



OSI Geospatial Inc.



OSI Geospatial Inc. - Third Quarter 2007 Conference Call Transcription

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Speakers: **Jane Hayward**
Investor Relations

Kenneth Kirkpatrick
President and Chief Executive Officer

John T. Sentjens
Vice President, Finance



JANE HAYWARD: Thank you operator. Good afternoon everyone and thank you for joining us to discuss "OSI GEOSPATIAL'S 2007 THIRD QUARTER RESULTS." Our results were issued approximately one half hour ago. If you have not been able to obtain a copy of our news release, it is posted on our website at www.osigeospatial.com. We are also broadcasting this event live on our website. Joining me this afternoon on the call are Ken Kirkpatrick, President and CEO, and John Sentjens, Vice President, Finance.

We will begin this afternoon with Ken Kirkpatrick, who will review the 2007 THIRD QUARTER RESULTS. John Sentjens will follow with the financial and operating highlights, and then we will open the call to analyst's questions.

During the call, we will be making forward-looking statements about OSI GEOSPATIAL'S business. These statements are subject to risks and uncertainties, which could cause actual results to differ materially. These include but are not limited to risks related to the company's reliance on international government contracts; the number of large customer transactions and their related lengthy sales cycles, uncertainties associated with competitive bidding processes and contract negotiations; actions by government authorities, the effects of general economic and political conditions; changing foreign exchange rates and challenges related to the company's ability to develop, introduce, and implement new products and/or enhancements to existing products that respond to customer requirements in a rapidly changing and complex technological market.



These and other risks are disclosed in the Management Discussion and Analysis portion of the company's annual report filed with the relevant securities regulators.

Statements made on this call reflect management's analysis as of today, and management does not assume any responsibility or obligation to update any forward-looking statements made during this presentation.

During the call, we will make reference to selected non-GAAP financial measures, including total backlog, firm backlog, option backlog and working capital. We feel these measures provide meaningful information to investors. These non-GAAP measures do not have a standardized meaning and are not likely to be comparable to similar measures presented by other issuers.

Please note that all financial information is stated in US dollars and in accordance with Canadian GAAP. With that, I will turn the call over to Ken Kirkpatrick.

KEN KIRKPATRICK: Thank you Jane. Good afternoon everyone and thank you for taking the time to join us for our THIRD QUARTER CONFERENCE Call. I will begin by giving you a high level overview of our financials.

In the third quarter, we booked revenue of \$7.3 million, an increase of approximately 70% over the third quarter revenue of \$4.3 million in 2006. We reported net earnings of \$332,000 before taxes and \$279,000 after taxes. This is a significant change over



the third quarter in 2006, in which we reported a net loss after tax of \$309,000.

In the third quarter, we continued to build on our strong relationship with the US Army and signed close to \$3 million of new business. We launched our new LAYERED SECURITY SOLUTIONS business unit and quickly secured a \$2.1 million contract to provide services to the US Department of Homeland Security.

In July, we closed a \$3.6 million financing to support the development of our new national security market initiative. The US Coast Guard renewed our relationship and awarded us a \$1.3 million contract to provide a world leading navigation systems for their ice breaking vessels.

The Australian Navy further expanded their commitment to our technology and awarded us a \$2 million contract to deliver our advanced submarine navigation technology.

In the third quarter, we made significant progress in developing business with our major customers and we expect it to continue in the fourth quarter.

I will now provide you with an update on the progress that we have made towards meeting our objectives for fiscal year 2007. We set out to 1) Achieve revenue in the range of \$28 to \$32 million with positive net earnings. Our year-to-date revenue is \$17.1 million and we expect revenue of approximately \$9 million in the fourth quarter, for a total of \$26 million for fiscal year 2007.



This lower than expected revenue for the year is a direct result of not closing specific contracts due to lengthy government contracting processes and complicated negotiations.

Year-to-date we have signed new contracts worth close to \$25 million and have been awarded contracts worth more than \$19 million that have yet to be signed. Unfortunately, a significant component of signed and awarded contracts will not contribute to fiscal 2007, but will make a substantial contribution to 2008.

