



OSI Geospatial Inc.

Second Quarter 2008 Conference Call Transcript

Date: Wednesday, July 9th, 2008

Time: 2:00 PM PT / 5:00PM ET

Speakers: **Jane Hayward**
Investor Relations

Kenneth Kirkpatrick
President and Chief Executive Officer

John Sentjens
Chief Financial Officer



Operator:

Hello, this is the Chorus Call conference operator. Welcome to the OSI Geospatial 2008 Second Quarter Conference Call and Webcast. As a reminder, all participants are in a listen-only mode and the conference is being recorded.

After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal for an Operator by pressing "*" and then "0" on their touch tone telephone. At this time, I would like to turn the conference over to Jane Hayward, Investor Relations. Please go ahead.

JANE HAYWARD:

Thank you, Brock. Good afternoon everyone and thank you for joining us to discuss OSI Geospatial's 2008 second quarter results. Our results were issued approximately one 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, Chief Financial Officer.

We will begin this afternoon with Ken Kirkpatrick, who will review the 2008 second quarter results. John Sentjens will follow with the financial and operating highlights and then we will open the call to analyst questions.

During the call, we will be making forward-looking statements, including statements regarding the perceived benefit of deregulation and future trading and business activity about OSI Geospatial's business. These statements are subject to risks and uncertainties, which could cause actual results to differ materially. These risks include, but are not limited to, those related to market volatility and changes in market preferences,



the company's reliance on international government contracts, the number of large customer transactions and their lengthy sales cycles, uncertainties associated with competitive bidding processes and contract negotiations, actions by government authorities, the effect 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 reports 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, except or as required by law.

During the call, we will make reference to selected non-GAAP financial measures, including firm 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 U.S. dollars and in accordance with Canadian GAAP.

With that, I will turn the call over to Ken Kirkpatrick.

KENNETH KIRKPATRICK:

Thank you, Jane. Good afternoon everyone and thank you for joining us for our second quarter conference call.



I will begin by giving you a high-level overview of our financials. For the second quarter of 2008, we reported revenue of \$6.5 million, a modest increase of 6% from the \$6.1 million reported in the second quarter of 2007. For the six months ending May 31st, 2008, the company reported revenue of \$12.3 million, an increase of 27% from the \$9.7 million reported in the same period of 2007. We reported a net loss of \$1.4 million before tax and \$1.1 million after tax compared to a net loss of \$446,000 before tax and \$366,000 after tax in the same quarter of 2007.

For the six months ending May 31st, 2008, we reported a net loss of \$2 million before taxes and \$1.7 million after taxes compared to a \$2.4 billion loss before and after taxes in the same period of 2007.

Our revenue and earnings in the second quarter were negatively impacted by delays in closing key contracts both in the UK and the U.S. We have since closed the \$10 million U.S. Army contract and we expect to close the UK contracts in the third and fourth quarter. In addition, we incurred significant expenses related to the SEC review that directly impacted our earnings in the second quarter.

The SEC review has been a major distraction for our management team and we are pleased to have this issue behind us. In the second quarter, we signed more than \$16 million in new business and we are confident that this success will continue in the third and fourth quarter.

Before I discuss the second quarter highlights, I would now like to turn your attention to some very important public company announcements that we had made recently.

We have decided that it is in the best interests of the company to deregister in the United States. We plan to file the required Form 15-F



with the SEC on or about July 22nd, 2008. We have made this decision based on the administrative workload and cost associated with meeting specific SEC reporting requirements, particularly with respect to the requirements of SOX 404. These are in addition to the company's reporting obligations under Canadian law.

We have analyzed the cost and the benefits of this listing and determined that we will bring more value to our shareholders by being listed on the Toronto Stock Exchange only at this time.

This decision will not affect our business strategy in the United States, nor our status as a U.S. foreign, private issuer. Our U.S. shareholders will be able to trade our stock on the TSX. In addition, we have decided, in accordance with the company's articles of incorporation and in light of the current market conditions, to declare a partial dividend payment for our Class B2 preferred shares, thereby preserving our cash -- our financial resources.

We will pay a nominal amount per share for the semi-annual dividend payment due on May 31st, 2008. We will evaluate the payment of future dividends on a semi-annual basis.

We strongly believe that these steps are to the best interest of all shareholders. The uncertain banking environment, troubled equity markets and other economic concerns have led us to these decisions.

