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Questioning Market Leaders For Long Term Investors

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COMPANY INTERVIEW

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NewMarket Technology, Inc. (NMKT)



PHILIP VERGES, Chairman and Chief Executive Officer of NewMarket Technology Inc., previously managed VTI from its inception. Mr. Verges is an experienced executive manager, with a track record in both telecommunications and high technology. He is a 1988 graduate of the United States Military Academy. His studies at West Point centered on national security. Accelerated for early promotion, Mr. Verges served with distinction as a U.S. Army Captain in a wide variety of important engagements, including

research and development of counterterrorism communication technologies and practices. Mr. Verges' early career after the Army included time in the Computer Sciences Research and Development Department of General Motors as well as experience teaching systems engineering methodology and programming to Electronic Data Systems employees from 1991 to 1995. Mr. Verges' first business startup experience was at EDS in a new division concentrating on call center technology in financial institutions. Later in 1995, he added to his startup experience at a \$30 million technology services business with the responsibility to open a new geographic region with a greenfield operation. Mr. Verges founded VTI in 1997

SECTOR – TELECOM SERVICES

(AFK612) TWST: We'd like to begin with a brief historical sketch of the company and a picture of the things you're doing at the present time.

Mr. Verges: The company is, for better or for worse, an incubator. And I say for better or for worse because the word incubator has often had a bad connotation. But we are in the business of continually launching emerging technologies to market. We set out on a plan in 2002 to continuously acquire garage and kitchen table entrepreneurs, invest in the ongoing development of their products and services, and bring them to market by selling them through an existing systems integration business where we are a certified partner with companies such as Microsoft, Cisco, and Sun. So the combination of those companies and

our micro-cap publicly listed business model have been the key to finding investment for emerging technologies as well as getting the first sales of them in the market. Where we are today after our first five years — we've grown from \$1 million in sales in 2002; we expect to report over \$70 million in sales this year and be profitable. We are aggressively beginning to publicly list our consolidated subsidiaries. The subsidiaries are emerging technologies that we've been developing. So, with publicly listed consolidated subsidiaries, we also have the opportunity to share with our shareholders the \$42 million in shareholder equity that we've developed over the last five years, which is made up primarily of our consolidated subsidiaries. And by publicly listing it, we can issue property dividends in the form of

stock in the publicly listed subsidiaries. We've just successfully listed our Chinese subsidiary, now trading under the symbol IICP on the OTCBB. And we've recently announced Letter of Intent agreements to list our Latin American subsidiary (OTC:PGNF) as well as our broadband wireless subsidiary (OTCBB:DMOI).

TWST: Would you give us one or two case histories?

Mr. Verges: China, being the one that's gone full circle, we started to develop the business there in 2002 and it took us until 2005 to get the first transaction done there. There are a lot of exciting opportunities in China, but you can imagine some challenges, particularly for a relatively small business, to break in. We started with the systems integration business, which makes up most of the revenue today. It's always important to start with the systems integration business because that lays down the channel for us to be able to deliver emerging technology products to the marketplace. We have entered into the telecommunication support services business. We have products and services to help with the billing and provisioning of telecommunications, and we have also entered into the Internet protocol television (IPTV) services. In fact, we just announced a United States market test of our IP TV product after the successful launch of a market test in Southeast Asia earlier this year. Today, our consolidated Chinese subsidiary, which is independently listed currently under the symbol IICP, will report over \$20 million in sales this year and reach \$40 million in 2007. We anticipate that it will break through to profitability in the first half of 2008.

TWST: How do you find the emerging technology that you promote?

Mr. Verges: We've done it the good old fashioned way and lots of elbow grease, primar-

ily doing the research and development and the market development ourselves with our existing staff. We're getting a little too large to be able to adequately maintain an adequate pipeline for future acquisitions. So we're now beginning to regionally and by business segment engage investment banking firms to help us. We have an investment banking firm in Southeast Asia that's helping us. We've got a firm in China, and we shortly anticipate announcing a firm in South America. So we're starting now to more traditionally develop merger and acquisition candidates by engaging the services of third-party investment banking organizations.

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TWST: How wide is the range of technologies that you develop?