We expect to see continued profitability in the fourth quarter, but it will not be sufficient to generate a profit for the year. The company has made a substantial investment this year in expanding our business development and sales team, and this investment has resulted in creation of a significant sales funnel that is necessary to support the company's aggressive growth objectives.

In addition, we have ramped up a new initiative to expand into the US Department of Homeland Security market, and have secured two high profiled programs in the first six months of operations. This investment is critical to our long-term success and will result in a substantial future business for the company.

We also established the goal of securing both significant US Department of Defense and UK Ministry of Defense prime contract. The US and UK defense markets remain a high priority for our company, and in 2007, we continued to expand our business in both of these markets. There are several projects under development and we are working hard to close one or two



of these projects before the end of the fiscal year, but they are more likely to close in early fiscal 2008.

Thirdly, we set out to establish the company as a credible supplier in the Global National Security and Homeland Defense Market. We have achieved this by establishing our LAYERED SECURITY SOLUTIONS business unit, and signing a \$2.1 million contract to provide the US Department of Homeland Security with vulnerability assessment services.

Most recently, we were awarded a \$1.2 million contract to complete a vulnerability assessment for a major US port. This is a very exciting opportunity for our company, as we believe that our situational awareness technology can provide significant benefits to the port security market.

We continue to expand our customer base and have successfully established the US Department of Homeland Security, the US Naval Expeditionary Combat Command and the US Marine Corps Training Systems as new customers in 2007. In addition, we have been awarded contracts with other new customers and I hope to provide more details in the near future.

And lastly, we set out to leverage the company's core technology in the development of new products. We are enhancing our hand-held small unit situation awareness technology to add functionality to support battlefield frontline medical support operations and we are very enthusiastic about our new ACT PRODUCT, ASSET CONTROL AND TRACKING.



Our ACT product enables major naval vessels and shore based operations to control and track small assets in support of maritime interdiction operations. We have developed a unique technical approach that will provide us a competitive advantage and to-date have received significant interest from all of our customers.

We continue to make considerable progress in the development of our advanced submarine navigation technology and we strongly believe that our DIGITAL MARITIME OPERATIONS PLOT SYSTEM, DMOPS is the most advanced solution available in the world. The Canadian, Australian and UK navies have embraced this technology and we are confident that others will follow.

While I'm disappointed with our forecasted 2007 results, I have never been more encouraged by the number of opportunities that we have identified and qualified in our current and new markets. The defense and security markets in the US and UK continue to be our top priority. However, the Canadian government is finally investing considerable resources towards the development of the defense and security sectors, and we are working hard to ensure that our company benefits from this in 2008, and in future years.

We have identified and qualified more opportunities in these three markets than we can possibly chase. This is critical to reduce our dependency on a few key contracts to meet our forecasted numbers, and necessary to achieve consistent quarter-over-quarter performance. I've never been more optimistic about our future. We are confident that we will break our historical record of a weak first quarter and we will come out with a solid first quarter in 2008.



Our investment in 2007 has positioned us very well to establish a sizeable backlog and a sales funnel that will support our aggressive growth objectives in 2008 and into the future. Before I turn the call over to John, I would like to confirm that we are now fully operational in our new Ottawa based corporate office. The corporate management and senior business developmental team is now positioned to expand our Canadian defense business, access key customers in the US and Europe and access investors in major Eastern US and Canadian cities.

With that, I will turn the call over to John Sentjens, who will take you through our financial and operating highlights for the third quarter of 2007.

JOHN SENTJENS: Thanks Ken, and good afternoon everyone. Beginning this quarter we are reporting our financials in accordance with Canadian GAAP. We elected to do this as a transition step towards future reporting in accordance with International Financial Reporting Standards or IFRS. Canadian accounting and regulatory authorities have laid a clear path to converge with IFRS by 2011. We believe moving to these reporting standards is in the best interest of investors.

At this point in the company's development, the changes had relatively minor impact on the published results. Both in the current and last fiscal year, net earnings or loss before income taxes and total assets and liabilities on the balance sheet remain the same. Changes in accounting for income taxes have affected net earnings or loss and changes in accounting for the company's



2005 preference share financing have affected earnings per share and balances within the equity section of the balance sheet. We have filed Canadian GAAP comparative financial statements for the first and second quarters of 2007 with our third quarter results.

