



OSI Geospatial Inc.

Third Quarter 2008 Conference Call Transcript

Date: Thursday, October 8, 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: At this time I would like to turn the conference over to Jane Hayward, Investor Relations. Please go ahead.

JANE HAYWARD: Thank you, operator. Good afternoon, everyone, and thank you for joining us to discuss OSI Geospatial's 2008 third 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 investor 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 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. These statements are subject to risks and uncertainties, which could cause actual results to differ materially. 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 selective non-GAAP financial measures, including firm backlog and working capital. We feel that 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. I would also like to remind you that this call is being recorded. With that I would like turn the call over to Ken Kirkpatrick.

KENNETH KIRKPATRICK:

Thank you, Jane. Good afternoon, everyone, and thank you joining us for our third quarter conference call. I will begin by giving you a high level overview of our financials.

For the third quarter of 2008 we reported revenue of \$6.2 million, a decrease of 15% from the \$7.3 million reported in the third quarter of 2007. For the nine months ending August 31, 2008 the company reported revenue of \$18.6 million, an increase of 9% from the \$17 million reported in the same period of 2007.

We reported a net loss of \$700,000 before tax and \$691,000 after tax, compared to a net profit of \$332,000 before tax and \$279,000 after tax in the same quarter of 2007. For the nine months ending August 31, 2008 we reported a net loss of \$2.7 million before taxes and \$2.4 million after taxes, compared to a \$2 million loss before taxes and a \$2.1 million loss after taxes in the same period of 2007.

We are well positioned for a strong fourth quarter and our revenue is expected to be in the range of 8 to 9 million dollars. We remain optimistic about our future growth opportunities, but we are concerned with the possible impact that the current economic issues could have on our business. To respond to delays in projects and these economic concerns, we have proactively reduced overhead expenses across the company and will begin to realize these benefits in our fourth quarter and throughout 2009.

I will now provide you with some additional information on our third quarter highlights. We announced \$2 million in follow-on contracts with the UK Royal Navy to enhance our WECDIS and W-AIS technology. These types of contracts



are generally direct awarded and not competed. This provides the company with the necessary funding to improve our technology and ultimately provides us with a competitive advantage when pursuing new customers.

We are making progress in moving our Royal Navy new build project forward, but unfortunately at a slower pace than we would like. We are working through the design phase of the CVF aircraft carrier program, we have completed the design phase of the Astute Class submarine program and we have initiated discussions on the T-45 destroyer program. Further integration of our technology into major defense contractor systems will position us well for further success in the UK and other markets.

The Australian Navy continues to embrace our technology. In the third quarter we were successful in closing follow-on contracts valued at \$1.1 million and year-to-date have closed almost \$3 million worth of business. This is another great example of how established customer relationships can lead to significant follow-on business for the company.

We continue to build on our relationship with the US Coast Guard. This customer has deployed our technology on 41 of their vessels and I'm pleased to report that we have been awarded a \$1 million follow-on contract to provide a hardware upgrade to these systems. We are working hard to expand this relationship through the introduction of our Maritime Interdiction and Force Protection solutions.

Our US operations have been successful in closing \$1.5 million in contracts to deliver advanced training technology to the US Military. Our technology is designed to reduce costs, increase throughput and improve quality to enable military training organizations to more effectively support operational requirements. This technology is at the early stages of commercialization, but to date it has been received extremely well by our customers.



In addition, we're been awarded an additional \$1.7 million in advanced technology research and development contracts from the US Military. This business is extremely important to our company as it provides us with the funding to enhance our existing technology and develop new technologies. We have a very strong advanced technology R&D capability and are leveraging the strength to implement our strategy to establish a technology leadership position in our focused markets.

The initiative that we launched in June of 2007 to enter the US Department of Homeland Security market started off strong. Unfortunately, it has been very slow to ramp up in 2008 due to project delays and losses. But I am pleased to report that in our third quarter we have made some solid progress and expect this to continue in the fourth quarter.

First, we were successful in signing a follow-on contract with the Sabine-Neches project with our first commercial customer. This is a pilot project with a chemical company that has a facility in the Sabine-Niches region and a total of 45 facilities across the US. We will be working hard to grow our business relationship with this customer as well as others.

Second, we closed the contract with the Port of Buffalo New York and our second port security risk assessment project. Port security is a high priority for the US government and has been identified as a high-risk area. In fiscal 2008 the US Department of Homeland Security has awarded close to \$400 million of port security grants to port regions and ports across the US.

