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Operator: Good day, ladies and gentlemen. Welcome to the GeoEye Inc. second quarter 2010 investor call.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Instructions will follow at that time. If anyone should require assistance during the conference, please press star, then zero. As a reminder, this conference call is being recorded.

I would now like to turn the conference over to William Warren, Senior Vice President, General Counsel. You may begin.

William Warren: Good morning. This is William Warren. Thank you for joining us today as we discuss GeoEye's 2010 second quarter financial results. Speaking today will be Mr. Matthew O'Connell, Chief Executive Officer and President, and Mr. Joe Greeves, Chief Financial Officer. Also joining us on the call today are Mr. Brian O'Toole, Chief Technology Officer, and Mr. Randy Scherago, Vice President of Investor Relations. After our remarks, we will take questions from analysts and investors. This call is being recorded. And the accompanying slides are available on the Investor Relations section of our Web site, [www.geoeye.com](http://www.geoeye.com).

Before we begin the business portion of this morning's call, we would like to inform you, 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, levels of government



spending, competitive pricing pressures, the level of new commercial imaging orders, production rates for advanced image processing, start-up costs or overruns on new contracts and programs, and technology and product development risks and uncertainties.

Listeners are encouraged to read the risk factors in our filings 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 Web site in the Investor Relations area shortly after this call. We will replace that with the final transcript, once it is available. You may also listen to an audio replay on our Web site. At this time, I would like to turn the call over to the Company's Chief Executive Officer and President, Matt O'Connell.

**Matt O'Connell:** Thanks, Will. I'd like to thank all the equity investors, bondholders, analysts and customers listening to and participating in our second quarter call. Before I discuss last quarter's results, I know you've all heard the big news. On Friday, the National Geospatial-Intelligence Agency awarded us a ten-year contract, worth up to \$3.8 billion, under the EnhancedView program. We'd like to thank NGA for their ongoing confidence in GeoEye and our ability to meet their mission requirements. We're honored to continue this relationship spanning more than two decades and to continue supporting NGA's important mission.

The EnhancedView award provides a long-term sustaining contract that makes our commercial imagery an integral part of the U.S. national imagery architecture. The award includes the following key components.



First, a \$2.8 billion award for satellite imagery purchases over the next decade under a new EnhancedView Service Level Agreement (SLA). That's \$150 million a year for ten years with the existing constellation, and future replacement satellites. When GeoEye-2 comes online, which we expect in 2013, we'll receive an additional \$184 million per year for the remaining term of the contract, which is estimated to be seven years. With both satellites operational, we expect our annualized revenues for this SLA to be \$334 million, or \$27.8 million per month, again starting in 2013. We expect to begin construction on GeoEye-3 in 2013, and will add it to the SLA in 2017.

Second, the award includes a \$337 million cost share for the development and launch of the GeoEye-2 program. When GeoEye-2 comes online in 2013, we'll be well positioned with two color imaging satellites, one of which, GeoEye-2, will be the highest resolution commercial satellite ever built. That will help us better serve our government and commercial customers.

Third, \$700 million is for value-added products, the design and procurement of additional infrastructure to support government operations, and other services including Web Mapping Services to be provided through GeoEye's EyeQ platform.

Those infrastructure upgrades will weave us into an even more seamless relationship with NGA, so that we can better serve them and their end users. And, as to the value-added work, we're excellently positioned to grow that business with the funds available under the EnhancedView program, especially given our heritage as a world leader in value-added production.

The production part of the award is the same arrangement as we had under NextView, except that it's larger. It's referred to as an IDIQ contract – indefinite delivery, indefinite quantity – and we will do work for NGA, as they place specific task orders.



The period of performance for the EnhancedView contract is ten years. The initial period runs from September 1, 2010 to August 31, 2011, with nine one-year options. As with all government contracts, funding is subject to congressional budget approval.

As you can tell from the amounts above, the award is consistent with our prior advice, that the EnhancedView program might give us a modest increase in the short term, but the big increase for us would come in the mid-to long term.

This unprecedented award is clear evidence of the NGA's commitment to the commercial imaging industry. It also reinforces the strong and long-term partnership GeoEye has forged with the NGA and the intelligence community. A friend from Google sent me a note to congratulate us on the contract and said, "It's great to have a long-term, sustaining contract." And that's what this is.

