

JANUARY 9, 2006

# THE WALL STREET TRANSCRIPT

**Questioning Market Leaders For Long Term Investors**

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**THE WALL STREET TRANSCRIPT**

## COMPANY INTERVIEW

**BOGDAN MAGLICH**  
HiEnergy Technologies, Inc.

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# HiEnergy Technologies, Inc. (HIET)



**BOGDAN MAGLICH** is Chairman and CEO of HiEnergy Technologies, Inc. As an experimental nuclear particle physicist, he was honored for his discoveries and inventions by Presidents John F. Kennedy, Gerald Ford and the President of Switzerland. His discoveries and inventions prior to his work at HiEnergy include: discovery of omega meson, discovery of delta meson; neutron photometry (industrially produced); film-less spark chamber (industrially produced); and laboratory equipment: missing mass spectrometer, annihilation spectrometer; auto-collider (of accelerated particle beams). As CEO and Chief Scientific Officer of HiEnergy Technologies, Dr. Maglich has been the mastermind of technology strategy and development, while

continuously inventing. After obtaining his PhD from MIT, his scientific career started at UC Berkeley and CERN European Center for High Energy Physics in Geneva, Switzerland. He was Professor of Physics at University of Pennsylvania, Joint Faculty, Princeton-Pennsylvania Accelerator Laboratory and Professor at Rutgers University. He has performed experiments with his team at Brookhaven National Laboratory, Lawrence Berkeley National Lab, Argonne National Lab, and Air Force Weapons Lab, now Phillips Laboratory. In addition, Dr. Maglich has played a role in converting the Russian nuclear scientists from weapons to peaceful research, and establishing post-Chernobyl safety measures for Soviet reactors in Eastern Europe. Prior to his coming to MIT as a UNESCO Fellow, Dr. Maglich received a Master of Science degree from Britain's University of Liverpool and a Bachelor of Science degree from the University of Belgrade. In the period 1985 to 1987, Dr. Maglich was CEO and Principal Investigator of Aneutronic Energy Labs, Inc., which, in partnership with Bechtel Engineering, carried on a U.S. Air Force contract to design a space power plant for the U.S. Space Defense Initiative. From 1988 to 1993, Dr. Maglich served as CEO of Advanced Physics Corporation, which designed a miniature nuclear fission reactor for electricity production in collaboration with MIT and Kurchatov Atomic Energy Institute, Moscow. Dr. Maglich founded HiEnergy Microdevices in 1995, which became HiEnergy Technologies (HIET) in April 2002. In March 2004, Dr. Maglich was elected as one of the "50 Champions of Innovation" out of 1,650 candidates by *Fast Company* magazine. Dr. Maglich has been PI on six DoD contracts for the development of Stoichiometric explosive detection.

## SECTOR – SECURITY & PROTECTION SERVICES

**(ADD613) TWST: Would you give us a quick overview of the company?**

**Dr. Maglich:** HiEnergy Technologies is based on the position that we cannot fight 21st century terrorism with 19th century technologies. Old technologies that we still see today like X-rays, metal detectors and similar devices are based on 19th century science. As is well known, they cannot detect explosives, they can only detect "anomalies," things that differ from the norm, and then require workers to open the suitcase or package to establish whether or not it is explosive. We have

decided to use the most recent scientific knowledge about particle radiation using neutrons and gamma rays to decipher the chemical formula of hidden objects "without opening," that is without going to the lab, non-invasively, and instantly display the sign "this is explosive" or "this is not explosive." It is remarkable that not only can this new technology say yes or no as to the presence of explosives, but in most cases it can tell what type of explosive it is. In our test by the U.S. Navy, our sensor correctly confirmed the presence of explosives in 100% of the trials and further identified the specific type of explosive correctly in 80% of the trials.

**TWST: What is the technology?**

**Dr. Maglich:** The technology can be compared with radar. With radar, you send microwaves toward an airplane and these microwaves bounce back. From the time it takes them to come back, you get the distance and other information on the airplane. In our case, we send one type of radiation — neutron radiation — toward the object and it emits back a different type of radiation, gamma radiation. So, while in the case of the radar the same transmitted signal goes back and forth, in our case one type of radiation goes toward the object and a second type of radiation comes back. Then we analyze the second type of radiation and determine the exact chemical composition of the irradiated object as well as its weight.