Mr. Verges: We started five years ago with what we consider the three core technologies; Microsoft, Cisco, and Sun Microsystems. We have been able through merger and acquisition and organic growth to substantially expand that technological reach to include for instance, SAP, BAAN, Hyperion, Oracle, specifically Siebel. And some that perhaps are not as widely well known, yet still significant companies, such as Rhode & Schwartz, particularly in Southeast Asia. About half of our overall \$70 million in revenue that we anticipate

this year will come specifically from those systems integration services and the other half will come from the sale of new products and services that we've been developing.

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TWST: I understand that the work that you've done so far has already attracted a good deal of professional recognition.

Mr. Verges: NewMarket Technology for the last three years has been recognized in the Deloitte Fast 500, Deloitte & Touche's rating of fast growth technology companies. In the most recent year, 2006, for growth through 2005, we were recognized as the fastest growing technology firm in the State of Texas and as the fifth fastest growing technology firm in North America, which includes Mexico and Canada. We're very excited by the recognition, particularly being founders from Texas. We're excited and proud to be a Texas company listed for the first time in five years in the top five companies.

TWST: Are there any companies companies that are directly comparable to you?

Mr. Verges: That is a challenge for us right now. One of the hurdles facing NewMarket is market recognition. We are looked at many times by analysts in the voice over IP (VoIP) sector, but of course voice over IP is only a fraction of what we do and not probably the appropriate yardstick to hold to the company. We're also looked at as a systems integrator, but, again, most systems integrators sell incumbent lead brand technologies, which

is half of our business; but by holding that systems integrators yardstick to us, you don't measure the benefit of the emerging technologies that we're bringing to market. So I believe it will be important for us to succeed in the periodic independent public listing of our consolidated subsidiary emerging technology companies. Subsequently, successfully issuing to our shareholder dividends in the form of stock in our consolidated subsidiaries, the market will begin to stand up and take notice and recognize that we have established a new category.

TWST: Are there any other challenges or problems?

Mr. Verges: Some of the traditional growing pains. We are still largely an entrepreneurial company. I define entrepreneurialism as the plan and the ability to achieve goals, which appear larger than the resources that you have available to pursue those goals. We've grown dramatically from \$2 million to \$70 million in sales and we plan to continue to grow dramatically. We have forecast revenue of \$120 million for 2007. So a challenge that we face is successfully expanding our existing executive staff to be able to have the appropriate skill sets to help us. As I mentioned before, we're just now beginning to use outside investment banking help for our ongoing mergers and acquisitions. I anticipate we'll stub our toes a few times and not select the absolute perfect executive managers or the absolute perfect third-party investment banking firms 100% across the board and we'll have to go back to the drawing board on a couple of our selections and take a few hits along the way as we go through those very traditional growing pains of being able to support the ongoing growth that you previously established.

TWST: As you add to your executive staff, what kind of skills and attitudes will you be looking for?

Mr. Verges: What we're concentrating on primarily today is operational staff. As you might imagine, these past five years was largely me, myself and I at the executive level. In the last year, I've been able to bring on board some tremendous talent in the form of a Chief Financial Officer, particularly a Chief Financial Officer with experience and expertise on the capital structure side. So he is very helpful in mergers and acquisitions and the ongoing required financing to develop those companies that we acquire. We've, long term, been fortunate with our Controller, Lisa Hargraves, who is a tremendous operational finance person. We do have good operational support within the companies that we acquire, but usually that entrepreneurial operational leadership of the acquired companies has some holes in their experience base. So our number one priority right now is adding senior operational management that can help fill in some of those holes with the entrepreneurial management at the consolidated subsidiary level.

TWST: Would you tell us about your own background and expertise?

Mr. Verges: My education and early career goals were very public service oriented. I attended the United States Military Academy at West Point and served five years in the Army following graduation from West Point. I fully intended to make a career of that until my high school sweetheart, who subsequently became my wife, told me that she didn't think that was a very good idea. I looked for other public service jobs, but could not find one that met all our personal requirements, so I moved into the world of business. I was very fortunate to win a systems engineering job at Electronic Data Systems, EDS, founded by Ross Perot. At the time I went to work for EDS, they were looking for people with engineering background, not necessar-

ily software engineering, but more mechanical engineering because they had recently been acquired by General Motors. So I went to work for EDS and was sent to school for systems engineering. I moved up through the ranks there and had a number of jobs in hands-on programming upwards to project management and eventually into sales at Electronic Data Systems. In the mid-1990s, I had the opportunity to go to work for an e-business systems integrator and launch a new line of business for them and do that in a new geographic region until 1997 when I set out to found my own business, which was subsequently merged into what is today NewMarket Technology.

