

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Electronic Control Security, Inc. (EKCS.OB)



ARTHUR BARCHENKO is Chairman and CEO of Electronic Control Security, Inc. A few years after Mr. Barchenko implemented his plan to increase the revenues of Lightolier, Inc., from \$35 million to \$56 million in five years, he opted to take his experience, creativity and innovative mind to another level. He co-founded Bajer Industries, a manufacturing company of lighting products. In 1976 Mr. Barchenko also founded ECSI Industries, an HVAC company that evolved into an international security and anti-terrorism technology systems company. His management and marketing experience contributed to ECSI's current success, which includes an international list of government agencies and commercial/industrial clients.

SECTOR — AEROSPACE/DEFENSE

TWST: Would you begin with a brief historical sketch of ECSI and a summary of what the company is doing?

Mr. Barchenko: ECSI is a 32-year-old company. It was started as a company principally developing HVAC technologies to support the commercial/industrial market and over time developed core technologies that are particularly applicable in the security and anti-terrorism market. Today ECSI is a leading provider of perimeter, surveillance and entry control technologies, offering secure solutions to governments and commercial clients around the world. We manufacture a wide range of advanced security technologies, including bollards, barriers, lift and sliding gates, traffic control and signage, access control, intercom, CCTV, license plate recording, RFID vehicle tag, situational awareness cameras, fiber optic and IR perimeter detection, etc. We also provide the systems and services that facilitate the integration with legacy and government-furnished equipment. We're proud to support an environment where people, businesses and governments are more secure because they are protected by uncompromised technologies effectively applied to address the specific threat.

TWST: What's the competitive landscape like? What are your competitive advantages?

Mr. Barchenko: The competitive issues in the security market emanate from the number of small and large companies that manufacture various technologies, and market through dealer installers and/or system integrators. The technology manufacturers in most cases leave the application up to others. ECSI's competitive advantage is in its people as well as its technology. The technology speaks for itself, but the understanding of how to apply the technology, and integrate legacy and gov-

ernment-furnished equipment — GFE — at a given facility to effectively address the threat and cost-effectively protect the assets is the key to our advantage. Further, ECSI offers a full range of support services to the system integrator, including site survey, threat and vulnerability assessment, risk mitigation, design, engineering, factory assembly, testing and supervision during construction, testing and commissioning the system, training of personnel in the operation and maintenance of the equipment.

TWST: Who else is doing this?

Mr. Barchenko: There are different competitors that provide different pieces of a security solution. There are companies that sell a database component, then there are card access and biometric companies that sell solutions to capture information about individuals and verify their identity. And there are systems that are used to issue those credentials once the identity of the individual has been certified. There are companies that manufacture CCTV integrated systems, bollard, barrier, gate and traffic control manufacturers, various manufacturers of perimeter detection technologies and so on. When it comes to the integrated site specific solution provider affording single-source responsibility, we feel that ECSI offers the most professional and cost-effective solutions.

TWST: Would you discuss the opportunities that lie ahead and the general industry outlook?

Mr. Barchenko: The issue of securing the assets of the nuclear power stations both in the United States and overseas is first moving into a proactive phase. Since ECSI supplies its technology to 70% of the nuclear power stations in the states, we believe this market alone offers the company major opportunities in the years ahead. Some \$20 billion will be invested in upgrading and constructing nuclear power facilities in the years ahead. This, coupled with our strength with the large system integrators

such as Lockheed Martin on Department of Defense programs, our Department of Energy customer base, overseas opportunities in Egypt, Saudi Arabia, Korea, China and Central America through our dealer-installers and representatives, we feel very confident going forward.

TWST: How is the federal government addressing homeland security and funding now as opposed to the early 2002-2007 period?

