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COMPANY INTERVIEW

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Headwall Photonics, Inc.

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Headwall Photonics, Inc.



LARRY BARSTOW has served as President and Chief Executive Officer of Headwall Photonics, Inc., since the company's founding. As co-member of the founding team of Headwall, Mr. Barstow's vision and leadership have proven critical to the successful emergence of Headwall as the world's leading manufacturer of holographic diffraction technology. His role consists of the establishment of Headwall's corporate vision, building the industry's strongest team, and functional oversight of the

company. Prior to the management buy-out from Agilent Technologies, Mr. Barstow was the General Manager of the Agilent Holographic Grating Operation. In this capacity, he had operational responsibility for engineering, manufacturing operations and customer interface. Mr. Barstow has over 20 years of experience (16 years with Hewlett Packard/Agilent Technologies) as an executive in high volume design and manufacturing operations for products in the life sciences/medical and telecommunications industries. Mr. Barstow received a Master's degree in Engineering from MIT and a Bachelor's degree in Engineering from Cornell University.

SECTOR – SCIENTIFIC

& TECHNICAL INSTRUMENTS

(TAV610) TWST: Would you give us an overview of Headwall Photonics?

Mr. Barstow: Headwall Photonics designs, develops and manufactures optical subsystems that enable emerging applications in the life sciences, telecommunications and analytical markets. We specialize in building products with application-specific performance and our products are designed in as core strategic technology for a wide range of environments — from the bottom of the ocean to deep space exploration.

Headwall Photonics is a new venture but is a company with a lot of history. We're a startup resulting from a management buyout of an optical division of Agilent Technologies. Our technological strength and intellectual property, coupled with

our state-of-the-industry facilities, offer us unique competitive advantages in the marketplace. From a funding perspective, our investors saw the advantages of investing in a business with a proven management team, unique technology strengths with very limited development risk, a global base of diversified customers and the vision to bring this optical technology to new markets. We sell into rapidly growing markets and have an enthusiastic base of worldwide customers.

The roots of our company go back to a company formed in the late 1970s by the name of American Holographic. American Holographic pioneered holographic diffraction technology based on techniques similar to those currently used in semiconductor manufacturing. This rich legacy of engineering innovation provides unique capabilities when combined with the benefits of

three years of ownership and investment by Agilent Technologies.

During the telecommunications boom of the late 1990s, Agilent Technologies acquired American Holographic to provide strategic technology and enable significant revenue growth. Agilent invested in capital equipment and personnel to scale the operation and become a high-volume provider until the telecom market transition forced an industry-wide restructuring. So, with the management buyout that was effective early this year, we now have 20 plus years of technology innovation and strength with venture investment to grow our business and utilize our existing infrastructure. We are now a profitable startup business having achieved positive cash flow after two quarters, with a significant portfolio of intellectual property and capital assets which position us for strong growth without significant incremental investment. Headwall Photonics is a financially viable startup company with the capabilities, infrastructure and products available to assist its customers in the design and development of high performance high precision optical instruments and systems.

TWST: How similar or dissimilar are you to competing companies, if that applies?

Mr. Barstow: Headwall Photonics has a strong intellectual property position as well as an ISO9001:2000 infrastructure for high volume manufacturing. Our vision is to maintain our industry leadership position in the field of nanophotonics, and although there are number of different technologies in the marketplace, we are finding that there really isn't another technology that allows customers to achieve the precise application-specific performance that's required. Our products are engineered to very precise and demanding specifications, and our design and manufacturing

capabilities enable us to produce in high volume with very consistent quality. Our engineering capabilities and our ability to manage optical wavelengths allow us to diversify our product offerings across a broad spectral range enabling new applications. We provide products for life sciences, medical imaging, telecommunications, homeland security and process monitoring applications.

"Our products are engineered to very precise and demanding specifications, and our design and manufacturing capabilities enable high volume production."

TWST: Typically, who is the customer for Headwall's products?

Mr. Barstow: We have a wide variety of customers that typically engage with Headwall Photonics very early in the design cycle. If you look at our customer base, these customers range in size from Fortune 50 accounts down to small and medium-sized venture-backed firms. Customers use our products in many different applications — we have products on orbiting satellites, products in use by medical imaging companies and industrial applications. Headwall products are used in everyday manufacturing applications to measure such things as color. As an example, a number of companies are working with our products to investigate non-invasive medical imaging while other customers are working with Headwall to research the next genomic discovery. We are participating with a wide range of customers to define breakthrough technologies analyzing optical wavelengths.

