

# CEO Interviews

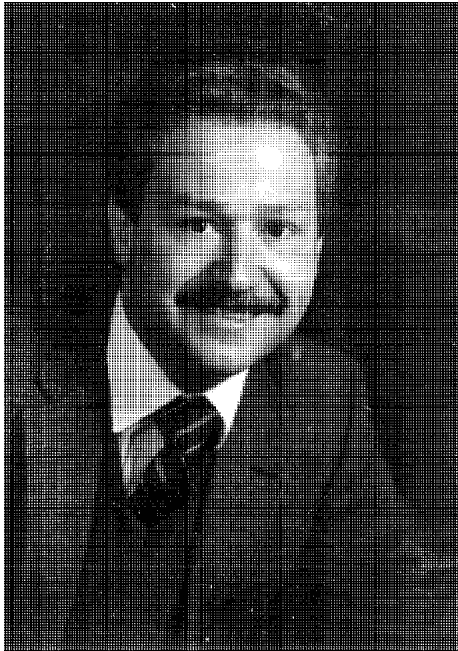
## corporate changes/trends

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## SAFKO INTERNATIONAL, INC.



**(YA604/02e) LON S. SAFKO is President, CEO and founder of Safko International, Inc. He has an extensive background in both engineering and computers. From 1976 through 1985, Safko designed some of the first engineering software to be used by Fortune 500 Corporations. He is credited with the design of one of the first artificial intelligent computer systems for the Department of Energy. In 1985 he designed the first voice activated environmental control system for the disabled. Since 1986, Safko has designed the SenSei System, a 'hands free' computer system for use by disabled persons. In 1986 Safko was appointed a Certified Developer of Apple Computers, Inc. Safko received the same certification from both NeXT and IBM. In 1988, as a result of the development of the SenSei System for the disabled population, Safko was the recipient of the Westinghouse Electric, National Entrepreneur of the Year Award. Safko attended Westchester College and Hofstra University.**

**(YA604/01)(7283) Lon S. Safko is President and CEO of Safko International, Inc., which develops, manufactures, and markets computer systems, proprietary hardware and software for the physically disabled. The company is the leader in the marketing of assistive technology for vocational rehabilitation, and total environmental control systems. Safko International's SenSei® System assists the severely disabled in the training and rehabilitation process and improves the overall mental and physical well being of the user. Safko International is headquartered in Tempe, Arizona.**

### Business Climate/Growth Prospects

"We see a very positive climate for our products. We've really structured our company, and objectives towards fulfilling some niche markets from the American Disabilities Act. ADA was implemented into law in 1992.

"Right now, the computer industry is in a major slump. A major computer company losing \$14 million a day is a direct indication. Because of our relationship with Apple, we have a very close working relationship. Apple is taking a very serious interest in vertical markets. They realize that a product such as the SenSei product, which we produce, enables Apple to sell 42 million computers into a market that would not buy computers in the past. So the industry trend seems to be, during the 90's, trying to develop vertical markets where they were not able to sell during the past decade. And, with the Americans with Disabilities Act adding impetus to the strength, because of the law, for corporations, for schools, and for individuals

to comply, Apple and Safko feel that ADA driven markets are really going to be the industry of the 90's, one of the strongest industries.

"We feel that our Safko International Company will be a leader in Assistive Technology over the next two years, and on into the next five year growth period. We project some significant sales for 1994 with Safko, and we just see that company as a company that will be the leader in our ADA compliance, and our ADA effort or product line, in an effort to deliver to the marketplace.

"Currently in the United States, there are 42 million disabled people, nobody realizes it's that high, but it's published by Hyattsville, Maryland in the 1990 census. But, 42 million driving this market and Safko International positioning themselves with no competition, and a product that's market ready; we're pretty excited about the size of this potential market. Every corporation in America with 15 or more employees having to hire physically disabled people there are going to be court cases to test this over the next few years.

