

***KATERRA CORPORATION
EXECUTIVE BUSINESS SUMMARY***

October 2000



Katerra Executive Summary

- **A Huge Opportunity with Potential for High Returns** – Katerra will be delivering to the market a unique and highly defensible broadband infrastructure software technology platform that will revolutionize how users communicate and navigate over the Internet and how companies create and deliver content to users on the Internet. Katerra *expects to be a billion dollar company* and be strategically aligned with the leading Internet companies in the industry.
- **A Unique and Experienced Development Team** – Katerra was founded on the basis that it could and did assemble the best development team in the industry for creating a client/server architecture software platform for the development of massive multi-user 3D internet applications and content sites. This *team was the first to create this type of technology* for Sierra's Imagination Network, and key members of this team refined this technology subsequently at AT&T and AOL.
- **The Killer Application for Broadband** – The Katerra Platform enables Internet application and content developers to create applications and web sites that utilize real world 3D metaphors in which users can interact real time with their environment and other users on a scale never before achieved. This quantum leap in massive multi-user 3D environment client/server technology means that broadband users will be delivered multi-media experiences that are not just faster but fundamentally better and more efficient than they have ever imagined. The Katerra platform with broadband will introduce the advent of a graphically and media-rich (sound, images, and data) environment that will surpass the hyper-text/2-D environment we use today.
- **Broadband, the Focus for Internet Growth** – Broadband provides Internet access speeds of greater than 256KBPS, or 5 to 10 times the speeds that are currently available to dial-up modem users. The telecommunications industry is investing approximately \$1 Trillion to build infrastructure to connect homes and businesses via broadband. Morgan Stanley Research projects that by 2005 65% of U.S. consumer Internet users, or 47 million, will access the Internet via broadband medium.
- **Katerra Enhances Broadband Demand** – While much is being done to create a broadband hardware and telecommunications infrastructure to increase the power and usability of the Internet, little has been done to develop the software infrastructure or development platform to create the next generation of applications and content that leverages broadband to provide a more productive and dynamic Internet experience. Katerra will provide the development platform and software infrastructure and services that enable developers to build applications and content that exploit the power of broadband.
- **The Lever in the Creation of a New Broadcast Medium** – Katerra believes that broadband will catalyze the convergence of radio (sound), TV (images), and the Internet (data) into a new more dynamic broadcast medium. This paradigm shift will change how society consumes its entertainment, communicates, accesses information, and conducts business. The Katerra platform will be required for companies to exploit this change in how Internet users will expect to communicate, navigate, and experience the Internet.

