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Protecting Critical Infrastructures with Technologically Advanced Fiber-Optic Security Solutions, Optellios, Inc., an American Owned, U.S. Based Manufacturer, is the Global Security Market Leader and has Experienced Significant Growth

**Technology
Advanced Solutions**

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**David Smith
CEO**

BIO: David is an industry veteran of advanced technology companies in the defense, commercial and homeland security markets and was appointed President & Chief Executive Officer of Optellios, Inc. in 2010. David brings a breadth of business management, operations and technology expertise, as well as strong leadership to Optellios.

David joined Optellios after serving as the Senior Vice President and General

Manager of EMS Technologies' Defense and Space Division. David also served as the CEO and Managing Director of Metal Storm Inc. Prior to his tenure at Metal Storm, Inc., David served as President and COO of SenSyTech Inc., Executive Vice President of Operations for Amphenol, and started his career at the General Electric Company.

David graduated from the United States Naval Academy with a Bachelor of Science degree in Mechanical Engineering and also holds an MBA from Syracuse University.

About Optellios, Inc.:

Optellios Inc., is an American owned, U.S. based manufacturer of fiber-optic security technologies located in Newtown, Pennsylvania. Since our inception in 2000 developing advanced technology for the Telecom Industry, Optellios is now the global security market leader delivering technologically advanced hardware and software solutions.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine**

CEOCFO: Mr. Smith, would you tell us what attracted you to Optellios?

Mr. Smith: At the point that I took this job I would consider myself a professional CEO in that three opportunities that I had before I came here was not by choice but it turned out that I went into companies that were in an extremes situation. I went into EMS Technologies the position I had before Optellios. The company had been stagnant for a very long time.

The corporation had a new CEO who was trying aggressively to grow the entire corporation and brought me in to grow at that time the smallest division which I grew into the largest division and then the entire corporation was acquired by Honeywell which is why I was available to take the position at Optellios in the first place. The thing that drew me to this company was that it was a very typical situation in that it had a robust and well designed product line that was very much in need in the security industry where we operate. The issue with the company was that the original owner/founder was a technology genius that had come out of academia and knew nothing about commercializing products or structuring a company to accommodate any kind of rapid growth. Even though the company had outstanding and well designed products, the company was floundering in the market and eventually the owner/founder left as a result of differences of opinion between himself and our venture capital owners. I came in knowing that the product was very robust and well proven. All of my expectations have come with regard to product success in the market now that Optellios has better commercialized the products and, as a result, the company is in fact growing very rapidly.

CEOCFO: What does Optellios create?

Mr. Smith: We create technologically advanced fiberoptic perimeter security solutions / systems that protect any type of critical infrastructure such as airports, military bases, nuclear power plants, water treatment plants and

chemical production and storage facilities. Nowadays with the global terrorist activities we protect any type of critical infrastructure with a fiber optic sensor that goes on the fence or can be buried around a facility that gives a highly localized indication that somebody is intruding into that parameter.

CEO CFO: Are fiber optics typically used in this manner?

Mr. Smith: There are several companies that do this. It is becoming more of a typical sensor because of its sensitivity to vibration as well as strain and changes in temperature. We also will be the first company to develop a fiber optic dual application sensor for the pipeline industry that performs two critical functions. It will do third-party intrusion, meaning if somebody is digging around the pipeline, or if there is any kind of fluid or gas leak, it will do leak detection because it very accurately distinguishes very small differences in temperature as a liquid begins to leak into the environment.

CEO CFO: How does the fiber optics accomplish what you want to do and are there other methods that can accomplish the same thing?

Mr. Smith: No there are no other methods. As I mentioned, if we put a fiber optic sensor on a fence, the minute that fence is vibrated due to somebody climbing, digging under or placing a ladder on it, the sensor will pick up that vibration and transmit it in the light until it is analyzed through a very complicated process. Then the system will produce an indication of where on the parameter the vibration or intrusion is taking place. With regard to leak detection it works the same way and picks up a very minute change in temperature (accurate to one hundredth of a degree temperature change), so it is very sensitive. If you have 75 or 85 degree fluid being pumped into a 50 degree environment it does not take long at all for that temperature differential to permeate far enough so the sensor can pick it up within minutes of the start of a leak. Fiber optic sensors have very sensitive characteristics

with regard to vibration, strain and temperature.

CEO CFO: Is your customer the owner of the facility?

Mr. Smith: We work primarily with what we call "prime integrators". An example of how these Integrators work would be a power generation company that just installed a very large power generation facility or perhaps a nuclear power plant. The end user would go to a prime security integrator and would have them design a multilevel security system. One critical aspect of a "total security system" would certainly include perimeter protection. Optellios works hard to educate and develop strategic relationships with many of the prime integrators, so that when they are contracted to design and install a total security system at any type of critical infrastructure, Optellios is their Perimeter supplier of choice. These long running relationships are very import in our industry! Boeing,

"Nowadays with the global terrorist activities we protect any type of critical infrastructure with a fiber optic sensor that goes on the fence or can be buried around a facility that gives a highly localized indication that somebody is intruding into that parameter."- David Smith

Lockheed Martin, Dibold, Next Gen and Honeywell are all examples of prime integrators we would team with and they would interface directly with what we call the "end user".