I will now provide you with more details on our second quarter highlights.

We were very pleased to announce the \$10 million contract with the U.S. Army. This customer has invested significant dollars over the last five years in the development of our C3I Soldier System SUSA. This has



positioned us to become a technology leader, with what we believe to be the most advanced capabilities in this space. This contract will provide us with the vehicle to transition our leading edge technology to operational systems that will be deployed to support U.S. Forces operating around the world.

The U.S. Military and security markets have a well defined requirement for this technology and this presents a significant opportunity for our company. In fact, there are more than 20 soldier modernization programs ramping up around the world that will procure C3I soldier systems over the next five to seven years.

Our company is proactively pursuing the UK FIST program, U.S. Army GSE program, the U.S. Marine Corps MERGE program and the Canadian Army ISSP program. It is our expectation that all of these programs will be awarded in 2009.

In addition, we are monitoring the activities related to other programs, but we will be very selective to which programs we pursue outside of our key markets. This is an extremely large market opportunity for our company and we are investing significant resources to ensure we are positioned for success.

The U.S. Military and security markets remain a high priority for our company. In the second quarter, we were successful in closing more than \$4 million of U.S. Military business and we are well positioned to build on this success in the third and fourth quarter.

The development of the U.S. DHS critical infrastructure protection market is progressing well. We have successfully completed our first port security project and we are nearing completion of the DHS integrated



vulnerability assessment project. We've received excellent feedback from both of these customers. We are very optimistic about this market opportunity and expect to see some solid progress leading up to the end of our fiscal year.

Since our move to Ottawa, we have been developing several opportunities with Defence, Research and Development Canada or DRDC, an arm of the Department of National Defence. DRDC is focused on responding to scientific and technological needs of the Canadian Forces. There's a clear mandate for DRDC to transition R&D technology to operational solutions that will enhance the operational performance of the Canadian Forces.

We can directly support this mandate as we have extensive R&D expertise through our CHI Systems business unit and extensive operational expertise through our offshore Systems business unit.

This customer spent significant dollars on an annual basis and we are well positioned to expand our relationship with this customer. We are pleased to report that we have been awarded our first contract with this new customer. Under this contract, we will develop technology to meet improvised explosive device or counter-IED tech requirements.

Strong customer relationships are essential to our growth. Exceeding our customers' expectation will keep them coming back and will be a key driver for our future growth. We continue to see a steady flow of business from our existing customers and the \$1.3 million of follow-on contracts announced with the Australian Navy is evidence of this.

In the second quarter, we've continued to experience delays in closing key contracts with prime contractors that are leading significant new bill



programs for the UK Navy. Firstly, we continue to work with BA Systems to finalize contract negotiations for the integration of our advanced submarine navigation technology into their fire control system that will be installed on the UK Navy's Astute Class submarine.

Secondly, we are under contract with Northrop Grumman to complete the preliminary design for the integration of our warship navigation technology into their integrated bridge system that will be installed on the UK Navy's CDF Class aircraft carrier.

Lastly, we are moving forward with detailed discussions with Raytheon to integrate our warship navigation technology into their integrated bridge system that will be installed on the UK Navy's T-45 class destroyer. These large new build programs are very complicated and difficult to predict the exact timing for contract signing and execution. All of these programs will create a significant revenue opportunity for the company and we are working to close these development projects in 2008.

We are also optimistic that these programs will lead to opportunities to work with BAE, Northrop Grumman and Raytheon on other programs in the future. There are other programs ramping up in Canada and Australia that will present similar opportunities for the company in the future.

I am pleased with the progress that our mapping operations have made in the second quarter of 2008. They increased their second quarter revenues to \$1.7 million, or more than 26% compared to the same period in 2007. Year-to-date, we have signed more than \$5 million in new business. In support of our growth objectives, we have been proactively pursuing growth markets for our Mapping business and have identified a mapping technology that has created a significant opportunity for our company. The technology is three-dimensional light detection and



ranging, or 3D LIDAR scanning and mapping. We have secured and successfully executed our first contract for the Birch Bayh Courthouse in Indianapolis, Indiana, with the U.S. General Services Administration.

This is an area of expertise that we are developing as we continue to develop our geospatial capabilities for the critical infrastructure protection market. The mapping of critical infrastructure, such as this federal courthouse, is a growing requirement to address security concerns. This initiative is at its early stages of development, but our initial outlook is positive.

