



# CEOCFO

## Interviews & News!

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### With Newer Engines Heating Higher To Create Greater Fuel Efficiency And Drones Traveling Into Outer Space Experiencing Extreme Temperatures, nCoat Is Providing A New Nano Technology Solution To Meet Those Higher Performance Needs At A Level Never Seen Before



Materials  
Specialty Chemicals  
(NCOA-OTC: BB)

nCoat, Inc.

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**Paul S. Clayson**  
Co-Founder, Chairman and CEO

#### BIO:

Mr. Clayson has been a business owner, global strategic planning expert, financial and investment strategist, and political advisor for the past 25 years. He currently

serves as a Director and equity partner of an award-winning diversified environmental nanotechnology company. Previously, Mr. Clayson managed congressional campaigns and served as Chief of Staff to two U.S. Congressmen and as a lead advance agent to two U.S. Presidents. Mr. Clayson served as senior management and operations officer for three prominent institutional investment advisory and research firms in Portland, Oregon, substantially growing assets under management and institutional research in those entities. He also served as senior officer for a Utah publicly traded software technology company where he developed global marketing, business, product development and finance strategies and grew the company from a R&D company to a globally commercialized firm with customers world-wide and development contracts with many of the worlds dominant computer, semiconductor, telecom and consumer electronics companies. Mr. Clayson has served as the Chairman of the State Economic Development committee for Governor Jon Huntsman of Utah and was appointed by the Governor to serve as the Chairman of the Utah Nanotechnology Initiative. He currently serves as Chairman of the Piedmont Triad WIRED Advanced Manufacturing Roundtable and as member of the Board of Directors of the Piedmont Triad Entrepreneurial Network.

#### Company Profile:

nCoat, Inc. is an emerging nanotechnology company with new nano-formulated and traditional coatings that make it an international leader in the development and marketing of coatings applied to metal, ceramics, fabric, and other materi-

als. The Company specializes in nanotechnology research, commercialization, and licensing, and develops and distributes commercially viable proprietary nanotechnology and traditional coatings products. At nCoat, we invite the world to "Innovate with us."

**Interview conducted by:**  
**Lynn Fosse, Senior Editor**  
**CEOCFOinterviews.com**

**CEOCFO:** Mr. Clayson, what was your vision when you founded the company?

**Mr. Clayson:** "My partner, Terry Holmes, and I had a knowledge base of nano technology formulations that were binders for coatings from previous industry work. We understood and knew the power of developing coatings material with source materials at the nano meters scale - both chemistry and solid particulates - and the exceptional performance premium that those nano scale materials brought to those products. We began to look at how to get these surface treatment materials into the market place. We formulated a science advisory board that was comprised of three stellar individuals with exceptional nano technology experience. They helped us formulate some coating products for industrial applications such as automobiles, aerospace, gas and oil, medical devices and other industries. We went out and acquired a very good coatings application company, introduced our nano products into their customer lines and grabbed higher market share because we were selling products with exceptional performance that was truly disruptive to the existing products on the market. That is what launched

us. We acquired our first company in October of 2005. We acquired our second company in June of 2007. A big part of our business strategy is acquisition of good coatings companies so that we can introduce a new superior line of products to their customers.”

**CEO CFO:** Is the coatings industry looking for new ideas?

**Mr. Clayson:** “It is a mature industry. People are paying for mature coatings solutions every day. The coatings industry itself has grown from \$9 billion to \$23 billion in six years, and the high performance coatings sector of that market is \$3.7 billion and growing at 12% annual rate. That growth is driven by technological innovations in multiple industries that create new heat management, corrosion and abrasion issues by using the new technology. As an example, with new technology innovations inside of common gas and diesel driven engines, and we are getting higher horsepower out of smaller block engines. We are getting higher fuel efficiency but typically, that means greater heat. The diesel trucking industry is focused on reducing the particulate output in its emissions to meet EPA mandated clean air standards. The new diesel technology that meets those standards increases both the heat and the corrosion that is running through diesel engines. We now have new aerospace drones that operate in sub orbit. These drones have thermal shock issues, meaning that in sub-orbit, they have extremely cold temperatures at those heights, which changes to extreme heat in a short amount of time when the engines fire to move the drone, creating thermal shock on drone materials. In other words, with the development of new technology whether it is in outer space or deep under the earth in down hole gas and oil pipelines, we are driving technology to new heights and deeper reaches and faster speeds. This creates a need for materials that can stand up to heat resis-