**"We feel that our Safko International Company will be leader in Assistive Technology over the next two years, and on into the next five year growth period."**

**--Safko, Safko International, Inc.**

"Safko International has currently 23 products that we have proprietary rights to. The compilation of most of those products are put into one system, which is called the SenSei System. This is a Japanese term, meaning master or teacher. Essentially, it is 25 megabytes of proprietary software, as well as a piece of hardware which is proprietary which will plug into any computer on the face of the planet. We also manufacture input devices, or modified devices that allows disabled people, mentally disabled, physically disabled, and even severely disabled quadriplegics to utilize.

"For example, we have people right now without arms typing 48 words a minute just by moving their heads in front of the computer. The computer senses the position of your head, moves the cursor accordingly, and there is a small tube that comes down off of the head, a device you simply puff at, and the computer senses pressure differences. It's really amazing to watch somebody without arms typing 48 words a minute.

"In addition to that, it allows you to turn on lamps and appliances, change television channels, control VCR's, and CD players and any infrared hand-held device. In addition, it allows the user to raise or lower electronic hospital type beds, head, knee, height, up and down, nurse call alarms, but the most important thing is that we have taken disabled people from nursing home situations and actually re-employed them 40 hours a week, back into the workplace, which took them from being on the tax roles as a liability to society and placed them back as taxpayers.

"We're starting to see orders and sales coming to a point where we'll see some significant numbers in sales in 1994, and some big numbers in 1995 and 1996.

"ADA, in particular, is really a new industry and it's going to actually become an industry because of all the spinoffs. There are going to be a lot of changes throughout the rest of the 90's. Essentially, the ADA is going to provide the disabled with the same rights as the Human Rights Act did for minorities, blacks, Hispanics, etc. did during the 70's and gave equal rights to women in the 80's. We are going to see exactly the same type of test cases going through the Supreme Court, and actually companies strung up the flagpole, exercising these new laws. So, we think that with Congress, with two previous laws in two decades of practice, between Congress and the Supreme Court, I think it's really going to turn this into an industry. Because they are essentially enforcing America not to discriminate against the physically disabled.

"Our company is in a unique position because we have no competition. I still don't know why we don't have any competition, but I'm darn glad of it and we have actually got about five years of research and development on anyone else that's out there. I think we are going to take a very strong

that's out there. I think we are going to take a very strong market position with our particular product, because of our head start, and because of the philosophy that we took in the research and development. Five years from now, we are going to look back and realize that we were bright enough to see this is such a large prosperous industry. There are products on the drawing board that we're pretty excited about.

"In the last four years we have developed some very strong working relationships with Apple Computer. They have been doing a tremendous amount of cooperative marketing with no equity requests. As a matter of fact, they probably lent us over 1,000 documented sales leads, as well as helped us with engineering questions, and also Computerland International has been a very big supporter, because they see this as a way to sell more computers.

"In terms of acquisitions, joint ventures, mergers and partnerships, other companies related to the ADA industry would be of primary consideration for us, companies with technology that can be merged in, which would add to the relationship to Safko International."

#### R&D/Products

"R&D expenditures actually have been surprisingly low, but because we do almost all of the R&D in-house, we go right down to the chip level. We have a staff of engineers that are extremely knowledgeable. Over the last four years, total R&D has been remarkably low. However, now that we're in a more aggressive market position, we realize that we need to stay ahead of the competition. The vast majority of technology that we have now, and what we call the SenSei server, is now being broken out into individual spinoff products. We started with an original product just four years ago, we've spun off into 23 individual products. The other thing is that every time we go into a Rehab situation, or work with a disabled person, we get new ideas and new feedback for new products, and even sometimes the R&D is paid for by the client because they request the product for themselves, and then we retain the rights. A lot of our R&D actually has been paid for by potential customers.

