



ROPTOVER SYSTEMS

Executive Summary

January 14, 2007

Capital West Advisors Note:

This Sample Plan is a business plan that Capital West Advisors developed on behalf of a previous client. CWA business plans typically range from 40-80 pages in length depending upon the complexity of the business model. In addition, every business plan is accompanied by approximately 10 pages of detailed pro-forma financial statements. This business plan is for a sophisticated business model.

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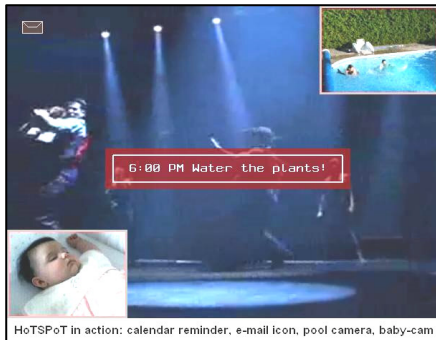
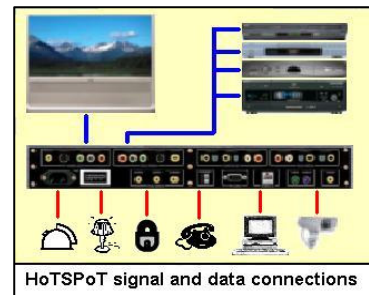
90-second video presentation:
www.Roptover.com/Pitch

COMPANY OVERVIEW

Founded in 2003 and headquartered in Los Angeles, California, **Roptover Systems, LLC** will leverage its proprietary patent-pending technology to establish a strong first-mover advantage and forge a lasting leadership position in the rapidly evolving home convergence industry. The company will offer a robust line of innovative consumer, commercial, and OEM products intended to synergize family video entertainment, personal communications, home security and safety, home office, parental control, and home automation technologies.

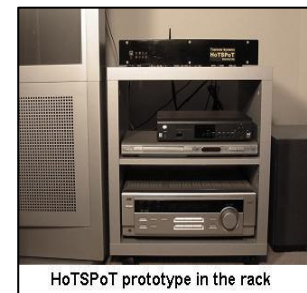
Roptover Systems has developed a compact, affordable, and scalable home convergence technology platform that makes it possible to control virtually every electronic system in the house through the family video entertainment screen and speakers. The Roptover solution organizes disparate home information streams into a single user-friendly interface and injects them

directly into video and audio signals that come from an operating TV/HDTV cable, satellite receiver, DVD player, TiVo or VCR. From the user's perspective, home controls and events present themselves on the home entertainment screen translucently or picture-in-picture style without changing the channel, switching the inputs, or pausing the video program.



- Internet, photo album, games & other PC applications
- Lighting, climate & other home automation controls.
- Images from surveillance cameras & "baby-cams".
- Video-chat for discussing live shows with friends.
- Visualized alerts from safety and security sensors.
- Mirror images of children's PCs for parental control.
- Personal calendar reminders, e-mails & messages
- Weather, news, stock info, & subscription data.
- Regular, VoIP, & cellular caller ID information.

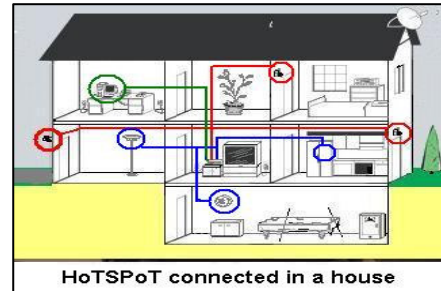
Roptover Systems has built fully operational prototypes of initial products, codenamed HoTSPoT and HoTSCaN. The prototypes have been demonstrated to several certified home integration professionals, who have unanimously recognized the uniqueness and market potential of this new technology. According to their opinions, the Roptover solution has no direct equivalent among the competition and will generate strong



consumer demand in the home convergence market.

BUSINESS STRENGTHS

- ✓ **Innovative Technology:** The Roptover products are unparalleled in the home convergence market today. The underlying technology steps outside of the box that other manufacturers have been operating in, and creates a novel way to fuse the disparate household electronic systems into the family video entertainment experience.



- ✓ **Hot Market Niche:** Roptover Systems offers its products to the fast expanding home convergence market that has been universally recognized as the 'Next Big Thing' in the consumer electronics arena. Microsoft, Apple, Intel, Philips and other industry leaders have put the home convergence in focus of their recent efforts.
- ✓ **Highly Anticipated Breakthrough:** With more and more consumers becoming aware of the technology integration benefits, people have begun to demand fully connected solutions for their homes. The Roptover technology features a relatively low manufacture cost, making it possible to bring home convergence to the mass consumer and fill the market void.

“... mainstream venture capitalists have started to refocus their attention on Consumer Electronics -related start-ups ... Why the change? In one word - convergence. No longer do consumers simply expect devices to dazzle them with quality and value; they want integration with other technologies ...” CE Vision magazine, September 2006
- ✓ **Market Diversity:** Applications for the Roptover technology extend far beyond the home convergence market. The technology is applicable in any environment where an integrated audio/video overlay signal would effectively communicate visual and sound information to the TV/video viewing audience, including the Hospitality, Health Care, Transportation, and Leisure industries.

- ✓ **Intellectual Property Protection:** The Roptover convergence technology is a sophisticated combination of hardware, firmware and software, well-protected from unauthorized copying. **Thirty aspects of the technology solution are now US patent pending** (#200503345678).

“We are not aware of any comparable products on the market. This is a truly unique capability for which there are innumerable applications, and for which there is a strong and growing market demand.” Roy Thompson, Director, XY Integration, Inc.

- ✓ **Operational Prototypes:** The original concept behind the Roptover technology involved a number of scientific uncertainties that constituted the steepest section of the development curve. All these uncertainties have been successfully resolved and Roptover Systems anticipates no technological setback prior to the full product launch.

“... fill a void in the current marketplace ... Roptover Systems is sitting on a real winner of a product!” James Elgard, Owner, Super Choice, Inc.

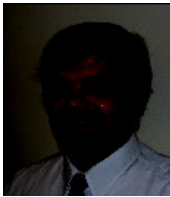
“... eliminate the need for other more costly equipment that would yield poorer results.” T. Mulsen, CEO, Forward Home Theatre Inc.

- ✓ **End User Friendly:** The Roptover home convergence products support all types, makes and models of home entertainment system components, from legacy CRT televisions and VCRs to latest DLP projectors and Blue-Ray players. The Roptover technology fully preserves the original type, format, and quality of the audio and video signals, including HDTV and surround sound, without diminishing the consumer’s investment in their home entertainment equipment.

- ✓ **Established Outsourcing:** Roptover Systems has a strong working alliance with *Excel-IT*, a leading electronic hardware and software design firm in Russia. *Excel-IT* has been strongly involved in the development of the Roptover technology and the initial product prototypes. **This alliance allows Roptover Systems to take advantage of a low-cost and highly-skilled engineering team, as well as established development infrastructure and manufacturing affiliations, with cost savings of up to 10 times when compared to developing the products domestically.**

MANAGEMENT TEAM

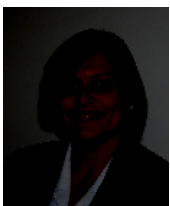
Roptover Systems is a debt-free California based LLC, wholly owned by the members of the Executive Management Team. The Company will fill the remaining executive positions with qualified professionals approved by the investors upon securing Series 'A' financing. Roptover Systems will also field candidates who the primary investors suggest for senior positions with the management team.



George Roptover, PhD, President and CTO, is the chief architect of the Company's intellectual property, proprietary technology and product design. His extensive multi-discipline background, including digital signal processing, microelectronics, and computer software, directly led him to develop the innovative core solutions upon which Roptover Systems is founded. Dr. Roptover has over ten years of successful track record in senior research and development positions with such recognized hi-tech industry leaders as Intel, Semantec, Oracle, and Microsoft.



Richard Starling, CEO, has a strong record of business development and strategic planning in an array of industries including entertainment, media, government, and technology as a Managing Director of the Beverly Hills, California based Consulting Group, Capital West Advisors. Mr. Starling has provided consulting and management services for CEO's, senior executives, and clientele including the Interpublic Group (NYSE: IPG), the law firm Morrison & Foerster, and Entertainment Media Ventures. Additionally, Mr. Starling served with distinction in the U.S. Navy, earning numerous awards for Anti-Terrorism planning.



Olga Shulenko, COO, manages the Company's international operations and coordinates the offshore engineering team. In 1994 she founded the *Excel-IT* firm in Moscow (Russia) and led its growth to become a leading supplier of computer telephony systems and knowledge management software in the Russian Federation. The ongoing success of *Excel-IT* stems largely from the business strategy and customer base developed by Mrs. Shulenko. She served as President of *Excel-IT* until 1999, and now holds a major share and the position of Director of Emerging Technologies.

The Advisory Board members counsel the management team on all major business decisions:

Patrick Cloid is a business development and strategic planning executive with fifteen years of experience developing new ventures in the Internet, consumer electronics and digital home spaces. Most recently, Mr. Cloid has served as Domain Director for Best Buy Enterprises, Inc., with focus on advanced consumer technologies, new media, and online digital entertainment models.



Reginald Fogers has over twenty years of executive experience in business and financial management in both the public and private sectors. Mr. Fogers's record features positions of Director of the Center for Entrepreneurship and Innovation at Cal Poly Pomona's College of Business Administration, and Co-Founder of Elantra, Inc., a Silicon-Valley e-commerce software venture acquired by VerticalNet, Inc in 1999 for \$50 million.



Michael Atwood is the Founder and President of Eastwood Communications, one of the oldest and most respected home system integration companies in the Los Angeles area, operating since 1973. Mr. Atwood is a founding member of the industry's most influential CEDIA (Custom Electronics Design and Installation Association) organization.



MARKETING PLAN

Roptover Systems will implement a dual business model, offering products and solutions based on its unique technology to both business-to-consumer (B2B) and business-to-business (B2C) markets.

Consumer Market: Roptover Systems will manufacture and distribute its deluxe products in small quantities exclusively in the hi-end market via the professional home integration sales channel established by affiliation with the Custom Electronic Design and Installation Association (CEDIA). This facilitates the Company's ability to reap exceptionally high margins from the hi-end electronics market without having to maintain a large product manufacturing and distribution infrastructure. This steady revenue stream, coupled with the accrued technological expertise and advancement of the Company, will make it possible for Roptover Systems to hold its leadership position in the field of home convergence innovation. Using the barriers created by the proprietary technology, Roptover Systems will license or sell budget conversions of its products and technologies to large industry players, thus providing sustainable revenue streams for the Company.

Business Market: Roptover Systems will pursue lucrative B2B opportunities that have been identified in various well-established industries where there are small businesses, communities, and organizations that have cable TV, HDTV, or video entertainment distribution networks. This will include the following industries:



- **Hospitality Industry:** Motels, Hotels, Bed & Breakfast Places.
- **Health Care Industry:** Hospitals, Sanatoriums, Assisted Living facilities, fitness centers.
- **Transportation Industry:** airliners, coaches, trains, terminal stations.
- **Government Service:** public waiting rooms and office lobbies.
- **Leisure Industry:** sport bars, cafeterias, discotheques, night clubs.

The Roptover **Cable TV Info module** will equip such entities with an affordable and easy tool to overlay the central TV broadcast or local video programming with custom computer graphic art that appears on the viewer's screen as embedded or translucent images, static or scrolling text, and similar visual effects on top of the primary video program. The principal appeal of the Roptover solution rests in not only enhancing internal communications to TV viewers, but also in fostering the ability of Roptover's B2B customers to **generate additional revenue** via overlaid video and sound advertisements.

FINANCIAL PLAN

Roptover Systems has prepared a detailed **5-year business plan**, scheduled in 3 consecutive periods:

Preparation period (Q1-Q4): Finalize the factory design of the initial products, and build the hi-end market distribution channels through the CEDIA partners, industry media and trade shows.

Startup period (Q5-Q8): Begin the outsourced small-scale (200 units/mo) manufacture of the deluxe product line, and initiate the hi-end consumer market sales via home integrators and directly online.

Function period (Q9 and on): Establish consumer technology licensing partnerships, introduce an extended product line, start penetration into the mid-range consumer market through the commercial retail channels, and launch the business-to-business marketing program.

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues, \$	-	3,740,000	23,300,000	44,210,000	67,680,000
Cost of Sales, \$	-	531,260	3,781,625	7,389,962	11,725,080
Gross Margin	-	86%	84%	83%	83%
Marketing and Selling, \$	-	971,900	7,420,500	15,598,850	24,900,800
Operating expenses, \$	865,900	1,404,160	2,853,284	4,005,711	6,285,527
Net profit (loss), \$	(876,260)	872,151	9,576,652	17,679,736	25,051,812
Net operating margin			41%	40%	37%
Total assets, \$	121,190	3,096,467	16,139,007	34,708,349	61,767,227
Free cash flows, \$	(874,000)	(836,220)	4,039,635	14,772,624	20,055,827
Ending Cash Balance, \$	76,000	739,780	7,229,416	22,002,040	42,057,867
Shareholders' equity, \$	73,740	2,462,549	14,573,276	32,575,557	58,474,952

* The financial forecast for Roptover Systems has been based on **well-justified and conservative assumptions and estimates** as presented in the Business Plan. The key financial metrics include:

The break even point will be achieved at a quarterly sales volume of 190 hi-end units. The Company projects that it will pass **the break-even point in the first quarter** of sales (Q7), and will exponentially surpass it thereafter.

The Founders have contributed **\$126,000 in seed financing** to fund the development of the fundamental technology, design of the initial product prototypes, and research of the business opportunity.

Roptover Systems is seeking to complete a **\$2.45 million Series 'A' private equity investment** to finalize the consumer design of the products, set up an outsourced small-lot manufacture of the deluxe product line, initiate the hi-end marketing and sales program, and establish technology licensing affiliations. The funds are to be realized in seven scheduled stages within the first two years of business operations, and will be used as follows.

Capital Expenses	215,550
Business Administration	487,750
Employee Compensations	479,170
Research & Development	567,900
Marketing & Sales	200,000
Production & Inventory	<u>499,630</u>
Total Uses of Funds	2,450,000

The cumulated annual return on investment is projected to be 70% over the five year period, totaling 1,011% by the end of the fifth year.



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Business Plan

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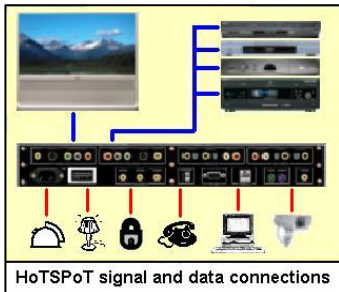
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I. COMPANY OVERVIEW

A. MISSION STATEMENT

Roptover Systems ("The Company") will leverage its proprietary patent-pending technology to establish a strong first-mover advantage and forge a lasting leadership position in the rapidly evolving home convergence industry. The Company will offer a robust line of innovative consumer, commercial and OEM products intended to synergize family video entertainment, personal communications, home security and safety, parental control, and home automation technologies.

B. VALUE PROPOSITION OF BUSINESS



Roptover Systems has developed a truly unique solution for this expanding market: a compact, affordable, and scalable home convergence technology platform that makes it possible to control virtually every system in the house through the home theater screen and speakers without interrupting the primary video program. The Roptover technology organizes home information streams into a single user-friendly interface and injects them directly into video and audio signals that come from a TV/HDTV cable, satellite receiver, DVD player, TiVo or VCR with no degradation of the original quality. From the user's perspective, home controls and events present themselves on the home entertainment screen translucently or picture-in-picture style without changing the channel, switching the inputs, or pausing the video program¹:

- ❖ Surveillance camera and "baby-cam" images from around the house.
- ❖ Lighting, climate, appliance and other home automation controls.
- ❖ Personal calendar reminders, e-mails, and instant messages.
- ❖ Security and safety alerts from burglar, fire, dioxide, and motion sensors.
- ❖ Telephone and cell phone caller ID information and conversation flow.
- ❖ Real-time mirror image from home PCs for parental control purposes.
- ❖ Video-chat for real-time discussions of live programs with remote friends.
- ❖ Weather, news, stock exchange, and other personal subscription data.
- ❖ Internet browser, family picture album, and other PC applications.

¹ See section III.B "Initial Products" for a detailed description of product functionalities.

Roptover Systems has demonstrated the operational prototypes of its initial products to numerous home theater professionals and select members of the home theater community, who universally recognized the uniqueness and market potential of the technology². According to their collective opinion and the Company's comprehensive industry research, the Roptover solution will revolutionize the home convergence industry and generate strong demand in the consumer electronics market. These experts have concluded that Roptover's products have no direct equivalent among the competition, because all currently available home convergence solutions are unacceptably expensive, invariably more difficult to operate, and are extremely limited in features and consumer benefits, when compared to the Roptover technology³:

- ✓ *"... fill a void in the current marketplace ... Roptover Systems is sitting on a real winner of a product!" - James Elgard, CCPI I, Owner, Super Choice*

- ✓ *We are not aware of any comparable products on the market. This is a truly unique capability for which there are innumerable applications, and for which there is strong and growing market demand." - Roy Thompson, Sales Director, XY Automation Systems, Inc.*

- ✓ *"... technology is truly unique and efficient in the home entertainment space. We definitely see a significant consumer value in the collection of features ... as well as other potential home and commercial followings of this technology." - Phil Johns, Owner & Director, Creative AV*

- ✓ *"...eliminate the need for other more costly equipment that would yield poorer results." - Terence Mulsen, CPII CPD, CEO, Forward Home Theater Inc.*

- ✓ *"To date, we have not seen comparable devices in production or marketed to our industry segment and consequently we believe the unique role that these devices can play is one worth pursuing." - George Sherman, President, Classic Custom Systems*

- ✓ *"... can appeal to the DIY client as well as the client that wants it professionally installed ..." - Robert Cost, CPI, Owner, Avangard House Systems*

² Appendix A, "Professional and Consumer Testimonials".

³ Section V.C "Competitive Analysis".

