and we have indicated that how many people we have hired already in this quarter. So we are moving down that path. You can expect it to increase, but it shouldn't be to an order of magnitude.

Paul Coster: Can you perhaps say that it's possible to – this year or early next year to attain the same EBITDA margins as you had achieved back in '06, '07 which at that time GAAP EBITDA was sort of in the 50% range. Is that attainable this year?

Steve Balthazor: I think ultimately that is the range that we are looking for?

Operator: We will take our next question from James McIlree with Collins Stewart.

James McIlree: Yes, thank you. Good morning. Matt, I think you talked about an SLA penalty if you didn't deliver the images required. Did you pay a penalty this quarter?

Matthew O'Connell: Did we pay a penalty? You remember we launched in February 20, so we didn't pay a penalty for February, because we weren't operating for all of February. For March I guess in hindsight we did have...

William Schuster: But you don't pay penalty it rolls forward.

Matthew O'Connell: ...really what happens (Jim), is the money that would have gone to us now is deferred and tacked on to the end of our contract as part of the extension. So we didn't collect all the money we could have for March and that got tacked on to the end of the contract to fund an extension.

James McIlree: OK so it's not, when I hear penalty I think you owe them a million dollars for something. But that's not the case.

Matthew O'Connell: No, no we don't know we don't pay them and we don't actually lose it although it's deferred. So it goes into the funding for the extension that we said starts in December this year.

James McIlree: Right.

William Schuster: Up to a 10% max.

James McIlree: Right. OK great that's helpful, and then Steve I think you spoke about in your discussion of direct cost you had two items there. The first is the hiring of new employees and then the second had to deal with not capitalizing labor cost associated with something. Can you go over that again and potentially give an impact of what that was in Q1?

Steve Balthazor: Sure. So the two elements that we brought up were first of all, the increase in direct cost of \$5 million related to on-orbit insurance premiums. We've addressed it. And we had increase, and remember this is quarter one 2009 versus quarter one 2008. So we had a \$2.5 million increase related to labor and overhead cost. On our last investor call, we had indicated that certain external contractors and existing employees within GeoEye-1 would no longer be capitalized; their expenses would no longer be capitalized against the GeoEye-1 program. So, you could expect those individuals to rollover into operations. Additionally, for production and services areas, including the area with MJ Harden, we have planned additional headcounts.

James McIlree: OK. So the labor costs that used to be capitalized is part of that \$2.5 million year-over-year increase.

Steve Balthazor: It is currently. That's correct. A portion of it.

James McIlree: A portion. Right. Is it the biggest portion, half of it, or third of it. Just kind of ballpark it for us.

Steve Balthazor: I would say the majority of it at this point. I mean, we've indicated that we've hired new individuals into that function, so that's going to be a piece of it.

James McIlree: OK. And Bill, on the – back on the profile. How many different profiles are there? Are those a profile – each customer has a profile or is it...

William Schuster: No, it's a set of operating modes.

James McIlree: When you launched the satellite. Is that an 80/20 rule? Did you think that 80% of the images would be taken with 20% of the profiles or is it more of a – you have five profiles and you expect it overtime that each would get 20% of the images. I'm just trying to get a feel for how big or little of an impact this is?

William Schuster: Well, I think that the answer in terms of how big or little the impact is going to be dependent on the final analysis that we do and how we re-optimize our collections against the customers' requirements.

Matthew O'Connell: I think one, I mean, it's hard for us to quantify because Bill and ITT are doing a review right now (Jim). But you heard him say that for the SLA, we doubt that this is going to affect any of their operations. So, I think that gives you some order of magnitude.

Operator: We'll take our next question from Jeff Rath, Canaccord Adams.

Jeff Rath: Thanks guys. Just a couple of financial questions as well. Steve, maybe you can help explain a little bit. There was something in your queue that suggested that your build cost for – seems like a final reconciliation for GeoEye-1 came in a little bit less than the original budget and that that will result in an increase of deferred revenue over I guess the life of the contract.

So, how will that – presumably that won't affect revenue from your SLA but it might ultimately effect or reduce the cash that you get. How should I understand that footnote? Thanks.