Mr. Barchenko: The homeland security program is finally moving into a more definitive phase with the funding necessary to implement the solutions required for the various assets, including critical infrastructure. Further, the federal government is attempting to mandate a series of standards and capabilities while requiring the states, of course, to step up and partially fund the initiative themselves. But the overall objective, which is to increase the security in the United States, is something that we support. Other countries are also developing standards for more secure ports, airports and borders, thereby extending ECSI's opportunity to provide value-added technology solutions in these markets as well.

TWST: Are there any possible challenges that might worry ECSI over the next few years?

Mr. Barchenko: The first challenge to the company principally relates to the management of what has typically been a long sales cycle to support our customers' interest in collaboratively assessing the threat, developing risk mitigation scenarios, designing the solution, deciding on and then issuing a contract. So the sales cycle is one issue. The second issue is since we focus on government and industrial customers,

capabilities as a solution provider, which includes not only technology and quality manufacturing techniques, but also provide the support services and solutions required to effectively address today's threats. Our objective is to support government agencies and private corporate entities by more effectively and more efficiently implementing the security envelope. Those are a few of the key elements of our future plans.

TWST: What would you reasonably expect ECSI to look like in about two or three years?

Mr. Barchenko: I think you can expect ECSI to grow in terms of its top-line revenue as some of our newest products and related programs ramp up, and as we incrementally expand our core programs. I think you can also expect ECSI to improve its profitability performance as we refine our cost model, and also as we get incremental profit improvement that comes from the growth of our revenues on top of our existing fixed-cost base.

TWST: Will your technology have advanced much in that time period?

Mr. Barchenko: Sure, we are working on innovating our core technologies, which is infrared intrusion detection, fiber optic intelligent detection technologies, pan tilt zoom CCT camera systems, anti-piracy technology, entry control systems, etc. We take a layered approach by integrating the best overt, covert and forensic techniques that are available in creating security system design solutions. In every case where we are able to, we integrate the customers' legacy and GFE technology into the solution.

TWST: Would you indicate some year-by-year milestones

"We have recently renewed our leading role as the security supplier for the U.S. Department of Defense, nuclear power stations and homeland security. Most recently, we've seen expanded opportunities in Ethiopia, Korea, Nicaragua, Italy and in Egypt, and we have also announced a very large program to support the Nuclear market in China."

our revenue profile is often fluctuating on the basis of the timing of program rollouts and the aggressiveness of those rollouts.

TWST: Tell us about your corporate culture and how you recruit, train and develop employees.

Mr. Barchenko: The corporate culture at ECSI is principally a culture of innovation and customer service — innovation in the sense that creating a secure but normal environment for employees, visitors and trade people at a government and/or commercial/industrial facility takes a lot of collaborative effort and energy, working with various members of government agencies and commercial/industrial management, security directors and security consultancies, as well as other partners that might be teaming with ECSI in providing the solution. Core competency in technology, engineering and project management is critical for achieving our mission. Customer support services is particularly important to ECSI because the individuals we are supporting either in our partnerships or in our government agency and private sector relationships have significant responsibilities to secure their assets.

TWST: What are the key items on your strategic agenda as you look out over the next two to three years?

Mr. Barchenko: Our first objective is to build a profitable base of operation for our business and to strengthen the overall financial infrastructure of the company. I have been focused on improving our gross margins while reducing recurring SG&A and making selective strategic investments in research and development, and personnel. The other objective for us is to move ahead and implement our end-to-end

that you may achieve over the next two to three years?

Mr. Barchenko: With respect to the financial milestones, I really won't comment on those, as we prefer not to provide financial guidance. But I think that there are important strategic milestones that can be discussed. Those milestones typically relate to our efforts to broaden our market in the United States as well as in Eastern Europe, Africa, the Middle East, Asia and Latin America. Those are important milestones for followers of the company to watch, and those are critical elements of our growth plan.

TWST: Would you tell us about your background and expertise, as well as the backgrounds and expertise of one or two of your key colleagues?