C. INDUSTRY BACKGROUND

There are over 40 million households in North America that own a home theater system and that number is growing at 10% annually⁴. The home theater system has become the nerve center of family life with the average family spending over 8 hours a day⁵ in front of their TV screen and paying approximately \$150 per month for home entertainment options including: cable, satellite, and DVD rentals. American homes are typically comprised of myriad additional domestic technologies: regular telephones and cellular phones, personal computers with Internet and e-mail, electronic organizers, portable music players, video game consoles, security and safety sensors, baby monitors and surveillance cameras, climate and lighting controls, kitchen appliances, etc. These systems are normally permanently in use and in order to be truly effective, they demand the user's undivided attention, a statistically impossible challenge that forces home owners to establish priorities that result in operational inefficiencies (in terms of energy consumption) and a diminished value on their respective technology investments.

Multiple consumer surveys indicate that people look for a closer integration of home technologies that will make using the disparate home technologies easier. Prominent hi-tech visionaries, such as Bill Gates⁶, proclaimed the "digital home" concept the next frontier in home innovation and have since taken steps towards its implementation. Microsoft, Intel, Panasonic, Apple, Philips and other industry leaders have now established special funds and subdivisions to pursue the new trend in home technology convergence. Thus far, tremendous progress has been made in home automation, home computer networking, and digital media exchange, but a fully integrated "smart home" as it has been envisioned, has yet to become a realization in the consumer market.

Some earlier technology visions placed the PC as the central point of the "digital home", but today this role has been forfeited to the home entertainment system, often referred to as "home theater". The home entertainment system is logically where the typical family spends most of its time, and it offers perfect display and control technologies to operate other in-house systems. This trend has created a branch of consumer electronics that is known as home theater convergence. It forms a multi-billion market that promises to become the hottest consumer product niche in the next 3 to 8 years. Many brand manufacturers and numerous start-up companies are rushing to claim a spot in this new marketplace. Some of the more recent arrivals include wireless media streamers (LinkSys, D-link), multi-function game consoles (Sony, Microsoft), media computers (HP, Dell, Voodoo), and home theater automation controllers (Control4, Crestron, Cortexa).

⁴ Consumer Electronics Association, "Digital America", 2005, the Home Theater section.

⁵ Nielsen Media Research, "Home TV Watch Time", 2005.

⁶ In his book "The Road Ahead", 2005 revision.

The ultimate goal of the home theater convergence industry is to bring Internet, e-mail, instant messaging, telephone, digital music, digital photos, home security, video surveillance, climate control, and other household electronics systems under control of the home theater user. As illuminated earlier, the consensus in the industry is that centralizing all of these functions maximizes the value and functionality of each respective system and improves the overall pleasure of one's home entertainment experience.

D. NEW TECHNOLOGY

Roptover Systems contributes to the industry with an elegant and efficient solution that will empower the consumer to maximize the utility of their individual technology systems by integrating them into a virtual personal command center located at the home theatre. In particular, the Roptover technology offers the following unique benefits and advantages:

- a) **Single-Channel:** The Roptover devices deliver their home convergence functions on top of or alongside the primary video entertainment program without hiding, stopping, or disrupting it.
- b) **Event-Driven:** The Roptover devices report important house events and situations to the home theater viewer automatically, without delay or manual request.
- c) **Multi-Display:** The Roptover devices combine information streams from multiple home systems, and present them to the user simultaneously or in a predefined priority order.
- d) **Signal Purity:** The Roptover devices fully preserve the original type, format, and quality of all home theater audio and video signals, including HDTV and surround sound, without diminishing the consumer's investment in their home entertainment equipment.
- e) **Total Connectivity:** The Roptover devices easily integrate into any home entertainment system: analog or digital, single-source or multi-source, local or distributed.
- f) **Control Consistency:** The Roptover devices require no changes in the existing home theater signal wiring and commutation, and therefore do not affect the customer's usual way of operating their home entertainment system.
- g) **Full Compatibility:** The Roptover technology operates public signal standards, and therefore supports all types, makes and models of home entertainment system components, from CRT televisions and VCRs to latest DLP projectors and Blue-Ray/HD-DVD players.
- h) **Affordability:** The Roptover technology features a relatively low manufacture cost, making it possible to bring home convergence to the mass consumer.
- i) **Easy Setup:** The Roptover devices are as easy to install as a regular DVD player, and require neither expensive rewiring, nor special technical skills.
- j) **Open Platform:** The Roptover technology is fundamental and versatile, capable of accommodating new consumer and commercial applications not yet envisioned.

E. COMPANY DESCRIPTION

1. Overview

Roptover Systems is a California LLC, headquartered in Los Angeles, CA. The Company is debt-free and wholly owned by its founders, Dr. George Roptover and Mrs. Olga Shulenko. Roptover Systems is committed to developing and distributing consumer, industrial, and OEM convergence products based on its proprietary technology, now patent-pending⁷. The Company is also prepared to license its unique technology to original equipment manufacturers seeking to implement true "home entertainment convergence" capability in their consumer products.

2. Current Status

The Roptover project began in 2003, and thus far the Company has achieved the following:

- Completed development of the innovative technology;
- Conducted market research and a consumer study;
- Established development and manufacturing alliances;
- Built operational prototypes of the initial products;
- Devised the business growth and marketing strategies.

All business operations to date have been financed by the Founders who have contributed \$126,000 of their own capital as well as 6,300 technical engineering hours into the Company. Having successfully developed the technology, the Company is poised to secure Series "A" financing to initiate the business model and operational strategies detailed herein.

3. Intellectual Property

The Company's intellectual property includes the product design, application methods, and implementation technologies. The Roptover technology is a sophisticated combination of hardware, firmware and software solutions, well-protected from unauthorized copying and virtually impossible to mimic or reverse engineer in a competitive timeframe. Roptover Systems additionally maintains a design patent that is pending with the U.S. Patent and Trademark office, which, upon its approval, will provide the Company with 20 years of retro-active intellectual property protection commencing on the filing date of June 2004.

⁷ U.S. Patent & Trademark Office, #200567890, 10/25/05.

4. Operating Summary

Once the Series “A” financing has been obtained, Roptover Systems will begin the final phase of the product development that will focus on refining the system design to optimize performance, manufacturability, and design elements of the products⁸. The development process has been carefully planned and will be implemented by the Company’s offshore engineering team in a period of 40 weeks, including all predictable risks of delay⁹. The first year of operations will be marked by the production of a probationary lot of 20 units that will be used for technical certifications, field tests, tradeshow, and press promotions.

In the 2nd year of operation, Roptover Systems will set up a small-scale production of its deluxe product line¹⁰ that will be marketed to customers in the high-end segment of the home entertainment convergence market, who comprise the most likely target market to be the early adopters of this new technology. The small-scale deluxe production will start with a monthly run of 200 units and will continue incrementally through the lifetime of the Company to cater exclusively to high-end consumers.

In the same year, the Roptover development team will work to prepare simplified modifications of the initial deluxe products with a price point attractive to the mid-range consumer¹¹. Simultaneously, Management will actively seek a strategic licensing partner. The ideal fit will be a large technology company with already established manufacturing, distribution, and sales channels to facilitate a quick and effective introduction to the mass consumer market.

In the 3rd year of operations, in the event that a suitable licensing partner or favorable agreement cannot be secured, Roptover Systems will establish a full-scale manufacture¹² of the mid-range product line with an annual production volume of up to 75,000 units. In either scenario, the Company will retain the small-scale deluxe production.

Beginning in the first year of operations and on an escalating basis thereafter, Roptover Systems will pursue lucrative business-to-business opportunities¹³ that the Company has identified in various well-established industries. Due to the lack of reliable quantitative data on the associated markets, Management has concluded that these opportunities will be noted but not reflected in the present business plan to preserve the integrity of the financial assumptions and statements.

⁸ Section VI.A.3 “Production unit development”.

⁹ *HoTSPoT/HoTSCaN Industrial Production Unit Design and Development Plan*, 55 pages.

¹⁰ Section VI.B.1 “Hi-End Production”.

¹¹ Section II.B.3 “Product Modifications”.

¹² Section VI.B.2 “Mid-Range Production”.

¹³ Section III.C “Business (B2B) Market”.

5. Growth Strategy

Roptover Systems is prepared to pursue three separate but compatible growth strategies to allow for the widest number of options as far as business growth and enterprise control are concerned.

Production: The Company will set up a proprietary manufacturing facility, or manufacturing agreements with third parties, to produce all models of the Roptover product line, including deluxe, consumer, commercial, and OEM products. The Company would then be responsible for distributing products to the consumer or other distributors post-production.

Acquisition: The Company would sell or license its technology to larger industry players like Sony, Samsung, Toshiba, etc. who already have established sales and distribution channels through which to market products. This would be accomplished by visiting trade shows and submitting product samples to potential partners.

Combinatory: The Company would license or sell the rights to produce its mid-range and budget products to a bigger industry player who would be more effective at marketing, distributing, and selling on a large scale. Roptover Systems would then retain the rights to its deluxe products to manufacture and distribute them in small quantities exclusively in the hi-end market. This strategy would be possible due to absence of overlap between the hi-end, mid-range, and mass consumer electronics markets.

Management believes that the combinatory option is the most effective and most feasible growth strategy in the consumer market. It facilitates the Company's ability to reap exceptionally high margins from the hi-end electronics market without having to maintain a large product manufacturing and distribution infrastructure. This steady revenue stream, coupled with the accrued technological expertise and advancement of the Company, will make it possible for Roptover Systems to hold its leadership position in the field of home convergence innovation. Using the barriers created by the proprietary technology, Roptover Systems will license or sell budget conversions of its products and technologies to large industry players, thus providing sustainable revenue streams for the Company.

F. BUSINESS STRENGTHS

1. Innovative Technology

The Roptover products are unparalleled in the consumer marketplace today. The underlying technology steps outside of the box that other manufacturers have been operating in to integrate various home electronic systems with existing home entertainment technology. It creates a novel and innovative way to fuse the disparate household electronic systems of the typical home theater owner without distracting from the program viewing experience.

2. Hot Market Niche

Roptover Systems offers its technology and products to the growing home convergence market. This emerging market has been described universally as the 'Next Big Thing', some of the prior 'big things' being the dot com boom of the late 90's and the innovation in more recent years in mobile technology. The home convergence market is now of the central focus of industry leaders such as Microsoft (Digital Home), Apple (iLife), Intel, Philips and others.

3. Highly Anticipated Breakthrough

With the exponentially increasing number of consumers becoming aware of the integration possibilities, people have begun to demand connected home solutions at affordable price. The Roptover technology features a relatively low manufacture cost, making it possible to bring home convergence to the mass consumer and fill the market void. After a demonstration, one professional home integrator described the benefits of the Roptover technology as follows¹⁴:

The technology embodied in the HoTSPoT and HoTSCaN prototypes solves this problem by presenting "convergence" information, from multiple systems and devices, on top of the main video signal without distortion or interruption.

4. Intellectual Property Protection

The Roptover technology is a sophisticated combination of hardware, firmware and software, well-protected from unauthorized copying and virtually impossible to mimic in a reasonable timeframe. Additionally, thirty aspects of the Roptover convergence solution are now patent pending with the United States Patent and Trademark Office. These two factors secure Roptover's position as a first mover with proprietary technology, which yields a distinct competitive advantage in the highly competitive consumer electronics market and serves as a formidable barrier to entry.

¹⁴ Appendix A, "Professional and Consumer Testimonials".

5. End-User Friendly

The Roptover home convergence systems require no exceptional technological ability to install. The products simply interface with the home entertainment system inputs and outputs, and automatically communicate to all compatible electronic systems in the home: telephone, security, safety, surveillance, automation, Internet, e-mail, organizer, etc. This comprises the key goal of the Company's R&D process - to create a system based around functionality and ease of use.

6. Market Diversity

Applications for the Roptover technology extend far beyond the home convergence market. The technology can be applied in any environment where an integrated audio/video overlay signal would effectively communicate visual and sound information to the audience. These applications include but are not limited to the Hospitality Industry, the Health Care Industry, and the Leisure and Entertainment Industry. These applications are described in greater detail in section II.C.

7. Operational Prototypes

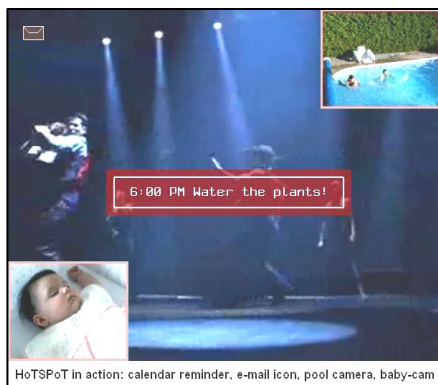
The fundamental concept behind the Roptover technology involved a number of scientific uncertainties that constituted the steepest section of the development curve. All these uncertainties have been successfully resolved, which is clearly demonstrated by the operational prototypes of the initial product line. With the technological foundation firmly established, Roptover Systems anticipates only minimal modifications to the original design, and thus foresees no major technological setback prior to the full product launch.

8. Established Sourcing Arrangements

Roptover Systems has a strong alliance with *Excel-IT*, a leading electronic hardware and software design company in the Russian Federation. *Excel-IT*, which is controlled by Mrs. Olga Shulenko and her family, has been strongly involved in the development of the fundamental technology and the initial product prototypes for Roptover Systems. This alliance allows Roptover Systems to take advantage of a low-cost, highly-skilled engineering team, as well as an established development infrastructure, including lab and research facilities, supply chains, and manufacturing affiliations. This will enable Roptover Systems to achieve cost savings of up to 10 times when compared to developing and producing the products domestically while ensuring optimal quality control.

II. PRODUCTS & TECHNOLOGY

A. TECHNOLOGY OVERVIEW



Roptover Systems has developed a compact and cost-effective method to superimpose graphics and sounds onto video and audio signals used in home entertainment. The system takes in an analog or digital signal of any type and format from any home entertainment device, and outputs a signal of the same type and format that carries the content mix of the input signal with a Roptover-generated raster image stream or sound wave. This signal overlay process applies no parametrical transformation to the original input signal and therefore ensures that the **original video and audio quality is fully preserved**. The process takes place in **real time** without preparation or pre-rendering of either the original signal or superimposed art.

The technology provides full and unlimited support for **all audio/video signal types, standards and carriers**, both **analog and digital** employed in present-day home entertainment systems and commercial presentation equipment:

Video

SDTV 480i : composite / S-video
SDTV 480i : component / DVI / HDMI
EDTV 480p : component / DVI / HDMI
HDTV 720p : component / DVI / HDMI
HDTV 1080i : component / DVI / HDMI

Audio

analog : coaxial stereo couple
PCM192 : coaxial / optical / HDMI
DD AC3 : coaxial / optical / HDMI
DD PLII : coaxial / optical / HDMI
DTS 5.1 : coaxial / optical / HDMI

The Roptover signal overlay technology is implemented as a microchip-based electronic circuit that can be a part of a stand-alone media device, or an extension module within a multi-purpose computer system. The implementation architecture allows for easy firmware updates to accommodate proprietary and coming video/audio signal standards such as HDTV 1080p.

Roptover Systems has also developed a unique array of technical solutions for the efficient collection, processing, and presentation of communication patterns used for status monitoring and remote manipulation of various house electronic systems.

This important part of the Company's technological achievement is based on a synergy of X10, ZigBee, H323, RS232, TCP/IP and other state-of-the-art public technologies. The Roptover technology is a sophisticated combination of hardware, firmware, and software solutions that are well-protected from unauthorized copying and virtually impossible to mimic or reverse engineer in a reasonable timeframe.



B. INITIAL PRODUCTS

Roptover Systems has designed and prototyped two stand-alone consumer products for its initial product offering to the home entertainment convergence market. Detailed video presentations of the products are available on the Company's web-site at www.Roptover.com. A live demonstration of the prototypes can be arranged upon request.

1. HoTSCaN Convergence System

HoTSCaN (*Home Theater Surveillance Camera Navigator*) is a compact electronic device that connects a person's home entertainment center to their video surveillance, home security, and home automation systems. The HoTSCaN technology makes it possible to monitor the house and surroundings, to operate the lights and indoor climate, and to control a variety of household appliances on the main television or projection screen without interrupting the currently running TV or video program.

The HoTSCaN box fits into a typical home entertainment rack or cabinet (17"x14" footprint). The back panel of the device has the standard input and output connectors that link the device to video source components (DVD-player, satellite receiver, cable set-top box, etc.) and the main video display (TV-set or projector). The HoTSCaN system comes equipped with all the necessary accessories to facilitate quick and simple installation by the user. Essentially, installing the HoTSCaN is the equivalent of connecting a cable box or DVD player to a television.

The HoTSCaN system is designed to provide three home entertainment convergence functions.

- ✦ **Video Surveillance:** The HoTSCaN unit receives live signal feeds from up to 4 wired or wireless surveillance video cameras installed anywhere inside or outside the home¹⁵. The system is fully compatible with all commercially available home surveillance and CCTV devices, including regular NTSC and IP-broadcast cameras. The HoTSCaN circuitry translates video streams from the cameras into picture-in-picture style images that appear in the respective corners of the home entertainment display on top of the running TV or video program. HoTSCaN offers a unique "automatic popup" feature that has been specifically praised by professional home integrators and enthusiasts¹⁶. When a motion detector or another event triggers a camera (e.g., movement in the baby room or at the front door), the camera image discretely appears in the respective corner of the home theater display screen. The user has an option of minimizing the

¹⁵ The system also supports remote Internet cameras that can be installed anywhere in the world.

¹⁶ Appendix A, "Professional and Consumer Testimonials".

camera view by simply tapping a button on the remote control. Depending upon the video screen dimensions and personal preferences, the user can configure HoTSCaN to display camera views in one of three predefined sizes: small (1/25 of the screen), medium (1/16 of the screen) or large (1/9 of the screen).