**TWST: So, a whole different approach?**

**Dr. Maglich:** Yes, a whole different science; we call “Atometry.”

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***“We have decided to use the most recent scientific knowledge about particle radiation using neutrons and gamma rays to decipher the chemical formula of hidden objects “without opening;” that is without going to the lab, non-invasively, and instantly display the sign ‘this is explosive’ or ‘this is not explosive.’”***

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**TWST: Where do you stand in the development process?**

**Dr. Maglich:** We have developed two types of products for the market, and have made initial sales for both. One is the SIEGMA™, which provides “Atometric” detection of Improvised Explosive Devices or IEDs, which is the official term for homemade bombs preferred by terrorists. Two SIEGMA systems have been purchased by Philadelphia’s SEPTA, or Southeastern Pennsylvania Transportation Authority. In fact,

both units have been delivered and are being used in training runs with their Special Operations Response Team. The purchase by SEPTA’s police is motivated by the fact that almost once every day in the subways of Philadelphia, one finds an unattended suitcase, unattended bag or unattended box. According to new anti-terrorism regulations, if an unattended package is found in a public place, the public has to be evacuated. As a result, in Philadelphia, a number of stations get closed for one or two hours until the abandoned object is inspected. SEPTA is already losing passengers who are looking for other types of transportation because they are fed up by the enormous waits. It is because of this and the unique capabilities of our product that SEPTA police have taken the first step in ordering an entirely new product. We are sure it will not disappoint them; on the contrary, we believe it will open the way for other transit authorities in the country and in the world to order our device. Our SIEGMA 3E3 looks like an innocuous suitcase. It is brought next to the suspicious object, and from a safe distance the operator will get the answer whether or not the object contains explosives within one minute. The device works without any human intervention; even the duration of exposure is determined by computer. The computer decides to expose this object to neutron radiation for as long as it takes to detect the explosive with 97.5% accuracy. When this accuracy is reached, the radiator is turned off.

**TWST: So, it is a portable device. Will they have one for the system?**

**Dr. Maglich:** It is a portable device. They ordered two systems, both of which were factory accepted by representatives of SEPTA who were present in-house for our acceptance test. Since then, both systems have been delivered to Philadelphia. Factory acceptance means that it has

been demonstrated to work in the factory, but there is another test to show that it is workable in real-life situations in the field.

**TWST: How long is the trial?**

**Dr. Maglich:** Not exactly a trial. We have an agreement with SEPTA that provides for a cooperative period during which they will implement the systems while we provide improvements or changes to the SIEGMA design for the next six months. Such changeable products are called in the high-tech industry “beta systems,” that is, a system that is sold and is used but is still subject to changes according to the result it produces. This type of delivery is common with medical devices, where companies deliver novel types of medical devices like MRIs as beta devices to hospitals; hospitals pay for it, but there is a mutual agreement that improvements are to be made.

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***“Two SIEGMA systems have been purchased by Philadelphia’s SEPTA, or Southeastern Pennsylvania Transportation Authority. In fact, both units have been delivered and are being used in training runs with their Special Operations Response Team.”***

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**TWST: How much are these machines?**

**Dr. Maglich:** Depending on the configuration, the SIEGMA 3E3 costs about \$300,000 without the robotic vehicle. We offer such a robot-borne version, called STARRAY™. SEPTA, however, did not want the robot. They prefer the detector to be hand-carried, because there are difficult to navigate staircases in subway stations, and a robot would be inappropriate as it moves rather slowly. In contrast, in Saudi Arabia, both the Saudi police and the army prefer robot-borne systems. In July, we demonstrated in Riyadh the operation of such a robot-borne system.

**TWST: It’s a matter of local preference?**

**Dr. Maglich:** Yes. Saudis are more concerned about having stand-off capabilities and preventing casualties, and really they cannot be blamed. I may add that we did return with our system to make some improvements. While it did work in the shade, the Saudis wanted to see whether it also worked in extreme desert heat. And in July’s desert heat, the device was heated to about 135 degrees and did start misbehaving. In context, even advanced warfare systems and next generation vehicles have problems in that heat. We are developing a refrigeration system for a device that could work in the desert and are testing it in the Mojave Desert.

