

Business Overview

Katerra Corporation

*...The Internet industries strategic partner
for creating profitable virtual worlds*

Company Summary

Produce and market a massive multi-user
3D entertainment and commerce software
and services infrastructure

Establish a new standard for navigating
and experiencing the Internet using real
world metaphor environments



Katerra Foundation

- # Company spun-off from Miacomet Inc. around CTO Rusty Dawe and his experience as lead architect for developing the first massive multi-user client/server environment in the industry.
- # Company was able to recruit 7 of 10 original team from Sierra Imagination Network, later sold to AT&T and AOL. Including Vince Binder, Chief Architect of AOL, WorldPlay project.



The Internet Marketplace

- # 120 Million people use the web
- # The web is limited in what it can offer users from within a browser (*via HTML*)
- # Increased bandwidth, high powered PCs, and advanced 3D games are raising users' expectations of their online experience (games, communities, commerce)
- # Massively multi-user games are beginning to appear to fill this need



Market Size

Huge Revenues:

Entertainment Software Revenues '98: \$6.3 Billion ⁽¹⁾

e-Commerce Revenues 2000 (est): \$23 Billion ⁽²⁾

Portal Revenues (e.g., Yahoo): \$3 Billion ⁽³⁾

Broad Base of Prospects:

60+ Million PC's installed in homes - 1998 ⁽⁴⁾

100+ Million SONY Playstations – 2000 ⁽⁵⁾

Broadband internet access accelerating



Sources

1. PC-Data
2. Jupiter Communications
3. Yahoo run rate at 30% market share
4. Software Publishers Assoc.
5. Sony

The Problem

- # Broadband will change user expectations of their on-line experience
- # Developing and operating massive multi-user 3D environments is expensive and time consuming, thus reducing ROI



The Opportunity

- # Create an infrastructure for virtual 3D massively multi-user environments using the internet (not the web)
 - Server-side data management
 - Commerce enabled
 - Rich client-side environment & development tools
- # Populate the environment with reasons for users to come (classic and advanced games, commerce partners)
- # Create economies of scale to provide attractive business reasons for third parties to become part of this environment instead of developing their own
- # **This is the The Katerra Platform (codename:zVerse)**



Benefits of the *zVerse*

- # For developers – ½ the time to develop at ½ the cost to develop and operate
- # For Users – one-stop destination for online experiences using state of the art in virtual 3D navigation
- # For the Company
 - Economies of scale = higher profits
 - Risk reduction: whatever the “hot” world, we get a piece of the revenue



Products & Technologies

Developer Offerings

■ *The zVerse*

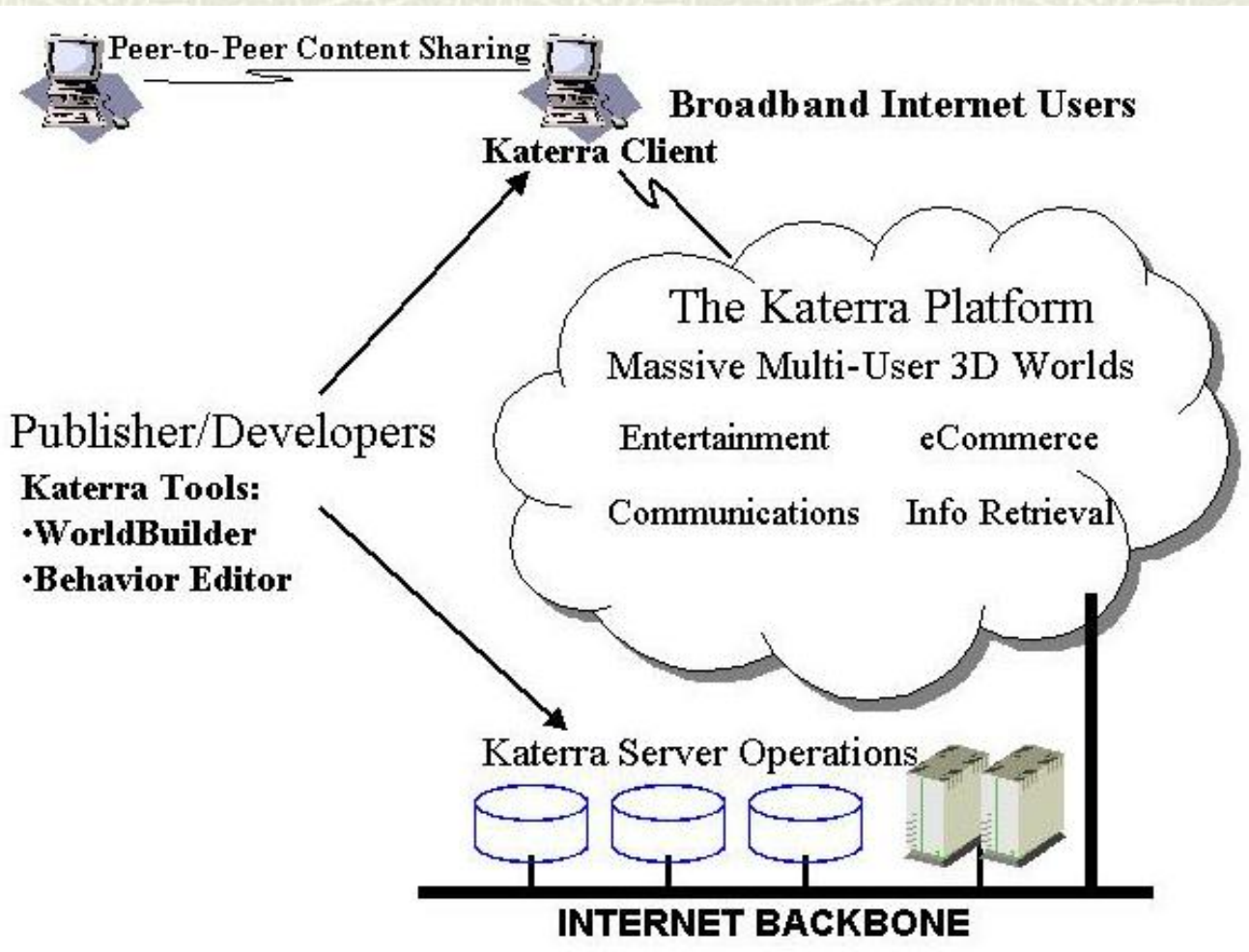
- Server management for massively multi-player virtual worlds (operations)
- 3D client software (code, tools, artwork) for implementing 3D virtual worlds
- Ad network – Increase revenue by running ads in their world