Moving on to the numbers for the third quarter of 2007. Consolidated revenues were \$7.3 million, a significant increase compared to the \$4.3 million we generated in the third quarter of 2006.

Our MARINE SYSTEMS revenue was \$3.1 million, \$1.9 million increase over MARINE SYSTEMS revenue in the third quarter of 2006. Our LAND AND AIR SYSTEMS revenues and our MAPPING revenue were \$2.6 million and \$1.6 million respectively, both with \$600,000 increase over Q3, 2006.

This quarter we reported a gross profit percentage of 42% compared to 33% in the third quarter of 2006. The higher gross profit percentage is largely due to the higher margins we were able to generate from our US SYSTEMS AND MAPPING OPERATIONS compared to Q3, 2006.

General and Administrative expenses were \$1.5 million, a slight decrease from our third quarter 2006 expense. There was little change in G&A staffing levels and cost between periods and we do not expect G&A expense to change substantially.

Engineering expenses decreased 6% to \$231,000 and as we have stated in the past, we expect the engineering costs and related expenses to continue to be charged to cost of sales as



engineering resources are assigned to revenue generated projects.

Sales and marketing expenses increased 48% to \$755,000. This increase is due to our increased emphasis on sales and marketing in support of our expansion efforts. We continue to aggressively pursue business development opportunities with both new and existing customers in the US, the UK, Canada and its allies.

We no longer receive funding from Technology Partnerships Canada that in the third quarter of 2006 offset our operating expenses by \$227,000. In this quarter, we accrued royalties of \$139,000 in comparison to \$55,000 in the same period last year. Total quarter end backlog was \$70.2 million compared to \$35.2 million for the same period of 2006.

Firm backlog, which consists of firm, fixed and signed orders was \$45.9 million compared to \$14.9 million. Option backlog, which is unexercised or unfunded contract provisions was \$24.3 million compared to \$20.3 million. Overall, we reported net earnings before tax of \$332,000 and net earnings after tax of \$279,000 for the third quarter of 2007, compared to a net loss before tax of \$913,000 and the net loss after tax of \$709,000 in Q3, 2006.

The increase in net earnings for the third quarter of 2007 is mainly due to the higher overall revenue and the higher margin sales in all of our operating units. Net earnings attributable to common shareholders was \$109,000 compared to a net loss of \$914,000 or \$0.03 per share in Q3, 2006.



Now, turning to our balance sheet, at August 31, 2007, we had cash of \$202,000, current assets totaling \$12.7 million and current liabilities of \$4.6 million. Working capital was \$8.1 million at quarter end. Our current assets have decreased primarily due to a reduction of accounts receivable while our working capital increased due to the private placement financing done in July.

At August 31, 2007, we had not borrowed any money against our credit facilities compared to \$544,000 at the end of the second quarter. We have \$2.6 million available under our revolving credit facilities. We have enough cash and credit facilities to manage the business and we expect cash flow from operations will improve, as scheduled contract milestones will be paid on multiple contracts over the next several quarters.

Now I would like to turn the call back to Ken.

KEN KIRKPATRICK: Thank you John. 2007 has been a challenging year for the company. The unexpected delay in closing a few key contracts has directly impacted our ability to meet our commitments this year and this is not acceptable. It is important to note that the contracts have not been lost, and we will benefit from these contracts in the future. I am pleased to report that we have made significant progress in building the sales funnel that will reduce our dependency on a few contracts and position us to improve our quarter-over-quarter performance. 2008 is ramping up to be an exciting year for the company. We are now happy to take analyst questions.



Question & Answer Session:

OPERATOR: Anyone who wishes to ask a question, may press “*” then “1” on their touchtone telephone. If you wish to remove yourself from the question queue, you may press “*” then “2.” Again, anyone who has a question may press “*” then “1” at this time. Our first question today comes from Robert Catellier of Clarus Securities.

ROBERT CATELLIER: Hi. Sorry Ken, I hate to make you do this, but can you repeat the backlog numbers?