- **Safety & Security:** The HoTSCaN unit has inputs to connect solid-state and electronic sensors such as motion detectors, smoke detectors, burglar detectors, etc. A triggered sensor is reported to the user as an animated icon or a bold text message (e.g., "The back door is open!" or "Smoke alarm in the baby room!") on top of the running TV or video program.
- **Home Automation:** The HoTSCaN system is equipped for full-duplex communication with an unlimited number of home lighting, climate and appliance control modules of X10, Zigbee and RS-232 types. The user operates the home automation infrastructure via a semi-transparent iconic console that is brought on the home theater display by a remote control button. Selected home automation events (e.g., "The coffee is ready" or "Pool is 80° now") are reported to the user as semi-transparent text messages on top of the running TV or video program.

The HoTSCaN functions are handled through a semi-transparent iconic console on the television or projection screen. The system comes with an ergonomically designed infrared remote control, fully compatible with most universal remote controls.

2. HoTSPoT Convergence System



HoTSPoT (*Home Theater Service Portal*) is a fully-featured convergence suite that connects a person's home entertainment center to their phone lines, Internet, personal computers, video surveillance, home security, and home automation systems. The HoTSPoT unit intelligently presents home status information and operational controls through the home entertainment screen and speakers. The HoTSPoT user can take regular phone, IP phone and videophone calls, check on security cameras, read personal e-mail, receive calendar reminders and safety alerts, browse the Web,

display digital photo albums, run PC applications and manipulate home automation appliances without interrupting the running the currently running TV or video program.

The HoTSPoT box fits into a typical home entertainment rack or cabinet (17"x14" footprint) and serves as a bridge that connects signal source components (DVD-player, CD-player, satellite receiver, cable box, etc.) with the main video display (TV-set or projector) and the surround sound system. The back panel of the device has connectors to take all audio and video signals from the component sources, feed them through the HoTSPoT device, and then output them to the home entertainment system with the home convergence functionality added. Therefore, zero modification to the original home theater component wiring is required. The HoTSPoT box also has standard connectors for the house telephone line (RJ-11) and home computer network (RJ-45). The system comes with a 15-button RF remote control.

The HoTSPoT system provides the following home entertainment convergence functions:

- **Telephone:** When there is an incoming phone call (regular or IP), the HoTSPoT unit displays a notification message on the home entertainment screen and transmits a notification sound to the speakers. The user can choose to either take, place on hold, or ignore the call. If the call is taken, the show sound goes down, and restores after the user hang-ups or places the call on hold. While talking, the caller's voice comes through the home theater speakers and the user speaks into the microphone located in the remote control. Alternatively, the HoTSPoT remote control can be used similarly to a regular cordless handset for a private conversation.

- **E-mail & Messaging:** When the user's personal computer or organizer receives a new mail or instant message, the HoTSPoT unit displays a notification message on the home entertainment screen and plays an attention sound to the speakers (based upon the user's preference). At anytime the user can access the list of messages in the Inbox to read individual messages.

- **Reminders:** The HoTSPoT unit translates calendar reminders (tasks, appointments, etc.) from the user's personal computer or organizer and transmits them to the home theater screen in form of a persistent text message. This ensures that personal, family and business reminders are delivered in the location in the home where people spend the vast majority of their time.

- **Videophone:** The HoTSPoT unit receives video calls from AV-phones, palm devices and/or regular computers (NetMeeting, etc.). While talking, the caller's voice comes through the home entertainment speakers while the user speaks into the remote control. The caller's image displays in a corner of the home theater screen (size and location are configurable) over the running video program. The user's image is transmitted to the caller from a small video camera installed on the top of the TV set or home theater rack (optional).

- **PC Desktop:** At the user's discretion, the HoTSPoT unit displays the desktop of a remote personal computer with various user-defined levels of transparency on the home entertainment screen. The user manipulates the PC mouse cursor with the HoTSPoT remote control arrow buttons to browse the Web, display family photos, play games or run any PC applications. It is also possible to use an off-shelf cordless keyboard/trackball combo to garner full control over the PC from the home theater screen.

- **Parental Control:** The HoTSPoT unit can display a real-time passive mirror of any PC in the house for the user to monitor children's activities on their computers. The feature activates automatically on user-defined computer events such as accessing a specific Web-site (e.g. an adult content site), launching a specific application (e.g. a game), or opening a specific file.

- **Safety and Security:** The HoTSPoT unit has inputs to connect solid-state and electronic sensors such as motion detectors, smoke detectors, burglar detectors, etc. A triggered sensor is reported to the user as a bold text message (e.g., "The back door is open!" or "Smoke alarm in the baby room!") on top of the running TV or video program.

- **Home Automation:** The HoTSPoT unit is equipped for full-duplex communication with an unlimited number of home lighting, climate and appliance control modules of X10, Zigbee and RS-232 types. The user operates the home automation infrastructure via a semi-transparent iconic console that is brought on the home theater display by a remote control button. Selected home automation events (e.g., "The coffee is ready" or "Pool is 80° now") are reported to the user as semi-transparent text messages on top of the running TV or video program.

- **Video Surveillance:** The HoTSPoT unit receives live signal feeds from up to 16 home video surveillance cameras and displays them either in “picture-in-picture” or “full-screen” style on top of the running TV or video entertainment program.

All HoTSPoT functions are fully configurable by the user via an iconic on-screen menu, provided with well-balanced defaults. The HoTSPoT remote control has 15 light-up control buttons to invoke the primary functions and on-screen menu navigation commands. The HoTSPoT remote control also has a built-in microphone and speaker like a regular cordless telephone handset.

3. Product Modifications

Both HoTSCaN and HoTSPoT convergence systems can be produced with varying degrees of features in order to meet different application requirements and price expectations. Based on the consumer need analysis, Roptover Systems plans to produce two modifications of each product:

- **HoTSCaN-I and HoTSPoT-I** will represent the deluxe product line. These products will feature a full-metal designer exterior casing, unlimited digital sound support, absolute graphic resolution, all wireless connections, fine VFD indication and other elite options to appeal to the hi-end consumer market.
- **HoTSCaN-2 and HoTSPoT-2** will be scaled-down versions of the deluxe HoTSCaN-I and HoTSPoT-I targeted to appeal to the mid-range consumer market. Some luxury features will not be included in this build of these products to ensure greater affordability across the broader consumer marketplace.

The HoTSCaN and HoTSPoT systems of either modification can be brought to market as ‘home entertainment convergence kits’, complete with a set of inexpensive 3d-party wireless surveillance cameras, motion sensors, smoke detectors and automated light/appliance control modules that will immediately allow customers to transform their existing houses into “smart homes”. This comprehensive convergence solution will also facilitate numerous potential strategic partnerships with organizations that maintain pre-existing sales, marketing, and distribution channels (e.g. residential security/alarm system providers and independent installers).

C. FUTURE PRODUCTS

The Company's open-platform technology innately lends itself to evolution and advancement into a variety of additional applications. Roptover Systems holds a massive portfolio of projects under development that will secure its leadership in the home convergence market and subsequently facilitate the Company's expansion into new markets and echelons.

1. HoTSEaM Convergence System

HoTSEaM (*Home Theater Service and Entertainment Machine*) is a high-performance Windows MCE (Media Center Edition) personal computer that is supplemented by Roptover-based hardware and software extensions to integrate "home convergence" functionalities (personal communications, home security, surveillance, climate and lighting control, etc.) into all audio and video streams of the home entertainment center. Being a media PC, HoTSEaM serves as a DVR, Internet browser, game console and more. The system can be configured to support the Linux OS and alternative media shells such as Catalyst by ATI, iMon by eIQnetworks or Go/Meedio by Yahoo.

The HoTSEaM product appeals to the numerous and fast-growing community of media PC enthusiasts that represents a high profit margin market niche. An operational HoTSEaM prototype can be produced in a four-week timeframe, contingent only upon financing.

2. Cell Phone Convergence Module

This miniature module (*CellSPoT*) inserts into the power/data interface slot of a cell phone, smart phone or PDA, turning it into a fully featured home convergence console. The module communicates with the user's HoTSPoT or HoTSEaM system to bring convergence functions to the mobile device. This module allows the user to control home security, surveillance, lighting, climate, phones, and other automated in-home systems from anywhere in the house or around the world. When the user is at home, the module operates through the local WiFi network to avoid charges to the user's wireless account. It is even possible to use the CellSPoT module with a mobile device that is not currently activated by a wireless provider. For remote operation, the module utilizes GPRS to establish Internet connection with the user's home systems. The CellSPoT module has no effect on the primary communication functions of the mobile device.

The cell phone convergence module is one of many powerful tools in the Roptover home entertainment convergence systems product line. Roptover Systems can present an operational prototype of the module in a 10-week time frame subsequent to procuring capital

3. Cable TV Info System

This system is a compact stand-alone device designed to superimpose custom graphics and sound streams onto the cable TV and HDTV broadcast before it is distributed to locally connected television sets. The device inserts into the cable feed, i.e. takes in the TV cable signal (coaxial connection) and outputs the same signal with an added custom overlay. The overlay content is supplied in real-time from a USB port of a PC or laptop that has special Roptover software installed.

The system is intended primarily for business applications where there is a need to deliver advertising, announcements, notifications, and other custom information to local TV viewers. The info comes to the viewer on top of the currently playing TV program in a form of translucent image of any size, or a text ticker line, or a corner icon. It is also possible to entirely replace the primary broadcast/video content with customer generated content (e.g. during broadcast commercials).

Possible applications of the TV Info system include:

- **Sports bars & pubs** usually have multiple HDTV's showing live sport events from a cable or satellite TV source. The bartender or manager would use the Cable TV Info system to display order progress, menu specials, conduct code reminders, patron's announcements, and affiliated advertising (e.g. taxi service) on top of the primary programming.
- **Fitness centers** typically have televisions in exercise rooms to entertain patrons using treadmills, stair masters, and similar exercise equipment. The fitness center's management would use the Cable TV Info system to provide exercise and health related advice and market internal products and services such as spa treatments, personal training, group classes, beauty products, sports apparel, and a variety of additional items.
- **Motels and small hotels** typically have a single cable TV connection that is distributed locally to every room. This TV signal can be superimposed with room service offers, check-out notifications, hotel rules, affiliated food and sightseeing advertising, and related goods and services.
- **Airport, bus terminals and public offices** typically have screens that translate cable TV programs for entertainment purposes. The facility operator can use the Cable TV Info system to display arrival/departure information, special announcements, etc. on top of the TV show.

- **Night club and discotheques** use big TV screens to translate video clips and music TV programs. The Roptover system makes it possible for the DJ to send any textual or graphical information on top of the running clips, such as: announcements, warnings, comments, specials, upcoming events, and similar information.
- **Airliners, railcars and coaches** have a cable TV source and/or DVD player connected to multiple screens in the passenger cabins. The Cable TV Info system adds to translate travel information and affiliated advertising (e.g. onboard shopping) on top of the entertainment show.
- **Schools and universities** employ special TV programs and videos as a part of the educational process. The Cable TV Info system makes it possible for the teacher/lecturer to display extra textual or graphical information, such as highlight markers, on top of the video/TV program.

Upon capitalization, Roptover Systems can prepare a TV Info system prototype within 8 weeks.

4. OEM Integration Modules

The Roptover technology will be offered on the licensing basis to hi-end and mass consumer electronic equipment manufacturers to integrate the convergence functionalities into their products and help them move forward in the home convergence arena.

- **Functional Module for Home Theater Receivers** - will add home monitoring functionality to a regular home theater receiver, and thus enable the display of sound volume and other theater operation controls on top of the primary programming, including HDTV.
- **Display Module for Home Automation Controllers** - will allow a home automation controller (e.g. Control4 AVN-HTC1-B, Cortexa 7201, and similar technologies) to display its functional information and operational controls without changing the TV channel or video input.
- **Extension Module for Media PC's** - will convert any regular media computer into a fully featured HoTSEaM convergence system as described in section C.1.

Roptover Systems is presently in process of contacting leading home theater, home automation, and media PC manufacturers to determine their respective levels of interest in the aforementioned OEM products.

III. THE MARKET

A. MARKET OVERVIEW

According to recent market data¹⁷, the global sale of consumer electronics is estimated to reach an all time high of \$135.4 billion in 2006, which indicates 8% increase over 2005. By the year 2008, sales are forecasted to soar to \$158.4 billion, up an astonishing 65% from 2000.



The consumer electronics industry is ushering in the dawn of convergence that is now universally recognized as the “Next Big Thing” in consumer electronics. The confluence and merging of the previously separated markets of home entertainment and information technology is rapidly removing entry barriers across the market and through industry boundaries. Several technologies have already made initial forays into consumers’ living rooms; HDTV’s with VGA connections and memory card slots, personal media players, and Media Center PCs have pushed these two industries together and Roptover Systems is poised to open the door and serve as the ultimate convergence facilitator. This convergence of technologies has resulted in a greater demand for multi-functional consumer devices, and manufacturers are scrambling to find a means to unite disparate home electronic systems into one streamlined solution. As market statistics indicates, companies that offer home convergence products are experiencing substantial growth and are achieving significantly higher margins as compared to the market as a whole.

The following table¹⁸ shows the averaged business growth metrics for three companies operating in the home convergence market: Cortexa, AMX, and Echelon. These companies compete almost exclusively in the high-end space and are thus not common household names like Sony and Panasonic; however, the new interest the market is showing in the solutions they provide has been fueling growth that has outpaced the general consumer electronics market considerably in the past 3 years. It is especially important to note that the three year net income growth and three year EPS (earnings per share) growth are nearly double that of the general market:

¹⁷ Research And Markets, Report #53983, “Consumer Electronics Market Forecast”, March 2006.

¹⁸ Source: Hoover’s Financial, subscription data, full info is available on request.

Market Metrics	Convergence Market Median	General CE Market Median
12-Month Revenue Growth	11.9 %	11.8 %
12-Month Net Income Growth	21.0 %	11.8 %
12-Month EPS Growth	17.8 %	12.1 %
36-Month Revenue Growth	41.2 %	37.0 %
36-Month Net Income Growth	91.3 %	49.3 %
36-Month EPS Growth	94.6 %	42.7 %

The home convergence market sector recently became quite attractive to professional investors as they began to realize that the companies in this sector achieve significant margins on their product sales. According to the leading industry experts¹⁹, this should be attributed to a higher order of value, a meta-value, created by merging many different functions into enhanced and synergized products. For example, Foundation Capital, a venture capital firm with \$1.1 billion under management, made a syndicate investment of \$15 million in Control4, a leader in home automation convergence solutions. Adam Grosser, a general partner at Foundation Capital, was quoted as saying²⁰: *“Control4 is making home automation a reality with a unique line of wired and wireless home automation products. At Foundation Capital, we believe the market for digital home products is on the verge of explosive growth.”*

A recent feature story of the influential *Consumer Electronics Vision Magazine* proclaims²¹: *“... mainstream venture capitalists have started to refocus their attention on CE-related start-ups - eliciting interest not only from major CE makers’ VC arms but also from traditional VCs. Why the change? In a word - convergence, which has changed core consumer expectations in recent years. No longer do consumers simply expect devices to dazzle them with quality and value; they want integration with other technologies such as wireless networks and computers, MP3 players and smart phones ...”*.

B. CONSUMER (B2C) MARKET

Roptover Systems identifies the consumer for its HoTSPoT and HoTSCaN convergence systems as a household that owns a quality home theater²² system and has installed or is planning to purchase video surveillance, digital network or home automation systems. Therefore, the market for the Roptover initial product line (see section III.B of this Plan) is defined as an effective intersection of home video entertainment, home video surveillance, home computer networking, and home automation control technology markets. This market evaluation does not include the Company’s prospective consumer products, described in section III.C of this Plan.

¹⁹ *Irresistible! Markets, Models, and Meta-Value in Consumer Electronics* by G.Bailey and H.Wenzek, IBM Press, 2005.

²⁰ Control4 Press Release of July 15, 2005.

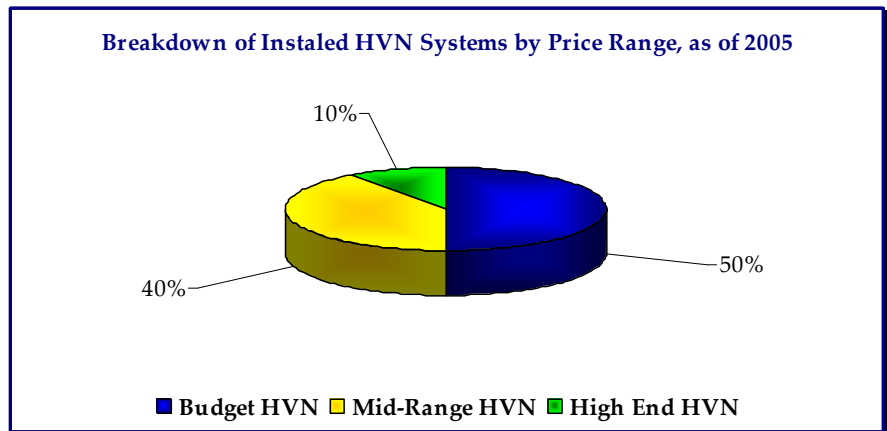
²¹ *CE Vision*, September/October 2006, “What do VCs Want from CE?” by Michael Grebb.

²² “Quality home theater” category excludes low-end budget systems below \$2,000.

1. U.S. Home Video Entertainment Market Analysis

Home Video Entertainment (HVE) system, a.k.a. “home theater”, works to reproduce in the home environment the experience of being in a movie theater. Although there is no strict definition or specification of what makes a HVE system, it usually implies a large display screen and a surround sound system. Typically, people purchase HVE components (TV-set, projector, DVD player, sound processor, set-top box, TiVo, amplifier, speakers, etc.) separately, trying to reach best of comfort, quality and sophistication at an acceptable price point.

HVE systems can be effectively categorized by their total cost. A budget system (up to \$2,000) usually consists of a regular TV set (CRT or LCD, up to 38”) and a basic “Home-Theater-in-a-Box” combo (DVD-player + receiver + speakers). A mid-range system (\$2,000-\$10,000) includes a projection or plasma TV (up to 65”), several quality



source pieces (DVD, VCR, satellite dish, etc.) and a stand-alone surround sound receiver. Finally, a hi-end HVE system employs only superior components such as multi-layer projectors, channel pre-amps, lamp amplifiers, room sound correction processors, volume speakers, etc., all connected with gold-coated cables and installed in an isolated specially remodeled room. A state-of-the-art HVE system can reach \$100,000 and more.