The EnhancedView program is the clearest evidence that the commercial industry is integral to the nation's intelligence mission. Our government has made a big commitment, and it's obvious that the nation is going to be relying on the commercial imaging industry for years to come.

We're proud to be a full-solutions provider to the NGA. From our imagery collection system to our unique multi-source production capability, and now our Web delivery platform, EyeQ, we provide comprehensive support to the NGA's critical mission.

Not only does this award significantly accelerate GeoEye's revenue growth, it also allows us to further expand our industry leadership position, both domestically and overseas.

Our Chief Financial Officer, Joe Greeves, will specifically address the impact of the award on our guidance.



Now, I'd like to turn to our second quarter results.

We're pleased with the excellent financial results we achieved in the second quarter. We experienced double-digit, year-over-year revenue growth, generated healthy cash flow, and achieved an impressive 52 percent EBITDA margin that exceeded our previous forecast. We continue to have a strong balance sheet, increasing demand from across our worldwide customer base and excellent visibility into our future revenue and earnings growth.

On this call, we'll update you on our second quarter results and key balance sheet items, and discuss the positive dynamics driving current operations, the innovation and leadership role we have in our government and international markets, and our exciting new business developments. We will also provide an update on our improving financial outlook for 2010.

Here are some highlights of the second quarter.

GeoEye generated revenues of \$81 million, up 11 percent over the previous year's quarter. This double-digit revenue growth was generated by strong customer demand for high-resolution imagery, and solid double-digit growth from our industry-leading production operations. For the quarter, we generated net income of approximately \$12.1 million, or 55 cents per diluted share. If you exclude the impact of the accounting treatment for the Cerberus deal, pro forma net income for the second quarter was \$10.1 million, or 46 cents per diluted share.

In our second quarter, our operating margins were 30 percent, and the adjusted EBITDA margin was 52 percent, in line with our guidance. We ended the quarter with a very sound balance sheet, with approximately \$248 million in cash balances.



Domestic sales achieved a new record of approximately \$62 million, or 77 percent of total revenues for the second quarter. Domestic sales were up a strong 23 percent over last year. International sales accounted for approximately \$19 million, or 23 percent of revenues. We believe our international business, with its ten-year history of providing rapid, reliable, and customizable tasking of new imagery for our valued clients, should experience a pickup in the second half of the year, from growth in our existing geographies and new clients. We held our annual Global Partner conference in Vancouver in June, attended by partners and resellers from around the globe. We have a strong history of innovation in the international markets, providing our customers with the service and customized color imagery solutions they want.

U.S. government revenues grew 17 percent year-over-year. U.S. government agencies accounted for 69 percent of sales in the second quarter. The federal government's ever-expanding demand and procurement of commercial high resolution satellite imagery for our country's intelligence and defense needs remains very strong, as you can tell, and continues to be the biggest driver of our revenue growth. The strong demand for high-resolution imagery will continue to be driven by the needs of our largest customer, the National Geospatial-Intelligence Agency, or NGA. The innovative products that we are delivering to the NGA under the program called Rapid Delivery of Online Geospatial Intelligence, also known as RDOG, have the highest accuracy in the industry, and are also providing color imagery that is unparalleled by others in our industry. We're glad that we can be a full-service provider to the NGA, and that they call on us to collect imagery, to process it, and then to host it and serve it in our innovative online platform.

During the second quarter, we recognized \$37.5 million of revenue from the NGA under the Service Level Agreement, or SLA, of the NextView program. We met all the stringent requirements of the SLA in April, May and June, and



again in July, the first month of the third quarter. So, we have met the SLA metrics for six consecutive months.

I was pleased to read recently what the new Director of National Intelligence, General James Clapper, said in his prepared remarks to the Senate Intelligence Committee. He said, "I have funded and will continue to support funding for the commercial augmentation of our satellite reconnaissance program. This will ensure that our nation remains the leader in space-based intelligence, surveillance and reconnaissance...."

I congratulated General Clapper personally on his confirmation – we think his appointment is great for the nation.

Yesterday, I attended the change of command ceremony at the NGA. Admiral Murrett handed over the reins of the NGA to the new Director, Tish Long. Admiral Murrett has overseen some very important changes at the NGA, including the move to consolidate their operations to the new headquarters in Ft. Belvoir, and the initiation of the EnhancedView program. Although we'll miss Admiral Murrett, he's still going to be a part of the intelligence community, serving in the Office of the Director of National Intelligence. We look forward to working with Director Long, who has a terrific track record in the U.S. intelligence community.

