

# Letter to Shareholders

The theme of this year's report, **[In Position]**, reflects our vision and our mission: to provide electronic geography so our customers know where they are and what's around them, helping them make decisions. It captures how we feel about our prospects following a year of significant achievements. Indeed, now more than ever, OSI is *in position* to address the global demand for electronic geography in naval navigation, military command and control, and other growing market niches.

Our progress is rooted in the accomplishments of our employees. We are fortunate to have talented individuals who comprise our Company. We thank them for their dedication and constant pursuit of excellence. It is their passion for the business, their hard work, innovation, and commitment to our customers that underlies our success and is the foundation for our future growth.

**Platform for Growth** – Being *in position* requires solid fundamentals. In 2004, OSI had profitable operations with revenue growth of 17% to \$13.5 million supported by \$8 million in working capital.

The Company strengthened its commitment to research and development, boosting expenditures to \$2.4 million during 2004. Customer-oriented product development is critical to maintaining satisfied customers, and to continually delivering the advanced technology for their requirements. In 2004, OSI made significant investments in product and business development to enhance its prospects for broader, long-term growth. This is particularly true for our Applications business, as we directed more than \$1 million to develop this substantial market opportunity.

With the recent expansion of our sales and marketing efforts, total backlog reached a record \$21 million at year end compared with \$3 million the previous year. OSI is *in position* to grow.

**Positioned for Growth** – 2004 was an important year for OSI as we gained market share and stepped up to being a leading fleet supplier of navigation technology for NATO member navies and their close allies. With the Royal Navy, Royal Australian Navy and Portuguese Navy fleet wins recorded in 2004, OSI became recognized for its leadership and product excellence.

Growth is a key corporate priority as we look out to 2005. OSI expanded its customer base considerably in 2004, and our goal in 2005 is to pursue more new naval fleets. We also see opportunity in meeting the diverse and emerging needs of existing customers with ever-new and innovative product developments across all of our operating units. Electronic geography is in demand around the world.

Building the business for sustained growth is our focus. Our approach has been to develop great products, form strategic partnerships and forge strong customer relationships in North America and internationally.

At this, we've been highly successful—teaming up with top-tier defence contractors, and working together to add some of the world's major navies to our customer list. We believe our initial contracts with these customers represent the beginning of long-term relationships and increased business opportunities in the future. Our navigation market is still emerging and the majority of ships today still navigate using

paper charts. While the sales process is long, we anticipate that as the technology becomes more widespread, the cycle will shorten and new opportunities will come to market more often.

**Board of Directors Developments** – In fiscal 2004, we added a new member to our board, E. Brinton Coxe, who brings to OSI more than 25 years of experience in corporate finance and mergers and acquisitions. Brinton provides valuable expertise for the Company's growth strategy.

After a 20-year relationship with the Company, Tony Pezzotti is retiring from the board. Tony has been instrumental in our corporate development. He will be missed and we extend our sincere appreciation for his long service with OSI.

Peter Roberts is also retiring from the board. With his financial expertise, Peter has contributed to strengthening the Company's compliance and governance processes to reflect our commitment to best practices.

**The Future** – Fiscal 2004 was an important year for OSI, solidly positioning us to capitalize on the significant opportunity we see for electronic geography. Our goal for fiscal 2005 is to continue to build OSI into a profitable and fast-growing business. We are intent on growing our customer base, expanding business with existing customers, opening up new markets, and continuing to diversify our products and services to meet national defence and homeland security requirements.



John A. Jacobson  
President & Chief Executive Officer



Raymond W. Johnston  
Chairman of the Board