In terms of our approach, we work with advanced engineering teams and program management teams developing new product applications or enhancements. Our customers participate in many

markets and have application expertise to interpret a spectrum of light for a specific analysis and they develop the software and algorithms that interpret the optical signaling. They look to Headwall Photonics for the optical expertise; this allows our engineers to provide opto-mechanical system designs that manage and align individual wavelengths with their light sources and optical detectors. Headwall Photonics' technology provides a clean, precise, optical signal for analysis and interpretation. Typically, we get involved with advanced design teams to help specify the spectrum of interest, the light source and the detector technology. Headwall Photonics provides application-specific engineering to model and design the best configuration to meet their needs — and our rapid prototyping capabilities allow our customers to bring products to market much more quickly. Our opto-mechanical contributions are highly valued by most customers, especially those with strong software and signal processing knowledge looking to third parties for opto-mechanical design expertise. Our goal is to help develop robust product designs and then ramp production volumes to meet market demand when the products reach the market.

“We work with advanced engineering teams and program management teams developing new product enhancements or new applications.”

TWST: Can you tell us about the two or three main products that you are working on now?

Mr. Barstow: I can't tell you about specific customers or applications because of the confidential nature of the advanced design efforts. In the life science market, customers are analyzing blood analytes to determine what information is

available in order to make a diagnosis. There is a tremendous amount of effort focused on non-invasive imaging solutions for life science applications. We also have a rich application portfolio ranging from airborne surveillance imaging for homeland security to vineyards evaluating sugar content in grapes for harvest to industrial customers that are evaluating metals composition for environmental and scrap analysis.

TWST: Focusing on that area alone, which do you think holds the greatest opportunity for you?

Mr. Barstow: If you look at our customer base, we have a rich legacy of imaging and engineering innovation, derived out of the analytical market, and we have many satisfied customers there. However, we see the greatest upside in the life sciences and the medical sector — this being driven by a number of trends we see in the industry, particularly, our smaller instrumentation enabling more portable, hand-held instruments, requiring higher levels of precision. Previously the market hasn't had the technology or the products available to allow for a whole scale move from laboratory environments down toward handheld, portable diagnostic instrumentation. These are the areas where the high level of regulation and requirements for environmental stability, quality control and process monitoring are well matched with Headwall's capabilities; these are the products that we are uniquely able to bring to the market.

TWST: What obstacles or challenges, if any, could present themselves to you in the next couple of years?

Mr. Barstow: When you are looking at this type of a technology, there are certainly hurdles of market acceptance. In addition, there are regulatory hurdles in the life science applications with

extensive validation and verification, which I don't think is an obstacle as much as it represents a delay until there is strong market growth.

Also, any new venture has to overcome the issue of market credibility and long-term sustainability. I think we're different because we are well capitalized to scale our operation and we are able to make investments in the areas that customers require. We provide a core strategic technology that customers value.

TWST: What are your thoughts about future partnerships or alliances?

Mr. Barstow: Partners and alliances represent a key component of our growth strategy as we look to complement our strong core competencies, products and capabilities. We want to maintain our leadership position in the design and development of spectral modules and spectrographs, and we are working with other partners through alliances to provide the other solution elements for end-user customers. For instance, we'll manage wavelengths and develop the optical instruments and we will work with partners to provide the best spectral analysis for specific applications. Today, we provide a key piece of a solution to customers. That's our strength and core capability, and we will rely on partners to work with us to provide other elements of the final solution in a wide range of products and market applications.

TWST: Do you see any need or opportunity to enhance your capital structure?

Mr. Barstow: We have started with a very solid business plan and financial resources. We are adequately financed for some time to come, based on our assessment of the market. As new applications come along, certainly the door would always be open to help us over a hurdle if there was something that required it.

I think the financing that we would seek in that situation would be to support specific customer endorsed technologies or applications.

"We'll manage wavelengths and develop the optical instruments and we will work with partners to provide the best spectral analysis for specific applications."

TWST: Can you tell us about the background and expertise of a couple of key members of your team? Then can you tell us about your own background?