Now I'd like to give you a quick update on our three lines of business; imagery collection, production services, and information services.

We generated sales of approximately \$61 million from satellite imagery collection, or 76 percent of our total revenues in the second quarter. These growing revenues were driven largely by sales of high-resolution imagery to our customers in the defense and intelligence communities, and the commercial sector.



The worldwide demand for satellite imagery, change monitoring and surveillance continues to resist recessions and budget pressures. Our ability to collect and disseminate imagery with the highest resolution and unmatched accuracy in a very timely, reliable and cost efficient manner will continue to drive the growth of our business. The increasing demand for up-to-date commercial imagery and data delivered with speed and accuracy, and disseminated in usable customer-friendly formats continues at an unprecedented pace.

Now, turning to production and information services.

Our industry-leading imagery production operations and our growing information services business generated approximately \$14 million, or 17 percent of total revenues in the second quarter, and experienced year-over-year growth of 34 percent. The expanded production capacity that we added in the past year at our St. Louis and Thornton (Colorado) facilities has helped us keep pace with our strong U.S. government customer demand.

We're pleased with the expanding demand we're enjoying, due to the high level of customer satisfaction with our quality products. The experience and pioneering history we have with our largest client can't be replicated. We remain excited about the growth of our production business, but as we said before, the 30 percent plus growth that we are experiencing now will probably normalize to a more moderate growth over time.

Our innovative Web service, which we've branded EyeQ, became operational with the NGA earlier this year, and is generating revenue in the second quarter. The first customer for this Web delivery service was NGA, with their RDOG program.



Under the initial phases of the RDOG program, our St. Louis production group produced a highly accurate, seamless, color digital map of an entire country for the NGA.

Our information services group is now hosting this highly accurate data in a Web services environment, so that large numbers of NGA users can access it securely, anytime, anywhere. What's really exciting is that this program represents a real transition in the industry. We're not just delivering pixels, we're helping customers who are overwhelmed by a deluge of data, and we're helping them convert that data to information in context, and to manage it for them, so that it's useful. In effect, we're providing them “insight on demand.”

This Web service is a very exciting growth platform for us and also for our partners. It leverages our online delivery systems with best-in-class, on-demand capabilities. We believe that the NGA sees this capability as a valuable knowledge tool for their geospatial intelligence needs. As they have seen our ability to ingest and serve multisource color imagery from our own constellation and those of other imagery providers, the NGA has expanded the imagery applications under this program to several additional countries since our original contract.

We plan to start commercial deployment of our EyeQ Web services in the next month or so, and we've begun rolling out beta tests of our EyeQ Web services to a number of our commercial clients for end-user approval. There was a lot of customer excitement at our Global Partners Conference in Vancouver, and our EyeQ demo at the recent ESRI User convention in San Diego was also well received. In the coming months, you'll hear more exciting news from us regarding the deployment of these pioneering efforts for these dynamic Web dissemination services. We'll be offering them to a wide range of government, public safety and commercial clients for applications in the oil and gas industry, mining, engineering, construction, and infrastructure businesses.



That brings us to a quick discussion of the status of our next satellite, GeoEye-2. In March, we announced the selection of Lockheed Martin to build the GeoEye-2 satellite. Lockheed is presently constructing the satellite, and we've made a number of milestone payments to them. You'll notice that this quarter, we spent additional capital on the new satellite, bringing our total investment in GeoEye-2 to a little more than \$145 million since October, 2007. Joe will discuss our capital expenditure plans in more detail, a little later.

GeoEye-2 will have similar optical performance as GeoEye-1, but with better resolution. GeoEye-2 will orbit at 652 kilometers. That would give us a resolution of 33 centimeters. So as GeoEye-1 set a new standard in resolution, GeoEye-2 will set yet a newer standard. GeoEye-2 will also have control movement gyros to allow it to maneuver faster for point target collection.

Now for our financial outlook.

Given the revenue and earnings visibility we enjoy in our business, and with many of our long-term contracts, we're comfortable increasing our forecast for 2010 revenues to a range of \$320 million to \$330 million, and we're adjusting our EBITDA forecast, up to a range of \$160 million to \$170 million for 2010.

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

**Joe Greeves:** Thank you, Matt. And good morning, everyone. As Matt told you, we are very excited about our new EnhancedView award from NGA. First, I'll review the quarter's results, and then I'll talk about the timing of the impact of the recent award on our forecast.