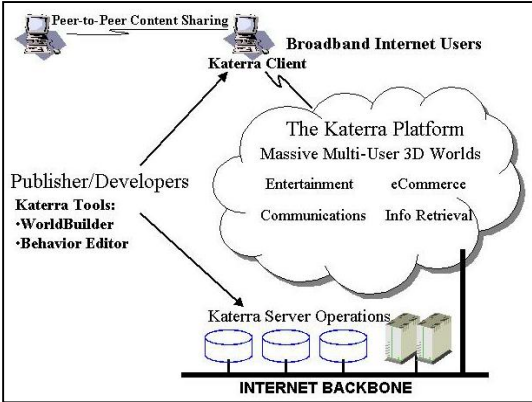


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- **Compelling Business Proposition** – Katterra’s software and services enable developers to build *state-of-the-art broadband applications in ½ the time at ½ the cost*. Through providing the client/server architecture and tools that developers would have to produce themselves we save developers \$3-5M, or more in development cost and reduce development time by 18 to 24 months. Katterra also substantially reduces risk as the client/server architecture is the most complex development effort in any of these projects. Katterra provides all these benefits for 10-15% of site revenues, or a flat fee for hosting.
 - **Compelling Internet User Proposition** – Katterra’s platform includes a *next-generation browser* that enables Internet users to communicate and navigate the Internet via real-world metaphor worlds. Through the use of Avatars (virtual personal representations of the user) users will be able to walk, talk (real voice), and interact in these virtual worlds as they do in real life. Katterra will also provide “Personal Worlds” or a 3D equivalent to personal web sites where users can create their own virtual homes in cyberspace to display and communicate private or public information and images. Use of peer-to-peer processing will allow free exchange of sound, image, and data.
 - **Lower Risk Business Model** – Katterra’s success is based on providing a software platform and services to all developers of applications and content sites that aim to exploit the power of broadband for entertainment, e-commerce, or e-business. Katterra is betting on the continued growth of the Internet and the success of the adoption of broadband, not on any specific market segment.
 - **A Seasoned and Successful Management Team** – In addition to a very talented and uniquely experienced development team Katterra has assembled a management team that has a successful track record of building companies and delivering substantial returns to shareholders.

Investment Considerations

The following points warrant consideration when evaluating this business opportunity:

The Katerra Proposition:

- A New Software Infrastructure Platform to Leverage Broadband** – The Katerra development platform enables a quantum leap in enhancing how broadband users experience the Internet and provides all of the technology components required to implement and operate next-generation applications and content destinations for entertainment and commerce, taking full advantage of the increased bandwidth offered by broadband. It provides a common framework for delivering, in an easy to use format, such advanced technologies as audio/video conferencing, 3D object based information and workflow sharing, avatar (virtual online persona) creation and management, 3D world builder tools, and much more.
 

- State-of-the-Art Infrastructure Technology** - The Katerra Platform and architecture was designed and developed by some of the most respected and experienced engineering minds in the industry. Their efforts have resulted in an environment where developers can create interactive and massive multi-user dynamic 3D worlds. The Katerra technology is unlike any technology in the market today and by orders of magnitude surpasses products and technologies based on VRML and other existing standards. The Katerra Platform is composed of several state-of-the-art components: from its massive scalable server complex (with up to 300,000 simultaneous users per server site), to technological advancements in TCP/IP layer data flow management, to its advanced client environment and tools that greatly simplify the process of creating interactive 3D worlds and content. These technology breakthroughs represent a one to two year head start in the industry that create a significant barrier to entry for competition.

- Katerra’s Unique Portal World and Personal Worlds** – In order to demonstrate the Katerra Platform technology and provide a “portal” destination for broadband users to explore Katerra client worlds, we have created *Avatania*. Avatania is a 3D world where users create avatars (virtual representations of themselves) and can set off to explore the virtual city of Avatania, communicate with friends using voice and text, visit shops and malls for e-commerce, play games, and visit other Katerra worlds. Avatania is the portal world for the Katerra virtual universe containing all the 3D worlds and content created using the Katerra Platform. Avatania is the starting point for users to create their own “Personal



Worlds” where they can develop personal content that can be shared with the world, or just close friends and family via the secure Katterra hosting services and/or via peer-to-peer Internet networking for maximum performance and flexibility. Essentially, Personal Worlds are the next-generation of personal web sites that use the much more compelling Katterra 3D real world metaphor instead of today’s flat 2D screens.

Strategic Implementation and Business Model Considerations:

- Stage 1: A Broadband Infrastructure Software & Services (BIS) Business** –The Katterra Platform will enable Internet content and application developers to build state-of-art dynamic virtual worlds for entertainment, e-commerce, business services, etc. in ½ the time, at ½ the cost. We will provide the tools to develop 3D worlds for little (if any) up front investment. This model (reference Table 1) provides client/server software and tools necessary to build next-generation 3D metaphor worlds at no charge to Katterra’s clients saving \$3M to \$5M, or more, in development costs and reducing time to market by 18 to 24 months. In addition, Katterra will provide the hosting services