With that, I will turn the call over to John Sentjens, who will take you through our financial and operating highlights for the second quarter of 2008.

JOHN SENTJENS:

Thanks, Ken, and good afternoon everyone. Please note that all financial information is stated in U.S. dollars and in accordance with Canadian GAAP.

Our marine systems revenue was \$2.3 million, a small decrease over marine systems revenue in the second quarter of 2007. Our land and air systems revenue was \$2.5 million, an increase of 8% over 2007 and our mapping revenue was \$1.7 million, an increase of 26% over 2007.

This quarter, we reported a gross profit of \$2 million and a gross profit percentage of 31% compared to \$2.5 million and 40% in the second quarter of 2007. The reduced gross profit and gross profit percentage for the second quarter of fiscal 2008 was largely due to the increased hardware and systems revenues and decreased software revenues when compared to the same quarter last year. Hardware and systems



contracts, by their nature, have higher direct costs and therefore lower gross margins when compared to software contracts.

General and administrative expenses were \$1.7 million, a 15% increase over the second quarter of 2007. During the second quarter of 2008, the SEC completed its review into the company's revenue recognition on certain contracts for fiscal 2007. These costs -- the costs related to this review were largely responsible for the increase in G&A for the quarter.

For a company of our size, the outlays in professional fees and the internal resources needed to address the SEC's review were significant. This review was also a substantial distraction for senior management and accounting staff. As reported in our news release of June 12th, 2008, there was no impact on the company's reported financial results as a result of their review.

Engineering expenses continued to decrease. They decreased 21% to \$308,000. These decreases are due to the capitalization of development related costs and the reallocation of wages to cost of sales based on contracted engineering services.

Sales and marketing expenses increased an expected 43% to almost \$1.2 million from \$815,000 in 2007. Starting at the end of the second quarter last year, we expanded our business development and sales capabilities to aggressively pursue both new and existing customers in the U.S., the UK and Canada.

Overall, we reported a net loss before tax of \$1.4 million and a net loss after tax of \$1.1 million for the second quarter of 2008 compared to a net loss before tax of \$446,000 and a net loss after tax of \$366,000 in Q2 2007. The net loss attributable to common shareholders was \$1.5 million



or \$0.03 per share compared to a net loss of \$748,000 or \$0.02 per share in Q2 2007.

Firm backlog, which consists of firm, fixed and signed orders, was \$51 million at quarter-end compared to \$45 million for the same period of 2007. Of the 51 million in firm backlog, we expect to execute a minimum of \$10 million in fiscal 2008. In addition, we have been awarded approximately \$12 million in new contracts, of which we expect a component to be executed in 2008. This is not included in the firm backlog.

Now turning to our balance sheet, at May 31st, 2008, we had current assets totaling \$11.7 million and current liabilities of \$6 million. Working capital was \$5.7 million at quarter-end. In the quarter, we used \$264,000 in our operations.

At May 31st, 2008, we had borrowed \$1.3 million against our credit facilities compared to \$822,000 at the end of the second quarter 2007. I am pleased to report that subsequent to quarter-end, we entered into a new banking arrangement with a Canadian chartered bank. This new relationship will provide us with additional credit facilities, which have now increased to \$4.2 million from \$2.6 million. We are confident we have sufficient financial resources available to support our operations.

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

KENNETH KIRKPATRICK:

In response to the current market conditions, we are taking the necessary steps to control and reduce expenses such as the U.S. deregistration that do not negatively impact our growth strategy. We remain focused on our established 2008 objectives and are optimistic that we will show



significant progress against all of our objectives leading up to the end of 2008.

With that, I would be happy to take your questions.

OPERATOR: Thank you sir. Anyone who wishes to ask a question may press "*" then "1" on their touch tone 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 Dev Bhangui of Haywood Securities.

DEV BHANGUI: Hi. Good afternoon, Ken, Jane and John.

KENNETH KIRKPATRICK: hello

DEV BHANGUI: Just wanted to kind of get some financials out of the way first, in terms of, I guess, how much was the SEC expenses?

KENNETH KIRKPATRICK: We've incurred approximately \$300,000 in external expenses related to the SEC activity. Obviously, not including the management time and accounting staff time in support of the response.