Mr. Barchenko: My background is in growing intermediate and mature businesses with a strong orientation to strategy, sales and marketing. I've worked in this capacity in both large-cap and small-cap startup companies. My colleagues, who are particularly critical to the future of the ECSI's organization, are individuals who have a great deal of expertise in understanding and applying the underlying technologies that we use in the development of our solutions. These would be either our digital and analog technologies used to develop our integrated solution capabilities, or our material experts, who develop and design the manufacturing processes technology for the technologies themselves. This is principally the means by which we deliver the value of the company.

TWST: How do you go about setting your goals and strate-

gies for the company?

Mr. Barchenko: Within ECSI, we implement a collaborative strategy-setting process, which we administer, as you might expect, on an annual basis, updated quarterly on a projected-versus-actual basis and reviewed by our board of directors. I would summarize the management philosophy and structure of the company as collaborative and goals-based.

TWST: Do you feel the investment community has focused on the proper things in assessing the company's value?

Mr. Barchenko: The answer is no. On the other hand, it's always hard to make an assessment as to whether or not your investors are interpreting value proposition and expectations for value creation properly. I think that ECSI as a corporation has seen a significant decline in its equity value, like many companies, whether rationally or irrationally. I believe the investors in ECSI have been looking for the company to grow through a number of new programs that have been delayed in their implementation. We are working to speed the implementation of those programs, and we think that the recent activity will be viewed with great enthusiasm by our investors.

TWST: What does your universe of shareholders look like today? Do you see that mix changing?

Mr. Barchenko: As a small-cap entity, we have a fairly high concentration of large holders who are interested in what I think is a fundamental revenue and profitability momentum opportunity within the company, supported by our interest to drive profitability into the business through the management of cost and improved gross margins. I don't think fundamentally the investor mix will change significantly, although I am certainly interested in exposing new investors to the current ECSI story and offering them the opportunity to participate.

TWST: Do you see any need to improve the company's capital structure?

Mr. Barchenko: The answer is yes, but we do not believe we are in a position to achieve that objective until we pay off our convertible debenture holders and have our assets released. To that end, we have financed the company from within through director, officer and employee loans, and now profitable sales growth. The company has a strong and committed team that understands the economic situation, the company's potential and cash management required to grow the company out of the position we have had to deal with for the last two years. We have adequate liquidity to fund our growth plans and see our organic business strategies to be well supported by the existing capital structure and cash flow.

TWST: What would be the two or three best reasons for a long-term investor to look very closely at ECSI?

Mr. Barchenko: I think probably first and foremost would be an interest in an investment opportunity oriented to the market that we address. We address a market that has a fundamental growth characteris-

tic associated with governments and commercial/industrial facilities around the world that implement secure entry control and perimeter solutions. The issue of security is becoming absolutely critical, and ECSI is a wonderful way to play in that arena.

TWST: How would you feel about the company being acquired by a larger entity? How would you feel about possible mergers and/or acquisitions?

Mr. Barchenko: I think as a target of an acquisition, ECSI offers a potential buyer a series of different values. The way that our board of directors would look at that opportunity would be the same way any other public company board would. And we would evaluate those opportunities if and when they were presented in the best interest of the shareholders. With respect to our M&A plans, as an acquirer, we don't comment specifically on those plans other than to say that as we are growing our security solution technologies internally, there may be technologies that we find that could more rapidly be implemented and integrated within the company through an acquisition process. And we'll certainly consider those alternatives if the strategy and if the opportunities are synergistic.

TWST: Is there anything that you would like to add?

Mr. Barchenko: The only thing I would add is the company is focused on building our anchor and foundation customer relationships that we have in the company. We have recently renewed our leading role as the security supplier for the U.S. Department of Defense, nuclear power stations and homeland security. Most recently, we've seen expanded opportunities in Ethiopia, Korea, Nicaragua, Italy and in Egypt, and we have also announced a very large program to support the nuclear market in China. So we have a very strong foundation of customer relationships and also a strong pipeline that we think will be an impetus for the growth of the company in the future.

TWST: Thank you. (KL)

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