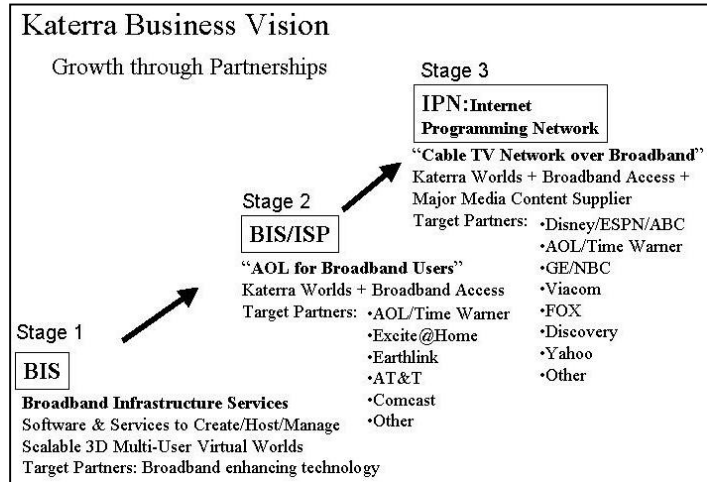
Table 1	Do-it-yourself	Join the zVerse	
\$1-3M	Content		
\$1M	Unique code		
\$5M	Software: -Client -Server	Content	\$0.5M-3M
\$3M	Servers & Operations	Unique code	\$0.5M
High rate per MB	Bandwidth	C/S Software	10% of revenue (w/ min)
		Servers & Ops	\$0.75 / month per user
		Bandwidth	Passed through at lower rate (marked up)

to implement and manage all server operations saving an additional \$3M in up front costs for a typical application developer. Katterra’s revenues will be generated from leveraging a percentage of our clients’ online sales that we collect through commerce services (10-20%) and/or by selling hosting services. This approach will catalyze the broad acceptance of the Katterra Platform since through rapid deployment of applications it significantly decreases the project risk and development costs on the part of our client partners. Katterra will form partnerships with key technology suppliers and conduct compatibility testing to assure clients that all Katterra Technology Partner products will operate seamlessly thus assuring rapid development of complex broadband applications. In addition to the Application Services being provided by Katterra to developers and businesses we will also provide tools to individual users that pay to subscribe as members to Katterra’s portal world so they can produce “*Personal Worlds*”, or the equivalent of personal web sites. These Personal Worlds will drive demand for the Katterra Platform at a grass roots level and increase the base of users available to visit our client worlds.

Key Benefit: Developer partners with the above tools and services can create and implement 3D virtual worlds in ½ the time and ½ the cost of development AND operation.

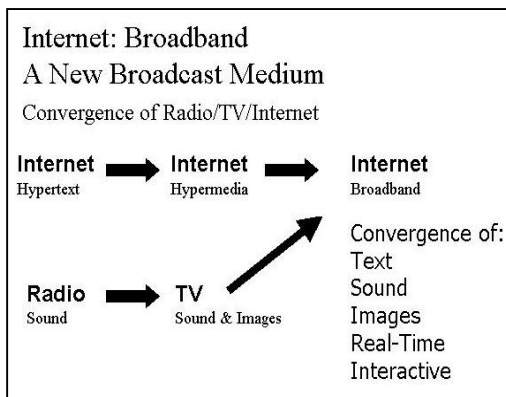


- Stages 2&3: Growth through Partnerships to Internet Programming Network** – It is Katerra’s vision to grow through leveraging key partnerships, or through mergers, to become an *Internet Programming Network*, or IPN. An IPN is a new business entity that is being coined in this Business Summary, which is the natural evolution of today’s Internet and Media businesses leveraging Internet broadband technology as a new broadcast medium. Katerra will supply the unique development platform and in Stage 2 partner with broadband access suppliers to provide consumers and businesses a total broadband solution. This added-value solution is similar to today’s successful AOL strategy and should either enhance or challenge AOL/Time Warner’ market share. Stage 3, or becoming an IPN, will come to fruition through partnerships with major media content suppliers and will result in Katerra’s Internet universe (the grouping of content worlds developed using the Katerra platform) being marketed and sold as a broadcast channel of unique interactive content for entertainment, news, and information retrieval to consumers and unique 3D interfaces to conduct communication, e-commerce and information transfers to businesses.