The second quarter revenues were \$81 million, which represents an 11.4 percent increase from the \$72.7 million, we reported in the same period last year.

The second quarter revenue breakdown includes the following. Domestic sales were approximately \$62.1 million, or 77 percent of revenues for the second quarter, while international sales accounted for \$18.9 million, or 23 percent of revenues.

Domestic revenues were up 23 percent, compared to the same quarter last year, and 4 percent sequentially. The increase was primarily due to the growth of our government business, including improved SLA performance, as well as strong growth in our commercial online business. With the new EnhancedView award, we expect these revenues to increase, as we start performing on some of the new EnhancedView contract work. I will review the details of this shortly.

International revenues were down from the \$22.3 million we reported in the second quarter of 2009, and sequentially. The prior year and first quarter 2010 revenues included some additional one-time project revenues which didn't repeat at the same level this quarter. In addition, we are still continuing to recover from some of the effects of the prior anomaly. Based upon some new contract additions, we expect international revenues to increase in the second half of 2010.

Our imagery revenues of \$61.1 million represented 75.5 percent of total revenues for the quarter, and grew by 8.4 percent year-over-year.

Production and other service revenues of \$13.8 million were 17 percent of total revenues, and also showed an impressive increase of 34 percent over the prior year. Our production and other services revenues increased \$3.5 million over the prior year, but declined some sequentially. The increase over the



prior year was due to the expansion of our capabilities, and the increased demand for our value-added production services. The sequential decline was due to an exceptional first quarter performance. Although we continue to expect our production services to continue to grow, the pace of growth may be modest until the EnhancedView award begins generating additional revenue.

Our U.S. government work amounted to 69 percent of total revenues in the second quarter. Our U.S. government customers include the NGA, Department of Homeland Security, Department of Interior, the Department of Defense and many other agencies. No other customer accounted for more than 10 percent of revenues in the second quarter, or in 2009.

In regards to the NGA service level, we recognized \$37.5 million of imagery revenue in the second quarter. In this second quarter, we also met all the bonus metrics required under the SLA agreement. We believe our customer, the NGA, is quite pleased with our performance and imagery delivered so far in 2010.

Now let's talk about some of the other financial metrics.

Adjusted EBITDA is one of our primary operating performance metrics. We define adjusted EBITDA as net income before interest, taxes, depreciation, amortization, non-cash recognition of stock compensation and other items. In this case, the adjustment to fair-market value for the Cerberus transaction, which I will describe later. Adjusted EBITDA was \$42.3 million for the second quarter of 2010, with an adjusted EBITDA margin of 52.3 percent of revenues. We continue to target our 50 percent EBITDA margin for the foreseeable future, with some slight quarterly variations.

Direct costs for the second quarter of 2010 were \$26.7 million, or 33 percent of revenues, up from 31 percent of the revenues in the prior year. The increase was primarily due to the cost of the ground station upgrades, additional insurance costs, and higher labor and overhead costs relating to operational



and operations and maintenance of GeoEye-1. We are always evaluating ways to reduce costs, and become more efficient. We continue to expect these costs to range between 30 percent and 35 percent, as we continue to invest in the growth of our business.

Depreciation and amortization expenses rose from \$15.9 million last year to \$16.2 million in the second quarter. GeoEye-1 is continuing to be depreciated over its expected nine-year life.

Selling, general and administrative expenses were approximately \$13.8 million, or 17 percent of revenues for the quarter. These SG&A costs have increased by \$3.7 million year over year, due primarily to higher stock compensation expense, as we expanded our plan to include more managerial employees, an increase in R&D spending, plus higher sales commissions, increased head count in sales and finance to support our additional revenue growth, and additional expenses related to the EnhancedView bid.

We also plan to make additional investments in our R&D program and engineering head count in the future, as these types of investments promote the future revenue growth for the Company.

Income from operations for the second quarter of 2010 was \$24.3 million. As a result of the activities described above, the Company's operating margins were in line with our prior guidance of 30 percent for the second quarter, as compared to 33 percent in the same period in 2009. Going forward, we continue to believe 30 percent is a reasonable annual target for operating income margin.

At this level, we can continue to make investments in our satellite constellation, our emerging and growing information services business, domestic and international sales organizations, as well as expansion of our R&D programs. These important infrastructure and people investments should



allow us to grow the business at a healthy rate, while also providing a strong return for shareholders.

