OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2007

Audited Financial Statements

Independent Auditors' Report ................................................................. 1
Statement of Financial Position ................................................................. 3
Statement of Activities ............................................................................. 4
Statement of Cash Flows .......................................................................... 5
Notes to Financial Statements................................................................. 6

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards ................................................................. 10

REPORTS REQUIRED BY OMB CIRCULAR A-133

Schedule of Expenditures of Federal Awards ............................................. 12
Notes to Schedule of Expenditures of Federal Awards ............................. 13
Independent Auditors’ Report

Board of Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited the accompanying statement of financial position of the OSU-University Multispectral Laboratories, L.L.C. (the “OSU-UML”) as of June 30, 2007, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the OSU-UML’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OSU-UML’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OSU-UML as of June 30, 2007, and its activities and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 11, 2007, on our consideration of the OSU-UML’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.
Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OSU-UML has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Oklahoma City, Oklahoma
October 11, 2007
STATEMENT OF FINANCIAL POSITION

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2007

ASSETS

CURRENT ASSETS
Cash $530,090
Accounts receivable 164,644

TOTAL ASSETS $694,734

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES
Accounts payable $356,172

UNRESTRICTED NET ASSETS 338,562

TOTAL LIABILITIES AND NET ASSETS $694,734

See notes to financial statements.
STATEMENT OF ACTIVITIES

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

Year Ended June 30, 2007

REVENUES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal grants and contracts</td>
<td>$640,265</td>
</tr>
<tr>
<td>Private source-PCDA</td>
<td>500,000</td>
</tr>
<tr>
<td>Commercial proposal writing</td>
<td>26,707</td>
</tr>
<tr>
<td>Other revenue: CBP</td>
<td>25,110</td>
</tr>
<tr>
<td>Commercial grants and contracts</td>
<td>20,976</td>
</tr>
<tr>
<td>Interest bank deposit</td>
<td>7,039</td>
</tr>
<tr>
<td>Rent income</td>
<td>3,200</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td><strong>1,223,297</strong></td>
</tr>
</tbody>
</table>

EXPENSES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation</td>
<td>682,821</td>
</tr>
<tr>
<td>Contractual services</td>
<td>102,194</td>
</tr>
<tr>
<td>Travel and entertainment</td>
<td>70,503</td>
</tr>
<tr>
<td>Professional services-accounting</td>
<td>21,481</td>
</tr>
<tr>
<td>Uniforms, clothing and access</td>
<td>2,335</td>
</tr>
<tr>
<td>Licenses, permits and certificates</td>
<td>1,015</td>
</tr>
<tr>
<td>Maintenance-buildings and grounds</td>
<td>975</td>
</tr>
<tr>
<td>Supplies</td>
<td>785</td>
</tr>
<tr>
<td>Office fixtures</td>
<td>660</td>
</tr>
<tr>
<td>Exhibit, shows and special events</td>
<td>600</td>
</tr>
<tr>
<td>Parking fee</td>
<td>522</td>
</tr>
<tr>
<td>Software</td>
<td>379</td>
</tr>
<tr>
<td>Newspaper subscription</td>
<td>135</td>
</tr>
<tr>
<td>Newsletters</td>
<td>104</td>
</tr>
<tr>
<td>Other miscellaneous charges</td>
<td>86</td>
</tr>
<tr>
<td>Registration agency</td>
<td>75</td>
</tr>
<tr>
<td>Donations and gifts</td>
<td>65</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSE</strong></td>
<td><strong>884,735</strong></td>
</tr>
</tbody>
</table>

CHANGE IN NET ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET ASSETS, beginning of year</td>
<td>-</td>
</tr>
<tr>
<td>NET ASSETS, end of year</td>
<td>$338,562</td>
</tr>
</tbody>
</table>

See notes to financial statements.
STATEMENT OF CASH FLOWS

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

Year Ended June 30, 2007

CASH FLOWS FROM OPERATIONS

Change in net assets $338,562
Increase in assets:
   Accounts receivable (164,644)
Increase in liabilities:
   Accounts payable