Market Considerations:

- No slow down in the growth and adoption of the Internet** –Pioneer Consulting forecasts that Internet users will swell to just under 500 Million by the year 2003. This correlates with Forrester Research’s April’99 report that projects consumer U.S. market Internet access will grow from 45 Million in 1999 to 80 Million in 2003, a penetration of 56% of U.S. households.
- Broadband, creating an Internet paradigm shift that changes everything** – Broadband, or effective Internet access at speeds greater than 256 Kilo-bits per second (Kbps), creates a paradigm shift in the Internet market by fundamentally, and over time exponentially, improving the speed of data transmission. This increase in speed and quantity of data will change what and how information and content is communicated. Just as TV replaced radio as the primary medium for entertainment, and Graphical User Interface applications replaced text-only applications as the vehicle of choice for producing and communicating information, broadband will introduce the advent of a graphically and media-rich (sound, images, data) environment that will surpass the hyper-text/2-D environment we use today. Essentially, broadband transforms the Internet into a new broadcast medium and paves the road for the convergence of radio (sound), TV



(images), and Internet (Data) into a single massive multi-user interactive broadcast medium. This transformation will change how entertainment, communications, and business content/information is delivered.

- **Rapid Penetration of Broadband** – Per Morgan Stanley Research¹ “By 2005, we forecast 65% of (U.S.) consumer Internet users, or 47.0 million, will access the Internet via broadband medium”. Additionally, Pioneer Consulting forecasts 85 Million users worldwide by 2005 and Arbitron’s recent study found that 8.9% of Americans expect to get a broadband connection with the next 12 months, and forecast 31.9 million households to be connected by 2004.

Target Customers:

- **End Users: Entertainment and Communications Focus** - The key to building a successful platform is to gain rapid acceptance of the end users. Historically, the segment quickest to adopt new environments is in entertainment. By implementing both classic games (via AtTheCrossroads.com) and a Sci-Fi role playing game (Continuum), we will aggressively court this market immediately at launch. Further, the Avatania portal site will offer group and private meeting rooms so that users will be able to communicate and socialize using voice over the web as a much improved form of chat. Group conferencing features will also be available so that live concerts will be provided as an added-value feature for all who are members of the Katterra Platform.
- **Business-to-Consumer Client/Partners** - Many businesses, such as real estate, interior design, nationally recognized brands, etc are always on the look out for new and innovative ways to build meaningful relationships with customers. The Katterra Platform provides the most significant advancement in this area since the World Wide Web. With our aggressive campaign to bring in consumers via entertainment we will provide a fertile environment for businesses to market to. Further, e-commerce and e-shopping will be a completely new and better experience in the Katterra Platform as friends can stroll from store to store in virtual shopping malls using a comfortable voice interface to talk about merchandise and chat in general, as we do in the real world. The users avatars can even try on clothes and visually test products in virtual space to get a flavor for their behavior and “look” before buying.
- **Business-to-Business Client/Partners** – Virtual business catalogs and show rooms using real world metaphors can offer a simplified approach to selecting products and services. Objects can be tied to actions so that moving an item from a file drawer to a virtual projection unit can display the file/image to all the members of a real-time virtual meeting. Selecting an object in a virtual warehouse and moving to a new location can initiate instructions for warehouse employees to make the move in the real warehouse with color-coding to reflect an ordered move and a completed move. Office designers and architects can model their designs in virtual space and allow a full virtual walk through with their clients. The Katterra Platform will offer the development tools for the creation of applications that facilitate business-to-business interactions.
- **Publisher/Developer Client Partners: Entertainment** – Like early adopter end-users the developers that push the back of the technology envelope are those delivering entertainment content. The Katterra Platform development tools and infrastructure services will allow both large and small developers to quickly create massive multiplayer 3D worlds where they can concentrate on their expertise – content, and Katterra provides and supports the client-server

¹ The Broadband Report by Morgan Stanley Dean Witter, May 2000

and broadband access infrastructure as discussed earlier under “Broadband Infrastructure Software & Services”.