According to the Consumer Electronics Association (CEA) surveys²³, 33% of U.S. households (35.4 million) owned an HVE system in January 2005 with a historical annual penetration growth of 9%. The total HVE market breakdown between budget, mid-range and hi-end systems is 50-40-10²⁴.

As it applies to the HoTSPoT and HoTSCaN convergence systems, Roptover Systems narrows down the relevant HVE marketplace to mid-range and high-end segments with a total adoption of 18 million in 2005 and a linearly projected growth up to 26.8 million in 2011²⁵.

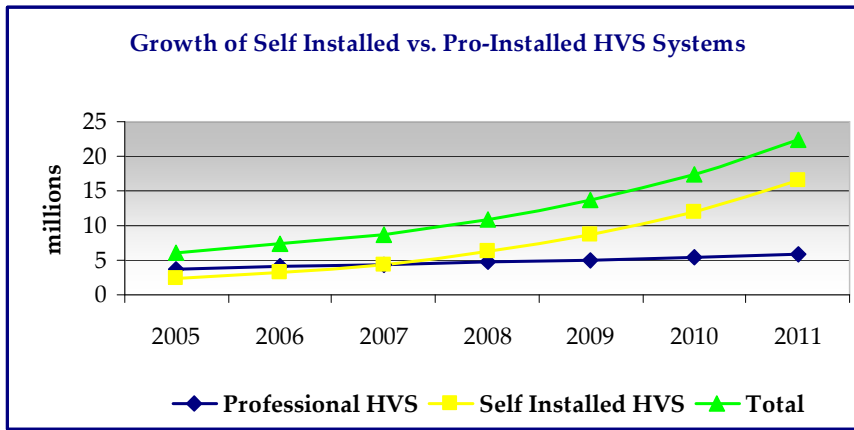
²³ Consumer Electronics Association, “*Digital America*”, 2005, the Home Theater section.

²⁴ HVE market outlook by Roptover Systems, available upon request.

²⁵ See the detailed projections in Appendix B, section 1.

2. U.S. Home Video Surveillance Market Analysis

Home Video Surveillance (HVS) systems, or CCTV systems (closed circuit television), in their most basic implementations, are a combination of stationary indoor and outdoor video cameras, video displays, and signal routing equipment designed to monitor the home and its surroundings. A more sophisticated HVS system might also include motion detectors to engage cameras automatically, pan/tilt/zoom cameras, and wireless signal connections. Camera images are transmitted to a TV set, PC display, or a dedicated video monitor. Unlike commercial security surveillance applications, HVS systems are centered on safety and piece-of-mind: checking on an infant in the bedroom, children in the swimming pool, and deliveries and visitors at the front door.



HVS systems can be categorized into professionally installed and self-installed. The professional segment of the HVS market covers expensive state-of-the-art systems that usually make a part of a complex home security/safety/automation solution offered by certified installers. According to the 2005 security industry forecast²⁶,

professional HVS installations comprise 16% of all security systems, which produces a total U.S. penetration of 3.9 million households²⁷ in 2005 and a projected 6.0 million by 2011.

There is no direct evidence on the DIY (do-it-yourself) segment of the HVS market. A market survey by Park Associates²⁸ indicates that over 40% of Internet-connected U.S. households find front door and baby surveillance cameras useful. Given the recent HVS technology advancements and the resultant price drop to a quite affordable \$120-180 for a complete self-installation system, it is safe to assume at least half of the survey respondents will have satisfied their interest over a 10-year period. This produces an estimated U.S. penetration of 2.3 million units² in 2005 and a potential 16.6 million by 2011.

For business planning purposes, Roptover Systems estimates a total HVS penetration of 6.1 million in 2005 with a quasi-linear growth to 22.5 million in 2011².

²⁶ *The Security Distributing and Marketing, Jan 2005, "2005::Opportunities and Pressures"* by Laura Stepanek.

²⁷ See the detailed projections in Appendix B, section 1.

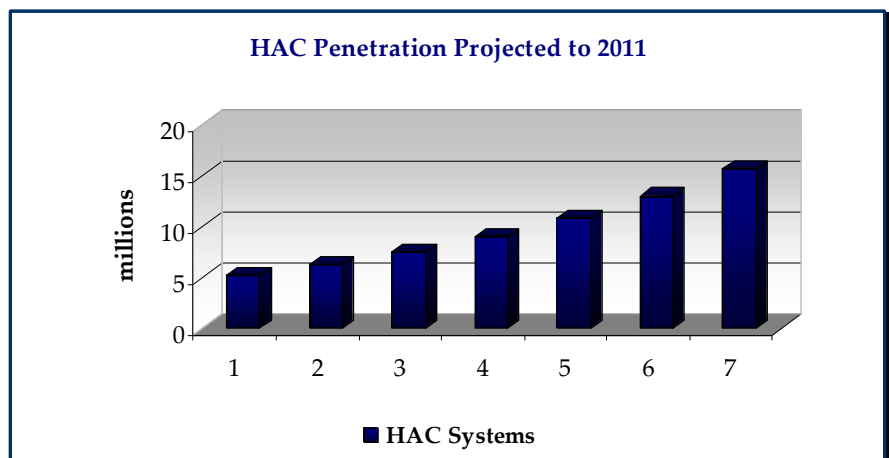
²⁸ Park Associates, *E-enabled Home Security*, by Tricia Parks and Terry Mikelk, 2Q 2005.

3. U.S. Home Automation Control Market Analysis

Home Automation Control (HAC) systems, or (“smart home” systems) integrate home security, climate management, alarm sensors, lights, and appliances into a single network connected via electric power lines (X10), phone lines (PNA), radio waves (BlueTooth), or dedicated signal wiring (RS-232). In its very basic form, a HAC system allows the homeowner to manipulate household devices remotely, (e.g. turn off ceiling lights while sitting on a couch). A state-of-the-art HAC system is powered by a computer that performs multiple related routines (e.g. as you arrive home, your HAC turns off the sprinklers, opens the garage door, unlocks the front door and disables the alarm, lights the downstairs, and turns on the TV at your favorite channel).

Similarly to HVS systems above, the HAC market breaks into professional and DIY segments. A professional system starts at around \$2,000 and can reach \$20 per sq. ft. of house space for top-of-the-range AMX and HAI equipment installations. On the other hand, a wide variety of discrete HAC functional components are available²⁹ to self-installers today at quite affordable price point estimated at \$200-300 for a complete house set.

Recent research from The Diffusion Group³⁰, a leading digital home research consultancy firm, estimates that approximately 7% of U.S. Internet homes (~5.3 million) were automated with HAC solutions in 2005. The same source indicates that 50% of all U.S. Internet households are interested in purchasing a HAC



system if the price of the solution is less than \$200, 30% if priced between \$200 and \$400, and 20% if the price exceeds \$400. With the recent approval of ZigBee and Z-wave wireless protocols for HAC applications the price ranges for these solutions have become a reality. ABI research forecasts a ZigBee market explosion in 2006³¹ and projects a 19% annual HAC market growth for the period till 2008³².

For business planning purposes, Roptover Systems projects a total HAC penetration of 5.2 million in 2005 with a stable growth rate to 15.7 million by 2011³³.

²⁹ X10.com, SmartHome.com and similar online stores.

³⁰ TDG report, "Consumer Interest in Home Control and Management Solutions", 2005.

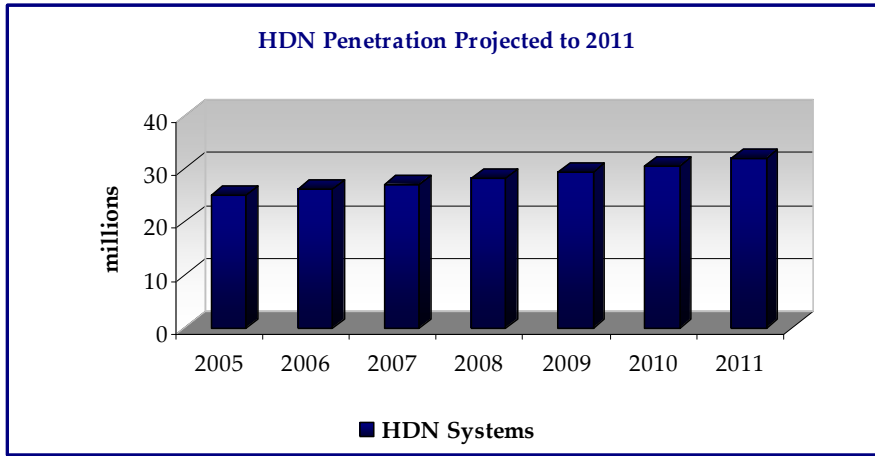
³¹ ABI Research, "ZigBee and 802.15.4 Wireless Networks", July 2004.

³² ABI Research, "Home Automation Systems & Residential Wiring: US Markets, Technologies & Vendor Assessment", 2003.

³³ See the detailed projections in Appendix B, section 1.

4. U.S. Home Digital Network Market Analysis

Home Digital Network (HDN) systems are designed to enable a wired or wireless connection between home computers and other media devices. This creates the ability for consumers to enjoy PC-based digital music and movie libraries, video games, digital photos, and other media through the home theater screen and surround sound system, and conversely, to distribute audio and video content from the home theater to other rooms in the house.



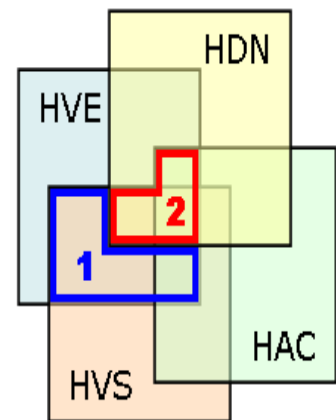
A recent survey³⁴ by the Consumer Electronics Association (CEA) found that the number of U.S. homes that have a home network has jumped from 14% in 2004 to 23% in 2005, demonstrating a 64% annual growth rate. However, there is evidence the further extension of home networking will slow down beyond the early adopter

audience. The Diffusion Group noted in a 2005 study that only about 10% of non-networked broadband Internet households are interested in buying a home network. Nevertheless, all market analysts forecast market growth, although at slower rates, over the next 5-7 years.

For business planning purposes, Roptover Systems has conservatively estimated that the market will demonstrate a quasi-linear annual growth rate of only 3% from the currently reported 25 million households in 2005 to 31.9 million in 2011⁴.

5. HoTSPoT/HoTSCaN Market

The HVE, HVS, HAC and HDN markets intersect at several points: a home theater owner may also have a video surveillance, home automation, or digital network system installed in any combination. As mentioned above, the target market for Roptover Systems will be defined by the intersection of the HVE market with the other component markets (HVS, HAC and HDN) as shown in the market intersection diagram³⁵ to the right. Based on the core functionalities of the HoTSPoT and HoTSCaN products as described in Part III of this plan, Roptover Systems marks out two combinatory application market segments for its products:



³⁴ Consumer Electronics Association, "Digital America", 2005, the Home Network section.

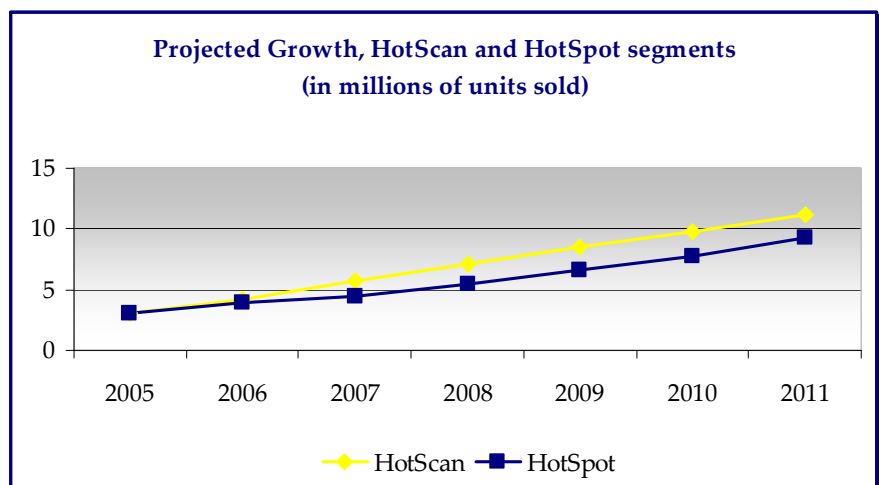
³⁵ Illustration only: squares do not depict actual market sizes.

1. **HoTSCaN:** Households with HVE, HVS, and optionally, HAC installed;
2. **HoTSPoT:** Households with HVE, HDN, and HVS and/or HAC installed.

In order to produce an efficient quantitative estimate of the application markets, a few balanced assumptions (verified independently by several professional home integrators) have been made towards mutual penetration of the HVE, HVS, HAC and HDN markets:

- 70% of households with a surveillance system own a \$2,000+ home theater. Owning and operating a video surveillance system suggests that the household appreciates home technologies and is likely to have invested into a mid-range or higher home theater system.
- 75% of smart home households own a \$2,000+ home theater. Same as above, with even a higher degree of likelihood.
- 60% of smart home households have some sort of video surveillance. Home automation systems are a security/safety/comfort investment that is very likely to inspire the household to install a surveillance system as well.
- 40% of smart home households have and use a home digital network. An automated house is likely to have structured wiring and 2-3 connected computers.
- 20% of households that have a surveillance system use a home digital network. A surveillance system by itself is no evidence of the household's technological advancement.

Additional evidence supporting these assumptions arises from the fact that **most mid-range and hi-end home theater owners are well-to-do family households concerned about safety, security, and comfort**³⁶.



³⁶ By home theater media kits, available upon request.

This distribution produces the following projections of the addressable application market segments³⁷:

	2007	2008	2009	2010	2011
HoTSCaN	5.7	7.1	8.5	9.8	11.2
HoTSPoT	4.5	5.5	6.6	7.8	9.3
Total (mln):	10.2	12.5	15.0	17.7	20.5

The total addressable market shows a strong annual growth trend of 15-20%. Given the conservative bias of the combinatory market formation assumptions made, an optimistic projection might be up to 30% more favorable than the one stated in the table above.

C. BUSINESS (B2B) MARKET

Roptover Systems envisions a tremendous prospect for its signal overlay technology in business applications where there is a need to deliver advertising, announcements, comments, notifications, and other custom information to local TV viewers. The Company would offer its affordable Cable TV Info module³⁸ to small businesses, communities, and organizations that have a cable TV, HDTV, or video entertainment distribution network. The Roptover solution will equip such entities with an inexpensive and easy-to-use tool to overlay the central TV broadcast and local video programming with their own graphic art that appears on the viewer's screen as embedded or semitransparent images, static or scrolling text, and similar visual effects on top of the primary programming.

Roptover Systems presently identifies the following distinct target markets as superior candidates for its business-to-business revenue model:

➤ **Hospitality Industry:** roadside motels, small hotels, bed & breakfast establishments.

The Roptover products will facilitate the hotelier's ability to advertise its internal services (day spas, lobby bars, etc.) and local business partnerships (restaurants, sightseeing, nightlife, etc.) directly to the guests without ruining their TV viewing experience.

➤ **Health Care Industry:** hospitals, sanatoriums, assisted living facilities, fitness centers.

The Roptover products will serve to deliver announcements, procedure reminders, recreation class schedules, and similar information over the cable TV programming and distribute it to patient quarters, waiting rooms, or exercise halls.

³⁷ See the detailed projections in Appendix B, section 1.

³⁸ Section II.C.3 "Cable TV Info System".

- **Leisure Industry:** sport bars, cafeterias, discotheques, night clubs. The Roptover products will be used to present order progress, menu specials, conduct code reminders, management's announcements, and associated advertising (e.g. taxi service), integrated into the live TV or video program currently displayed to the patrons.

- **Government Service:** public waiting rooms and office lobbies. The Roptover products will display line progress information, procedure instructions, local announcements and associated advertising (e.g. driving school in a DMV office) on top of the cable TV programs the office broadcasts for public entertainment purposes.

- **Transportation Industry:** airliners, coaches, trains, terminal stations. The Roptover products will provide an easy and economical way to integrate route progress information, safety reminders and associated advertising (onboard shopping, etc.) into in-travel TV or video entertainment.

Ultimately, Roptover Systems firmly believes that it will be able to generate significant revenues by developing strategic partnerships and alliances with existing suppliers to the above listed industries. The Company will devote significant attention to identify key players in the market and persuade them of valuable benefits granted by the Roptover technology, such as increased market penetration and cost reduction. For example, in the hospitality industry there are two well-established organizations, On Command, Inc. (NASDAQ: ONCO) and Lodge Net, Inc. (NASDAQ: LNET). With the Roptover technology they will be able to approach smaller hotel chains, independent hoteliers, and private bed-and-breakfast establishments that could otherwise not devote the significant capital outlay required for a full-scale media management system.

The principal appeal of the Roptover solution rests in not only enhancing internal communications to TV viewers, but also in fostering the ability of Roptover's B2B customers to generate additional revenue via overlaid video and sound advertisements. The ability to remotely (e.g. by Internet) control and deliver advertising content to these locations would ultimately create a large and measurable network that would appeal to major advertisers in a wide array of industries. In order to effectively execute this particular revenue model, Roptover Systems will aggressively pursue strategic partnerships with large advertising agencies in order to quantify and appropriately price inventory across the proposed network.

A preliminary assessment of the aforementioned opportunities reveals a promising business-to-business avenue for Roptover Systems but a quantitative analysis of the associated market presents severe difficulties at this time. Rapidly evolving technological advances and otherwise complex market conditions (including emerging start-up enterprises, highly specialized strategic partnerships involving proprietary technologies held by small private firms, and mergers and acquisitions) have collectively forged an information barrier that cannot be circumvented by a start-up Company alone.