KEN KIRKPATRICK: The backlog is \$70.2 million, total.

ROBERT CATELLIER: Yeah.

KEN KIRKPATRICK: 45.9 million fixed and 24.3 option.

ROBERT CATELLIER: Okay, thank you. And just reading through the press release today, it looks like the new opportunity for LAYERED SECURITY SYSTEM was a port vulnerability assessment, is that different from the first contract they won and what’s the implications going forward for having a port vulnerability assessment, is there a strategic advantage there?

KEN KIRKPATRICK: Yeah, there definitely is. When we embarked on the strategy to move into the national security market, one of our key focuses from a technology perspective was port security because we felt that our situation awareness technology deployed and then used for naval purposes had a clear path to offer a significant value to the port security market. LAYERED SECURITY SOLUTIONS, the



individuals namely Jim Liddy has a significant marine and naval background. We felt that that was an opportunity for us to leverage and move into the port security market.

ROBERT CATELLIER: Okay. So, we could expect that you'll be pursuing other similar mandates in that area then?

KEN KIRKPATRICK: Absolutely.

ROBERT CATELLIER: And just where...where is LAYERED with respect to pursuing and securing international mandates, is there any progress to report there?

KEN KIRKPATRICK: We are...initially staying focused on the development of the US market. That's where we are building our capability as a priority, but we do have some business development and sales activity starting to look for opportunities outside of the US. But, we really are focused on staying on the US market because of the sheer size and because our objective is stay focused and get things done. International is secondary from a priority point of view.

ROBERT CATELLIER: Okay. As you look to grow the LAYERED DIVISION, I'm wondering what staffing levels you envision for 2008 and what revenue levels you need to break-even at those staffing levels?

KEN KIRKPATRICK: I would say moving forward, the staffing profile obviously is going to be driven by the revenue profile, but I can say right now that our current team is moving up to approximately 16 people and that we expect that that initiative will start to generate positive cash flow moving into early '08.



ROBERT CATELLIER: Okay. And I am just wondering with respect of the change in guidance and how much of that is attributable to delays in the US Congress finishing their 2008 appropriations work and in fact that right now they're actually operating on 2007 guidelines.

KEN KIRKPATRICK: Yeah. It's actually one of the key programs that we had expected to close from the US military this year, has in fact got tied up in the continuing resolution situation in the US, and it does not look like that project will shake loose until the final '08 defense budget is approved.

ROBERT CATELLIER: Obviously, you are not at liberty to discuss what that amount was?

KEN KIRKPATRICK: No, we can't at this point.

ROBERT CATELLIER: Okay. My final question then is, are you at liberty to break out your exposure to the UK Navy and the US Navy, and what percentage of sales both of those might represent?

KEN KIRKPATRICK: As in relation to the going forward?

ROBERT CATELLIER: Or trailing, whichever you're at liberty to discuss?

KEN KIRKPATRICK: I think, the period obviously is the key driver of...as you know with some of these sizable contracts that we bring in, we can have peaks and valleys, but I would say at this point, if you look at the US as a total market, it is probably in excess of 50% of our total revenues. But then, if you start to break that down into specific



customers obviously the percentages start to drop quite significantly.

ROBERT CATELLIER: Right.

KEN KIRKPATRICK: And I would say at this point, the UK market is approximately and this would be just a high level, it will probably be in the range of 25%, 20%...

ROBERT CATELLIER: Right.

KEN KIRKPATRICK: ...as a market.

ROBERT CATELLIER: Right. So then, my inference then is, as you grow LAYERED and some of your other initiatives like the SMALL BOAT, then you'll wean yourself off, sort of the dependence on the major programs coming off to US and you have a more balanced profile but, you know, obviously the US military spending is still going to be a big influence on the results?

KEN KIRKPATRICK: Yeah, I think the...as you know our priority is, it focuses on the military market, and we are starting to move now into the security market. So, I think they are different budget streams and different approval processes and we are seeing some signs on the security side that the contracting processes seems to be a little more on the quick side.

ROBERT CATELLIER: Okay. Thank you.