TWST: How has the specific training that you had at West Point been of use to you in what have you've been doing for the last 10 years?

Mr. Verges: I think my education was fortunate. As a young man, I went to West Point out of a desire to provide public service and, as perhaps a hot-headed young man, I went there hoping I would have an opportunity to travel abroad and forcefully meet my public service goals and objectives. I accidentally got a tremendous education not only in the management of violence, but also in social studies and in engineering; but most valuable to me today was the education and background that I got in planning and execution of plans, and the training that West Point provided was absolutely tremendous. I have not validated the statistics that I have repeatedly heard over the years, but I have heard that more Chief Executive Officers graduated from the service academies than any other university today, which I don't find surprising because of the emphasis on setting goals and objectives and planning for the operations to achieve those goals and objectives and rehearsing the tactics in order to follow through on

the operations to achieve those goals and objectives. I feel like there's not a day that goes by that some of the training I was very fortunate to receive isn't put to use.

TWST: Would you sketch out your strategic agenda for the next three years?

Mr. Verges: As I foreshadowed on some of our growing pains in receiving market recognition, I think it's vitally important to us to successfully lift our emerging technology consolidating subsidiaries and demonstrate to the market the key differentiator of our business plan. So that is our number one priority capital structure-wise in the ongoing development of the business; operationally bringing that talent on board to continue to support the growing mass of emerging technology operations that we have on board as well as supporting the organically growing systems integration business that we have. The next step beyond that is the parent company, NewMarket Technology, exiting the over the counter Bulletin Board and moving to a big board exchange. We will continue to list consolidated subsidiaries so that it will be difficult for the market to ignore the current undervaluation of NewMarket. It will be important for us to exit this exchange and move to a more regulated exchange. We have made some first attempts to that end. It is easier said than done, but we feel confident that we will achieve that objective of exiting this exchange and moving on to a big board.

TWST: How much of a problem is Sarbanes-Oxley for you?

Mr. Verges: Sarbanes-Oxley is certainly a difficulty. However, the difficulty that is Sarbanes-Oxley is part of our overall mantra as an emerging technology company that is concentrating on the opportunities that are created by the micro-cap markets. There is very little access to

investment capital for startup and early-stage development companies. In fact, in the 2005 report to the President of the United States from the Small Business Administration on the investment environment in the United States, there was a statement that indicated that there was little available investment for small and emerging development stage companies except from angel investors. The micro-cap public markets are a good source of early stage development capital. However, things like Sarbanes-Oxley as well as additional issues make that a challenging environment by creating what in some regard may be considered a cooperative of emerging development stage businesses. We mitigate that expense and the other challenges of being public for a number of companies. So our overall strategy for managing Sarbanes-Oxley is by being able to mitigate the expense and challenges of Sarbanes-Oxley by sharing them across multiple public listings of our consolidated subsidiaries.

TWST: What is the picture you're looking to see in three to four years?

Mr. Verges: The picture that I look to see will be NewMarket Technology on a big board exchange with several regional NewMarket publicly listed subsidiaries similar to our current publicly listed NewMarket China. I expect that you will see NewMarket Latin America, NewMarket Southeast Asia, NewMarket Eastern Europe, at least. You will also see several emerging technology-focused companies like NewMarket broadband wireless and NewMarket voice over IP. Now, under each of those companies, you will see additional public listings. So you will see, as I said, what in many regards may be considered a cooperative of publicly listed companies that take advantage of the cooperative for managing the issues associated with Sarbanes-Oxley as well as garnering investment