Financial Considerations:

- **Dramatic Revenue and Profits** – In addition to having a business model that reduces risk through concentration on sales to application and content developers the potential for sales growth and profits is dramatic. Even with broadband household penetration rates of less than 5% Katterra will grow to \$400M or more in revenues with a 40% operating margin. Our stated objective is to partner with significant players in the industry to accelerate growth, and through this strategy lower risk and significantly increase our revenue and profitability projections. Our full business plan provides detail into methodology and assumptions.

	FY Ended 12/31/00	FY Ended 12/31/01	FY Ended 12/31/02	FY Ended 12/31/03	FY Ended 12/31/04	FY Ended 12/31/05
Revenues	\$ -	\$ -	\$ 14,418	\$ 86,486	\$ 220,054	\$ 402,051
Operating expenses	3,248	11,521	49,834	91,226	165,970	237,360
Operating income (loss)	(3,248)	(11,521)	(35,416)	(4,740)	54,084	164,692
Operating margin	NM	NM	-246%	-5%	25%	41%
EBITDA	(3,181)	(11,226)	(34,903)	(3,805)	56,271	168,595
EBITDA margin	NM	NM	-242%	-4%	26%	42%

Management

Randy Hujar, Chief Executive Officer - Prior to Katerra, Randy was President & CEO of Miacomet, Inc., a developer of gaming peripherals and accessories. Katerra itself was spun-off from Miacomet in March of 2000 in order to maximize its potential for success and to maximize shareholder value. To avoid split loyalties Randy recently decided to devote his full attention to Katerra and a new President was named to operate Miacomet. In 1998, as a one-year consulting assignment, Randy was President and Chief Executive Officer of Stromberg, LLC, a software start-up he created in the time and labor management industry. During this year Randy merged a once industry leading but bankrupt Stromberg Corporation with an successful small software company and reinvented the company into a new technology start-up with a recognized brand and image. Randy established a new management team, operations, and sales & marketing structure that resulted in a 300% improvement in sales and the company being on road to profitability. The re-invented Stromberg, LLC is now awaiting an IPO. In late 1992, Randy with Gary Skiba co-founded Lyriq International Corporation, a developer and publisher of sport and edutainment software, including the popular Picture Perfect Golf. The company was recognized for its rapid growth and award winning products. Lyriq was sold in 1995 to Enteractive Inc./US Web Cornerstone (NASDAQ:CNRS) for 4X sales and 20X their original investment.

Prior to establishing Lyriq International Randy was well known in the industry as an innovative sales and marketing executive responsible for successfully bringing over 40 products to market. He worked with Lotus Development Corporation, IBM, Ashton-Tate Corporation, and Hewlett-Packard. Randy early in his career was a programmer for I.P. Sharp. Randy received his BS in Finance and Marketing from the University of Santa Clara, California and completed a pre-graduate program in International Law and Business from the University of Vienna, Austria.

Gary Skiba, President & COO - Prior to accepting his role with Katerra, Gary was co-founder, President and CEO of Crossroads Media Group, Inc., the owners of the AtTheCrossroads.com classic gaming web site, which was acquired by Katerra in 2000. In late 1992, Gary co-founded Lyriq International Corporation along with Randy Hujar, served as its Chairman, and also as its Chief Technology Officer, a role that he also served for Enteractive, Inc. after they purchased Lyriq in 1995.

Gary's career is very diverse, encompassing financial, marketing and development roles of ever-increasing responsibilities. He has been either lead developer or manager of over 30 product releases. He was also the middle manager in charge IBM's advanced word processing product development from 1989-1991 (with a budget of \$15M and 80 people in four locations). Prior to this Gary was co-founder of Inset Systems, Inc., a producer of advanced graphics tools. He served on Inset's Board of Directors until it was sold to Quarterdeck Corp in 1995 for \$15M or 30X investment and 4X sales. He was also an auditor for Peat Marwick, and a product manager for Ashton-Tate. Gary received his BS in Accounting (summa cum laude) from the University of Connecticut, where he was a University Scholar. He passed the CPA exam in 1983.