KEN KIRKPATRICK: Okay.



OPERATOR: Our next question comes from Dev Bhangui of Haywood Securities.

DEV BHANGUI: Hi, good afternoon Ken and John. How are you?

KEN KIRKPATRICK: Well, thank you.

JOHN SENTJENS: Fine.

DEV BHANGUI: Quick just kind of a clarification Ken. In terms of again the backlog when you're talking about 45.9 million as being the fixed or the firm backlog, that includes the 25 million year-to-date signed contracts, right?

KEN KIRKPATRICK: It would, yes.

DEV BHANGUI: And the 19 million was awarded but not finally signed off would be over and above that?

KEN KIRKPATRICK: That's correct.

DEV BHANGUI: Okay. Now, just in terms of I guess a few contracts, one or two contracts that you kind of alluded to which has been delayed, can you say, you know, that if at all those contracts were signed where would you have been in terms of your earlier guidance?

KEN KIRKPATRICK: Yeah, that's a good question. I would say if I break the two key contracts down that we were expecting, the UK contract would have moved us into a position to be very close to the bottom of



our guidance and the US contract would have pushed us very close to the middle of our range between 28 and 32 million.

DEV BHANGUI: Okay. And since these are not finally signed off, but I guess you have confirmed repeatedly that they have been awarded to the company, are you guys already cranking up in terms of delivering on them, you are delivering on them partially, but you're just waiting for a final kind of a formality in terms of sign off like what is the status there?

KEN KIRKPATRICK: Yeah, I think the...another good question. But, I think that the nature of our business is that we are aware in some cases several months before we can communicate to the market that we've actually secured a contract, and so in some cases, specifically in the UK case, we have started to move forward with the work that will come to us under that contract. Because at this stage, it truly is not about if it is a 100% going to happen contract, though in support of our product development and our product recycle, we can go forward with confidence to start to add those capabilities in support of these programs and ultimately the final contract being signed.

DEV BHANGUI: Okay, thanks. So, it's only that the accounting reality has not happened, otherwise it's not a question of would if it's a question of when?

KEN KIRKPATRICK: That's correct.

DEV BHANGUI: Okay. And Ken we have been talking about this LAYERED SECURITY SOLUTIONS UNIT and I know that the company has



tremendous amount of hopes in terms of the growth for this unit and also that the growth is going to be a high margin one. I think, you had alluded earlier that there is a potential for this unit to produce an annualized revenue run rate of about 10 million, is that still well within the reach? Because it looks like, I mean this unit has been formed almost three months ago or less than three months and has already gotten two contracts worth about 3.2 million?

KEN KIRKPATRICK: Yeah. We were extremely optimistic about the potential of that business even if you isolate it to the US itself, and we have identified and developed a sales funnel that is significant in size and scale. So, every indication is in the short period that we have been pursuing this market that the potential to grow this new initiative into significant revenue next year, it's definitely there.

DEV BHANGUI: Okay. And can you quickly tell us about what sort of prospects you have out of the hand-held unit that had been used by the frontline medical personnel, in terms of any kind of a range that you might have on an annualized revenue run rate basis?

KEN KIRKPATRICK: Yeah, that is a more of a development project where we have signed the contract to leverage our core technology and add capabilities that support a different operational requirement. It has not been deployed in the true sense of...from an operational perspective, but it has been out for field-testing and we are getting some fairly positive results from that.

DEV BHANGUI: Okay. And quickly last two questions. Can you throw any light in terms of the Canadian potential, in terms of contracts? I know that



we have been talking about IMIC3, is there anything which has gotten further along on IMIC as well as any other new contracts or any other new kind of initiatives from the Canadian side?

KEN KIRKPATRICK: Yeah. There is a lot of the activity on the Canadian government side, and I guess it boils down to...for a, you know, for a number of years there they've been spending very little in the capital assets and they are at the stage now where they're ramping up many, many programs at a level that far exceeds anything they have done in last 20 years. So, there are several programs that OSI is proactively pursuing and developing, and that we expect to see some very, very good progress in '08.

DEV BHANGUI: Okay. Thanks Ken. And I guess, a couple of housekeeping questions for John. John, if you can just give us the basic and the fully diluted share count for this particular quarter?