tance, corrosion resistance, friction and abrasion reduction, thermal shock and anti-porosity. Those are all extreme performance issues that are dramatically increasing. The industrial world is looking for higher performing solutions. What we have is this perfect storm where the need is increasing, we have new, emerging nano technology that meets those needs at a level never seen before, and we have a business plan that gets us to market very rapidly. That is why we are growing fast and have grabbed interest from around the globe.”

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**CEO CFO:** How is your technology protected; through patents?

**Mr. Clayson:** “We protect it three or four different ways. We have filed patents on our nano technology formulas, processes, and application equipment. We also hold some technology as trade secrets. If we cannot obtain a broad enough number of claims under a patent to protect it in the public domain, then we will hold that as a trade secret and our barrier to entry is market share based on our ability to get

those products to market. So, we will file patents, provisional patents, and international patents and hold trade secrets; those are the general ways we protect intellectual property. From an internal aspect, we protect intellectual property by limiting access to formulas and equations and processes to just a few people. We also have separate mixing and blending facilities for our formulations that are not accessible by either the general public or the general employee base.”

**CEO CFO:** What do you look for in a company to acquire?

**Mr. Clayson:** “This is a great question and is very key to our strategy. First, we look for companies with positive cash flow. There are over 600 small coatings companies throughout the US in the high performance coatings arena and no one dominant player. This provides opportunity for us to create a company of substantial size that is dominant in certain market segments. We research that broad base of 600 companies in the US, and by the way, over 900 in Europe. We have identified several criteria to reduce the broad group to a much smaller target list. After positive cash flow, our second criteria for a good target is it needs to have a strong diversified enterprise customer base. That is critical to our strategy because we are looking to go into a company that already has an enterprise customer base that we can take our new technology through the door and have it tested immediately. For example if we, as a young,

developing company, went today to General Motors, and said that we have the latest and greatest coatings technology, they would say terrific, set it over there in the corner in that pile and we will get to it in the next two to five years and test it. We then go through a rigorous testing schedule to determine if it this something they want to use and if the product can meet their performance warrantee standards. Rather than do that, if we acquire a company that already has GE as a cus-

tomers, and already have an engineering relationship with their engineers, we can go directly to those engineering contacts and with our next generation of coatings. The customer would already have a trust relationship with us, so they immediately begin to test immediately and we can drive those new products to market in a much shorter time. Therefore, it is critical to have a diversified enterprise customer base.

The third point is that the companies we acquire need to have a superior reputation in the marketplace. We are not acquiring for a turnaround play, and we are not a roll-up play - just buying anything that breathes. It has to be a strategic acquisition opportunity, with a stellar reputation so that when we walk through the door and say we have the next generation of coatings technology, it is believable and we do not have to repair our relationship with the customer base. Lastly, we like to have companies that have their own proprietary technology, their own coatings formulations or processes, because that adds to our intellectual property base. Often we can take existing formulas, reformulate the solid materials into formula, and the chemistry to be nano scale and develop nano scale processes, patent those formulas and take those back out to the existing customers. All of these points are key to our strategy. We also look for companies that we can buy at a industrial multiple rather than the technology multiple, because once we add technology and increase the market share, we can add to the valuation of our own company."