In light of these obstacles, Management has deemed the lucrative business-to-business opportunities should be noted but not reflected in the present business plan in order to preserve the integrity of the pro-forma financial assumptions and statements. Roptover Systems intends to conduct a full-scale research of the B2B market subsequent to capitalization and achievement of its initial milestones in the consumer marketplace.

IV. COMPETITIVE ANALYSIS

A. CONSUMER NEED ANALYSIS

In order to generate an objective base for the competitive analysis, Roptover Systems has conducted a consumer vision study of currently available home convergence systems, using the following information sources:

- **Personal interviews during live technology demonstration sessions**
Nov 2005 – Mar 2006: see Appendix A
- **Consumer survey among Digital Home Canada (DHC)³⁹ forum members**
Jan 2006 – Feb 2006: arranged by Hugh Thompson, DHC publisher
- **Analysis of HVE industry periodicals (feature articles and product test reports):**
Jan 2004 – Feb 2006: The Home Theater, The Home Theater Builder, The Smart House, The Perfect Vision, The Connected Home, The Stereophile Guide to Home Theater
- **Analysis of HVE-related public forum discussions:**
Jan 2004 – Feb 2006: AV Science Forum, The Home Theater Spot, Home Theater Talk

* The collected data was processed and generalized in two different aspects: 1) convergence functions versus consumer capabilities, and 2) product features versus consumer benefits. The results are presented in the tables below.

³⁹ DHC (www.canadadigitalhome.com) is a major international web portal and discussion board for digital home technologies that serves over 600,000 visitors monthly. The publisher, Hugh Grant, is available at (905) 919-0055.

1. Functions vs. Capabilities:

Convergence function	Consumer capability definition
Surveillance	Can I monitor my house and outside property on the home theater screen?
Safety	Will I receive fire, smoke and similar alarms in the home theater room?
Security	Will I receive break-in and similar alarms in the home theater room?
Telephone	Can I see who is calling and answer the call while watching a home theater show?
IP-phone	Can I make and accept free VoIP long-distance calls from the home theater room?
Videophone	Can I have a live videochat connection in the home theater room?
E-mail	Can I monitor my incoming e-mail from the home theater room?
Calendar	Will I be reminded of my calendar tasks and appointments while watching a show?
Internet	Can I browse the Web and visit my favorite sites on the big screen TV?
Photo albums	Can I show display digital photos that I keep on my home PC on the theater screen?
PC desktop	Can I reach my documents, mails and applications from my home theater room?
Computer games	Can I play my favorite PC videogames on my big screen TV and surround sound?
Computer music	Can I listen to my digital music that I keep on my home PC through the surround sound?
Computer videos	Can I watch my digital movies that I keep on my home PC on the theater screen?
Automation	Can I manipulate lights, climate and appliances from my home theater room?
Parental control	Can I see what my kids are doing on their PCs from my home theater room?

2. Features vs. Benefits:

Feature Definition	Feature Opposition	Consumer Benefit
<p>Single display Surveillance images, smart home controls and other convergence information appear on the home theater display.</p>	<p>Surveillance images, smart home controls and other convergence information show on a separate screen: side TV, handheld or PC monitor.</p>	<p>No eye strain from moving the eyes to another screen and back to TV. No need to move to another room or look for the handheld screen.</p>
<p>Show continuity Surveillance images, smart home controls and other convergence information appear on the home theater screen semitransparent or as "picture in picture".</p>	<p>The user has to switch the home theater to another TV channel (video input) to see surveillance images, smart home controls and other convergence information.</p>	<p>No breaks in live TV programs. No losses in paid programs. No need to switch channels. No disturbance to other viewers.</p>
<p>Single control Home theater, surveillance, home automation, personal computer and other systems are operated by the same remote control.</p>	<p>Surveillance, home automation, personal computer and/or other systems are operated by individual control panel(s), other than the home theater control unit.</p>	<p>Control consistency and comfort. No struggle with many remotes. No looking for a lost remote.</p>
<p>Multiple sources Images from multiple surveillance cameras, home automation data and other convergence information can display simultaneously.</p>	<p>Only one surveillance camera or another data source can be seen at a time with manual or automatic sequencing.</p>	<p>Piece of mind when monitoring the entire house at once. Faster reaction to critical situations. No switching between sources.</p>
<p>Event-driven display Surveillance images, smart home controls and other convergence information appear on the home theater screen automatically when a motion or other critical event has been detected.</p>	<p>The user has to check cameras, PC screen and smart home manually on the regular basis or on a signal from a separate light indicator or sound buzzer.</p>	<p>Never miss a critical situation. Faster reaction to critical situations. Piece of mind.</p>
<p>Visual control Surveillance, home automation, personal computer and/or other home systems display their operating controls on the home theater screen.</p>	<p>Surveillance, home automation, personal computer and/or other home systems are operated with no visualization or via a separate monitor (e.g. PC or box panel).</p>	<p>Operating convenience. Control consistency and comfort. No confusion.</p>
<p>Audio integration Surveillance system (with camera microphones), home automation, personal computer and/or other home systems mix their sound alerts and other audio streams into the home theater speakers.</p>	<p>Surveillance system (with camera microphones), home automation, personal computer and/or other home systems have no audio channel or stream their sounds to a separate set of speakers.</p>	<p>Maximizing equipment value. Never miss a critical alert. Faster reaction to critical situations. Piece of mind.</p>
<p>Compatibility Integration system readily works with any commercially available surveillance cameras, home automation devices and other house technology components.</p>	<p>The user has to replace existing cameras, computers, network equipment and/or automation devices. The user selection is limited to a certain type of cameras and/or automation devices.</p>	<p>Investment security. Wider selection. No confusion.</p>

3. General Concerns

Additionally, all of the respondents in the consumer research pointed out specifically that they will not purchase a product that either:

- compromises the original home theater video quality;
- requires rewiring of the home theater components;
- changes their usual way of operating the home theater;
- costs over 25% of the home theater equipment cost;
- does not fit the home theater rack, shelf or cabinet;
- involves professional help for installation;
- requires regular updates or maintenance.

B. COMPETING PRODUCTS

Roptover Systems has conducted comprehensive product studies of commercially available home integration systems, based on the following data sources:

- Personal interviews with professional home systems integrators
- CEDIA⁴⁰ printed publications and Internet materials
- Home theater industry periodicals and trade show reports
- Home theater and automation Internet portals
- Publicly available research surrounding equipment manufacturers and distributors

The research reveals the following distinct groups of consumer products that are specifically offered or can be used for various home theater convergence applications⁴¹:

- **Digital Set-Top Box (DSTB)** is an aerial, cable, satellite or IP television signal receiver equipped with a range of interactive digital content services such as video on demand (VOD), personal video recorder (PVR), electronic program guide (EPG), television commerce, etc. Selected models include convergence functions such as a built-in Internet browser (e.g. Roxus SBA2011E), or telephone caller ID display (e.g. Bell ExpressVu 3100). Most DSTB's are reasonably priced (\$100-400) and gained popularity among cable TV subscribers since they usually come from service providers (e.g. Adelphia Cable, Time Warner, Cox Communications) on the lend-lease basis. DSTB convergence services, however, are accessible only with the provider's signal: a cable DSTB, for example, is useless while watching DVD, satellite, or HTPC.



⁴⁰ Custom Electronic Design and Installation Association.

⁴¹ Disregarding exotic custom solutions and personal home projects.

- **Digital Network Media Streamer (DNMS)** is an electronic device that delivers video, audio and still pictures from a personal computer to the home theater through either a wired or wireless home network. An advanced media streamer has component video and digital surround audio capabilities, which makes it a regular home theater component, similar to a DVD-player or satellite receiver. Selected models also make it possible to browse the Web on the home theater screen. DMS are now available from many manufacturers (e.g. *ADS Media-Link* or *iCube Play@TV NMP-4000*) at a retail price of \$150 to \$700 depending on the features.



- **Home Theater Automation Controller (HTAC)** is a full-profile box that installs in the home theater rack to control the theater components and home automation network. A system usually comes with a universal remote that replaces individual remotes. Advanced models visualize their operating controls on the home theater screen through a designated video input. The HTAC selection is very limited (*Control4*, *Cortexa*, *Niles*) due to their relatively high price (\$500-\$3,000) and functionality restrictions.



- **TV caller ID box (TCID)** is a small accessory that has become recently available on the market (e.g. the *TV Messenger Plus*). It displays the phone caller's name and number on the TV screen it is connected to. Advanced models provide call waiting and other telephone options as well. While quite inexpensive (\$80-150), all commercially available TVCID boxes are designed for a regular composite/RF connection, which cannot be used on a high quality video signal such as that from an HDTV cable receiver or progressive scan DVD player.



- **Handheld Video Monitor (HHVM)** includes a single surveillance camera that transmits its video signal wirelessly to a compact handheld screen. Products of this group are typically positioned as baby monitors but can be used for other surveillance applications. Brand name HHVM's are now available at \$149 to \$499 depending on the quality and features.



➤ **Video Sequencing & Multiplexing Devices (VSMD)** feed video signals from surveillance cameras to a designated input of the home theater display. The user manually turns the display to the designated input in order to see images from the cameras. Multiple cameras are displayed sequentially or tiled together for simultaneous viewing. Selected models are equipped with motion sensor inputs for automatic image popup. These products were originally designed for professional and commercial surveillance applications rather than home use. Retail prices vary in the \$100-500 range.



➤ **Home Theater Personal Computer (HTPC)** is a universal computing platform loaded with multimedia hardware (DVD-drive, quality video and sound cards), software (Windows MCE or iMedian shell) and peripherals (remote control, wireless keyboard), enclosed in a designer case that fits into a standard home theater rack. HTPC is typically used to download and play digital media content, browse the Web, play state-of-the-art computer games and similar applications. HTPC can be equipped with extra hardware/software for telephonic and network communications, video surveillance, home automation and other convergence functionalities. The actual functionality and price of an HTPC solution depends on the components used⁴². With its video output connected to the home theater monitor and its audio output wired to the surround sound system, an HTPC cannot function in combination with another signal source. Moreover, a contemporary HTPC is noisy, virus prone, and, being a universal computer, requires regular maintenance and updates.



C. COMPETITIVE ANALYSIS

The table on the next page represents each competition product group by two of its most typical products. Compared functions and features are marked as fully supported (“+”) or partially supported (“±”) according to the manufacturer’s datasheets. Prices are quoted from consumer electronics outlets such as RadioShack or similar retail stores as of January 1, 2006.

The analysis indicates that the greatest competitive threat comes from the HTPC-based solutions. However, HTPC’s are laden with a number of unattractive features that render them impossible to be used as an efficient home convergence system. The main cause is that an HTPC is essentially a regular personal computer, which brings the following restrictions:

⁴² For this competitive research, Roptover Systems Inc. tested two HTPC configurations based on a silent Intel P4 / Windows MCE platform (\$1,000) with a designer case (\$250) and the following additional components:

Trial #1. Powerlink 1132 (\$89), SVTFS-0403 (\$199), HomeSeer (\$199), GOTCHA!Multicam (\$399)

Trial #2. SVTFS-0412 (\$429), SecuritySpy (\$199)

- ✦ HTPC installation and efficient operation requires a firm understanding of modern computing concepts such as file, network, and other advanced skills.
- ✦ HTPC is prone to computer viruses, software conflicts and other computer problems that require professional assistance to resolve.
- ✦ HTPC makes a significant amount of noise detracting from the home theater experience. "Silent" models are unacceptably expensive for the mass consumer (\$5,000+).
- ✦ HTPC is not able to deliver home convergence functionalities onto video programs from home theater components other than itself (cable box, satellite receiver, VCR, etc.)

	DSTB		DNMS		HTAC		TCID		HHVM		VSMD		HTPC		Roptover	
	Bell ExpVu 3100	Roxus SBA2011	LinkSys WMCE54AG	D-Link DSM-320	Control4 AVM-HTC1-B	Cortexa 7201	TV Messenger	TV Messenger Plus	Lorex 49-1021	BebeSounds TV872	NetMedia VS4x1	Security Labs SLX912	Trial HTPC Solution #1	Trial HTPC Solution #2	HoTSCaN	HoTSPoT
Functions / Capabilities as per A.1																
Surveillance									+	+	+	+	+	+	+	+
Safety													±		+	+
Security													±		+	+
Telephone	±						±	±								+
IP-phone																+
Videophone																+
E-mail																+
Calendar																+
Internet		±											+	+		+
Photo albums			+	+									+	+		+
PC desktop																+
Computer games													+	+		±
Computer music			+	+									+	+		+
Computer videos			+	+									+	+		±
Automation					+	+							+		+	+
Parental control																+
Features / Benefits as per A.2																
Single display	+	+	+	+	+	+	+	+			+	+	±	±	+	+
Show continuity	±						±	±							+	+
Single control			+	+									+	+	+	+
Multiple sources												+	±	±	+	+
Event-driven	+						+	+	±	±		±	±	±	+	+
Visual control	+	+	+	+	+	+							+	+	+	+
Compatibility	+	+	+	+	±	+	+	+	-	-	±	±	±	±	+	+
Retail price (\$)	99	199	249	190	599	1995	119	149	199	169	159	299	2136	1878	800	1200

D. COMPETITIVE ADVANTAGE

The above analysis makes one central theme readily apparent: **the Roptover solutions are the only viable option among the competition to offer the full set of consumer benefits**, including the most important benefit; show continuity. The HoTSPoT and HoTSCaN systems stand out by offering a truly unique set of features and functionalities that effectively fill a major void in the home convergence market and are highly anticipated by home theater professionals and enthusiasts⁴³. This gives Roptover Systems a distinct competitive advantage, which is sustainable due to the design sophistication and patent protection which will serve as a major barrier to entry for future competitors.

Since Roptover Systems has no direct technological equivalent, the Company will have an opportunity to establish a significant footprint and thus gain a measure of brand recognition among consumers. This advantage will place the Company in an excellent competitive position to capture a considerable share of the exponentially growing convergence market. The robust competitive advantage also allows Roptover Systems to earn significant margins on the initial product sales through the pricing strategy known as “skimming”. This strategy will provide a working capital necessary to fulfill the Company’s manufacture, marketing and sales goals as outlined in the remainder of this document.

Roptover Systems operates on the assumption that constant innovation is necessary to remain ahead of the competition. Therefore, the Company will leverage its research and development resources to extend the products line as well as improve the existing concepts, designs, and additional revenue streams described herein⁴⁴.

⁴³ Appendix A, “Professional and Consumer Testimonials”.

⁴⁴ See Section IV.C “Business (B2B) Market”.

V. MARKETING PLAN

A. OVERVIEW

Roptover Systems plans to implement a multi-faceted marketing program that will serve to introduce the brand into the marketplace as well as to cement the Company's name and the new technology platform in the consumer electronics and home convergence markets. **Roptover Systems will initially target the hi-end home convergence market where the new technology will be enthusiastically welcomed by eagerly awaiting early adopters.** Although potential strategic partnerships and/or licensing agreements may expedite the mass-market introduction of the Roptover technology platform, the company anticipates that a two year hi-end market penetration strategy will precede the Company's entrance into the mid-range home convergence market.

B. BRANDING STRATEGY

For the first three years of operations, Roptover Systems will position itself as a high-quality, top-of-the-line electronics component manufacturer that provides a previously unimaginable technology solution for the hi-end home theater owner. Because convergence technology like Roptover's has yet to reach the market, the Company will need to employ an aggressive marketing and public relations awareness campaign in order to effectively reach and capture the initial target market. Fortunately, numerous cost-effective avenues and venues exist solely for the purpose of promoting new technologies in this space (e.g. C/NET, Trade Publications, and Consumer Electronics publications).

The hi-end home theater market is estimated to total over 1 million consumers in 2007 with a gradual growth rate to 2 million by 2011⁴⁵. This consumer group represents true home theater enthusiasts who proudly own a hi-end system (\$10,000+) and can be characterized as follows⁴⁶:

- **Well-to-do:** 90% professional occupation, a household income of \$110,000 - \$140,000, an annual home theater budget of \$1,500- \$6,000.
- **Innovative:** early adopters, 75% have updated their home theater equipment in the last 3 years to stay on the cutting-edge of technology.

⁴⁵ See the detailed projections in Appendix B, section 1.

⁴⁶ Based on the industry media kits, available upon request.

- **Involved:** 80% are subscribed to home theater periodicals and/or visit specialized Web forums on the regular basis to follow industry trends.
- **Reachable:** 90% take action as a result of seeing a commercial ad or reading a feature article in a home theater periodical.
- **Influential:** 85% act as opinion leaders and mentors by providing home theater recommendations to their relatives, friends, and colleagues.

This target market presents an excellent opportunity for Roptover Systems to establish and communicate the brand through viral marketing. Historical industry trends (e.g. expansion of plasma TV's and TiVo video recorders) clearly demonstrate that 'word of mouth' marketing is extremely effective due to the constant demand in the defined target market for new technology. The Company also plans to pursue a strong public relations campaign to create a 'buzz' surrounding the Roptover product line in the home theater enthusiast community; see details below.

In the second phase of operations, Roptover Systems will incrementally penetrate the mid-range and low-end market segments to realize its full market potential. The exact strategy and timing will be defined by manufacturing and distribution alliances the Company will secure by the end of its third year.

C. PROMOTION STRATEGY

The uniqueness of the Roptover convergence systems makes it necessary to communicate their features and functionalities to the target consumer group through all available information channels. With the Company's initial marketing focus slated for the hi-end market, Roptover Systems plans to stream its advertising primarily via home theater print media, specialized Web portals, and industry trade shows as described below. The total direct audience of these channels can be realistically estimated as over one million home theater owners with a total effective reach of 5 million consumers through the previously cited Word-Of-Mouth-Marketing (WOMM) channels.

1. News Releases

Roptover Systems offers a unique and viable solution for the home theater convergence niche that the press has been eagerly anticipating. For that reason, the Company expects technology writers of popular news publications to express strong interest in the HoTSCaN and HoTSPoT products. Therefore, Roptover will plan periodic news releases and on-air/web cast product demonstrations that will coincide with the production cycles of the products.