**TWST: So it is still in development.**

**Dr. Maglich:** Yes, the new refrigeration system is still in development and we are already negotiating a second demonstration in Riyadh.

Our other product, a van-borne system called the CarBomb Finder™ 3C4, is being built for the U.S. Army. They have purchased a head unit for \$330,000 to be integrated into its SmarTruck Vehicle platform. The CarBomb Finder 3C4 is normally delivered with a special configured emergency response van and a robotic arm that can extend 10 feet. At the end of the arm is our detector, or head unit, which is simpler in design than the suitcase model, and much lighter because most of the electronics are inside the van. The detector when deployed is placed above or below the trunk, hood or other suspect area of the car, and can determine within a minute whether there are explosives present. As mentioned, we received an order from the Army for the CarBomb Finder head unit and have already received partial payment of \$220,000 with the balance due after delivery, expected this February or March.

**TWST: That opens up that market as well.**

**Dr. Maglich:** Yes. It is difficult to estimate the potential of the military market. Nevertheless, all other potential users are sitting on the fence, per say, waiting to see what the results will be, how happy the first adopters are. If Philadelphia is happy with the two SIEGMAs they have purchased, then we may see orders from various other transportation authorities in the country and abroad, as well as airport operators, which have indicated strong interest. To date we have provided quotations for about 20 systems; however, it is difficult to define real numbers of orders we expect at this time. We also have received very strong, almost overwhelming interest from overseas distributors and integrators of security products.

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**TWST:** How long might that take to unfold?

**Dr. Maglich:** I don’t want to make predictions. SEPTA may be happy there within the first one or two weeks or it may take the full cooperative period. We have a technical support team in Philadelphia working from an office provided by them. From there, training and support is being provided under our ETAP program, or Equipment Technical Assistance Program. During the cooperative period, our personnel are accompanying SEPTA’s response team when there is an alarm, accomplishing both training and field testing simul-

taneously. I don’t want to venture now on giving you a date.

**TWST:** What is it that sets this product apart? Is it the technology?

**Dr. Maglich:** It’s the technology. It is the fact that we can tell what the object is, rather than merely that there is a suspicious subject. It can definitively determine whether there is an explosive, rather than merely triggering an alarm. No other current, viable system can tell if there is an explosive, and the false alarm rates are large and provide very little confidence as the press has disclosed. For example, in a minefield, the false alarm rate for explosive detection is 99% or more; it takes greater than 400 anomalies detected by a metal detector to find one real landmine. How about our airport security? How many anomalies are discovered before you find one explosive? Over the past 20 years, it has been reported that not one of the X-ray systems installed in 420 US airports has ever detected an explosive as such. They have detected suspicious objects, they have detected knives, they detected various “weapons,” but an explosive has never been detected. So what is the false alarm rate there? I would say it is closer to 100% than the 20% the TSA says it is. We have no idea as to how they arrived at their figure.

**TWST:** This will help eliminate that?

**Dr. Maglich:** Exactly. Yes, one can even call our system “the false alarm eliminator.”

**TWST:** What’s to keep anybody else from emulating what you are doing?

**Dr. Maglich:** Skepticism. It sounds too good to be true. The reason is that so many attempts made in the past, purporting to use nearly the same principle, have failed to get stoichiometric detection. I have been a researcher in nuclear sciences and particle physics for many decades, and have made a number of discoveries and inven-

tions in the field, but this one really is not a discovery of a new fundamental scientific principle but a hard core technology invention. The scientific background of the general principle we are using has been known for 50 years: you irradiate any material with neutrons and it causes the emission of gamma rays that includes information regarding the chemical composition of the material. Nevertheless, all attempts to make a practical device that gets a quantitative formula have failed. In 1989, a committee of the Department of Energy concluded that the approach was impractical, and all the funding stopped in 1990. I picked it up in 1996. At that time, I realized that new electronics and other technologies had rendered stoichiometric detection practical. Indeed, within two years we were able to demonstrate stoichiometric detection of explosives and drugs, cocaine in particular, both to the U.S. Army, U.S. Navy and U.S. Customs Service. We were able to detect and confirm for the U.S. Customs Service the presence of 10 pounds of cocaine hidden in rice. We have named our method stoichiometric detection by means of atomic particles — “Atometry.”