The contracting authorities of these port regions and ports are now beginning to award contracts. We are pursuing several projects in this area and we are confident that we will achieve further success in Q4 and into 2009. Our ultimate



goal is to leverage our risk assessment expertise to develop and deliver technology solutions to meet port security requirements.

Third, we were awarded our first contract to provide risk-assessment services to the US Navy in support of anti-terrorism requirements. Our company has developed world-leading technology for Maritime Interdiction and Force Protection operations. We believe that this contract will provide us better access to this customer and help us to better understand their requirements. Again, our primary objective is to deliver our Maritime Interdiction and Force Protection solutions to this customer.

We remain optimistic about the Soldier System's market opportunity and strongly believe that we have advanced technology that makes us attractive to large prime contractors for major programs, and to special operations forces that require advanced capabilities to meet extreme operating requirements. We continue to work with the US special operations forces and are working hard to expand into the UK and Canada. We are monitoring major programs very closely and we are positioning to participate through major defense contractors as these programs move forward.

In the third quarter our Mapping Operation revenue was negatively impacted by poor weather conditions that limited our ability to collect the imagery for key projects. So far in the fourth quarter we are making good progress and we are optimistic that we will have a strong quarter.

We remain focused on our key objective, to develop and close large opportunities that will provide the company with sufficient backlog to enable consistent quarter-over-quarter performance. I'm pleased to report that we are making progress in this area and we are well positioned for several large projects that we expect to be awarded in 2009 and 2010.



Although the current economic issues are a serious concern, to date there has been no indication that there will be a negative impact on plans for defense and security spending in our key markets. We will continue to monitor the situation closely and will take the necessary steps to ensure we can respond quickly if this situation changes.

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 2008.

JOHN SENTJENS: Thanks, Ken, and good afternoon, everyone. Please note that all financial information is stated in US dollars and in accordance with Canadian GAAP. Our Marine Systems revenue was \$3.1 million, consistent with the third quarter of 2007. Our Land and Air Systems revenue was \$2.2 million, a decrease of 15% from 2007. And our Mapping revenue decreased 42% to \$921,000 from 2007 revenues.

This quarter we reported a gross profit of \$2.2 million and a gross profit percentage of 35%, compared to \$3 million and 42% in the third quarter of 2007. The reduced gross profit and gross profit percentage for the third quarter of fiscal 2008 were due to lower Land Systems and Mapping revenues and increased hardware and systems revenues for the Marine business when compared to the same quarter last year.

General and administrative expenses were \$1.4 million, a 4% decrease over the third quarter of 2007. Engineering expenses increased 29% over the same period in 2007 to \$297,000. This increase in engineering was due to a reduction in engineering costs charged to cost of sales in support of contracted engineering services. Those resources were directed to the continued development of our ACT technology.



Sales and marketing expenses increased 19% to almost \$900,000 from \$755,000 in 2007. This increase was planned to support the development of the US market. Overall, we reported a net loss before tax of \$700,000 and a net loss after tax of \$594,000 for the third quarter of 2008, compared to net earnings of \$332,000 before tax and \$279,000 after taxes, respectively, in Q3 2007.

The net loss attributable to common shareholders was \$847,000 or \$0.02 per share compared to net earnings of \$109,000 or \$0.00 per common share in the third quarter of 2007. Firm backlog, which consists of firm fixed and signed orders, was \$53 million at quarter end compared to \$46 million for the same period in 2007. Of the 53 million in firm backlog, we expect to execute \$6 million in Q4 2008. In addition, we expect to execute 2 to 3 million dollars of awarded contracts in Q4 2008, of which a large component has now been signed.

Now turning to our balance sheet, at August 31, 2008 we had current assets totaling \$10.5 million and current liabilities of \$5.7 million. Working capital was \$4.8 million at quarter end. In the quarter operations contributed cash of \$220,000 and, for the year-to-date, \$556,000.

At August 31, 2008 we had borrowed \$1.2 million against our credit facilities, compared to \$822,000 at the end of fiscal 2007. Based on projections for the fourth quarter, we expect to reduce our utilization of these facilities. 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:

Focus of management continues to be on reducing the lumpiness in our quarter-over-quarter revenues, achieving profitability and growth. However, the current economic and political conditions, we are making a concerted effort to manage



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costs and be conservative in our projections. My management team and I are excited about the opportunities that we have in our sales funnel, but recognize the importance of being cautious in uncertain times.

With that, I'd be happy to take your questions.