Steve Balthazor: I do think that you've interpreted that correctly. The government initially signed up to pay as much as \$237 million against the cost of GeoEye-1. The end result came in where the government's portion really came out to be \$217 million give or take a little and that left them with about a \$20 million credit. They have paid us for that and we have the cash already so with the SLA they will be effectively working a portion of that off, throughout the year. So it's a credit.

Jeff Rath: So if I, in a very simple way, if I look at that SLA if it was – if you sort of maxed out on that SLA it would be \$150 million of cash that you would expect to receive over a 12-month period. Making adjustments for this one time, it reduces that cash by \$20 million.

Steve Balthazor: I think that's correct, yes.

Matthew O'Connell: But Jeff, one thing you have to remember is this is great news from a positioning standpoint. We've had people all around Washington say, you guys came in under budget, as we

go through this dialogue let's call it with Capitol Hill and the Pentagon about where commercial satellites come in. The fact that we entered into a fixed pricing contract and said we would take the risk of many abridge, then managed it, so we came in under budget. W also said to the government, they'd get the benefit of any under spend, because we credited towards their imagery purchase. It's one of the many factors we have pointed to as we talked around Washington about why they should use more commercial satellite imagery and not rely on building and operating their own.

Steve Balthazor: Jeff as a follow-up to that as well, Paul Coster, initially requested earlier whether or not it would be about \$6.6 million a quarter for the deferred. If you use the \$217 numbers that we will really be amortizing and it actually comes out to be a little closer than 6, 6.1. So I wanted to clarify that, I'm not sure if he was using the right base number or not. The other piece of it is that projects this size, especially with governments helping to pay for it, take a while to settle up the exact final trued up amount and right now we expect that credit that we just spoke of earlier of \$20 million to the final amount, but it may be adjusted, up or down slightly.

Jeff Rath: OK. You changed the amortization life or the accounting life of GeoEye to 9 years. Can you explain what thinking went into that book-keeping adjustment?

Jeanine Montgomery: This is Jeanine Montgomery, basically we evaluated industry norm, we evaluated what our best estimates of the accounting depreciable life was and determine that 9 years was really the appropriate years. Industry would suggest that it would a design plus 2 years of life and that's really what we were looking at when we came to the 9 year determination.

Jeff Rath: OK. So, it was more just catching up to industry norms as opposed to any assessment now that it's in orbit and operating that may do extend the life or anything like that.

Jeanine Montgomery: Yes and that was – there was no changes in anything that we believed as far as the GeoEye-1 operations, it's just more to get into the norm counting, from an accounting standpoint.

Jeff Rath: OK. A second question or I guess a third question around accounting, Steve you talked to a change in the revenue recognition that you're going to take for your ground stations going from sort of a \$15 to \$20 to \$5 to \$10 effectively matching it against the imagery purchases. Did I understand that in fact you're delaying or you're deferring your revenue recognition, but in fact you're accounting for all the associated costs in the time that the upgrades are done? Can you help me there?

Matthew O'Connell: Sure. So some of the contracts on the Internationals were sold as what's know in the accounting world as a multi-element contract, where it was kind of bundled with both the ground station upgrade as well as access minutes. In that case the proper accounting treatment is to recognize the two of them together over a period of time. So the revenue will be stretched out over the contract life for the access minutes, but the costs will also be matched up as well. So they will come through on a parity basis with the revenue.

Jeff Rath: OK. So we're not looking at sort of a cost misalignment here that's sort of my first impression thought where you would be incurring a bunch of up cost up front and not to the associated revenues there.

Matthew O'Connell: No you have got to correct that we will be recognizing the costs in relation of the revenue.

Jeff Rath: Now, Matt, if I can just switch over to more industry-related commentary. Matt, you made mentioning of a couple of things in your opening remarks around the U.S. government's growing needs and possibly maybe I'm putting words in your mouth a gap in those, in the capacity there. I

guess, you explained that you felt in the medium term there is a real opportunities in the 2012 timelines, and how you feel that matches GeoEye-2, but is there an opportunity here to expand the SLA as part of our nearer term renegotiation; or is that, it almost seemed your remarks were pointing to the fact that there could be increasing or the opportunity to or the demand requirements to increase that SLA. Can you help me understand that a bit?