Mr. Barstow: I am extremely proud of the team that we have been able to recruit and build. We have key members of our team who have extensive expertise with optical technology and its application across our targeted market sectors. We are an engineering-driven company — we have invested in strong modeling and design expertise that allows us to do application-specific designs for our customers and become an extension of their R&D teams. As a result of Agilent's investment, we also have very strong high volume manufacturing capabilities, having a great deal of experience in the manufacture of optical components and health-care instruments. We are also ISO-9001:2000 standard certified — a differentiator for Headwall. Our operational expertise is focused on automation, control, and ensuring robust quality. Myself personally, I worked for 16 years with Hewlett-Packard, which later became Agilent Technologies. I had worldwide executive management responsibilities in process engineering, manufacturing, and operations management. I bring strong operational leadership to our business. Our Chief Operating Officer, Headwall's other company Founder,

brings a very strong sales, marketing, business development expertise to Headwall Photonics.

Our strategy is to build upon the base of a very capable organization with very strong manufacturing methodologies and to grow the business by listening to our customers and making sure we're helping them generate new product offerings with opportunities for significant growth. It's quite exciting to be developing strong and effective collaborative relationships with many key accounts and helping them to bring new applications to market.

"We specialize in building optical products with application-specific performance for a wide range of environments."

TWST: As President of the company, what do you focus on most on a day-by-day basis?

Mr. Barstow: We position ourselves as being a customer-centric organization. And so our collaboration is really one of our key differentiators, obviously supported very closely by our application-specific expertise. My focus is to define the strategy and provide the leadership to achieve our corporate potential while maximizing the investment return for our investors and shareholders. A key component of this is assembling the industry's best team of executives and creating a culture of corporate empowerment and success. The culture of our company is really a key to our success. We have a lot of talented people and I work for them to maximize their chances of success through educated risk-taking.

We continually report the status of our progress through our corporate goals and make sure that everybody understands where we're going, why we're going there, what their role is in

helping us get to there and how well we're doing. I'm a strong advocate that a healthy culture enables great accomplishments in a company, and that's one of the first things we established at Headwall Photonics. We treat everybody with respect, give them the authority to make a difference and acknowledge their contributions; it's a very powerful tool.

TWST: What do you reasonably expect your company to look like three to five years from now and what might be a couple of the milestones you'll pass along the way?

Mr. Barstow: We have aggressive growth objectives for which we're well positioned and there are many viable opportunities. Profitable growth each year is a requirement. Our expectation is to be double our revenue within the first two years and then continue to grow. We want to make sure that our investors are satisfied and involved in our business planning. We will work to ensure that our customers see us as a viable and valued strategic partner and continue to use us as an extension of their R&D team. To do that, we want to be helping our customers and bring some compelling performance to the marketplace, which will enable profitable success. I want Headwall Photonics to be the company that defines success in the field of nanophotonics. We also want to earn the reputation as an organization with high integrity, with high ethical standards of business conduct. We want customers to be confident in our abilities and to believe that they can collaborate with us; that we'll help them achieve success and we'll protect the vital interest of both parties. We want to earn that reputation.

TWST: Do you have a balance sheet now that will allow you to do that?

Mr. Barstow: We are in good shape right now. We are profitable and our revenues are in-

creasing. We are pleased with where we are today; just six months after starting our new business, we are ahead of projections. We've hit the ground running, achieving 100% customer retention from our days as an Agilent entity. Now that we're actively selling ourselves as an independent, privately held company, customers are finding out we have a broader range of capabilities. So, yes, we're very optimistic. There is still a lot of hard work ahead of us but we've off to a great start and with all of our customers back and new customers in the fold, I think there is reason for optimism.

TWST: What does Headwall Photonics do to get its message out to potential investors these days?

Mr. Barstow: Customer acceptance of our technology, products and capabilities is the most important criteria for investors today. I think from an investment perspective, from a financing perspective, we are a very attractive investment opportunity for a couple of reasons. We have core technology with minimal engineering development risk associated with it and our capabilities and our application expertise is diversified across several markets: analytical, medical life sciences, and telecommunications. So in that regard, we're at significant advantage to a lot of companies such as those that are focused exclusively on the telecommunications space. We have a diversified, worldwide base of loyal customers. Our manufacturing

facilities are not typically found in a venture-backed company. Our infrastructure is the result of significant Agilent investment over a number of years, providing competitive advantage over many other companies in the industry. As you are aware, there seems to be a lot of funding effort in the life sciences and medical sector, and we are already there. That's something that will bode well for us.

TWST: Is there anything you'd like to add?

Mr. Barstow: Nanophotonics has the potential to fundamentally shape how business is conducted across multiple sectors — including medical diagnostics and homeland security. Headwall Photonics has a great opportunity to apply our unique, advanced technology to this very large addressable market. Headwall's corporate capabilities will provide for a period of sustained industry leadership in this field and allow us to enable new applications for a broad range of customers.

TWST: Thank you. (KL)

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