banking representation where small companies usually have a hard time getting investment banking representation, whether it's a cooperative or a much larger outfit. Most excitingly, it is creating what I believe will eventually be considered a new class of stock. One of the most exciting aspects of investing in a micro-cap company typically listed on the over the counter Bulletin Board or the over the counter Pink Sheet exchange is that if the company succeeds in its vision and grows from a concept to a small business, from a small business to a medium business, a medium business to a large business; the return on investment for shareholders can be tremendous; the pennies invested can turn into dimes, dimes invested can turn into quarters, quarters invested can turn into dollars. Now, the downside is that over the counter Bulletin Board exchange companies and over the counter Pink Sheet exchange companies do not have the same shareholder transparency that big board exchange companies like NASDAQ, the New York Stock Exchange, and AMEX. If NewMarket Technology is successful, which I believe that we will be, on moving to a big board exchange, we will still have over the counter Bulletin Board and over the counter Pink Sheet exchange listed companies as consolidated subsidiaries and those consolidated subsidiaries will essentially have to meet the transparency requirements of the parent company. So now investors will have an opportunity to partake in the tremendous return on investment potential of investing in an OTC or OTCBB company, but have the transparency of a big board exchange.

TWST: Would you tell us about the kind of atmosphere or culture that you've been developing within the company?

Mr. Verges: The culture has been very entrepreneurial, lots of creativity, lots of energy, lots of open-mindedness, and that culture will have to

remain, though we do need to bring in more finance and capital market specifications and more operational senior management experience. So the balance as we grow is bringing in the operational senior management experience and finance and capital market security, and maintaining an adequate entrepreneurial culture to continue to identify, mentor, and bring to market emerging technology opportunities.

TWST: Would you tell us about your approach to investor relations?

Mr. Verges: We take a very grassroots and proactive approach to investor relations. We try and communicate ourselves frequently. For instance, one of the practices that we implement is frequent shareholder letters, where myself or one of the other officers from the company will simply write a candid, detailed, sometimes very long, descriptive letter of our considerations on planned mergers and acquisitions and our challenges with market recognition and valuation.

TWST: What would be the two or three best reasons for the long-term investor to look very closely at NewMarket Technology?

Mr. Verges: The immediate reason is that even looking at us as a voice over IP company or a systems integrator, the company is significantly undervalued when compared to those few market comparables. So it is a good opportunity for a significant return just based on undervaluation today, in part because we're defined as a new market; in part because we're listed on the over the counter Bulletin Board exchange; in part because while we've had many successes, we've also communicated many objectives, which have sometimes been delayed. So, as we continue to deliver on some of those delayed objectives and move off this exchange, there is an opportunity for the company to have a significant increase in

share price just coming up to par with its comparable companies in the marketplace. Long-term, I believe that the biggest opportunity is to invest in this business strategy of combining traditional systems integration with the market introduction of emerging technologies. Thirdly, I would say that the large opportunity is this new class of stock that we're creating with the parent company listed on the big board exchange lending the transparency requirements of a big board exchange to the otherwise high ROI opportunities of the OTC and the OTCBB.

TWST Is there anything that you'd like to add, especially regarding strategies and long-term objectives?

Mr. Verges: I think what's important to NewMarket, in addition to our operational and financial capital market maturity, moving onto a big board exchange, and continued growth is proactively providing education to our shareholders and potential shareholders on the very different dynamics of the small and micro-cap markets compared to the big board exchanges and large capital markets. Most literature and education that is available for assessing and managing investments is based on the history of large cap companies and big board exchanges. There is not a good deal of experience on the very different dynamics of small and micro-cap markets. So we have begun in the last year to try and proactively go out and highlight some of those differences and give our sharehold-

ers and potential shareholders a direction for a very different type of research so that they can make better decisions on when and how to invest in small companies. In NewMarket, we believe that there will be both long- and near-term investment opportunities investing in the parent company when there is a plan to eventually issue dividends in the subsidiary companies will give a very good long-term investment strategy because there's a very traditional dividend objective of NewMarket. There are going to be tremendous near-term investment opportunities in our subsidiaries because little companies that may just be a concept or have a very small customer footprint today will periodically from time to time have benchmark and milestone successes, which will create some of the signature up and down volatility of the micro-cap markets and create in parallel tremendous return on investment opportunities near term in those subsidiary companies.

TWST: Thank you. (MC)

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