Matthew O'Connell: Sure, Jeff, you are right there our opportunity is to expand the SLA in the near term. That's some of the good news that came out of the announcement that was made by the Director of National Intelligence, Admiral Blair; and the Secretary of Defense. We do see a larger ramp up as I said in the mid-term. In the near term, let's see going back to what Jeff Evanson said, he asked about our ability to upsize the SLA in the near term and the amount that we could increase our supply to NGA. We think that there is a potential for that, we are certainly going to try to get a bigger relationship with NGA. We are happy to support them in anything they do and we think that this ability to optimize our planning so that when we take an image, we deliver it to, we pre-sell that and sell it to several people that may help us with the issue of already having a lot of international customers who themselves won a lot of deliveries from our satellite. What the government said was, we need to adapt our systems, now that's what the government said. They said they have to adapt and modernize the whole surveillance architecture and one of the aspects in which they need to do that is they have to adapt their systems to make fuller use of and take full advantage of the commercial imagery. Some people refer this as integration of the commercial imagery into the national architecture. That takes awhile. You are working in a classified space with people who are very finicky about what goes into their information package and so that will take awhile. We are hopeful that there will be a near-term increase, but for a number of different reasons that I don't really want to get into, we have always thought that the uptick in spending and the uptick in use of commercial was more likely in the timeframe that will occur in the period when not so coincidentally we can launch a satellite.

Jeff Rath: Just another question related to the sort of your quality control or your camera issue that you've identified. If I would ask you in a slightly different way, clearly you have to review the situation make a full assessment and then have more concrete answers, but if you take the problem that you've identified now. What – how would you articulate the financial impact of that problem if it could not be resolved to GeoEye?

William Schuster: That's part of the assessment and the optimization of our collection in the service of our various customers. And you brought up a quality control and to be clear. The problem was first to recognized as quality control. To the best of my knowledge no imagery has left that exhibits this issue that we've talked about, and no imagery is leaving which exhibits it, because as I've said we've been able to avoid going into the mode of operation that in fact is where we observe this issue. But in terms of the question that I know all of you are asking and you specifically are asking right now. We need to figure out what it is exactly that has transpired. What it is that we're going to do respond to it; and then optimize against our various customers requirements. And just by the nature of it, we know that it doesn't have any substantial impact on very large area collections. And as I noted in my comment, different users have some different needs and some of those needs we need to go look at how those might be impacted. And I just don't have the answer, which we all would like to know, which is the financial one and we're working on that.

Jeff Rath: When do you expect to have your review completed?

William Schuster: We're working 7 days a week as hard as we can and you won't be the second to know, but we will let the community know early on when we have an answer to that question.

Matthew O'Connell: Jeff we wish we had an answer for you. This just came up a couple of days ago, but it's a kind of a thing that you can't get through a call like this without talking about. We don't want to overstate or understate it.

Operator: We'll take our next question from Lance Vitanza with Knighthead.

Lance Vitanza: Hi guys thanks for taking the call. First just back on the deferred revenue, if I understand it correctly, we've got \$217 million deferred revenue over a 9-year life and then there is \$20 million of deferred revenue that's going to be taken over a 1-year life; is that correct?

Steve Balthazor: No. The \$217 will be taken over the 9-year life. The \$20 million is essentially a payment that the government made that that they will be credited imagery for in the future. So, they paid us that in anticipation of what we expected the cost of the satellite be. And it turns out that the cost share portion that they owed was less than that. So, we kept the money and we will use that to pay for imagery that we provide into the future.

Lance Vitanza: Right. So, how does that different from differed revenue. I mean, you've got the cash and overtime you're going to be recognizing revenue from sales of imagery. Isn't that right?

Jeanine Montgomery: If you just kind of think about, that they paid us this big bucket of money. I mean not be very unsimplistic here. But what they are doing now, is they are saying that, \$20 million of this money that they've already paid us is simply going to be used to pay for imagery (result take) we see on over the SLA term.

Lance Vitanza: Right, which is 1 year, is it not?

Jeanine Montgomery: That's correct, which is through the end of 2009, at this point.