2. Magazine Advertising

Roptover Systems plans to initiate an advertising campaign to create brand visibility for the HoTSCaN and HoTSPoT products. The Company plans to target home theater illustrated periodicals that offer commercial advertising programs. Applicable rates for advertising (including all creative elements: design, layout, and publishing) in the most popular home theater publications:

Title	Period	Circulation	Inside Full Color Page Rate
The Home Theater	12/yr	104,000	\$16,000
The Home Theater Builder	4/yr	30,000	\$1,900
The Stereophile Guide	12/yr	75,000	\$7,900
The Connected	6/yr	100,000	\$2,900

With all applicable discounts and specials, the magazine promotion campaign is expected to cost approximately \$80,000 to \$300,000 a year depending on advertising intensity.

3. Feature Articles

Roptover Systems will be seeking an opportunity to have the HoTSPoT and HoTSCaN products reviewed in feature articles and convergence columns of home theater periodicals, both in print and online media. The following two publications provide the best exposure to the Company's target market:



The Home Theater Magazine: a recognized leader of the home theater related press.

The Connected: Managing Your Personal Media: a new yet strong publication that covers all in-home technologies and specifically the convergence thereof.

Because HoTSPoT and HoTSCaN fall in the high-profile "home theater convergence" niche, Roptover Systems expects to garner significant attention from writing contributors, editors, and publishers of these periodicals. To entice them further, the Company plans to provide a few complimentary product units of the probationary lot⁴⁷ for the magazine's collective or personal use.

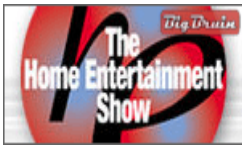
⁴⁷ Section VII.A.3 "Production unit development".

4. Trade Shows

Roptover Systems plans to present the HoTSPoT and HoTSCaN products in popular trade shows throughout the North America:



The **Consumer Electronics Show** is the world's largest annual tradeshow for consumer technology and America's largest annual tradeshow of any kind: nearly 2,500 exhibitors from all over the world and more than 130,000 attendees.



The **Home Entertainment Show** is a bi-annual event and has on display the largest and most comprehensive collection of home theater products. The event draws more than 15,000 of the most enthusiastic and well-informed experts from all parts of the world.



The **CEDIA Expo** is a prestigious annual exposition of the latest achievements in residential electronics with an attendance of approximately 30,000 people. The Custom Electronic Design and Installation Association is the largest home integrator association in the world.



The **Home Theater Cruise** is an annual theme conference where the major home theater hardware manufacturers and industry professionals present the latest technologies to the press and most devoted enthusiasts.

Trade shows will allow the Company to gain exposure to technology enthusiasts, mass media, and potential corporate buyers from established technology companies who are looking to enhance their product offerings. Attending trade shows will then be an excellent means for the Company to (1) create industry buzz, (2) demonstrate the features of their products, and (3) network with other technology peers. The annual tradeshow expenses are estimated at \$50,000 to \$200,000 including participation fees, equipment rentals, travel, promotional goods, and related expenses.

5. Web Forums

The hi-end home theater market consumer profile suggests that the typical potential customer of Roptover products is a experienced computer user who uses the Internet for daily business and personal needs. For this reason, Roptover Systems will be placing commercial banners and sponsored links on the following popular home theater Web sites and forums:

Home Theater Forum:	<u>www.hometheaterforum.com</u>
AV Science Forum:	<u>www.avforum.com</u>
The Home Theater Spot:	<u>www.hometheaterspot.com</u>
Home Theater Talk	<u>www.hometheatertalk.com</u>
Hi Def Forum	<u>www.highdefforum.com</u>
HT Guide Forum	<u>www.htguide.com/forum</u>

The Web advertising budget is estimated at \$5,000-20,000 a year depending on aggressiveness. The Company also plans to play an active role in Web forum discussions that relate to topics associated with the Roptover products.

6. Company Website

Roptover Systems has reserved the www.Roptover.com domain where it will host a multi-lingual Web-site dedicated entirely to the HoTSPoT and HoTSCaN convergence systems. The Web site is planned to contain:

- Detailed description of the HoTSPoT/HoTSCaN features and benefits
- Photo images and video clips of the products in action
- Mail order/E-Commerce page for products and related accessories
- User manuals, setup guides, FAQ and technical help articles
- Online support web service with a forum and chat room
- E-mail and telephone contacts

The site will be actively promoted via popular Internet search engines and directories including Google, Yahoo, and AltaVista.

7. Direct Mail

Roptover Systems will take advantage of one-to-one communications with potential HoTSPoT and HoTSCaN buyers via the targeted delivery of personalized promotional packages including:

Printed materials: Brochures and leaflets will contain a comprehensive description of the HoTSPoT/HoTSCaN features and benefits in the addressee's preferred language. Colored reprints of mass media featured articles endorsing the products may also be included.

Video materials: A free DVD copy of the HoTSPoT and HoTSCaN presentation video will demonstrate product features in action along with expert commentaries and technical details that create a persuasive 'call-to-action'.

Compelling offer: A uniquely numbered purchase discount coupon with a challenging expiration date to expedite consumer response time.

Attention-getting format: A personalized letter with a fast reply method, such as a return address envelope inside.

Profiled direct mailing lists are available from home theater periodicals on a contract base. Another source is provided by special mailing services, for instance, The Mailing and Fulfillment Service Association: <http://www.mfsanet.org>.

8. Affiliate Promotions

Roptover Systems will initially look to create an affiliation relationship with CEDIA (Custom Electronic Design and Installation Association) that consists of approximately 3,000 home integrators and distributors worldwide. With a CEDIA endorsement, the Company will be able to promote the Roptover products directly to professional home theater installers through the association's trade seminars, Internet publications, and print materials. The CEDIA promotion strategy and related annual expenses are estimated to be in the \$200,000 to \$500,000 range.

D. SALES CHANNELS

1. Home Integrators

These are private companies and individual consultants contracted by homeowners to design and install customized home networking, entertainment, security, automation, and other advanced in-home technology systems. Among other things, a home integration contractor is usually responsible for home theater component selection, which makes them a powerful link and ally in the equipment distribution chain. Home integrators possess access to a number of influential professional associations such as the Custom Electronic Design and Installation Association (CEDIA).

According to CEDIA, over 87% of U.S. consumers would seek the help of a qualified and certified professional to install a home networking or similar system⁴⁸. This statistic clearly demonstrates the unrivaled importance of the home integrator sales channel, specifically in hi-end market segment that Roptover Systems plans to address in the first stage of operation.

An initial market test has been performed by Roptover Systems to evaluate the willingness of home integrators to use the Roptover products in their home theater design; the response has been overwhelmingly positive⁴⁹. Based on independently obtained opinions of eight CEDIA members, the expected annual sales capacity of an average home integrator business is 5 to 8 HoTSPoT and HoTSCaN systems with a sales margin of 30%. Since CEDIA incorporates over 2,000 home installation businesses, the compound annual sales capacity of the channel can be realistically estimated at 12,000 Roptover systems.

2. Direct Sales

A significant component of both the hi-end and mid-range segments of the home theater convergence market is comprised of the aptly named “do-it-yourself” (DIY) consumer that prefer to not use professional help for their respective home theater installation needs. While there is no direct evidence of the DIY market share, it is safe to use the remainder of the previously cited CEDIA estimate (13%), which accounts for at least 100,000 consumers with respect to the initially addressed market segment.

⁴⁸ CEDIA fact sheet, www.cedia.net.

⁴⁹ Appendix A, “Professional and Consumer Testimonials”.

Roptover Systems will follow the proven online sales practices utilized by many hi-end equipment manufacturers. The Company's Web site (see C.6 above) will be equipped with a scalable eCommerce capability to accept online orders for HoTSPoT and HoTSCaN units, parts, and accessories.

The sales capacity of the direct sales channel is projected to be limited by the inventory and order processing performance of the Company's online store rather than by the consumer demand. For the purposes of this business plan, a throughput of 20 orders per business day (5,000 per annum) is assumed with an imposed cost margin of 5%, which accounts for order processing, shipping, and handling.

3. Commercial Retailers

By the middle of the third year of operation, the Company will have cultivated sales channels with commercial retail chains that serve the mid-range consumer electronics market (e.g. Magnolia Video Audio and Bleeker Stereo). The product promotion and sales strategy in this sector is to be defined based on business agreements with specific retailers. In this Plan, Roptover Systems conservatively assumes the compound annual capacity of the two mentioned retail chains, including their eCommerce departments, to be 40,000 HoTSPoT and 60,000 HoTSCaN units. The typical sales margin for a channel of this type is 40%.

E. PRICING STRATEGY

Roptover Systems will operate in a market that is currently void of direct competition. In this situation, the pricing strategy is determined by matching the Roptover products' benefits against indirect competitors and substitute goods and alternative solutions. The price projections below are based upon the consumer study (section V.A), competition analysis (section V.C), and recommendations by the CEDIA members. A limited warranty and customer support⁵⁰ are included.

The unique and long awaited functionality of the Roptover products puts the Company in a good position to pursue the pricing strategy commonly referred to as 'skimming'. The very first lots of deluxe HoTSPoT-I and HoTSCaN-I units will be offered at the introductory price of \$3,000 and \$2,000 respectively, comparable to the price of advanced HTPC systems. In two quarters of hi-end sales, these exclusive prices will be reduced to the regular level of \$2,500 and \$1,500 respectively. Through the succeeding years the Company will gradually (10% a year) yield the price of the deluxe product line to reflect the projected reduction of manufacturing costs associated with the principles of economies of scale and to increase overall product sales.

⁵⁰ Section VIII.G "Customer Support".

In the third year of operation, Roptover Systems will introduce more affordable HoTSPoT-2 and HoTSCaN-2 units priced at \$1,200 and \$800 respectively. These price points will appeal to most mid-range home theater owners; according to the professional consensus that the Company has collected (see Appendix A). In the following years, Roptover Systems will continue lowering the prices by 10 to 15% annually to address the factor of emerging competition and commoditizing the functionality. A detailed pricing data table is presented in Section X.A.2 “Projected Revenues”.

VI. DEVELOPMENT & MANUFACTURING

A. PRODUCT DEVELOPMENT

Roptover Systems has organized the technological research and product development process in four consecutive phases.

Phase I - Engineering Models (complete: Jul 2003 – Feb 2004)

The HoTSPoT and HoTSCaN engineering models were universal PC systems that emulated the primary product functionalities in a conventional computer environment. They were designed as test platforms for HoTSPoT/HoTSCaN functional algorithms, product specifications and component architecture. The models were also used to define the technology patenting base.

The engineering model development phase was realized by Dr. Roptover on a budget of \$7,532 paid out of the Roptover Systems funds⁵¹. Upon completion of the phase, the models were taken apart to reuse the hardware components in the next phase.

Phase II - Prototype units (complete: March 2004 – October 2005)

In this R&D phase the Company completed a functional prototype of the HoTSPoT/HoTSCaN electronic circuitry and control software. The prototype units were used to prove the design concept, align the features, and demonstrate the products. As of today, Roptover Systems is in possession of three operational HoTSPoT prototype units and two operational HoTSCaN prototype units.

The prototype development phase was accomplished by Dr. Roptover and the *Excel-IT* engineering team (section VIII.D) employed on the contract basis. The related costs and expenses totaled \$78,638, paid in full out of the Roptover Systems funds¹.

Phase III - Production units (planned: Q1-Q3 of business operation)

The purpose of this development phase is to refine the prototype design into the consumer-ready deluxe HoTSPoT-I and HoTSCaN-I products and make them ready for cost-effective serial fabrication in small lots of 100 to 1,000 units. The production units will inherit over 90% of electronic circuitry, firmware, and software from the prototype units. The development efforts in the phase will be focused on optimizing performance, reliability, usability, and exterior design of the products, as well as reduction of the associated manufacturing costs.

⁵¹ Detailed schedule of incurred costs is available upon request.

The detailed Production Unit Development Plan exists as a separate document, available upon request⁵². This development plan covers all engineering, administration, and financial aspects of the design process, and suggests a balanced step-by-step workflow procedure, accounting for all major predictable risks. The plan includes fabrication of a probationary lot (10 HoTSPoT-I and 10 HoTSCaN-I units) for the purposes of engineering certification, market tests, tradeshow expositions, and product promotion.

The Production Unit Development Plan is drawn to be fully implemented by the Penza special R&D section (SRDS) of Excel-IT, a leading hardware/software design \ company located in Moscow, Russia. The process will also involve a limited number of reliable design and manufacturing businesses in the United States, Russia, and Taiwan.

The Production Unit Development Plan includes a detailed calculation of related expenses totaling \$444,150. The estimated implementation time is 40 weeks, which accounts for all predictable delays. An additional two months are planned to mitigate emergencies, logistics, and manufacture setup.

Phase IV - Further development (planned: 2nd year of operation & on)

Once the HoTSPoT and HoTSCaN production unit design phase is complete, Roptover Systems will continue its product development efforts in six major areas.

1. **The Company will be reviewing the original product design and architecture in order to build the lighter and more affordable modifications** (HoTSPoT-2 and HoTSCaN-2) that would form the Company's mid-range product line.
2. **The Company will be improving the deluxe HoTSPoT-I and HoTSCaN-I product design** to reduce the factory costs by use of newly introduced electronic parts, advanced assembly techniques, and alternative software platforms.
3. **The Company will be working to offer special editions of the deluxe HoTSPoT-I and HoTSCaN-I systems** that would include new features such as modular connections, integrated wireless peripherals, speech-driven UI, and other innovations that now exist in the Company's idea portfolio.

⁵² HoTSPoT/HoTSCaN Industrial Production Unit Design and Development Plan, 55 pages.

4. **The Company will be developing a line of accessories for the HoTSPoT and HoTSCaN systems** such as backlight cameras, tailored wireless keyboard/mouse combos, wider range remote controls, special home automation devices, and related products.

5. **The Company will be extending its product line by finalizing the existing design of HoTSEaM, CellSPoT, TV Info and other prospective products** described in section III.C.

6. **The Company will be developing OEM component modules**, based on licensing and affiliation agreements with television, media PC, and other home electronics hardware manufacturers.

Roptover Systems plans to retain the proven and well-equipped Excel-IT SRDS team as the major research and development workforce. The overall annual cost of the outsourced R&D operations is estimated to be \$320,000, based on earlier development phases and Excel-IT's quotes. In the succeeding years, the Company will be increasing the R&D budget to retain the lead in the home convergence technology industry.

B. PRODUCT MANUFACTURING

The HoTSPoT and HoTSCaN systems in their various incarnations will be manufactured using typical electronic hardware fabrication and assembly techniques. The electronic circuitry is mounted on printed circuit boards in an ISO 9002 certified facility. The electronic boards are then installed and wired in a custom-designed metal-plastic case along with external control and connection elements. After the internal MC chips and ROM cards are properly programmed, the assembled unit undergoes an exhaustive test routine. Finally, the unit is sealed in a soft plastic bag and packaged in a colored cardboard box with foam spacers along with a user manual, warranty coupon, software CD, power cord and external connection cables.

1. Hi-end production (starting Q6 of business operation)

After the *Production Unit Development Plan* (see A.3. above) has been completed, Roptover Systems anticipates a five-month period to accomplish field tests, engineering certifications, and factory setup. In the 6th quarter of business operations, the Company will begin a small-scale production of the deluxe HoTSPoT-I and HoTSCaN-I systems with an initial monthly run of 150 and 30 units respectively. In the 8th quarter, as the factory process is firmly established and refined, the production output will be increased to 400 HoTSPoT-I units and 100 HoTSCaN-I units per month.

Through its relationship with Excel-IT, Roptover systems has secured a tentative agreement with a top-tier ISO 9002 certified factory in Taiwan to develop the electronic components. All parts and materials, required by the product design, will be commercially available from multiple vendors to avoid supply impediments. Roptover Systems has secured an arrangement whereby the enclosure construction elements will be manufactured by an ISO 9002 certified Company in Zelenograd (Russia) out of their own raw materials, using engineering documentation and casting molds provided by Roptover Systems. Packaging, manual, CD, cable, and accessory supplies are readily available from multiple sources; specific arrangements favorable to the company will be secured appropriately.

The Roptover Systems production personnel will install electronic components into enclosures, program internal controllers, perform quality tests, and package units for shipping. Each unit will undergo 24 hours of continuous automated testing before shipping it to the customer. Quality management procedures will be established in all phases of the small-scale deluxe production in accordance with the industry's best practices.

The manufacturing facility will be setup in the Moscow region of the Russian Federation. The manufacturing labor will be delivered by a local team of 15 certified technicians and two production managers under general supervision of the Chief Technology Officer. The production personnel payroll will total \$24,000 monthly, including all applicable payments as required by the local labor regulations. A suitable factory space of approximately 20,000 square feet is yet to be identified; the typical monthly rate is \$2,500 including communications and utilities. The production equipment will include 12 assembler workstations (\$3,000 each), miscellaneous tools (\$25,000) and three HoTSTaR⁵³ test stations (\$5,000 each) supplied by the Excel-IT SRDS. Consumer-ready units will be shipped to the Roptover Systems headquarters by monthly lots, starting with 200 units in the first month and rising to 600 units in the fifth year of operations. The associated freight, import, and handling costs are estimated at \$1,500 per 100 units. Inventory storage facilities will be set up as a part of the Company's commercial office space.

2. Mid-range production (starting Q10 of business operation)

In the end of the 2nd year of business operations, Roptover Systems will start establishing a full-scale manufacturing process to produce the mid-range HoTSPoT-2 and HoTSCaN-2 systems with an annual output of up to 75,000 units. All necessary preparations are expected to take from 3 to 5 months for the actual production to begin in the 10th quarter. The full-scale production will be organized in a third party manufacturing facility in one of the Pacific Rim countries. For business planning purposes, Roptover Systems assumes an annual factory maintenance and labor cost of \$25,000 per 1,000 units. As full-scale production continues, the per-unit cost is expected to decrease due to continuing product development and volume increase. Consumer-ready units will be shipped to the Roptover Systems storage facility in the

⁵³ Described in the *HoTSPoT/HoTSCaN Industrial Production Unit Design and Development Plan*, section A.2.3.