DEV BHANGUI: Okay. So on the going forward, I guess, quarter, in terms of OPEX, with the dividend savings and also the delisting, they'll be -- this 300-plus, probably about, I would say, anywhere between 700 to 900 or 700 to 1 million in terms of savings?

KENNETH KIRKPATRICK: Yes, when you speak specifically to the U.S. deregistration, there will be a cost savings, annualized cost savings, between 250,000 and 300. That



will, as the future SOX 404 requirements kick in, will increase to 4 to \$500,000 a year.

DEV BHANGUI: Okay. And that 400 to 500,000 is going to be 2009 and the 250 to 300 will be in 2008, right?

KENNETH KIRKPATRICK: Annualized. Yes.

DEV BHANGUI: Okay. And then in terms of how much is a saving out of the dividend?

KENNETH KIRKPATRICK: The preferred shares are approximately \$625,000 per year, the dividends.

DEV BHANGUI: Okay. Because there appears to be -- if you see your financials, I mean, I don't want to waste time on the call right now, but there appears to be some kind of an, I guess in my mind, an anomaly because I cannot reconcile those numbers there. In terms of what you reported as being the first half of '07 versus '08 dividend payments and the second quarter of '08 was below '07 dividend payments. But you are saying that the 625,000 based on the current decreased level of the payments, right?

KENNETH KIRKPATRICK: Yes, that's the annual obligation that we currently have for our preferred share dividend.

DEV BHANGUI: Okay. And very quickly, in terms of the two large contracts that were deferred, one of them has been now closed, post Q2 of 10 million with the U.S. Army. Can you give us an idea as to the range of the size of the UK Navy contract that you expected to close in Q3, Q4?

KENNETH KIRKPATRICK: No, I wouldn't, at this stage. I wouldn't want to put that number out there.



- DEV BHANGUI: Okay. Now just in terms of, I guess, based on your commentary, Ken, there appears to be significantly large contracts, individually as well as cumulatively, that the company is not just chasing, but is in a good position to kind of finalize on. Right. Based on that, would you say that cumulatively speaking, including the, I guess, the destroyer class and all the kind of labor programs, as well as the counter IED soldier modernization, DRDC and other programs in Canada, would it be far fetched to say that the company appears to be chasing approximately 90 to 100 million worth of new business, which is kind of the not the usual ones, but this is the unusually large projects business?
- KENNETH KIRKPATRICK: Yes, I would say that. I'm not quoting the exact dollar, but we have, in our sales funnel, contracts of the size and scale that we've never been chasing before that I think we are very well positioned for. And I think collectively, it far exceeds the numbers that you've been quoting or you just quoted.
- DEV BHANGUI: Okay. Okay. So that's even larger than that that? Okay?
- KENNETH KIRKPATRICK: Yes. For example, on the soldier modernization side, there is a program in the UK that, in itself, is -- they're purchasing up to 11,000 systems. The Canadian program is purchasing up to 18,000 systems. And the U.S., multiply that significantly. And we believe we have technologies that provide us an advantage and we have a business model that I think provides us an advantage. Obviously partnerships play a role in programs of that size, which is another area that we're spending considerable time on.
- DEV BHANGUI: Okay. And you won't be able to give us any idea as to what is the whole naval kind of the size in terms of the Raytheon, the Northrop and BAE



combined, which were in, I guess, your primary customers is the UK Navy right?

KENNETH KIRKPATRICK: Yes. The UK Navy has been our thrust, but outside of those programs, as you know, we do a lot of work directly with the UK Navy as it relates to our warship AS contract, our warship navigation contract. So that's not our only revenue stream coming out of the UK through those major programs. And we expect to see some of those come to -- other programs come into closure in Q3, which we see turning into solid revenues for the company in Q3 and Q4.

DEV BHANGUI: Okay. Because you said that you are going to recognize or most likely to recognize all the naval programs that you mentioned with the three majors to come to fruition in fiscal 2008, which is in the next six months. So I was trying to get an idea, I guess, indirectly, in terms of how the second half of '08 is going to look like. Not necessarily from a guidance point of view, but from an approximate kind of being able to put it in some kind of a bracket, so to speak. Is there anything you would like to share a little bit more color on that quantitatively?

KENNETH KIRKPATRICK: Yes, I think if you -- if you're trying to do some high level math, we -- what John presented in his script is that we have generated \$12.3 million in revenue in the first six months. We have a minimum of \$10 million in fixed backlog that we believe will turn into revenues this year, plus we have awarded contracts of \$12 million, of which a component will be brought into revenue. And that's not including, obviously, all of the other business that we're pursuing. So we see the, obviously, the last part of the year being significantly better than the first.