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**--Safko, Safko International, Inc.**

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"Regarding our products, let's talk a little bit about Power Now. Apple came to us about four years ago and said, 'We're really excited about your technology. You can plug in this server and you can control 256 lamps and appliances, and answer the phone without using your hands, and controlling an electronic hospital bed, and you have auxiliary parts, as well as a built-in nurse alarm call.' They were pretty excited about the scope of this product. Then they came back and said, 'With our new power book series of Laptop computers, we're very excited about our new technology, and how it applies to physically disabled. We think every disabled person who runs an electronic wheelchair should have one of our power books mounted to the wheelchair, and they should have access to it. Even more importantly, we would like to have them be able to have access to environmental control, and telecommunications and all of the things that we take for granted in our offices and homes.' So we did, and this is how we are able to inexpensively spinoff new technologies, because with the SenSei server, as complete as it was, we were able to pull out some of the technology and, basically, within a 60 day period, we were able to build a box that was no more than three-quarters of an inch high, four inches wide, and six inches long, which does everything that I just described to you; full environmental control, telephone and infrared control, and it runs off of a 9 volt battery, and it goes underneath an electric wheelchair.

"So, we produced it and sent it over to Apple, their laboratories tested it and we just received thumbs up from Apple and approval, and we are just about ready to gear up manufacturing. The product is called Power Now. That's just one example of several on the drawing board; we probably have eight more products that are either in prototype or near prototype stages.

"We have patents pending on these, absolutely. I couldn't walk around Wall Street without patents. The company name, the SenSei product name, the disabled log that we have turned around, has been totally trademarked. The software, which is also kind of interesting, we have full copyright protection. We contacted the company that represented Apple in the Microsoft/Apple lawsuit, and we wanted to find out who the law firm was, because those are the people that we want to

talk about copyrighting our software. We figure let's talk to the losers in that lawsuit, because they're the ones that are going to be the most introspective, so I actually talked to the person who represented Apple and asked what they did wrong, and what can we do to avoid it. It turns out that when we filed the copyrights on SenSei products, we included 25 of the graphic screens, which includes look and feel, menus, graphics, mouse commands, as well as the technical information necessary to run the software. The United States Department of Copyright Division said no way, we're not going to approve graphics, we only approve text. It took one year and two months of continuously harassing them, and just out of total despair, they approved it. Essentially, what happened, we were awarded the first, in the United States, look and feel copyright. If you look at the actual definition, it appears to be more of a patent as opposed to a copyright, but it is a copyright. We felt it was a landmark case for us and the attorney's were quite happy with the way it turned out.

"The SenSei computer system to date has actually saved with the way it turned out.

"The SenSei computer system to date has actually saved two people's lives, and to me, to imagine that I can design a computer system that would save a person's life is pretty incredible. Specifically, what happened--as a matter of fact, the very first system, I'm also the inventor of the world's first voice activated computer. I pioneered voice recognition back in 1985 and had the first commercially available system for disabled. Briefly, a gentleman had a friend who's a quadriplegic, it's Thanksgiving and he invites him over to spend Thanksgiving with him and his family. They have a wonderful Thanksgiving. This takes place in Yakima, Washington. At the end of the dinner, he's wheeling the quadriplegic down his front stairs of his home in Yakima and loses his balance with the wheelchair, the wheelchair falls face first down the concrete steps, he goes over the top of the wheelchair, hits the back of his neck on the concrete steps and becomes a quadriplegic himself. The guy is in his late 40's, an engineer, and wakes up in the hospital, his money gone, his insurance has run out, his house repossessed, he lost his job and his wife has divorced him.

"Obviously, he woke up and found himself in intensive care and had nine months of very intensive rehabilitation, and over a three month period, all of those things happened in his life. Essentially, he realized he was a quadriplegic and his life is completely destroyed. His savings were gone, everything that he worked for his entire life. He tried to commit suicide and the only way that he could do that was refusing medication, medical attention, physical therapy, and refusing to eat. They anticipated that he had approximately three months to live. I put the system in the hospital, he wanted nothing to do with it because he pretty much had made up his mind that he was going to die. It was about one and a half months later I received a phone call from the hospital that I better get there right away, and so I went into the hospital and there he was sitting up in a chair for the first time. When I met him, he wasn't even strong enough to do that. When I walked over to him, even though he was a quadriplegic, diagnosed as paralyzed from the neck down, he reached his arm out from the blanket that he had on his lap to shake my hand and thank me. Within nine months he had a condominium over in Seattle and was doing engineering consulting. That's what has really motivated us to get started in this project and that's the kind of story we see every day, it's really exciting. By the way, the man who was being pushed down the stairs in his wheelchair was banged up pretty good, because obviously he went face first, but none of his injuries were life threatening."