Lance Vitanza: Right. So, for the balance of the contract, you're going to be giving them \$20 million of imagery for which they've already paid you upfront?

Matthew O'Connell: That's correct, it is differed revenue.

Lance Vitanza: OK. So, it's \$217 over 9 years, \$20 million over. So, we should see in Q2 then there is should be a pretty big uptick in differed revenue. It looks like it's going to be close to \$11 million.

Jeanine Montgomery: In current, yes.

Lance Vitanza: Right. OK. OK. The other thing I just was wondering about on the direct expense. Now the \$5 million insurance payment, \$25 million for the year you mentioned earlier on call. Just to be clear, this relates to the GE-1 insurance that you've already purchased and paid for correct?

Jeanine Montgomery: Yes, that is correct. We have paid most, all of those premiums as of the end of 2008.

Lance Vitanza: So, that's 100% non-cash in Q1. So, what I'm wondering is, why wouldn't you exclude that from your reported EBITDA number. I mean, you do exclude the non-cash revenue from the cost sharing. So, it would seem to be, it seem to be fairly exclude the non-cash expense as well. I mean, both of those, both the revenue and expense are in the past.

Matthew O'Connell: I can understand your point on that. Accounting obviously, is loaded with estimates and accruals. So, if you do it there, that's a slippery slope and that turns you pretty much into a cash basis reporter. I understand that point. But I think that it's, EBITDA is kind of defined by the industry for what it is and we've made certain adjustments that we think best reflect the operations of the company.

Lance Vitanza: OK, very good. And then on the SG&A line, I know you talked about this earlier, I think I missed part of it. But the \$3 million increase driven largely by increased professional fees for accounting and tax-related services. How much would say of that is, non-recurring?

Matthew O'Connell: A portion of it, a significant portion of it should be non-recurring. But we are in the process of rebuilding the finance and accounting area. We're staffing it up to meet the demands that this expanding and growing business has. So, we would expect some of those related expenses to come through in the following quarters. But it should be tapering down.

Lance Vitanza: That's helpful. And then I think there was some discussion on the call earlier about cash that was held at restricted versus unrestricted subsidiaries. This was as it relates to your ability to continue funding GeoEye-2. Could you be more explicit in terms of how much money is in the restricted versus unrestricted subsidiary?

Matthew O'Connell: Sure, if you take a look in the queue, just to point you for reference. On page 16, we break out, the financials between the guarantor (and the apparent the non-guarantor). At the time, at the end of March 31, the non-guarantor subsidiary had a cash balance of \$41 million. That cash is available for expenditures that the company sees fit, including the expenses over the investments related to GeoEye-2.

Lance Vitanza: So, \$41 million is in restrictive – I'm sorry, they are unrestricted stock, and therefore that could be used, and that gets you into Q3, and then so what's the issue? I mean, if you wanted to expend, you obviously have a lot more than \$41 million in cash, why can't you spend the balance as you see fit?

Steve Balthazor: Well, I think as Bill mentioned earlier, and Matt reiterated, evaluating the timing of expenses will be a function of things such as, an anchor customer and the pace at which we decide to move forward with the GeoEye-2 program.

Lance Vitanza: So, I think that the overall program is more of the issue?

Matthew O'Connell: Yes. It is not the near-term expenditures Lance. It's you know if we're looking at a program stretching out through 2012, when is the best time to go to the market and raise the money.

Lance Vitanza: I understand that. What I'm asking is, there is something in the bond indenture perhaps that limits your ability to use your restricted subsidiary cash towards GeoEye-2? That's the question, that's not...

Matthew O'Connell: Oh, absolutely. Yes.

Steve Balthazor: There is a Cap Ex

Matthew O'Connell: There is a Cap Ex limitation. Sorry you know I kind of assumed that earlier when I was talking with Steve. Can you walk through that?

Steve Balthazor: The bond indentures are held after a guarantor sub or the restricted sub. It is a publicly traded \$250 million debt. In there, there are restrictions related to how much capital we could spend on non-GeoEye-1 related expenditures. That's got a cap of about \$15 million. It is more complicated than this. I'll try to make it simple, but it has a Cap Ex limit for non- GeoEye-1 of \$15 million, and it's got certain carryover capacities, but that's what limits us.