Jim Bologna, Chief Financial Officer - Jim brings a wealth of experience in financial management to Katerra. Prior to joining Katerra, Jim was the Chief Financial Officer for Iroquois Technologies, Inc, a \$150M manufacturer of OEM products in the transportation, electronics and specialty component industries. From 1998 to 2000 Jim was instrumental in generating earnings growth of 30%.

Between 1996 and 1998, Jim was Chief Financial Officer for Perfecto Holding Corporation, a \$50M manufacturer and distributor of consumer products, where he was responsible for completing several merger and asset acquisition transactions and doubling revenue and earnings growth. Prior to this Jim



practiced public accounting for 10 years with Price Waterhouse LLP, where he held several positions including Senior Manager in the Merger & Acquisitions Group where he led buy and sell side due diligence teams in more than 40 M&A domestic and international transactions. Jim was also responsible for audit and business advisory services providing services to public and private multinational and domestic enterprises. Jim earned a B.S. in Accounting from Elmira College with a Fifth Year Requirements Accounting degree from USF and St. Leo College. Jim is a member of the American Institute and New York Societies of Certified Public Accountants.

Rusty Dawe, Chief Technology Officer - The “Keeper of the Vision” of the zVerse, Rusty has 25 years of experience in the gaming industry developing products for Atari and Sierra Online’s Imagination Network. Most recently he, along with Vince Binder, created, designed and managed the development of “CyberPark”, an online interactive amusement park and shopping environment that is a massive multi-player environment, and the genesis of the technology for Kattera.

Before Joining Kattera, Rusty was VP of Development for Miacomet, Inc. Prior to Miacomet, Rusty was the Chief Architect & Development Manager for The Imagination Network (recently acquired by AOL) where he was the in charge of the creative team for CyberPark. Earlier in his career Rusty was a Senior Systems Analyst with D2S Associates where he was responsible for advanced software protocols and hardware interfaces for US and international military and defense applications as portrayed in the movie Top Gun. Rusty is a graduate of Stanford University with a degree in Electrical Engineering.

Vince Binder, Director of System Software – Prior to joining the company Vince was Chief Architect for AOL and was responsible for the Games Channel network architecture. Vince joined Kattera in April 2000 and manages the company’s Oakhurst development office responsible for the server and system software for the Kattera Platform. Vince brings over 25 years of programming and systems architecture experience to Kattera and is known in the industry for his pioneering efforts in development of massive multi-player gaming networks. Between 1993 and 1998 Mr. Binder was Director of Systems Technology for The ImagiNation Network, owned by Sierra On-line and later AT&T. During this period Vince, with Rusty Dawe, led efforts to create CyberPark that was the industry’s first truly massive multi-player on-line virtual world. This technology was bought from AT&T by AOL and renamed WorldPlay. In 1992-93 Vince worked on massive multi-player game network development at Atari. From 1974 to 1991 Mr. Binder worked as a programmer and in MIS functions in both the public and private sectors. Mr. Binder received a B.S. in Physical Sciences and a B.A. in Economics from Washington State University.

Mark Tsai, Executive Producer – Mark joined Kattera in February 2000. He manages and directs the companies creative and technical efforts for the Avatania and Continuum projects. Mark brings more than 10 years of computer-based and console entertainment industry experience to Kattera and has served in management and production roles on over 30 products for over a dozen different platforms. Prior to joining Kattera, Mark was Senior Producer at GameFx, a THQ studio. Earlier in his career, Mark served in various roles at SONY Psygnosis' U.S. operations from 1990 to 1995, including Development Manager. His duties included overseeing and participating in the U.S. development and launch of over 40 products across a variety of platforms, including several best-selling titles in the award-winning Lemmings series.