JOHN SENTJENS: They basically, there are the same for the quarter. Its weighted average number of common shares outstanding was 42,400,000.

DEV BHANGUI: Okay. It is the same as the fully diluted count, right?

JOHN SENTJENS: Fully diluted. I said I don't think those numbers will change significantly from what we've released in the past, that's in the sort of the high 50's, 58 million.

DEV BHANGUI: Okay. And one question I guess, either John or Ken, last question from my side and thanks for taking my questions, you guys. Is in this particular quarter, if you look at the cash flow, I mean besides all the leasehold improvements and also taking down the line of



credit, the company actually needed to burn about 1.4 million in terms of operations. Given that right now there is almost nothing left on the balance sheet in terms of cash, what is the prognosis for the next quarter? Because it's looks like either you have to kind of bolster it further or you are pretty confident that you won't need any kind of a significant amount of cash to burn given the prospects that you see in Harper in the next quarter?

KEN KIRKPATRICK: Yeah. I think if I can answer that John. I guess where we see the business evolving in Q4 and in Q1 is continued profitability and continued improvement, which will help to drive our cash in a positive direction. So, based on where we sit today, as we believe we have sufficient resources to execute our current plan.

DEV BHANGUI: Okay. Thanks Ken and John for taking my questions and all the best.

KEN KIRKPATRICK: Okay, thank you.

JOHN SENTJENS: Thanks.

OPERATOR: Our next question comes from Blair Abernethy of Westwind Partners.

BLAIR ABERNETHY: Hi, thank you. A couple of things, just Ken in terms of how you see the business today and assuming that the budget in past, you know, will be dealt with before Christmas, do you have the sense that maybe 2008 is going...fiscal 2008 for OSI is going to be a little bit less backend loaded then we experience this year?



KEN KIRKPATRICK: Yeah, I think that is a good observation. Obviously, the one key factor is that there are things that were planned to happen in '07 that will definitely move into '08. That is definitely going to give us the advantage to improving our first quarter performance. So yes, the answer is we don't see the backend loaded based on where we are today being as significant as it has been in the past.

BLAIR ABERNETHY: Okay. And then, in terms of...I want to walk you through two contracts, one is the Australian sub deal this, that was announced recently, the \$2 million deal was that booked in...was that...how much of that was recognized in Q3 or is that to come in Q4?

KEN KIRKPATRICK: No, we had probably about one-third of that would have been recognized in the third quarter.

BLAIR ABERNETHY: Okay, yeah, great. And then, in terms of the UK AIS, you know, it's been almost just under a year now. How much of that \$29 million contract, you know, just a ballpark have you guys worked through and how much is still in the backlog?

KEN KIRKPATRICK: Ballpark, I would say that approximately 7 million, what had been recognized maybe moving to 8 and the rest would be in backlog. Realizing that a significant component of that contract was related to a long-term maintenance contract.

BLAIR ABERNETHY: Right, right, okay, great. And then, in terms of the LAYERED SECURITY BUSINESS, can you give a...I was looking for a little more color on the pipeline of opportunities and two things I was thinking of was can you give us some sense, you know, it's not too difficult to gauge the size of the assessment contracts and obviously the



actual if you get awarded contracts to implement solutions that's a totally different story, but the assessment contracts, can you give us a sense of how many you are pursuing or you think you can pursue at any given time? Are we talking about two or three? Are we talking about a dozen? And the second part of the question, you know, I know it's early days in this area but is there a seasonality that you see in this sector as well?

KEN KIRKPATRICK: Yeah, I think the...to answer your first question in regards to how many are we pursuing, I think, the focus that we are shifting to is to put the majority of our resources behind more of the port security related opportunities. And, you know, one example of that is worth noting that the Department of Homeland Security in '07 put together a grant program for port authorities of about a 110 million, and that's in support of proactively moving forward and encouraging these assessments to be completed, and the implementation of some of the solutions that are identified through these processes. So, for example, the one major US port that we have now closed off on and hope to add to that very soon are spending these grants from DHS to start to address those concerns. So, we see that as itself as a sales funnel that we are very, very well positioned to go after and secure, and we believe that we are staffing appropriately to pursue multiple programs in parallel. And, in fact, we are pursuing multiple programs as we speak.