U.S. for further distribution. An adequate storage facility will be identified and subsequently secured in the vicinity of the Company headquarters. The inventory management team is currently projected to consist of three individuals.

3. Production Supplies

An exact calculation of the variable costs associated with production makes a part of the *Production Unit Development Plan* (see A.3 above). The table below presents a preliminary estimate based on the product prototype design and includes the required parts, components and raw materials, as well as the applicable third-party technology licensing fees. The projected annual cost reduction of 10% reflects the technology advancement due to the continuing development effort (see A.4 above) and the consistent trend of declining prices of electronic components.

Product	Year 2	Year 3	Year 4	Year 5
HoTSPoT-I	352	317	285	257
HoTSCaN-I	143	129	116	104
HoTSPoT-2		160	144	130
HoTSCaN-2		90	81	73

VII. MANAGEMENT & STAFF

A. EXECUTIVE MANAGEMENT

The founding members of the Roptover Systems Executive Management team bring to the Company superior technical expertise, business acumen, leadership ability, and an unmitigated passion for success.

George Roptover, Ph.D., President & CTO:

Dr. George Roptover is the chief architect of Roptover System's intellectual property and proprietary technology. His extensive multi-discipline background, including signal processing, microelectronic engineering, and computer software design directly led him to develop the innovative core technologies upon which Roptover Systems is founded. Dr. Roptover has over ten years of successful track record in senior research and development positions with such recognized hi-tech industry leaders as Intel, Semantec, Oracle, and Microsoft. He attended Russia's most prestigious technical university, the Moscow Institute of Physics and Technology (aka 'Fizteh'). In 1995 he completed a dissertation on digital signal processing technologies and obtained his Ph.D. in Information Technology from the Russian Academy of Sciences.

Richard Starling, CEO:

Mr. Richard Starling has a strong record of venture management, business development, and strategic planning expertise in a wide array of industries including entertainment, media, government, and technology both prior to and as a Managing Director of the Beverly Hills, California based Consulting Group, Capital West Advisors. Mr. Starling has provided consulting and management services for CEO's, senior executives and clientele of the Interpublic Group (NYSE: IPG), the law firm Cloidon & Foerster, and the Venture Capital group Entertainment Media Ventures. Mr. Starling's diverse successes include managing several entertainment groups, including the nationally acclaimed Las Vegas Act, Skin Tight, procuring capital in excess of \$15 million for his clients and personal ventures, and serving with distinction in the U.S. Navy, earning numerous awards working in conjunction with the Secret Service, NCIS, and various other agencies in Anti-Terrorism planning and mitigation strategies for the Secretary of Defense and President of the United States. Mr. Starling earned his B.S. in Business Management from the University of Redlands and currently serves on the board of directors for ION Industries, an early stage enterprise operating in the directed energy field, an advanced branch of interdisciplinary sciences, working with various public and private agencies associated the federal government and the defense industry. Mr. Starling is also presently under contract with La Ventana Publishing, a European enterprise, to publish a series of professional entrepreneurial literature.

Olga Shulenko, COO:

Mrs. Olga Shulenko manages the Company's international operations, coordinating the research and development activities for the offshore engineering team. In 1994 she founded the Excel-IT company in Moscow (Russia) and led its growth to ultimately become one of the leading developers and suppliers of computer telephony systems and knowledge management software in the Russian Federation and the CIS. The ongoing success of Excel-IT stems largely from the business strategy and customer base originally developed by Mrs. Shulenko. She served as the President of Excel-IT until 1999, and now holds a major share of the business along with the position of Director of Emerging Technologies. Mrs. Shulenko attended Russia's renowned Moscow State University, where she received a M.Sc. in Information Technology.

Roptover Systems will fill the remaining management positions with highly qualified executives approved by the primary investor(s) upon securing Series 'A' financing. The members of the Advisory Board (see section VIII.B below) and several additional qualified individuals have expressed their genuine interest in joining the Company on the full-time basis subsequent to capitalization and approval of the primary investors. Roptover Systems will also field candidates who the primary investor(s) suggest for the Executive Management team.

B. ADVISORY BOARD

The Roptover Systems Advisory Board is comprised of seasoned management executives whose professional expertise extends into all major aspects of the Company's present and future operations. The members of the Advisory Board currently counsel the Company's Executive Management Team on all major business decisions.

Patrick Cloid is a business development and strategic planning executive with extensive experience developing new ventures in the digital home space. Most recently, Mr. Cloid has served as Domain Director for Best Buy Enterprises, Inc., with focus on consumer technologies, new media, and online digital entertainment models. His background includes over 15 years of business development in the Internet and consumer electronics industries, he previously held senior managerial positions in Best Buy, idealab!, Deloitte Consulting (Braxton), W.E. Simon and Sons, Walt Disney and Sutter Health. Mr. Cloid advises the Company on the key questions of strategic partnerships and business modeling.

Reginald Fogers has over 20 years of executive experience in the key areas of business planning and financial management in both the private and public sectors. His performance record includes such positions as Director of the Center for Entrepreneurship and Innovation at Cal Poly Pomona's College of Business Administration, and Co-Founder of Isadra Inc., a Silicon-Valley e-commerce software venture acquired by VerticalNet, Inc in 1999 for \$50 million. Mr. Fogers counsels the Company on the subjects of financial modeling and budget planning.

Michael Atwood is the Founder and President of Brentwood Communications, one of the oldest and most respected home system integration companies in the Los Angeles area, operating since 1973. Mr. Atwood is a founding member of the most influential CEDIA (Custom Electronics Design and Installation Association) organization and is well known in the industry as an innovator and visionary. With his 30+ years of professional experience, Mr. Atwood advises Roptover Systems on hi-end market strategies, consumer trends, product configuration and technological requirements.

C. BOARD OF DIRECTORS

The Roptover Systems Board of Directors will be assembled upon the first phase of capitalization to provide sound strategic guidance surrounding the Company's business model and operations. The board is planned to include authorized representatives of the key investor(s) and unaffiliated individuals with solid experience in the industries which the Company will operate in, subject to approval by the investor(s). Presently, Roptover Systems considers the Advisory Board members (see above) as leading potential candidates for the Board of Directors, as well as those individuals assigned by the primary investor(s).

D. PERSONNEL

Research & Development Team: Roptover Systems has a strong affiliation with *Excel-IT*, a well-established technology company headquartered in Moscow, Russian Federation. The *Excel-IT* company, fully controlled by Mrs. Shulenko and her family, specializes in telephonic, television, and security solutions. With a full-time staff of about 100, *Excel-IT* maintains operations in twelve Eastern European cities. Today *Excel-IT* has three engineers specifically assigned to Roptover Systems projects. When the next round of development commences, the firm will make these and other engineers available on a dedicated basis. The alliance with *Excel-IT* allows Roptover Systems to take advantage of a low-cost, highly-skilled engineering team, as well as an established development infrastructure, including lab and research facilities, supply chains, and manufacturing affiliations. The overall annual cost of the *Excel-IT* R&D service is estimated at \$320,000.

Sales & Marketing Team will be made out of professionals with extensive sales experience in consumer electronics and home integration solutions. The first two individuals will be hired in the beginning of the second year of the Company's operations to support sales in the hi-end market. The operations plan (chapter IX of this Plan) projects a build-up of the sales and marketing team to four people in the third year and to eight people in the fourth year. The annual compensation of a sales representative is projected at \$55,000, with a 1% sales commission.

Factory Production Team will be formed by the 6th quarter of the business operation to manufacture the small-lot deluxe production⁵⁴ in the Company's Russia-based manufacturing facility. The team will consist of 15 certified technicians and two production managers, hired locally through Excel-IT's employment infrastructure. Management believes that no extension of the factory team will be required through the lifetime of the Company. The total factory team payroll is projected as \$24,000 monthly, including all payments required by the local labor regulations.

Inventory Control Team of 3 persons will start functioning in the 10th quarter of the business operation to manage the product stock as it arrives from the full-scale manufacturing facility in South-East Asia⁵⁵. The average annual salary is projected at \$40,000.

Customer Support Team will start functioning in the 6th quarter of operations when the first sales have been made. The initial team will count two operators with a gradual further extension to 40 operators by the end of the fifth year to serve the growing customer base. The competitive annual salary is \$35,000.

Finance & Accounting Team will be organized in the third year of operation. In the first two years all business accounting and financial procedures will be sourced out to professional contractors under supervision of the Chief Financial Officer. The team will consist of two professional accountants paid \$60,000 a year.

Office & Administration Team will start with a single person in the third quarter of operations and will be extended to three people as the Company moves to a larger office in the third year. The suggested average salary is planned at \$40,000 a year.

⁵⁴ Section VI.B.1 "Hi-End Production".

⁵⁵ Section VI.B.2 "Mid-Range Production".

VIII. OPERATIONAL PLAN

A. OPERATIONAL OVERVIEW

Roptover Systems scheduled its business operations plan in three consecutive periods as follows:

- **Preparation period (Year 1):** The Company completes the manufacturing design of the initial products (section III.B) and builds the hi-end market distribution channels (section VI.D). The development and probationary lot fabrication are completed in Russia through the *Excel-IT* affiliation. The U.S. office of the Company coordinates the operations and prepares the product marketing campaign.
- **Startup period (Year 2):** The Company begins the small-scale production of the deluxe HoTSPoT-I and HoTSCaN-I systems in its factory facility in Russia (section VII.B.1). The products are distributed through home integrators and direct online sales to hi-end consumers (sections VI.D.1-2). The development team works to design simplified modifications of the initial deluxe products with a price point attractive to the mid-range consumer (section III.B.3).
- **Function period (Year 3 and on):** The Company establishes the full-scale production of the mid-range product line in a Pacific Rim factory (section VII.B.2) while retaining the small-scale deluxe production. The marketing program extends into the mid-range market through the retail channels (section VI.D.3). The Company introduces new home, business, and OEM products (section III.C). Due to the lack of quantitative market data, the revenue opportunities associated with these products are not reflected in this document to retain consistency between the operations plan and financial projections.

The succeeding sections present summarized business operation schedules and related budget requirements through the aforementioned periods⁵⁶.

⁵⁶ Detailed operating expense schedules make a part of *The Financial Plan* document, available upon request.

B. OFFICE & ADMINISTRATION

During the first year of operation (preparation period), Roptover Systems will lease a small office (1000 sq. ft) in Los Angeles, CA for business communication and product demonstration purposes. In the beginning of the second year, the Company will relocate to a larger (10,000 sq. ft) office that will accommodate a spacious showroom and inventory storage.

The Company will use a reputable third-party enterprise management software system to establish effective control of inventory, logistics, billing, and other essential business processes. The website development and maintenance (section VI.C.6) will be sourced out to the *Excel-IT* partner that has all necessary experience and infrastructure for this type of work. The outsourced development and production will require international business travel as well as telephone, mail, online collaboration, and courier communications, mostly to Russia and Taiwan⁵⁷.

	Year 1	Year 2	Year 3	Year 4	Year 5
Office Space & Utilities	24,000	36,000	48,000	48,000	48,000
Communications	12,000	18,000	32,000	36,000	40,000
Business Travel	60,000	90,000	100,000	120,000	160,000
Business Software	2,000	6,000	8,000	8,000	8,000
Website Operations	10,000	6,000	6,000	10,000	12,000
Reserve Fund	40,000	80,000	120,000	160,000	200,000
Total:	148,000	236,000	314,000	382,000	468,000

C. PROFESSIONAL SERVICES

The Roptover products are subject to a number of engineering compliance and compatibility certifications, which will be obtained through recognized certification service providers such as Underwriters Laboratories and CSA international.

Roptover Systems will retain the services of a reputable law firm in Los Angeles, CA to serve as the General Counsel for the Company. Their responsibility will include legal proceedings on business administration, employment, technology licensing, and corporate partnerships. Technology patenting, trademark registration and other intellectual property services will be provided by Freedman and Associates in Ottawa, ON, Canada.

⁵⁷ Tradeshow and sales-related travel expenses are accounted for the marketing budget (section D below).

The accounting functions in the first two years of business operations will be sourced out to an independent C.P.A. firm that will also perform annual fiscal audits and tax filings.

Roptover Systems will also procure the required insurance coverage to manage the risks associated with the Company's type of operations, including comprehensive liability and business insurance.

Roptover Systems will use a professional graphic art design agency to create effective brand and product promotion materials such as logos, letterhead, signs, and booklets. The Company will also allocate funds for professional market reports and custom market research endeavors.

	Year 1	Year 2	Year 3	Year 4	Year 5
Certifications	90,000	80,000	160,000	160,000	160,000
Legal Services	40,000	60,000	80,000	120,000	160,000
Accounting & Audit	10,000	15,000	24,000	30,000	40,000
Business Insurance	10,000	16,000	20,000	25,000	16,000
Market Research	20,000	20,000	120,000	160,000	200,000
Brand development	10,000	20,000	40,000	60,000	80,000
Total:	180,000	211,000	444,000	555,000	656,000

D. MARKETING & PROMOTION

Roptover Systems will use all available public awareness channels (section V.C) to promote the products and the brand. In the beginning of the second year (startup period), Roptover Systems will initiate a strong advertising campaign via the major industry tradeshows (section V.C.4), home theater periodicals (section V.C.2), and home theater web forums (section V.C.5) to promote the deluxe product line directly to hi-end consumers. The Company will also leverage its projected affiliation with CEDIA (section V.C.8) to effectively reach hi-end market distributors and integrators. As the Company enters the mid-range market in the third year of operation, the marketing campaign will be intensified in all aspects to reach a broader audience. The affiliate marketing campaign will be extended to include information and business support to the retail partners of the Company.

	Year 1	Year 2	Year 3	Year 4	Year 5
Tradeshows & Seminars	0	60,000	120,000	160,000	200,000
Magazine Advertising	0	36,000	200,000	240,000	300,000
Web Forum Advertising	0	9,000	20,000	20,000	20,000
Direct Mail Advertising	0	0	20,000	20,000	20,000
Affiliate Promotions	0	175,000	600,000	600,000	600,000
Total:	0	280,000	960,000	1,040,000	1,140,000

E. RESEARCH & DEVELOPMENT

The technology research and product development in all phases will be sourced out to the Excel-IT engineering team. In the first year of operations (preparation period), the development effort will concentrate on the product design refinement as per the Production Unit Development Plan (section VI.A.3). The budget of this phase is calculated at \$370,000. The research and development operating budget of the succeeding years is projected to gradually increase to \$600,000 per year, including staff salaries, materials, and third-party services. This Plan also provides for a capital investment in R&D equipment in the amounts of \$60,000 in the second year up to \$160,000 in the fifth year.

F. MANUFACTURING & DISTRIBUTION

The small-scale production of the deluxe product line will start in the 6th quarter in the Company's proprietary facility located in the Moscow region of the Russian Federation. The full-scale production of the mid-range product line will start in the 10th quarter in a Pacific Rim third-party factory.

The factory maintenance and equipment costs are detailed in sections VI.B.1-2 of this Plan. The full-scale production equipment that comprises a part of the factory setup costs is not reflected. The total cost of parts and materials is calculated from the projected monthly production output and the per-unit manufacture cost as listed in section VI.B.3.

The product lots will be shipped to the Roptover Systems inventory for further distribution. The associated shipping, import and handling cost projections are based on quantity-rated quotes by a major freight service provider. Before full-scale production begins, the Company will use a part of its office space for small-scale inventory storage. In the 10th quarter of operations, Roptover Systems will arrange for a separate storage facility of an appropriate size to accommodate the larger stock requirements associated with full-scale production.

		Year 2	Year 3	Year 4	Year 5
Parts & Materials Costs	small-scale	799,260	1,712,700	1,849,716	1,942,202
	full-scale		1,875,000	4,050,000	7,290,000
Parts & Materials Shipping	small-scale	12,600	30,000	30,000	30,000
	full-scale		75,000	180,000	360,000
Factory Operations	small-scale	142,500	318,000	318,000	318,000
	full-scale		375,000	900,000	1,800,000
Inventory Shipping	small-scale	29,000	92,000	108,000	128,000
	full-scale		225,000	540,000	1,080,000
Inventory Storage		0	20,000	20,000	20,000
Total:		983,360	4,722,700	7,995,716	12,968,202

G. CUSTOMER SUPPORT

Roptover Systems will establish the customer service department in the second year of operation, when product sales commence. The service will comprise a 24/7 toll-free telephone hotline and a dedicated section of the Roptover Systems website that will include a FAQ page, installation guidelines, operation manuals, discussion forum, and support chat room. The customer service department budget below is projected to increase as the number of product units in service grows.

Every Roptover unit will come with a one year limited warranty that covers manufacturing defects and unanticipated product problems. Consumers will be encouraged to register their product on the Roptover website to activate their warranty, or this may be done by the home integrator who installs their system. A registered customer will have access to online firmware upgrades.

Roptover Systems will also establish a product return and repair program for damaged and malfunctioning units. The Company plans for a 5% unit failure rate with an average of \$100 per unit in repairs, upgrades, shipping and handling.

	Year 1	Year 2	Year 3	Year 4	Year 5
Web support		3,000	8,000	12,000	16,000
Phone hotline		9,000	16,000	20,000	24,000
Returns & Repairs		5,250	84,000	182,000	501,000
Total:		17,250	108,000	214,000	541,000

H. HUMAN RESOURCES

The table below projects the Roptover Systems U.S. workforce compensation budget based on the personnel management strategy as detailed in section VII.D of this Plan. The employee benefits and payroll expenses are calculated at 25% and 9% of the base salary, respectively. The outsourced engineering team payroll is an integral part of the outsourced research and development budget (sections VII.A) and is not shown in the schedule. For the same reason, the outsourced production labor payroll is included in the factory operating budget (section VII.B).