CEO CFO: How have you put Optellios on the map and how do you continue to encourage the use of your systems?

Mr. Smith: That has been a difficult thing because when I took the company over we did not have any type of a sales force at all. We had one sales engineer but we did not have an active team of professional sales people out selling the product. The first thing I did was identify and bring onboard a very capable and well-connected vice president of sales and marketing. He in turn built a regional sales structure inside of the United States and now we are in the process of qualifying and training manufacturing reps that have very special requirements. Many manufacturing representatives just sell products. The

ones that we have targeted to become part of our channel to market are the types of companies that sell a full-up system solution. The manufacturing rep companies will carry the Optellios product line as well as other security "system" products which allow them to act somewhat as an integrator themselves. They can design an entire system from a hardware/software perspective. They will represent all of the companies that they use to create and design a full security system and then they will provide that entire system to an integrator to actually be installed and commissioned. We also have a large OEM that is probably the biggest perimeter company in the world called SenStar and they did not have a long range fiber optic capability, so they decided to become our OEM partner and they have branded one of our products.

CEO CFO: Does the end customer know about the ability of fiber optics and how can you encourage that?

Mr. Smith: We spend a great deal of time educating and talking to end users and making sure they understand the positive aspects of our fiber optic perimeter protection systems. The ease and low cost of installation, highly accurate determination of the location of an intrusion, as well as the extremely low cost of ownership are some of the aspects that we focus on. We are using our regional sales force, our manufacturing reps and our OEMs to get in front of the specific decision makers across the security industry. We spend a great deal of time speaking with end users even though an end user may dictate that we deal with and work through their chosen integrator. Our end goal is to get specified or requested in an RFP directly by end users based on our upfront relationship development.

CEO CFO: Are there industries for specific area geographically where you would like a greater penetration or that you are working on?

Mr. Smith: Areas like state corrections and prisons all have fences around them and they are all very concerned

about people getting out and people from the outside getting in; so that is a very big area of opportunity for us. A big area that is aggressively entering our radar horizon is international airports. Every country, especially the US, has spent enormous amounts of money securing the terminal and securing the procedures to qualify and look at passengers to make sure that nothing illegal is carried onto an airplane. However, once you get outside the terminal at most international airports, there is very little security. That means most airports barely have a fence around them and locations where planes are parked, an enormous liability still exists. That is a huge vertical of opportunity for us. The world is continuing to develop refineries, chemical plants and pipeline infrastructure that, outside of the US, experience a huge theft issue and inside the US, intrinsic safety and environmental conditions become mammoth considerations. These are some of the larger areas of opportunity for Optellios.

CEO CFO: What about outside of the US?

Mr. Smith: Outside of the US the Petro Chemical industry is critical for us because of the fact that we are about to come out with a new product line that provides leak detection. Our long range pipeline products allow for long-running protection with one processor and there are not many companies that can put a sensor system in the ground that will run those distances at the price that we do it. Internationally the pipeline or Petro Chemical industry is one of our primary market targets.

CEO CFO: What challenges do you

see ahead and how are you ready?

Mr. Smith: The biggest challenge we have is world economics. Security, even with terrorist activity and world theft seemingly increasing and with the increased pressure being applied to different industries by the DHS, is still a very unfunded part of our world's critical infrastructure. Obviously if one is going to build a nuclear power plant they are going to spend most of their funds on the actual facility and they tend to put security measures in last and if there is any kind of cost cutting or cost overruns with the actual construction of the site itself, that generally prolongs or delays putting in appropriate security systems. We are very much tied to the positive or negative aspect of the economy over the world and what we try to do to combat that is to make sure that people understand the criticality of security and that they could spend literally hundreds of millions of dollars investing in a critical piece of infrastructure only to have it destroyed or compromised somehow by theft or terrorists.

CEO CFO: How is business these days?

Mr. Smith: Business is getting better. We tend to have slightly less business at the beginning part of the year as we tend to be part of the annual construction seasonal cycle of new facilities and then with existing facilities, they tend to wait until the springtime to start to think about and prescribe additions or upgrades to their existing security systems. Right now is the time when our business starts to pick up. We have probably grown the company 100% over the last two years. We did \$1 million of business in 2010, we did a little over \$2 million in 2012 and we are going to

do probably close to \$6 million in 2013 and then grow on from there in 2014. We have experienced some very significant growth.

CEO CFO: Why should the business and investment community pay attention to Optellios?

Mr. Smith: We are definitely a successful emerging technology. Using fiber optics as a security sensor is still fairly new to the industry. Our products are only five or six years old. The security industry is tending to grow and gain strength and continues to draw money from the government and money from large commercial entities that fund critical infrastructure. We are in fact a small venture capital owned company. We will probably be for sale in the next two to three years. That is one reason to pay attention to us. The second reason is that we are currently in the process a small cap raise because we have a number of very innovative product lines that are in research and development and we require a small amount of additional funding to allow Optellios to accelerate these product lines going to market. They are "game changing" product lines that can meet current requirements that are not being met today at all in the security market. I feel very strongly that Optellios now has all the potential to quickly become a \$30 to \$40 million company. We just need a little kick with some funding to get some of these very innovative products that are poised for market entry. We are a high return, short range investment opportunity and very shortly we will become an acquisition opportunity.



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