Matthew O'Connell: Per year.

Steve Balthazor: Per year. It is correct. That's per year.

Lance Vitanza: \$15 million per year. OK. Thanks guys. I appreciate it.

Operator: We'll take our next question from Anthony Klarman with Deutsche Bank.

Anthony Klarman: Thanks. I just wanted to ask a clarifying question on the revenue line. It seems as though, maybe there is just some differences in the timing here, but if you go back and you look at the release that you had put out in mid-Feb when the new satellites were actually been certified, you had indicated that deliveries to the NGA would be starting essentially the next day. I think it was like February 20 or 21, something like that. So, in essence, maybe a full month of the SLA revenue should have occurred for the month of March. And I guess, I'm just wondering, what all the puts and takes are in terms of when that comes out of sort of the deferred revenue line, and into a current period recognition, so that we can maybe understand how the \$150 million in annualized SLA revenue actually will translate into the P&L.

William Schuster: Sure, so your assumption regarding the revenue included in the first quarter of 1 month is correct, related to the SLA. That will ramp up. As Matt mentioned, in April we hit full capacity or full deliveries against that contract. I'm sorry; the other part of the question was the deferred? How is that coming through?

Anthony Klarman: Well, yeah. So I guess there is two pieces right? There is the SLA piece and then kind of the deferred revenue piece that becomes current. I guess, if you subtract out \$12.5 million from the reported imagery revenue line item in the first quarter, that obviously takes you well below what the prior run rate had been in the other quarter, so I'm just wondering what the other puts and takes were that got you to the current level?

Jeanine Montgomery: One of the things I'd let you know I think that Bill or somebody had mentioned it earlier that, as we were ramping up, we were not able to provide 100% of the SLA images over to them. So, we did have a 10% hold back approximately in the first 1 month, but if you take 10 days or so out of February. So the first quarter, it doesn't represent what we believe is our full capacity on the SLA.

Anthony Klarman: Right. So – and then maybe as we think about the second quarter, is the issue that's currently being sort of investigated by the company with the issue that's been raised. Does that provide the NGA holiday for many entertainments they need to make until that issue is resolved or will they still be making those \$12.5 million a month purchases?

William Schuster: We're still servicing the – and currently servicing the SLA, so there would be no holiday.

Anthony Klarman: I guess, what I'm saying is, they still have to meet the \$12.5 million, right?

William Schuster: Yes, I mean, I guess the answer was that in April we hit the run rate. In fact, as we noted, we actually got there earlier. So I'm not sure I'm following the...

Anthony Klarman: No, I think I'm just wondering about how I get to what the current revenue run rate is going to be and what you are saying is that as of April, the full maxed out run rate has been hit, so as we think about what the revenue from the SLA would like in '09, we can just take the prorated run rate of the 150 million from April on.

William Schuster: I think that's a fair way to look.

Steve Balthazor: Yes. On the SLA piece, that is correct.

Anthony Klarman: OK. And then, on the other question on the bond side, is that – I believe there was a free cash flow sweep that was due to kick in at some point. Can you just remind us of what the terms of that are, when that actually starts? I know it had something to do with the checkout date of the satellite.

Steve Balthazor: Right. So there was a checkout date piece of it. It really comes down to the free cash flow as defined by the indentures and after positive cash flows for, I believe, it's two quarters and the third quarter the cash flow sweep applies to the free cash flow within that quarter. It's been a while, since I picture all the specifics of it, we've obviously planned for that in our cash forecasting, so...

Matthew O'Connell: But the short answer Anthony is there will be cash sweep at year-end, certainly.

Anthony Klarman: Yes. So that is something that's starting probably in like the third quarter given the check out was in the first quarter?

Steve Balthazor: That's correct. That's our expectation.

Operator: OK. At this time, I'd like to turn the call back to you Matthew O'Connell for any closing remarks.

Matthew O'Connell: Thanks again for dialing in. We appreciate the interest and we look forward to talking to you in August, if not before.

Operator: That concludes today's conference. We thank everyone for your participation.

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