	Year 1	Year 2	Year 3	Year 4	Year 5
Executive Management Team	120,000	280,000	480,000	570,000	660,000
Sales & Marketing Team	0	82,500	220,000	336,000	448,000
Inventory Control Team	0	0	60,000	126,000	132,000
Customer Support Team	0	40,110	269,584	574,311	1,601,244
Finance & Accounting Team	0	0	45,000	124,000	128,000
Office & Administration Team	36,000	60,000	110,000	42,000	61,000
Total Payroll:	156,000	462,610	1,184,584	1,772,311	3,030,244
Payroll Expenses	14,400	41,700	106,700	159,400	272,722
Employee Benefits	39,600	115,600	296,000	443,000	757,561
Total:	210,000	619,910	1,587,284	2,374,711	4,060,527

IX. FINANCIAL PLAN

A. NOTES & ASSUMPTIONS

1. Revenue Model

The financial statements below project business operations and sales revenues only for the HoTSPoT and HoTSCaN product lines, and only in the upper and middle echelons of the home convergence market. As previously detailed in Section II.C, the Management has determined the most prudent course of action is to omit the mass-market, media PC market, B2B market and other ancillary revenue streams from the financial forecasts in order to attain a risk neutral financial model, given the absence of verifiable quantitative market data in these segments. However, the preliminary research makes Roptover Systems duly confident that the Company will successfully penetrate and gain significant traction in multiple vertical markets (to include licensing at the OEM level and strategic partnerships), which will subsequently supplement total revenues by two to three fold beyond the present projections.

2. Projected Revenues

The revenue forecast below was developed using the **well-justified, fairly conservative** assumptions and estimates of the following contributing factors:

- Total addressable market (section III.B);
- Consumer need (section IV.A);
- Competitive advantage (section IV.D);
- Sales channel capacities (section V.D);
- Product pricing strategy (section V.E);
- Production capabilities (section VI.B).

	Q7	Q8	Year 2	Q9	Q10	Q11	Q12	Year 3	Year 4	Year 5
Hi-END PRODUCT SALES										
<i>HoTSPoT-I retail price</i>	3,000	3,000	3,000	2,500	2,500	2,500	2,500	2,500	2,400	2,300
HoTSPoT-I units sold	500	600	1,100	1,000	1,250	1,250	1,250	4,750	5,750	6,750
<i>HoTSCaN-I retail price</i>	2,000	2,000	2,000	1,500	1,500	1,500	1,500	1,500	1,400	1,300
HoTSCaN-I units sold	100	120	220	200	250	250	250	950	1,150	1,350
Total Hi-End Sales	600	720	1,320	1,200	1,500	1,500	1,500	5,700	6,900	8,100
MID-RANGE PRODUCT SALES										
<i>HoTSPoT-2 retail price</i>						1,200	1,200	1,200	1,100	1,000
HoTSPoT-2 units sold						2,500	2,500	5,000	16,000	31,500
<i>HoTSCaN-2 retail price</i>						800	800	800	700	600
HoTSCaN-2 units sold						2,500	2,500	5,000	16,000	31,500
Total Mid-Range Sales						5,000	5,000	10,000	32,000	63,000

Roptover Systems will begin sales of the deluxe product line in the 7th quarter of business operations, targeting consumers in the high-end segment of the home entertainment convergence market. This step will be preceded by a six month awareness campaign through specialized home theater periodicals, Web portals, and trade shows to gain the attention of early adopters and industry opinion makers. The first 1,300 deluxe HoTSPoT-I and HoTSCaN-I units will be sold by the end of the second year at the exclusive introductory price of \$3,000 and \$2,000, respectively.

The hi-end sales will flow in equal shares through the Company's online store, serving Do-It-Yourself (DIY) technology enthusiasts, and the certified home integrator professionals who have collectively been demonstrating significant interest in offering the Roptover products to their clients. The latter channel will be supported by an extensive affiliate marketing program via the Custom Electronics Design and Installation Association (CEDIA), the most powerful network of industry professionals. This program, along with viral marketing, ongoing advertising effort, and constant price reduction, will provide for a gradual increase of hi-end sales to over 8,000 in the 5th year – the volume unanimously confirmed by the luxury home integration industry experts.

The mid-range product line sales will commence in Q11 of business operations via upper-level consumer electronics retailers with a focus on the multi-million consumer group of budget-aware home theater enthusiasts. The initial quarterly sales volume of the mid-range HoTSPoT-2 and HoTSCaN-2 systems is projected to be 2,500 units of either type, priced at affordable \$1,200 and \$800 respectively. Following the best industry practices, the Company will be reducing the product retail prices by approximately 15% a year to address the factor of emerging competition and to increase total sales. Given the technology uniqueness and the intensive product promotion program that is planned, Roptover Systems safely projects the quarterly mid-range sales amounts to double twice by the end of Year five: to 4,500 units of either type in Q14, and to 9,000 units of either type in Q18.

3. Projected Expenses

The table below presents a summary of the projected operating expenses for the most financially sensitive phase (the first two years) of operations, as detailed in Chapter IX of this Plan. Detailed business operating expense schedules for a 5-year period are available upon request.

Startup Operating Expenses	Ref.	Year 1	Year 2	Total
Office & administration	IX.B	148,000	236,000	384,000
Professional services	IX.C	180,000	211,000	391,000
Marketing and promotion	IX.D	0	280,000	280,000
Research and development	IX.E	327,900	320,000	647,900
Customer support	IX.G	0	17,250	17,250
Employee payroll	IX.H	210,000	619,910	829,910
Total:		865,900	1,684,160	2,550,060

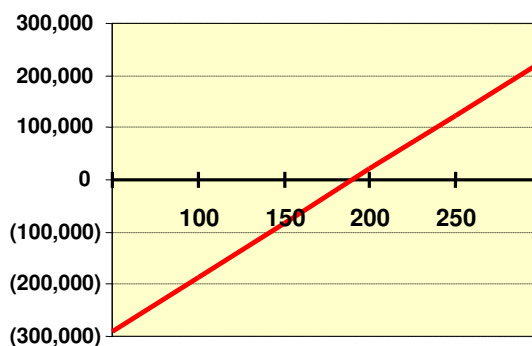
The total requirement for the initial period is estimated to be \$2.55 million, of which a small part (\$100,000) will be covered by the remainder of the Q7 sales revenue after financing the Q8 operations. The U.S. employee compensations of approximately \$830,000 (including benefits at 25% and payroll expenses at 9%) represent the largest expenditure in the initial operating budget. The second largest expense consists of research and development investments of approximately \$650,000 that are required to cover the factory-ready design of the initial deluxe products and subsequent mid-range products. This R&D expense projection is relatively low for the industry due to the Company's reliable outsourcing affiliations. The professional services expense of approximately \$390,000 represents payments for product certification services, legal services, accounting and business audit services, market research, brand design, and other professional consulting costs. The compound Office & Administration budget (approx. \$385,000) covers office rent and supplies, logistics, travel, communications, billing system, website operations, and other general expenses, including a special reserve fund of \$120,000.

Marketing and sales expenses are budgeted at \$972,000 of the initial commercialization phase of the venture, and include \$280,000 in estimated marketing operation expenses (media advertising, affiliate promotions, etc.) and about \$700,000 in sales expenses. The Company's marketing and sales expenses are projected to increase with sales volume and average 35% of gross sales for the remainder of the 5-year forecast period.

The consumer support infrastructure (phone lines, online chat, product repairs) requires only \$17,250 for the initial two years due to an extremely small customer base by the end of the second year (1,300 units in service). In the following years, the consumer support budget (as well as the consumer support team) is projected to grow in proportion to the growing number of units in service, as detailed in section IX.G of this Plan.

4. Break-Even Analysis

The break-even analysis is based on the operational and financial projections for the 6th quarter of the Company's operations, when the hi-end production is scheduled to commence. The quarterly fixed costs are estimated to be \$395,000, which includes all applicable U.S. operating expenses (office and administrative, professional fees, marketing, customer support and the employee payroll), as well as the outsourced



factory facility, utilities, and labor. The manufacturing process for the deluxe HoTSPoT-I system involves a variable cost of \$372 per unit, including the required parts and materials, delivery of the parts and materials to the factory, and shipping of the manufactured units to the Company's U.S. office for distribution. The per unit revenue is assumed to be \$2,445, based on the Q7 retail price of \$3,000, an average sales channel margin of 18% (median of direct online sales and home integrator sales) and an internal sales commission of 1%. The analysis indicates break-even is achieved at the quarterly sales volume of 190 units, or 760 units per year. This means the Company will pass the break-even point in the first quarter of sales (Q7) and will exponentially surpass it thereafter.

B. USE OF PROCEEDS

A total of \$2.45 million in equity financing will be secured from investors to be realized in seven scheduled stages within the first two years of business operations. The funds will be used to support capital investments (~\$215,000), finance the first round of product manufacture (~\$500,000), and cover the operating expenses as described in section A.3 above.

SOURCES OF FUNDS	
Equity proceeds	2,450,000
Debt proceeds	0
Total Sources of Funds	2,450,000
USES OF FUNDS	
Capital expenses	
R&D equipment	87,550
Factory equipment	88,000
Inventory equipment	2,000
Office equipment	38,000
Total Capital Expenses	215,550
Working capital	
Business Administration	487,750
Employee Compensations	479,170
Research and development	567,900
Marketing and sales	200,000
Production and inventory	499,630
Total Working Capital	2,234,450
Total Uses of Funds	2,450,000

C. FINANCIAL STATEMENTS

This section presents a summary of the pro-forma financial statements for the Company and includes all information relevant to determining the financial feasibility of the venture. The pro-forma financial projections have not been audited nor reviewed by an independent CPA, but reflect the Management's best assessment of the future financial performance of the venture, based on an analysis conducted during the course of creating this Business Plan and *The Roptover Systems Financial Plan* document, available upon request. This section consists of the summarized projected financial statements: income (C.1), cash flow (C.2), and balance sheet (C.3). Detailed versions of these statements are presented in Appendix C of this Plan.

1. Pro-Forma Income Statement

The projected financial results for the first five years of Roptover Systems operations:

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues	0	3,740,000	23,300,000	44,210,000	67,680,000
Cost of Sales	0	531,260	3,781,625	7,389,962	11,725,080
Gross Margin	0	3,208,740	19,518,375	36,820,038	55,954,920
Marketing and Selling expense	0	971,900	7,420,500	15,598,850	24,900,800
Operating expenses:					
Office and administration	148,000	236,000	314,000	382,000	468,000
Professional services	180,000	211,000	444,000	555,000	656,000
Research and development	327,900	320,000	400,000	480,000	560,000
Customer support	0	17,250	108,000	214,000	541,000
Employee payroll	210,000	619,910	1,587,284	2,374,711	4,060,527
Total operating expenses	865,900	1,404,160	2,853,284	4,005,711	6,285,527
Net operating income	(865,900)	832,680	9,244,591	17,215,477	24,768,593
Depreciation	10,360	44,261	171,579	474,248	1,066,986
Interest earned	0	83,732	503,640	938,508	1,350,205
Income before taxes	(876,260)	888,809	9,660,727	18,002,281	25,899,395
Income taxes	0	0	0	0	0
Net income	(876,260)	872,151	9,576,652	17,679,736	25,051,812

Year two revenues are projected to be \$3.74 million, representing hi-end market sales for the 7th quarter (when product sales are scheduled to begin) as well as results from the 8th quarter. In Year three the revenues are expected to jump to \$23.3 million, reflecting a deeper penetration into the hi-end market sector and the launch of the mid-range product line in Q11. Revenues for the following years increase at a steady rate as a result of higher sales volume driven by the Company's ongoing marketing efforts and retail price reduction strategy.

Marketing and sales expenditures are projected to be approximately \$1 million in Year two, and provide for the Company's initial entry into the hi-end market. In the succeeding years, the Company will aggressively increase its marketing and sales activities to incrementally bring the related expenses to \$24.9 million in Year five. Throughout the entire forecast period, the marketing and sales expenses will remain around 35% of gross sales, which is considered a healthy level for the hi-end and mid-range echelons of the industry.

Operating expenses are projected to be \$865,900 in the first year of operations, and will gradually rise towards \$6.3 million in Year five to reflect the continuing growth in R&D programs, increased staffing, and cost inflation adjustments. The projected operating results indicate that the Company will incur an operating loss of \$865,900 in Year 1, reflecting the effect of the start-up cycle that will commence in the 7th quarter, which will generate an operating income of \$872,000 in Year two. Thereafter, the operating income for subsequent years will grow in nearly equal increments until it reaches \$25 million in Year five.

Depreciation expenses are calculated based on the book value of the Company's capital assets at the end of the period using a straight-line method with an average asset lifespan of five years. Interest income is projected on the average cash and marketable securities balance for the period in which it is earned at a rate of 5.5% per annum. The current projection shows the interest income to be \$0.5 million in Year 3 and \$1.35 million in Year 5.

Roptover Systems is registered as a limited liability company; therefore income tax expense is omitted from the financial projections.

Net loss is expected to be \$891,000 in Year 1 due to the operating loss being offset by interest income. The projected operating results bring a net profit of \$872 thousand by the end of Year 2, with a subsequent quasi-flat growth to \$25 million in Year 5.

2. Pro-Forma Statement of Cash Flows

The below pro-forma statement of cash flows indicates that Roptover Systems is expected to generate positive net cash flow from operations beginning in the first year of operations, and will continue to experience healthy cash flow performance for the remainder of the forecast period.

	Year 1	Year 2	Year 3	Year 4	Year 5
Cash Flows from Operations					
Net Income	(876,260)	888,809	9,660,727	18,002,281	25,899,395
Depreciation	10,360	27,603	87,503	151,703	219,403
Increase (decrease) in accrued liabilities	15,450	72,235	118,263	89,891	213,569
Increase (decrease) in accrued taxes	0	0	0	0	0
Increase (decrease) in accounts payable	32,000	514,233	813,550	477,169	945,914
Increase in accounts receivable	0	(1,700,000)	(5,383,333)	(3,016,667)	(5,633,333)
Net Cash Flows from Operations	(818,450)	(197,120)	5,296,710	15,704,378	21,644,949
Cash Flows from Investing					
Capital expenditures	55,550	187,000	316,000	326,000	346,000
Inventory buildup	0	452,100	941,075	605,754	1,243,121
Prepaid expenses	0	0	0	0	0
Net Cash Flows from Investing	55,550	639,100	1,257,075	931,754	1,589,121
Cash flows from financing					
Proceeds from issuance of debt	0	0	0	0	0
Debt service payments	0	0	0	0	0
Proceeds from sale of stock	950,000	1,500,000	2,450,000	0	0
Net cash flows from financing	950,000	1,500,000	2,450,000	0	0
Net increase (decrease) in cash	76,000	663,780	6,489,635	14,772,624	20,055,827
Beginning cash balance	0	76,000	739,780	7,229,416	22,002,040
Ending cash balance	76,000	739,780	7,229,416	22,002,040	42,057,867

The cash balances are projected to increase from \$76,000 at the end of Year one to \$42 million at the end of Year five. The prudent management of the Company's working capital will ensure that it will not have any short-term cash shortfalls; therefore the Company anticipates no need for short-term debt financing or similar arrangements.

In the event that the market results of the second and third years of business operations indicate a product acceptance level greater than initially planned, the Company will allocate a portion of the free cash flow towards extended production and marketing.

Roptover Systems plans to secure its start-up capital from the sale of stock valued at \$2.5 million over the first seven quarters of operations. These funds will be used to sustain the Company's business activities through the initial product commercialization stage until the break-even point is achieved in the beginning of the 8th quarter (section A.4 above).

3. Pro-Forma Balance Sheet

The projected pro-forma balance sheet for the first five years of Roptover Systems operations:

	Year 1	Year 2	Year 3	Year 4	Year 5
Assets					
Current Assets					
Cash and marketable securities	76,000	739,780	7,229,416	22,002,040	42,057,867
Product inventory	0	452,100	1,393,175	1,998,929	3,242,050
Accounts receivable	0	1,700,000	7,083,333	10,100,000	15,733,333
Prepaid expenses	0	0	0	0	0
Total Current Assets	76,000	2,891,880	15,705,924	34,100,969	61,033,251
Non-Current Assets					
R&D equipment	34,040	83,703	138,867	195,530	249,693
Factory equipment	0	86,800	214,400	306,800	364,000
Inventory equipment	0	1,800	18,400	22,500	24,600
Office equipment	11,150	32,283	61,417	82,550	95,683
Total Non-Current Assets	45,190	204,587	433,083	607,380	733,977
Total Assets	121,190	3,096,467	16,139,007	34,708,349	61,767,227
Liabilities					
Current Liabilities					
Accounts payable	32,000	546,233	1,359,783	1,836,953	2,782,867
Accrued liabilities	15,450	87,685	205,948	295,839	509,408
Accrued taxes	0	0	0	0	0
Note payable	0	0	0	0	0
Total Current Liabilities	47,450	633,918	1,565,731	2,132,792	3,292,275
Long-Term Liabilities					
Long-term debt	0	0	0	0	0
Total Long-Term Liabilities	0	0	0	0	0
Total Liabilities	47,450	633,918	1,565,731	2,132,792	3,292,275
Shareholders Equity					
Common Stock	950,000	2,450,000	4,900,000	4,900,000	4,900,000
Retained Earnings	(876,260)	12,549	9,673,276	27,675,557	53,574,952
Total Shareholders Equity	73,740	2,462,549	14,573,276	32,575,557	58,474,952
Total Liabilities and Equity	121,190	3,096,467	16,139,007	34,708,349	61,767,227

The balance sheet indicates that if the Company is successful in executing its business plan, the venture will achieve financial liquidity over the horizon of its business plan. Total assets are projected to increase from \$121,190 in Year one to \$16.2 million at the end of Year three, and are expected to reach \$61.8 million at the end of Year five. The Company will be in a strong financial condition, maintaining a solid long-term financial liquidity position.

The total initial start-up equity investment of \$2.45 million will increase to \$58.5 million indicating the solid performance of the Company over the five-year planning horizon. The Company's assets will consist largely of its current assets.