**CEOCFO:** Is the cost of your coatings a factor for the companies you are selling to?

**Mr. Clayson:** "It is. There are certain industries that are very price conscious, that have consumer products that are price sensitive, that are constantly looking for lower prices. We have to look out for that. There are other industries we will look in that have nice margins and they are just looking for the best solution and they are not so subject to price compression. We have some of both. If we offer superior technology and industry leading service, this will be less of a factor. To date, we have held our margins."

**CEOCFO:** I see a nice stream of contracts in your news releases; please give us an example of a typical contract and application for you?

**Mr. Clayson:** "We have two general market areas now that we focus on. One is original equipment manufacturers - OEMs - where our products are being specified and built into an end user product before it is sold or when it is sold new. Those could be in automotive, diesel engine trucking, motorcycles, recreational vehicles, snowmobiles, aircraft, and gas and oil equipment industries. The second market area is what we refer to as after market - that is people buying products for their vehicles that are not part of original equipment when delivered new. Aftermarket sales is a very active area for us as well. Our brands are very well known in performance racing circles, as an example, where we coat exhaust parts - everything from the manifold to the header all the way to the tip of the pipe. By doing this we can lower heat, reduce heat-soak from affecting other engine parts, reduce heat-soak from increasing under-hood temperatures, which lowers the density of the air and decreases horsepower. We can coat the inside of exhaust pipes where we are reducing the turbulence and backflow of air flowing through those pipes so the air flows quickly and smoothly out the pipe, providing greater performance. We coat internal engine parts with lubricating coatings - anti-abrasion, anti-friction coatings - that reduces the heat and increases the longevity of the working parts. As an example, we have our coatings on multiple National Hotrod Association (NHRA), NASCAR, INDY Racing League (IRL), and Formula-1 cars, and multiple additional racing circuits. We coat for the hobby builder who is building his 1968 Chevy Camaro RS in his garage on weekends and wants to take his headers off and ship them to us and we coat those and ship them back. Both OEM and aftermarket are very important to us and they are terrific markets. We are building the OEM side extremely rapidly. We are getting inquiries daily from new companies who are seeking higher performing products especially in the nano arena."

**CEOCFO:** What is the financial picture like today?

**Mr. Clayson:** "We currently have a burn. We have ramped up both our facilities and our infrastructure to be ready to acquire at a rapid rate. Our burn rate is lessening month by month as we acquire companies, consolidate expenses and raise revenues. We expect to be profitable next year. We expect to continue to do additional acquisitions. We have done some equity funding to support the burn. We have had a lot of investor interest in what we have been doing, we are a very unique and a very good story in the investment world, and we have had a lot of interest to support our financial picture."

**CEOCFO:** Why should potential investors be interested and what might they miss when they look at nCoat that should jump off the page?

**Mr. Clayson:** "We are a technology company that is bringing cutting-edge technology to a mature industry already paying a lot of money for solutions. Secondly, the performance of those products disrupts the existing product in our target industries and helps us drive higher market share. Thirdly, we have developed a business plan to get nano technology to market now. We are not a nanotechnology research house. Much of nano tech these days is still R&D, but we have commercialized products. In fact, we have an internal laboratory for R&D. Our mandate is we have thirty to ninety days to get a product researched and commercial or it is probably not a product that we want to do a lot more R&D on internally. We are focused on commercializing nano technology products and we have done that. We will have sold well over \$2 million in nano technology products in 2007 and we just introduced them in 2006 for the first time. Number four, our business plan focuses on growth from acquisition and organic growth."

**CEOCFO:** What should people remember most about the company?

**Mr. Clayson:** "I think that we have found a tremendous market niche and we have an excellent management group that is delivering to the business plan day-by-day and month by month. We are just having a lot of fun doing it. This business is a lot of fun. We emphasize that internally. Our corporate culture, which we train on continually, tells us that we need

to create satisfied customers, make money, and have fun in the process. That is our vision statement and we really live

that. We would like people to join in finding solutions with us. One of our slogans

is “Come and innovate with us.” We are having fun.”

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