#### Customers/Distribution/Personnel

"We've actually noticed a big customer change due to ADA. Again, back in 1985, if you asked anyone if there were any disabled people in the United States, they'd all say, 'I think there's three or four I saw once in a mall.' Nobody was really aware, or sensitive. Now, you can't even turn on a TV without seeing a wheelchair person model in a K-mart commercial, for example. K-mart uses them and so does McDonald's. So, we're seeing a really big change in public attitude towards the physically disabled. They are coming out in the open, where they should be. Out of the bedrooms, out of the nursing homes, and they're getting into mainstream America, where they truly belong.

"Our customers have changed quite a bit. Back in 1985/86, our primary customer was Rehabs. Currently, there are 7,683 rehabilitation hospitals in the United States. I thought that was a big enough market just unto itself. But now, with ADA driving all corporations with 15 or more employees, we are now seeing that corporate America really is our biggest customer because they want to begin to hire the physically disabled. We're currently working with Motorola, America West Airlines, Automobile Club of America, the City of Phoenix, and we're trying to sign on Dial Corporation to use our equipment through the State Department of Vocation and Rehabilitation to re-employ physically disabled.

"The market was always very large in the rehab and in the end user, then it moved over to the school systems, because schools, by law, have to provide equal education to all children, kindergarten through 12th grade, in spite of physical disabilities. How do you train a kid that can't hold a pencil, or open a book? Again, that's another one of our markets and then we saw it has even broken out over into Corporate America.

"We've been entertaining the possibility of doing strategic alliances with some other corporation, such as the Power Now, for example, was a request from Apple. Even though they didn't take an equity position in it, they just recommend this particular product. They're going to market it much more strongly, as if it were an Apple product itself. So, we see the distributor as being a strong base for selling our equipment. There also may be key strategic alliances between existing corporations, especially corporations that have distribution channels in place.

"Marketing geographically, with regard to the United States, we're very aggressive to cover the United States with distributors in each state and in some cases, a distributor will have more than one state. You get into the larger states, populationwise, and then we'll probably have two distributors in a state like New York, or in a state like California we have three. We still need additional distributors, and we will fill those niches, but we're very careful to select and qualify those distributors. We don't want someone that replies to an ad and says we'd like to be a distributor for you; send us your material. That's not really what we're about. We hope to have all 50 states covered with quality people. We want to get into the international market, and it's very easy now to foresee it with NAFTA, to get into Canada and Mexico. I have had very good success in Sweden and Norway.

"We have also had some interest in Ireland right now to distribute throughout the United Kingdom, and I've just recently talked about distribution in Canada, Italy, France and Germany. They're all watching us as a test case to see how it works, and now they're going to copy it. There are disabled in every country.

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**--Safko, Safko International, Inc.**

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"We're in a growth phase; our product, essentially, was just announced last week and we're building the company. The company in the next three years could employ 100 people. This includes the company, plus a distributor network which will have its own employees. This figure does not include consultants. If you figure the trickle down, I don't want to use that after the last administration, but if you look at the impact just from Phoenix, for example, we're using Motorola chips; Motorola is based here; that increases their production. We have three production companies assembling our electronic circuit boards. We hire people in-house to do the final assembling and testing. We hire software consultants, we have marketing consultants that just have come onboard. In addition to hiring people directly in-house, we also support a community or a network of consultants within our area, and actually, nationally."

#### **Margins/Earnings/Capital Spending**

"The additional product lines that we're developing now and others that are in the process of being completed, will generate a tremendous amount of bottom line profit to the company, as well as additional revenues. And software by nature is a very high profit product, your only overhead is R&D.