   356,172

NET CASH PROVIDED BY OPERATIONS 530,090

CASH AT BEGINNING OF YEAR -

CASH AT END OF YEAR $530,090

See notes to financial statements
NOTES TO FINANCIAL STATEMENTS

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: A sensor testing center known as the OSU – University Multispectral Laboratories LLC ("OSU-UML") is a nonprofit limited liability company founded in April 2006 for the purposes of research, development, testing, evaluation, validation, and verification of sensors and other technologies for use in chemical, biological, radiological, nuclear, and explosives: command, control, communications, computers, and intelligence for surveillance and reconnaissance, and other associated disciplines in support of the global war on terrorism, homeland security, and other related national security requirements for the benefit of the OSU-UML's sole member, Oklahoma State University (the "University"). OSU-UML receives and administers funds from Federal and State organizations and from private sources for the purpose of carrying on its business purpose. OSU-UML contracted with Applied Marine Technology, Inc. ("AMTI") to oversee and maintain its operations. On December 15, 2006, AMTI was acquired by Science Applications International Corporation ("SAIC" or "the Contractor").

Reporting Entity: OSU-UML is a component unit of the University, as defined under Governmental Accounting Standards Board ("GASB") Statement No. 39, Determining Whether Certain Organizations are Component Units.

Basis of Accounting: OSU-UML's financial statements have been prepared using GASB standards and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Cash Equivalents: OSU-UML considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable: Accounts receivable is mostly comprised of amounts due from the cost reimbursable and time and material contracts with the Federal government. Accounts receivable also includes an amount due for contract proposal writing and technical support.

Income Taxes: OSU-UML's business purpose related income is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.
NOTES TO FINANCIAL STATEMENTS

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2007

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2007:

- Rent from SAIC $3,200
- Due from Government Contracts 132,425
- Other Customers 29,019

Total $164,644

NOTE 3 – AMTI/SAIC CONTINGENT REIMBURSEMENT

The contract negotiated between OSU-UML and the Contractor for management and operation of the UML, does not allow for the OSU-UML to incur costs beyond excess revenue accumulated within the operating account. Certain expenses related to operating costs were paid by the contractor (AMTI/SAIC) during the fiscal year, however, these expenses do not become payable from OSU-UML resources until appropriate funds become available and only if they become available. The Contractor paid $1,350,758 in operating expenses in accordance with the contract. As funds become available and only if the funds become available, it is the UML's intent to reimburse the Contractor for those expenses from contractually available funds.

NOTE 4 – REVENUE-PRIVATE SOURCE

Ponca City Development Authority ("PCDA") approved a $2 million economic incentive grant for the OSU-UML center provided certain benchmarks are achieved during the first years of operation. The payment of the award is contingent upon the OSU-UML making significant economic impact in Ponca City, Oklahoma. The first installment of $500,000, upon meeting the first of four grant requirements, was received in December 2006; the remaining balance may be paid to the OSU-UML in annual installments of $500,000 a year over the next three years. However, the remaining payments totaling $1,500,000 are contingent upon meeting annual employment goals. While employment growth is attainable, unknown factors could affect the ability of the OSU-UML to meet the award's criteria.

NOTE 5 – OTHER REVENUE – CEP

OSU-UML has adopted a community engagement program ("CEP") whereby they provide information technological ("IT") services at a discounted rate to selected governmental entities and schools. They also accept requests for providing IT services to local commercial entities.
NOTES TO FINANCIAL STATEMENTS

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2007

NOTE 6 – RELATED PARTY TRANSACTIONS

OSU-UML is the wholly owned subsidiary of the University. It engages in research for the benefit and advancement of the University. OSU-UML receives funds from Federal and state organizations and from private sources for the express purpose of carrying out certain research programs of the University.

Oklahoma State University:

Nature of relationship – The University is a component of the State of Oklahoma (“State”) and is included in the basic financial statements of the State of Oklahoma. The University is a modern comprehensive land grant university that serves the state, national and international communities by providing its students with academic instruction, by conducting research and other activities that advance fundamental knowledge and by disseminating knowledge to the people of Oklahoma and throughout the world. The University, as a political subdivision of the State, is excluded from Federal income taxes under §115(a) of the Internal Revenue Code, as amended.