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***“The sales potential of our products is strong, based on preliminary indications. This is partly conditional upon a successful Philadelphia run which is so far going very well. The targeted customer base is very large and well funded. The amount of resources available to our target customers to invest in new technologies is demonstrably large.”***

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**TWST: It can detect things other than bomb material?**

**Dr. Maglich:** Yes, in effect, it can give you the empirical chemical formula of anything. If you look at a chemical formula, you have water, for ex-

ample, H<sub>2</sub>O; H-2 and O-1. So in water, there are two atoms of hydrogen to one atom of oxygen. The challenge is to tell atomic proportions; that’s why we call it “Atometry.” So our device is able to tell that number 2 empirically, without knowing it’s water. We irradiate water and our computer tells it is H<sub>2</sub>O. It has measured the ratio of hydrogen to oxygen to be 2 to 1. Now, in explosives, it is not enough to have a ratio of two elements; you need at least three. Explosives, like human beings, consist of carbon, nitrogen, oxygen and hydrogen. The problem is that thousands of innocuous substances, too, have all these four elements. To detect an explosive, it is not enough to tell that there is carbon, nitrogen and oxygen present. You need to know exactly in what proportion. So, the quantitative determination of the atomic ratio is the thing in which we have succeeded; “quantitative” is the key word. This is technology, new applied science, not new fundamental science. We are exploiting the known scientific principles with the new high-tech in a ground-breaking manner. If you talk about high-tech, nothing can be higher tech than our system; almost every component utilized is the latest generation and most advanced available. This gives us a great advantage over others that are attempting to replicate our successes. They will of course also have to contend with the years it takes to make a commercially viable product, which is an agonizing process that requires uncommon inventiveness.

**TWST: We’ve been talking about the explosive side of this equation. Is this product being used for other purposes now?**

**Dr. Maglich:** Not yet. We have made tests, but we haven’t advanced prototypes for other applications. Of course, there are numerous other applications that can exploit our technology. If you are from Wall Street, you would understand that

when we make a presentation to investment bankers, and we show how many potential applications the technology can have, they tend to discount us, asking that we focus on one core application. Yet, the same core technology with the complement of a sponsor and supporting infrastructure can effectively have dozens of applications. Bankers get a little nervous and say focus, focus, focus; they don't want to hear all of them even though the opportunities are there. There is an analogy that can be made with the discovery of the laser. The laser has brought so many applications, maybe 1,000 various types of lasers and applications. If the first laser had been presented to investment bankers with 1,000 applications, it would not have been funded, because the investment bankers would have said "it's too good to be true"—they want focus with determined results. We have necessarily had to focus only on bombs now, because of our limited capital resources.

**TWST: So you have focused your attention now. Is that going to be the strategy for the next year or two?**

**Dr. Maglich:** Yes, but we are seeking more funds, and we will seek additional funds to pursue the various other branches. Our basic concept is that utilizing the same core technology, we would like to equip each application with different infrastructures, ultimately creating a subsidiary of HiEnergy for each such application developed and upon maturity, spin each off in order to create value. So our business plan would call for the establishment of infrastructure essential for the promotion of new applications and the creation of funded subsidiaries for each developed application.

**TWST: If we look out over the next, let's say, 18 or 24 months, what are the benchmarks or milestones that investors should look for?**

**Dr. Maglich:** The first benchmark is satisfaction on the part of Philadelphia's transit police, SEPTA, which will trigger the next objective, which is to exploit pre-sales in the pipeline of approximately a dozen or so units and effectively manage the infrastructure and aftermarket organization to manufacture and support up to 100 units per annum. If all goes well, we would expect follow on sales and supplemental orders for multi-year maintenance and service contracts and extended warranties from most customers including SEPTA if the first deliveries and our ability to support them are satisfactory. Based on discussions with SEPTA for example, due to the size of its transit system and the demonstrated return on investment, they have determined the base need for four to six units. Again, SEPTA's satisfaction is a crucial milestone. The manufacturing for now has to be done under our own roof. Why? Because we have learned that the customer requires reconfigurations and design changes based on environmental or operational needs. The variables, of course, at one point must stop and become standardized. After that point, we should have accomplished standardized configurations sufficient to establish a fixed plant to produce up to 1,000 units per year, or to subcontract to an industrial firm.