"We're projecting some pretty favorable earnings, but it would be difficult to make an accurate forecast this early in the game. A lot is going to depend on the market, in general. There are a lot of variables. We'd be very happy if we did 15 percent, and that's what we'll shoot for. Obviously, 10 percent is a nice achievable mark, anything better than 8 percent is something not to be ashamed of.

"What changes do I see ahead for capital spending? As a company, we're going to come to the market for secondary offerings to obtain the necessary expansion capital that we'll need, and acquisition capital. Obviously, as we get into larger acquisitions, there will be more cash required than a stock transaction. So, with all of that in mind, I think that's a question mark. I really can't answer that question intelligently. The software development is done through software programmers, who come out of college, or come to us with existing expertise.

"Externally, ADA is most of the market and the more regulations, the better for us. There's a lot of excitement in that. For us, it's a niche, the ADA involvement is a niche. The new health care bill that will be passed with the current

administration will enhance our industry tremendously over the next five years. I think we can triple and quadruple our sales over the next five years.

"And the other big thing that's actually nice is because of the computer being in such a slump, it made them take the time to look, and we really are the next market of the 90's, and they realize it's going to be in verticals. So, as the pressure continues to be put on IBM, Apple, COMPAQ, and other big players, they're going to take a more serious view at ADA applications, and applications such as that, which increase our support. So externally, I think the climate is excellent. Because it's bad, it's good."

#### **Stock Market/Long-Term Strengths**

"It's hard to assess the way the stock market has been evaluating the company because we're so new and we're just really getting into the market with the market makers that we want to make our market. We have seen a tremendous amount of excitement--more than anticipated. We anticipate doing a lot of what we've been doing in the last week, in Philadelphia and Baltimore, New York and Boston, and back to New York again. We're seeing an awful lot of excitement about the product itself. I think people are looking for something new.

"We're excited about SenSei because of its timing. Another example of timing is the American Disabilities Channel. There's a company in Austin, Texas, and I keep reiterating that we have the food channel, and we have the shopping network, and a comedy channel, why not a disability channel with 42 million disabled people in America. They currently broadcast 8 hours a day, and they're going to 24 hours a day, because of a grant due to AT&T and the Department of Agriculture. Oddly enough, they were granted \$3 million to go 24 hours a day. We're currently talking to them right now about putting together a 30 minute infomercial on our SenSei product. It will run four times a day, seven days a week, at almost no cost whatsoever, because of their support for our particular product, but also their desire to fill in air time. We want to be practical, but we're pretty excited about it. Currently, they have 50 million subscribers. The thing that is so impressive about it was that Brady was the keynote speaker in this tape and it was very impressive. It's a very moving scene. Now with the Brady Bill, and all of these kinds of things that have come to pass, it's interesting, it's exciting. It has that type of recognition that's driving it. Having the opportunity to be in an infomercial on that network would be very good for us, and it allows us with new products to filter those right into the same system, the same users.

"The strengths of Safko International that professional investors should look at are, first, there's truly a limited amount of competition in the SenSei concept. It would be easy for someone to say yes, there is competition, but in a real line item analogy of the two products, there's no competition. We have the only fully integrated system that does the myriad of accomplishment.

"We have to be as good, or better, and better priced, have the lead-ins, the ability to go get the business, and write the business, to make that the kind of company that we anticipate it to be. As a management team, we feel that we have all of those capabilities to go out and do that, and reach out and get the major accounts, and get the business that we need within the marketplace for Safko. We feel we have a very in-depth management team from experience. We've had varied experiences on the technology side; our staff of engineers and education, and being educated in engineering. On our side, from the top level management side of the company, we have years of experience in the business community, internationally and nationally. So, we feel we have a broad spectrum of talent that we'll achieve the goals that we're out to achieve.

"We have existing marketing support by other key players such as Apple, IBM, Computerland, and those are strategic alliances that are very important to us."

For CEO Interview--TWST On-Line Document YA604.

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