DEV BHANGUI: Okay. Okay. I mean, that's all I had. I will stand back in line and I guess in terms of the shareholding, there is nothing that you expect, John, to



move up from the current 46, 47 million kind of level to a higher level in the next foreseeable future, for the rest of the fiscal year, say, for example?

JOHN SENTJENS: There's nothing that we know of.

DEV BHANGUI: Okay. Thanks a lot, Ken and John, and I'll turn back in line.

KENNETH KIRKPATRICK: Thank you.

OPERATOR: Our next question comes from Blair Abernethy of Thomas Weisel.

BLAIR ABERNETHY: Hi, gentlemen.

KENNETH KIRKPATRICK: Hi, Blair.

BLAIR ABERNETHY: A quick question. Just a couple of quick questions first for you, John.

The -- in the mapping revenue, in your May quarter, the 1.7 million, is there any of the -- you had an early termination, I think it was last quarter. Is there any of that revenue in there? Sort of one-time revenue related to contract terminations?

JOHN SENTJENS: No, there's not.

BLAIR ABERNETHY: Okay. So the one-seven is really a normal course of business number for mapping?

JOHN SENTJENS: Yes, it is.

BLAIR ABERNETHY: Okay. Great.



And what was your headcount at the end of the quarter? And in particular, what's the headcount in the layered solutions group?

KENNETH KIRKPATRICK: Blair, that's -- there's approximately 14 people based on Norfolk, Virginia.

BLAIR ABERNETHY: Okay. And what's the overall headcount?

KENNETH KIRKPATRICK: Approximately 150 employees.

BLAIR ABERNETHY: Sorry, was that 115?

KENNETH KIRKPATRICK: No, about 150.

JOHN SENTJENS: One-five-zero.

BLAIR ABERNETHY: One-five-zero. Okay. Great.

KENNETH KIRKPATRICK: That's company wide.

BLAIR ABERNETHY: And, John, in terms of the Forex impact to your top line, do you have a sense of what that was kind of on a year-over-year basis?

JOHN SENTJENS: This year versus last year?

BLAIR ABERNETHY: Yes.

KENNETH KIRKPATRICK: 8%.

JOHN SENTJENS: Yes. 7,8% of the revenue number.



BLAIR ABERNETHY: Okay. So 7, 8% headwind to you?

JOHN SENTJENS: Yes.

BLAIR ABERNETHY: Yes. Okay. Okay. Great.

And, Ken, just a couple of things. Can you talk a little bit more about -- or fill out a little bit more about the layered solutions group and sort of homeland security opportunity as it stands today? How much, if we kind of look back to where you were December of '07 versus where you are now, so six months later? How are you looking at the business? Is it the same or different or what's happening there?

KENNETH KIRKPATRICK: I think we still -- well we still have the same positive outlook for the opportunity within that space. One of the challenges that many companies in the DHS security market are facing this year is that the budgets have gone up in size and scale, but the disbursement down to the different organizations that are actually buying things was very, very slow this year. Slower than what we expected.

And as a result, a lot of the contracting that we expected to have happened by now has been delayed. The good news is we're seeing signs that that process is catching up and they're moving forward to a lot of the contracting efforts that we thought were going to happen earlier in the year.

Hence, in my script and my point is that we expect the -- to see some very solid progress in the last six months or the last part of the year.

BLAIR ABERNETHY: Ken, how many different opportunities are in this market are you pursuing right now?



KENNETH KIRKPATRICK: Do you mean the number of pursuits?

BLAIR ABERNETHY: Yes. Is it -- are you chasing one or two or are there a dozen out there?

KENNETH KIRKPATRICK: No I -- the way we break our business down is pursuits, prospects and suspects. So if I just talked about what we have qualified as pursuits, I would probably say we have ten qualified pursuits that we're pursuing at different stages of development.

BLAIR ABERNETHY: Okay. All in the DHS market?

KENNETH KIRKPATRICK: DHS and port security market.

BLAIR ABERNETHY: Okay. Okay. Okay. Great.

And just in terms of the core ECPINS product, anything -- what are you seeing there in terms of expansion into any new navies? Is there anyone else out there, sort of moving further along, in terms of their decision making?