**TWST: But, initially, you will do it yourself?**

**Dr. Maglich:** We do need to do it ourselves in the beginning. We have enough space here; we have leased additional space for the production of the first 100 units and have the option to more space. Luckily, our landlord, Bruce Del Mar, the avionics inventor of pressurized air cabin in planes and inventor of the cardio pacemaker, is very supportive.

**TWST: From what you said, it's the use of technology; you really haven't had to invent anything and have that risk?**

**Dr. Maglich:** No, on the contrary, we have had to invent a lot, but we didn't have to discover a new fundamental scientific principle.

**TWST: Invent, yes; discover, no.**

**Dr. Maglich:** Correct, there is no new fundamental science. It's well-known fundamental science combined with the newest and most innovative technical concepts and ideas.

**TWST: Proven technology?**

**Dr. Maglich:** Proven science, but before we came onto the scene, the technology wasn't proven. If the technology had been proven, we would have had many people doing the same. Now, we do have competitors that are getting more and more interested in the use of neutrons. The interest is increasing because already some people are testing neutron detectors of explosives, but not really using them in practice. It is not enough to say that you can detect explosives; it is about probability of detection. It has to be quantitative. If the probability of detection is 30% or 20% or 50%, that's not a detector. A detector has to be 97%-98% accurate. Otherwise, it's a gamble. In science, when you say a detector has a probability of 50%, that means it's certain to miss explosives.

**TWST: So the goal is to get Philadelphia to say that it works?**

**Dr. Maglich:** Yes, but more adequately that the tools suit the purpose and provide operational improvements.

**TWST: And then you can go from there.**

**Dr. Maglich:** Next, we will convince some of the fence sitters and seek trials or pilots with other major transit agencies in NY, Boston, DC, etc. With major agencies such as New York, it is expected that we will perform trials or participate in a pilot program. They have asked for us to send two devices but we decided to wait until success is achieved in Philadelphia. It makes sense. If you

expect to make some changes to the systems currently in the field, we would like to see them incorporated before going into New York. Next, we have an idea that I am exploring, which I call "The Security Technology Park" or "SecTech Park." This would be an outpost equipped with our portable "Atometric" SIEGMA and CarBomb Finder and other complementary security technologies, such as a X-ray or digital tomography machines that would provide training and education to the users, anyone from the police to the private security companies in hotels and so on. We would like to test the concept of this SecTech Park to make it really helpful to homeland security. Why? We have recognized a need to address the competitive forces between bomb squads and transit police, infrastructure operators and other security personnel. The idea is to broaden the amount of qualified personnel and technology resources to address a growing need for cost effective and timely response. Presently, some bomb squads are overwhelmed by new regulations and more frequent alarms caused by inadequate screening, and they can take up to two hours to respond to alarms and interrogate packages. I would like to see an expansion of resources dedicated and this may require a solution from the private sector. Calls do not come only from transportation; they are more frequently coming in from hotels, as very often hotels have unattended suitcases. We expect some political and psychological obstacles, but there is need for a more comprehensive approach. For example, dog handlers are emotionally attached to the dogs and the idea that a machine like ours could replace the dogs horrifies them.

**TWST: They don't want the animals out of business?**

**Dr. Maglich:** Yes. We understand that up to now dogs have been the only tried and true de-



tector. To make it more complicated, the dog handlers do not see the dogs merely as a tool; there are emotional ties. Philadelphia's SEPTA also uses dogs and recognizes their limitations. They opted for a complementary solution. Our systems in fact are being deployed by SEPTA in tandem with their K-9 units and we hope all bomb squads will recognize the potential of this combination. We have learned that in some transit systems the dogs mistakenly respond to the grease on subway car doors and other industrial compounds as explosives. Moreover, dogs cannot operate without a decrease in performance and reliability after an hour or so, when they start producing false alarms out of frustration for not having found explosives, and can be physically compromised by heat, exhaustion or distracted by the smell of other dogs or meat.