Net interest expense for the quarter was \$7.8 million, compared to \$8.6 million last year. Net interest expense declined due to the increase in capitalized interest associated with the construction of the GeoEye-2 satellite. In the quarter, we capitalized \$3.1 million as part of the GeoEye-2 construction program. Year-to-date, we have capitalized interest of \$5.2 million associated with the GeoEye-2 construction.

You will see non-operating income in our financial statements of \$2.1 million this quarter. This is a non-cash credit, which relates to the Cerberus financing agreement we entered into on March 4, 2010. As you may remember, during our process for bidding on the EnhancedView contract, we obtained a financing commitment from Cerberus Capital in order to respond to the U.S. government's request to provide a letter of credit in an amount equal to the proposed cost share to build GeoEye-2.

Given the financial features of this agreement, US GAAP requires us to measure the value of this deal using fair market value accounting standards, until we close the transaction. For each quarter until we close the deal, we will be required to make noncash adjustments, which could be positive or negative, and reflect various inputs, including the changes in GeoEye's stock price since the signing of the deal, and the probability of alternative structures.

For the second quarter of 2010, the non-cash credit was \$2.1 million, primarily due to the anticipation that the government would eliminate the Letter of Credit requirement. For accounting standards, the remaining balance of \$10.5 million is recorded as a current liability.

As you know, the government did eliminate this Letter of Credit requirement in the final award they just gave us. Based on this outcome, we expect



Cerberus to purchase \$80 million in preferred stock. Next quarter, we also expect to take another charge to write off a portion of the financing costs associated with the Cerberus debt commitment, which we no longer need.

Moving to income taxes, our effective tax rate for the quarter was 38.6 percent before discrete items, such as non-deductible Cerberus fair value credit, which I've previously discussed. We believe this approximates the Company's effective rate for 2010 before the effects of the discrete items.

Net income for the second quarter was \$12.1 million, or 55 cents per diluted share compared with \$9.6 million or 46 cents per diluted share in the second quarter of last year. Excluding the impact of the Cerberus credit, net income for 2010, was \$10.1 million or 46 cents per diluted share.

Turning to contract backlog now, we have historically had and currently have a substantial backlog, which provides some assurances regarding future revenue expectations. Our backlog was approximately \$232.6 million, as of June 30, 2010. This backlog includes approximately \$53.6 million of contracts with the U.S. government. We continue to feel confident about our future revenue visibility and our new business pipeline. Obviously, this backlog has increased substantially with the EnhancedView award, but we have not updated the backlog numbers to reflect that yet.

Now turning to the balance sheet.

Our balance sheet continues to be very strong. The Company finished the second quarter with \$184.8 million in unrestricted cash, and restricted cash of \$63.4 million, \$47.8 million of this \$63.4 million was restricted pending the EnhancedView award. Now that we have an EnhancedView award, the cash is fully available to the Company.

Accounts receivable for the second quarter were \$40.6 million, up from \$36.3 million last quarter. This represents 45 days sales outstanding. While this is up



nominally a few days from last quarter, due to the timing of collections, this is still well below our targeted range of 60 days outstanding.

Capital expenditures were \$55.8 million, or \$84.6 million for the three- and six-month periods ended June 30, 2010, the majority of which related to capital spending on GeoEye-2. We have now invested a total of \$145.4 million in building our next imaging satellite program, GeoEye-2, through June 30, 2010. During the remainder of the year, we expect to spend approximately \$150 million on capital expenditures. We estimate the total cost of the GeoEye-2 program, including ground segments, launch services, satellite construction, to be approximately \$750 million to \$800 million.

Now let me review the components of the recent award. As Matt mentioned, the award is for up to \$3.8 billion. The first component of the award relates to the continuing provision of imagery, similar to our own current NextView program for a total of \$150 million a year. We expect that we will provide that imagery with GeoEye-1, and begin construction of GeoEye-3 in 2013. We expect GeoEye-3 would replace GeoEye-1 in 2017.

In addition, we have been awarded a cost share of up to \$337 million to build GeoEye-2. We are very excited about this cost share. As you know, construction of GeoEye-2 is well under way. Our NGA contract is structured so that we will receive approximately one-third of the cost share in 2012, and the remainder upon successful launch and checkout of GeoEye-2. With this cost share, plus the additional \$80 million expected from Cerberus, and our expected cash flow from operations, we believe we have more than sufficient capital to complete construction of GeoEye-2.