KENNETH KIRKPATRICK: Yes, we are seeing signs of other navies starting to move. Primarily, European navies. And we are actively pursuing those opportunities as we speak. But it's one of those markets, when you look at the warship navigation, the retrofit market, it's a relatively slow process. Implementing that type of technology change takes a lot of time and effort. It's going to happen, it's just a matter of when. But there is an active pursuit that we're working on in that front that we're hoping to see success in the near term.

BLAIR ABERNETHY: Okay.



KENNETH KIRKPATRICK: The other aspect of that strategy, which I haven't talked too much about, is the new initiative around our asset control and tracking technology. And we're seeing some significant indication of some short-term successes there also, which is an extension of our -- I guess, our navigation systems on the bridge. So that's quite exciting.

BLAIR ABERNETHY: Okay. Okay.

And just on the SUSA product -- project -- product, this \$10 million Army win, can you give us a sense of when you sort of expect to book that revenue? Is it -- I know it was, I think it was a four or five-year contract, but is there an up-front component and then a small maintenance stream that follows? Or I'm just trying to get a sense of when that -- the next -- ?

KENNETH KIRKPATRICK: There's no maintenance aspect of that contract at this point. It's primarily going to be to do enhancements to products and systems and then deployment of those systems and the timing of the contract is, at this point, the best we have been able to present is that it's a five-year contract. And we'll see that the revenue potentially roll out at a faster pace, but obviously definitely over that five-year period.

And it's difficult, because of the confidentiality of the contract for me to get into too much details of exactly what we're doing. But it really is dependent on the operational requirements that will dictate the revenue stream. And we're hoping that it will be more front-ended than, obviously, back-end. Back-ended.

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

KENNETH KIRKPATRICK: Thank you.



OPERATOR: Our next question comes from Mona Nazir of Clarus Securities.

MONA NAZIR: Hi. Thanks for taking my call.

KENNETH KIRKPATRICK: Hi.

MONA NAZIR: I was just wondering about the Defence and Resources Development Canada contract. I know that you briefly touched on that. But I was wondering if you could provide some color on the details of the contract? Additionally, if you could comment on the size of the market opportunity and the timing of this new initiative would be great.

KENNETH KIRKPATRICK: Yes, I think the -- as it relates to DRDC, is one of the -- they spend, I'll say tens, but hundreds of millions of dollars in the development of technologies in support of the Canadian Forces. And one of the benefits of establishing a stronger base here in Ottawa is it brings us closer to the decision makers and closer to basically the activity within DRDC. And the advantage we see for our company is that they are investing dollars, significant dollars, in the development of technologies to support, ultimately, operational requirements.

So we, again, being in Ottawa, with the right people on staff, have made tremendous progress and where we sit today is we have an organization, CHI Systems, that has extensive technology R&D expertise and we've been able to leverage that skill set to move our relationship forward with DRDC to the point where we've been awarded a contract.

And this first contract, it's the first contract with DRDC, is a development contract around the major concern and issue around the world, which is counter IED technologies. Again, it's one of those contracts, I can't speak to too much detail about it, but we see it as a significant opportunity in



itself, but we also see a relationship with DRDC, creating a significant opportunity for revenues, but ultimately investment in technologies that will help to build our business long term.

MONA NAZIR:

Okay. Great.

KENNETH KIRKPATRICK:

Does that answer your question?

MONA NAZIR:

Yes. And just -- you can't -- you don't know anything about the size, the potential or the timing of this going forward?

KENNETH KIRKPATRICK:

Yes, the -- it's not -- it's an awarded contract at this point. It's not a signed, executed contract.

MONA NAZIR:

Okay.

KENNETH KIRKPATRICK:

So again, I don't want to spend -- to get into too much detail, but we're confident that it will close and it will ramp up work in the last quarter of this year.

MONA NAZIR:

Okay. Great. Thank you.

KENNETH KIRKPATRICK:

You're welcome.

OPERATOR:

There are no further questions at this time. I'll hand it back to you for any closing comments.

KENNETH KIRKPATRICK:

Okay. Thanks again for joining us today. I look forward to speaking to you again in October, when we release our third quarter results for fiscal 2008. Thank you.



OSI Geospatial Inc.

JANE HAYWARD: Thank you.

OPERATOR: Ladies and gentlemen, the conference has now concluded.