**TWST: Do you have the management team to support what you are doing?**

**Dr. Maglich:** The management team we have is small like the entire company. We definitely need enlargement and to secure more people at the management level we require more capital. We are seeking an additional \$2 to \$3 million to execute on our business plan for the next six months to make some essential personnel additions to manage our growth. But speaking of enlargement, we basically believe in the concept of a factory without walls, which means increased production capacity without office and plant enlargement.

**TWST: A virtual factory.**

**Dr. Maglich:** Yes, and we are outsourcing not only the manufacturing but some of the sales and marketing functions, too. We have been building a multi-level sales organization and already have agreements with various outside sales representatives, marketing organizations and resellers. This is exemplified by a strategic agreement with GTSI Corp. to deliver our products to GTSI's fed-

eral, state and local government customers worldwide. GTSI is one of the leading government technology providers and integrators and maintains a comprehensive collection of government purchasing contracts with sales exceeding \$1 billion in 2004. By outsourcing certain elements of production and sales and marketing, we are able to operate with a small team, the kernel of the organization; but not for too long. If we accomplish fast growth, we will need a significant capital raise to fully tap the potential of the invention. I would ultimately like an amount of capital, which may be as high as \$100 million, sufficient to exploit and diversify the technology into additional applications and add the necessary infrastructure to form and develop a subsidiary for each.

**TWST: But, that's longer term?**

**Dr. Maglich:** Longer term without the capital. With proper funding we could accelerate the evolution.

**TWST: If you got this funding coming, that will take you for six months?**

**Dr. Maglich:** Six months assuming no sales and some increases to operational expenses, which we estimate to be a worst-case scenario. But since we have confidence and estimate there will be sales, we'd expect to gradually become self-sufficient. By selling an average of two SIEGMA units per month, we should be self-supporting. At that point we would require only growth capital. We currently burn about \$280,000 per month without capital investment or equipment purchases. So, really, two SIEGMA units sold per month would balance out our operating expenses; three or more per month and we can fund our own growth.

**TWST: Are you getting attention from investors?**

**Dr. Maglich:** We are getting a lot of attention from investors. We have also received a lot of

positive press. The only problem is that the stock keeps declining regardless of some tangible achievements. For the last two years, we sold our stock in the \$0.45 to \$0.50 range and we believe, among other things, that the stock is under pressure from profit taking. We also have been on Regulation SHO list, an indicator of trading imbalances, or short trading, for more than a year. Let's just say we are looking forward to the day that there is enforcement by regulators. We were held down for quite some time with an SEC investigation. For more than one year and a half, potential action by regulators made it impossible not to enter into dilutive stock sales. Ultimately, the SEC investigation was terminated with a staff recommendation of no enforcement action. We did expect that our share price would appreciate since then, but accredited investors who had bought millions of restricted shares which was necessary for us to continue operations under the challenging circumstances, have been liquidating shares. We are working very hard to deliver appreciation for our shareholders and know that in order to surpass the depressing legacy of the past we need to demonstrate value by effectively executing our business plan and becoming profitable.

**TWST: If you were sitting down with potential investors, what three or four reasons would you give them to take a look at the company at this point?**

**Dr. Maglich:** The first reason in my opinion is that the sales potential of our products is strong, based on preliminary indications. This is

partly conditional upon a successful Philadelphia run which is so far going very well. Second, the targeted customer base is very large and well funded. The amount of resources available to our target customers to invest in new technologies is demonstrably large, with a homeland security budget now approximating \$50 billion annually. It appears that all governmental units should have access to the funding necessary to acquire our products if proven adequate. Third is the strength of our proprietary technologies and the fact that once fully exploited our success will not depend solely on the homeland security market. "Atometric" detection, as mentioned, has other applications and we are examining applications in the oil industry and medical diagnostics. The fourth reason recognizes our evolution and that after eight years of being just a bunch of scientists, we have evolved into an organization that has manufactured and sold products and has moved beyond the state of being just another R&D company.

**TWST: Thank you. (TJM)**

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