Once GeoEye-2 is on orbit, we will start receiving another \$184 million per year in SLA imagery revenues. These revenues will be in addition to the current \$150 million contract. Therefore, we expect the total imagery SLA revenues of \$334 million a year starting in 2013. Note that you should not



expect to see any significant additional revenues related to the SLA until GeoEye-2 is operational in 2013.

Finally, as you've seen, we've also received an award for value added production, infrastructure upgrades and other services. We are still working through the projected timing of the revenue for these awards. We do not expect any significant impact on revenues in the third quarter. But in the fourth quarter, we could see up to \$5 million in additional revenues. We will give you more thoughts on the impact on 2011 later in the year.

Now let's look at what we expect for 2010.

At this time, we feel comfortable raising our guidance to \$320 million to \$330 million for revenues. And we are adjusting EBITDA guidance to be approximately 50 percent of revenues, or in the range of \$160 million to \$170 million per year. We will not give any earnings-per-share guidance until the proposed sale of preferred stock to Cerberus is finalized.

Let me conclude by saying that we are very proud of GeoEye's accomplishments to date, and with the new EnhancedView award, we believe we are well positioned for continued growth in the future.

Now I'll turn the call back to Matt.

Matt O'Connell: Thanks, Joe. We're very pleased with the revenues and earnings we reported in the second quarter, and with our strong outlook for the future. There are many ways to characterize this year. It's been a year of solid revenue and EBITDA growth, and a year of financial stability, a time of emerging and exciting new growth prospects, as the EnhancedView award demonstrates. It's been a year of terrific revenue visibility for us, and the EnhancedView award enhances that visibility.



I'd like to take a moment to congratulate DigitalGlobe on their EnhancedView award. Taken together, the two awards are clear evidence that the nation has made a large and long-term commitment to the commercial imagery providers, and that we're going to be a part of a national imagery system for a long time going forward.

We believe, given the volatile world that we live in, that GeoEye is excellently positioned to provide intelligence and data for our expanding customer base, domestically and internationally. Our strong customer base and numerous long-term contracts provide GeoEye with many years of strong financial growth, and excellent revenue visibility. We're strong enough today to invest in both our future satellite constellation and our Web delivery platform.

I'd like to thank all of our GeoEye employees for their dedication. Winning the EnhancedView award was a real team effort, and the team did a terrific job. I'd also like to thank you, our investors and bondholders, for the support you've given us. We're excited about our commercial high-resolution imagery business, and the industry in general, and we foresee a second half of revenue and EBITDA growth, and high margins.

Now I'd like to open the call to financial analysts and investors for questions. We have a record number of people, so we'd ask you to limit the number of questions. For all others, we invite you to stay on the call, and listen in. Of course, as we discussed earlier in the call, many of the statements we made and will make during the Q&A period are forward-looking statements, subject to risks and uncertainties.

Operator: Thank you. Our first question is from Paul Coster of JPMorgan.

Mark Strauss: Good morning, it's Mark Strauss on behalf of Paul Coster. I want to be the first to say congratulations on the results, and the contract win. I just want to make sure I'm thinking about the SLA right. In 2Q you had about \$18 million



in U.S. government revenue that was above the SLA monies. Is that the portion of monies that will be going towards the \$700 million production and other services revenue bucket?

Joe Greeves: Yes. That's primarily service revenues and the production services business that we do for the NGA above the SLA. .

Mark Strauss: I'm trying to understand these monies going forward. Should I think that the \$700 million is over ten years or about \$70 million a year. I'm just trying to understand where the growth is coming from.

Matt O'Connell: Well, we get additional production and service orders above and beyond just the NGA. So we get orders from other organizations.

Mark Strauss: OK. Then just to clarify, on GeoEye-2, the \$750 million to \$800 million cost estimate, does that include the cost share?

Joe Greeves: No. We will, back the cost share off of that number. That is the gross number.

Mark Strauss: OK. That's it for us.

Operator: Our next question is from Jeff Evanson of Dougherty & Company.

Jeffrey Evanson: Good morning, gentlemen, and congratulations on the good news on the EnhancedView.

Matt O'Connell: Thank you, Jeff.