BLAIR ABERNETHY: And in terms of is there any seasonality to this business at all or is it, you know, first come first served kind of business?



KEN KIRKPATRICK: I think its...the seasonality doesn't exist in this business. It's, you know, you could maybe argue that the budgeting cycle could impact the contracting process, but in general terms I don't see anything that stands out that would be concerns from that perspective.

BLAIR ABERNETHY: Okay. And if we look at it at this opportunity and, you know, down the road say a year from now let's say OSI wins a mandate to actually perform the work to fulfill some of the objectives that were outlined in a security assessment. You know, what's the staffing, you know, can you reallocate people from the marine side of your business to do this, do you foresee another step up in staffing required, let's say if you won a large contract?

KEN KIRKPATRICK: Well, I think what we would look to do is we have built, as you know, the capability to develop, build and deliver these types of systems into our military market. What we would is we would leverage that infrastructure to deliver the same but modified solutions through LAYERED SECURITY SOLUTIONS out of Norfolk. So, I would see that as a...almost as an internal subcontract arrangement where we would match people within our marine business to support the development of that business and then actually take on the leadership role in delivering that business through LAYERED SECURITY SOLUTIONS.

BLAIR ABERNETHY: Okay, I got you. So, LAYERED SECURITY is effectively the marketing arm for delivering the technology from the core business?



KEN KIRKPATRICK: Yeah. And over time we would build on their technical capabilities, but at this point their primary focus is the assessment market and opening doors for us to actually sell our technology into that market.

BLAIR ABERNETHY: Okay, great. And last question from me, just on the Mapping space, anything new to report there or anything that you're looking at developing down the road in that vertical?

KEN KIRKPATRICK: There is some interesting activity on that front. We are currently exploring some opportunities to leverage a new technology, which is a LiDAR system tied to digital camera technology and that is a...I guess what we believe is a technology that's going to change how the engineering survey business is completed. We also see the ability of leveraging that technology to offer services to the security market. But it's early days, we won our first contract for a courthouse in the US leveraging this technology, and we are quite optimistic that we will see some new programs fall into place over the next month or so.

BLAIR ABERNETHY: Okay. That's it from me. Thanks very much.

KEN KIRKPATRICK: Yes, thank you.

OPERATOR: Our last question comes from Jim McIlree of Collins Stewart.

JAMES MCILREE: Thanks, good evening. Can you address why the inventory was up substantially quarter-to-quarter?

KEN KIRKPATRICK: John, I let you answer that.



JOHN SENTJENS: Yeah. Ken referred to it in one of his previous questions is that we're ramping up to deliver on projects that are we know have...are in the pipeline and as those are awarded, the inventory value should come down again.

JAMES MCILREE: And is that expected to come down in the quarter or year-end or over the next couple of quarters?

JOHN SENTJENS: I think it will likely over the next couple of quarters.

JAMES MCILREE: Okay. And approximately how much did the Liddy business contribute in this quarter?

KEN KIRKPATRICK: I would say approximately \$250,000 in revenues.

JAMES MCILREE: And is that expected to be about the same level in Q4 or is there a set function upwards?

KEN KIRKPATRICK: It will start to move in the upward direction in Q4.

JAMES MCILREE: Okay. So, if we're looking at Q4 revenue of around \$9 million, the biggest change is likely to be in the marine business, is that a fair enough statement?

KEN KIRKPATRICK: Yeah, that's a very fair statement.

JAMES MCILREE: Okay great, thank you.



OPERATOR: There are no more questions at this time. I will now turn the call back over to Ken for any closing remarks.

KEN KIRKPATRICK: Thanks again for joining us today. I look forward to speaking to you again in February when we release our Fourth Quarter and Fiscal 2007 Year End results.

OPERATOR: Ladies and gentlemen, this concludes today's OSI GEOSPATIAL CONFERENCE CALL. You may now disconnect your lines. Thank you for calling and have a pleasant day.