

## Local company gains toehold in U.S. defence Navigation software pinpoints vessel's location

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A North Vancouver company's ship navigation system is finding its way into on to the bridges of the U.S. Department of Defence's latest experimental warships, including a stealth-style semi-submersing speedboat developed for the navy's elite SEAL warfare unit.

Offshore Systems International Ltd. will see its software tested in the M80 Stiletto, a high-speed ship being developed by the Pentagon's Office of Force Transformation, the SEALION II (SEAL Insertion, Observation, Neutralization), a stealth, semi-submersing speedboat developed for Naval Special Warfare; and the U.S. Navy ship, Joint Venture High Speed Vessel Experimental One (HSVX-1).

The contracts to provide the software -- which are with two U.S. companies and not the Department of Defense directly -- provide a further inroad into the lucrative U.S. defence market, said OSI's president and CEO Ken Kirkpatrick.

But what makes the contracts important to OSI is not the revenue -- which Kirkpatrick said was immaterial and not being disclosed -- but the potential for the future.

"Our core strategy is penetration of the U.S. market," Kirkpatrick said in an interview. "This allows us to get our advanced technology in U.S. programs that get a lot of visibility within all the ranks of the U.S. Navy and allows us to build the relationships with companies within the U.S. that are front and centre in these programs. So as these programs evolve and potentially turn into a production program, we are front and centre, we are the technology of choice and we are positioned extremely well to turn it into significant revenues moving forward."

OSI's naval software -- a warship electronic chart display and information system that allows the vessel's operator to know the ship's precise location and its surroundings at all times -- is already used by navies around the world, including Canada's, Kirkpatrick said. But penetrating the U.S. market has been difficult.

"Generally, as a Canadian company, it could be challenging to break into [the U.S.] market and you typically have a greater chance of winning that business if you came with a U.S. business," Kirkpatrick said. "We believe by teaming with these companies it increases our ability to penetrate the market and secure the opportunity."

OSI was awarded the contracts by West Virginia-based Azimuth, Inc., which is responsible for the communications, surveillance and weapons systems on the Stiletto and SEALION, and L-3 Communications Titan Group of New York, which has the contract for the HSVX-1.

The ships are experimental and the U.S. Department of Defense could decide to build something completely different rather than going ahead with one of the current prototypes, a process that could take years, Kirkpatrick said.

"But the key thing is the more visibility and the more vessels you have your technology being displayed on the higher likelihood it is going to turn into something substantial moving forward," he said.

James McIlree, an analyst with investment bank C.E. Unterberg, Towbin in New York, said that in the short term the OSI contracts don't mean much. But in the long run it's important for companies like OSI to have a channel into the very large U.S. defence market, which tends to seek U.S. suppliers, he said.

And although the U.S. navy is unlikely to award any contracts related to its new fleet before 2007, it could mean good money for OSI when the time comes.

"The most likely scenario is that it is a couple of million dollars but it could be a couple of hundred thousand," McIlree said. "The range is quite large."

In December OSI paid \$9 million US to acquire Philadelphia-based CHI Systems Inc. in an effort to break into the U.S. market. The company reaped some benefits in January when CHI was awarded a \$850,000 Cdn contract from the U.S. army.

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