Jeffrey Evanson: I have follow-ons to both of those last two questions. The way I look at it, the production and services work that you are doing, would that equate to the \$700 million from EnhancedView? It seems to me that you are on a run rate for about \$40 million to \$45 million for this year. Is that the right way to look at this? And then, how will that business ramp in the next several years?



Joe Greeves: For Q2, I think we are reporting \$13.8 million of production and other services. So annualize that – you are talking in the neighborhood of \$45 million to \$50 million.

Jeffrey Evanson: Right.

Joe Greeves: We expect growth – as you know we have expanded our capabilities in both St. Louis and Thornton. We believe with the additional imagery that should be forthcoming, based on the additional funding in the contract, that will continue to provide growth. We did grow, over 30 percent in the second quarter, year-over-year. We think that we can continue to grow. But probably a little bit more moderate rate than that going forward.

Matt O’Connell: But just to be clear, Jeff, the \$700 million is for three categories. That is for value added products; it's for the design and procurement of additional infrastructure to support some government operations; and it's for other services, including that Web mapping service that we included. So, there is more than just one category there.

Jeffrey Evanson: Got it. And then – let's be clear here, the cost of GeoEye-2, you expect to be \$750 million to \$800 million is that correct?

Joe Greeves: That's correct. Then we would get a cost share, which would offset some cost.

Jeffrey Evanson: Got it. So, how can we expect those cost share dollars to come into the Company? What are the milestones or the performance metrics required to get those cost share dollars?

Joe Greeves: The cost share dollars? As I mentioned in my remarks, approximately one-third of the \$337 million would come in early 2012. The remainder would come in, upon a successful launch of the GeoEye-2 satellite, which we expect to be in 2013 – and when the GeoEye-2 satellite becomes operational in 2013.



Jeffrey Evanson: Then my last question, is having a road map to GeoEye-3 part of or a condition of the EnhancedView award?

Matt O'Connell: It's a ten-year award. Given GeoEye-1's expected life cycle, it is necessary to build GeoEye-3 to be able to meet the requirements for the entire 10 years.

Jeffrey Evanson: Great, thanks a lot, gentlemen.

Matt O'Connell: It's really a replacement of GeoEye-1.

Operator: Our next question is from Jim McIlree of Merriman.

James McIlree: Good morning. I would like to add my congratulations on EnhancedView.

Matt O'Connell: Thanks, Jim.

James McIlree: Can you explain why the total cost of GeoEye-2 is so much more than what GeoEye-1 costs?

Matt O'Connell: Well, it's a more capable satellite. First of all, time has passed, Jim. We negotiated the GeoEye-1 satellite in the summer of 2004, and now it's the summer of 2010. So time has gone on, costs have increased. We are going with really top of the line – Lockheed is terrific at building these types of systems.

And I don't think anyone can build it better. Just as GeoEye-1 was the best resolution and accuracy when it was launched, and still is, GeoEye-2 will set a new standard. With those new capabilities plus the Control Moment Gyros that we mentioned that are going to speed collection of point target collections, you have added capability. And I think that you have to pay more for that capability. It's going to be the best.

James McIlree: And in terms of the satellite's capacity in terms of image collection, how does that compare to GeoEye-1?



Matt O'Connell: Jim, I wish Bill Schuster was on. He had a business trip that we couldn't rearrange, given the short notice. And he's the one to answer that question, but we can get back to you with that information. I think it's a little more. I can't remember the details.

Male: Substantial increase.

Matt O'Connell: Our guys are saying substantial increase.

James McIlree: Right. Can you share how much capacity of the satellite the NGA will be requiring, in order to hit the revenue targets that you have – that they've laid out?

Joe Greeves: I don't think we can do that today. We are having our debrief with NGA soon. I'm not sure that we will be able to give that figure out specifically.

Matt O'Connell: Put it this way, Jim, we have enough to take care of them. And we also have enough room to grow our international work, which we just think is a great deal for both sides.

James McIlree: Yes, and that's the real question, is how much capacity you have to grow your business outside of NGA.

Matt O'Connell: We are happy with the award. It's substantial.

James McIlree: And last one, are you going to need any – are you going to need to build up any expenses near term, in order to start the production and services portion of EnhancedView? Or is the expense line kind of set for right now and it's more success based on the production side?