OSU has received state appropriation funding of $5,000,000 for infrastructure and related facilities for testing and evaluation of sensors and sensor technologies. OSU has earmarked the $5,000,000 for the OSU-UML. The appropriations provided by the State of Oklahoma have been appropriated and allotments granted by the Oklahoma State Regents for Higher Education to OSU and are not reflected on the OSU-UML financial statements.

Oklahoma State University Foundation (OSUF):

Nature of relationship – The Oklahoma State University Foundation is a not-for-profit corporation formed to promote and foster the educational, benevolent and scientific purposes of the University, and to create a fund to be used for any program, project or enterprise undertaken in the interest of the University, and to promote and foster educational and cultural interests in the state, southern and southwestern regions of the United States.

OSUF is governed by an independent Board of Directors who maintain no position at the University. Although the University does not control the timing or amount of receipts form the OSUF, the majority of resources or income thereon that the OSUF holds and invests is restricted to the activities of the University by the donors. Because these restricted resources held by the OSUF can only be used by, or for the benefit of the University, OSUF is considered a component unit of the University, as defined by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units.
NOTES TO FINANCIAL STATEMENTS

OSU-UNIVERSITY MULTISPECTRAL LABORATORIES, L.L.C.

June 30, 2007

NOTE 6 – RELATED PARTY TRANSACTIONS—Continued:

Effective December 1, 2006, OSUF and ConocoPhillips Company, a Delaware Corporation ("COP") entered into an agreement and the parties agreed to the following:

- COP donated, transferred, and conveyed unto OSUF the donor's R&D East facility (Ponca City, Oklahoma.)
- COP also agreed to contribute a total of $2,000,000 to OSUF for the financial support and renovation of R&D east facilities, payable $500,000 per year over four years. The initial contribution of $500,000 was received in January 2007. The balance will be paid over the next three years. The financial support provided by COP has been received by OSUF and is not reflected in the OSU-UML financial statements.

NOTE 7 – LEASES

COP and OSU-UML have entered into a ground lease agreement effective December 7, 2006 for 99 years for a sum of one dollar ($1) per year.
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Regents
Oklahoma Agricultural and Mechanical Colleges

We have audited the financial statements of OSU-University Multispectral Laboratories, L.L.C. (the “OSU-UML”) as of and for the year ended June 30, 2007 and have issued our report thereon dated October 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the OSU-UML’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OSU-UML’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OSU-UML’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.
Compliance and Other Matters
As part of obtaining reasonable assurance about whether the OSU-UML's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Fiscal Affairs Committee and Board of Regents, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Oklahoma City, Oklahoma
October 11, 2007

Cole & Reed P.C.
OSU UNIVERSITY MULTISPECTRAL LABORATORY, LLC

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

<table>
<thead>
<tr>
<th>Sub-Agency</th>
<th>Agreement Number(s)</th>
<th>CFDA</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>GSU CENTER FOR INNOVATION AND ECONOMIC DEVELOPMENT, INC.</td>
<td>N65236-06-P-2318</td>
<td>12.XXX</td>
<td>$68,430</td>
</tr>
<tr>
<td>GSU CENTER FOR INNOVATION AND ECONOMIC DEVELOPMENT, INC.</td>
<td>N65236-06-P-3615</td>
<td>12.XXX</td>
<td>$68,726</td>
</tr>
<tr>
<td>GSU CENTER FOR INNOVATION AND ECONOMIC DEVELOPMENT, INC.</td>
<td>N65236-07-P-4214</td>
<td>12.XXX</td>
<td>$59,551</td>
</tr>
<tr>
<td>QUICKSILVER ANALYTICS, INC.</td>
<td>CBIAC Task 597</td>
<td>12.XXX</td>
<td>$226,490</td>
</tr>
<tr>
<td>SPACE AND NAVAL WARFARE SYSTEMS</td>
<td>N65236-07-D-7878 DO#0001</td>
<td>12.XXX</td>
<td>$62,208</td>
</tr>
</tbody>
</table>

Total Department of Defense $485,405