- Joe Greeves: We actually have some infrastructure, as part of the program that – we will have costs, which we will incur. But I don't think there is, other than that, any anticipatory costs.
- Matt O'Connell: And we get reimbursed for some of the infrastructure we put in. So I don't think there is a big change in that, Jim.
- James McIlree: OK. Great. Thank you.
- Operator: Our next question is from David Delleo of Canaccord.
- David Delleo: Hi, guys. Congrats on the quarter and the award.
- Matt O'Connell: Thanks, David.
- David Delleo: A quick question on the guidance that you raised. You talk about better visibility. Is that really a function of now knowing what the EnhancedView contract looks like, and potentially benefiting in your production and services segment from that award?
- Joe Greeves: It's multiple things. As I said, our visibility on the international front is improving, our production services revenue is improving, that was the additional \$5 million I added related to the EnhancedView award.
- David Delleo: OK. And just one more quick one. How should we think about IKONOS. I mean, obviously the useful life of that it is going to end before the EnhancedView contract ten years is up. Do we think about that at all, as part of the EnhancedView award or not?
- Matt O'Connell: Yes, under the current SLA, NGA has the right to take GeoEye or IKONOS imagery. IKONOS has been a great satellite. When it was launched, it was the best of its kind. But every good thing comes to an end. So it will phase out over time. But we are also going to bring on GeoEye-2, and then in the long run, GeoEye-3. NGA has moved to a constellation approach, a portfolio



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approach. We think it's great for them, and great for the nation. So, yes, IKONOS will eventually fade out, but other satellites will come on. And I think that's the hallmark of this program, it really takes a constellation approach going forward.

David Delleo: OK. Great. Thanks, guys.

Matt O'Connell: Thank you.

Operator: Thank you. We have a follow-up question from Jim McIlree of Merriman.

James McIlree: Yes, thanks again. The 10-Q talked about a one-time sale of equipment, I think in Q2.

Joe Greeves: Yes, we had a sale in the second quarter. It was approximately a \$1.5 million. It took place as a one-time sale that took place there.

James McIlree: OK. So, does that get amortized over the life of that infrastructure, or—?

Joe Greeves: No. That was a one-time revenue coming through in the quarter. We actually produced a small custom ROC for a customer. That's a remote operating center.

Matt O'Connell: We did an upgrade for one of the existing customers, Jim, they wanted added capability, and we gave it to them.

Joe Greeves: We frequently do things like that.

James McIlree: Right. OK. And then I know it's early in the process, but to the extent that you can forecast this, is there the potential that the production and services tasks that NGA requires of you under EnhancedView, is there the potential or is there the intent to try to take some of that, and leverage it into commercial applications? Or are you going to be pursuing dual paths, there will be the EnhancedView NGA path, and there's going to be the everybody else path?



**Matt O'Connell:** That's a great question. We have looked at expanding our production services beyond NGA. And we are talking to some customers about that. I think you will see some growth in that respect, in the non-NGA production work.

But it's kind of hard, because when you are moving the kind of absolute dollars through the NGA, both through our work involving third parties and through the RDOG program – and the RDOG program is growing rapidly as we said – those are such big dollars, Jim, that even though we are finding interest in some of our international clients, in terms of percentage dollars, it's going to be hard for that to really counterbalance the growth on the government side, which is a good news story. So, we will see some growth outside the U.S. government, but the U.S. government is going to be bigger.

**James McIlree:** OK. I understand. Then let's call it the \$70 million per year production services under EnhancedView. I think what prior questioners were trying to get at, is that – do you think that's incremental to your existing production business, or it supplants it, and then there might be a little bit extra on top?

**Joe Greeves:** Well, first of all, it's not \$70 million a year. You are taking \$700 million and dividing by 10. As I said to one of the other guys, that line is for several different items, there's production, there's the development and installation of some infrastructure that ties us closer to the government, and then there is Web services. There are a bunch of different things in there. Our existing production is going to run through that line, and we hope to keep growing that production. So, I don't want to overstate or understate anything. We have seen good growth in the production. We think it will continue to grow. We think the number in the award gives us room for growth. And frankly, there is room for growth on the Web mapping services, too, and we expect that to grow.

**James McIlree:** That's what I was looking for. Thanks a lot.



Operator: Thank you. I show no further questions in the queue at this time. I just wanted to remind everyone, slides and a copy of the transcript can be downloaded in the Investor call section, on the right side of the Web site, under the Investor Relations page. I will turn the call back over to management.

Matt O'Connell: Thank you for dialing in, thank you for your support over the years, and we look forward to talking to you next quarter.

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