End-User Products:

- *Avatania Portal* - Common virtual world, portal to other worlds
- *Personal Worlds* – Mini-3D worlds (apartment/home) created and maintained by end-users within Avatania (like Personal Web Page)
- *Continuum* - Cyber-punk role playing game
- *AtTheCrossroads* - Classic gaming web site



The Kattera Platform



Developer/Partner Products

Server management & operations service

- Scalable infrastructure
 - Can manage hundreds of thousands of simultaneous users
- Commerce functions
 - User actions can be billed (micro-payments)
 - *Company shares in all revenue generated in the zVerse*
 - Partner with fulfillment house for commerce back-end

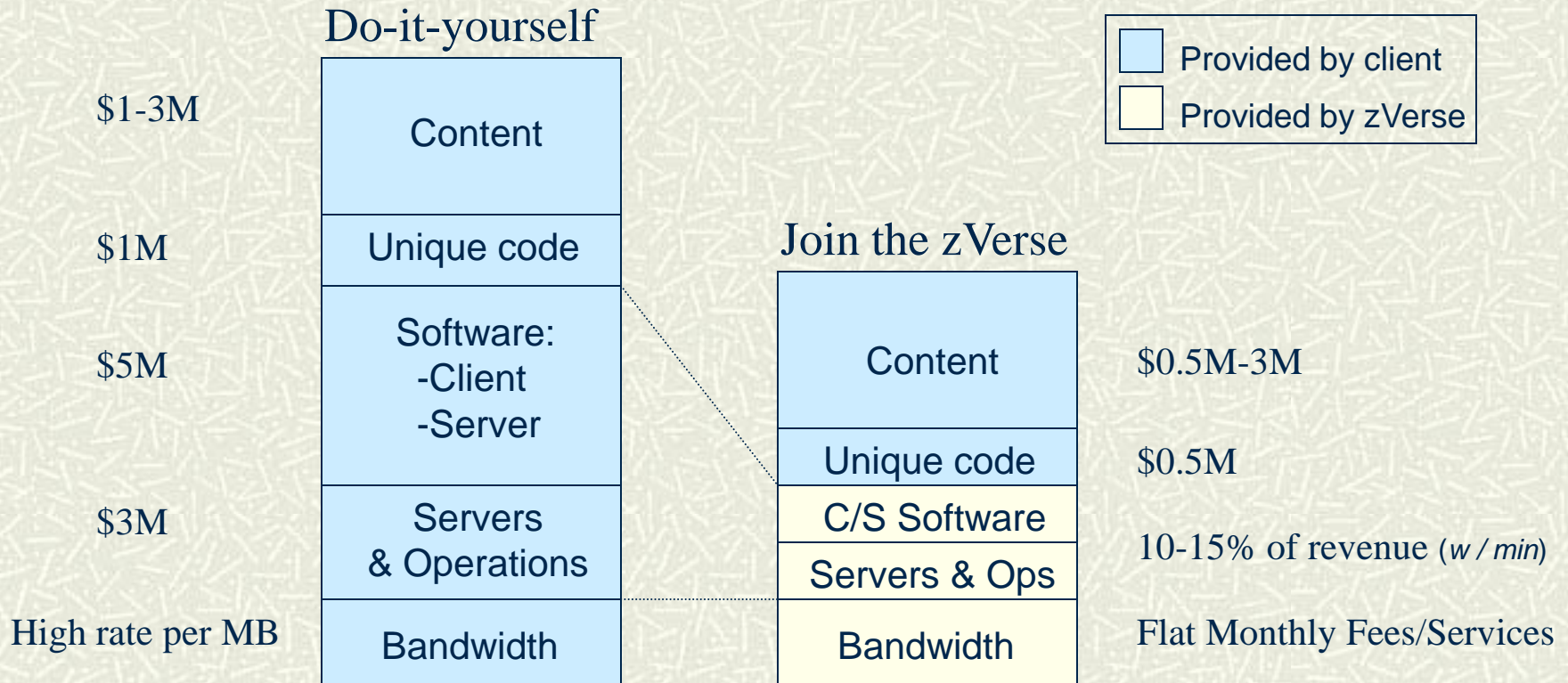
Client tools

- 3D rendering of the world & objects in it
- Artwork and tools for developing virtual real estate
- API's for developing client world's *unique-code*



Why is zVerse good business?

3D Virtual Worlds created in 1/2 the time at 1/2 the cost with less risk!

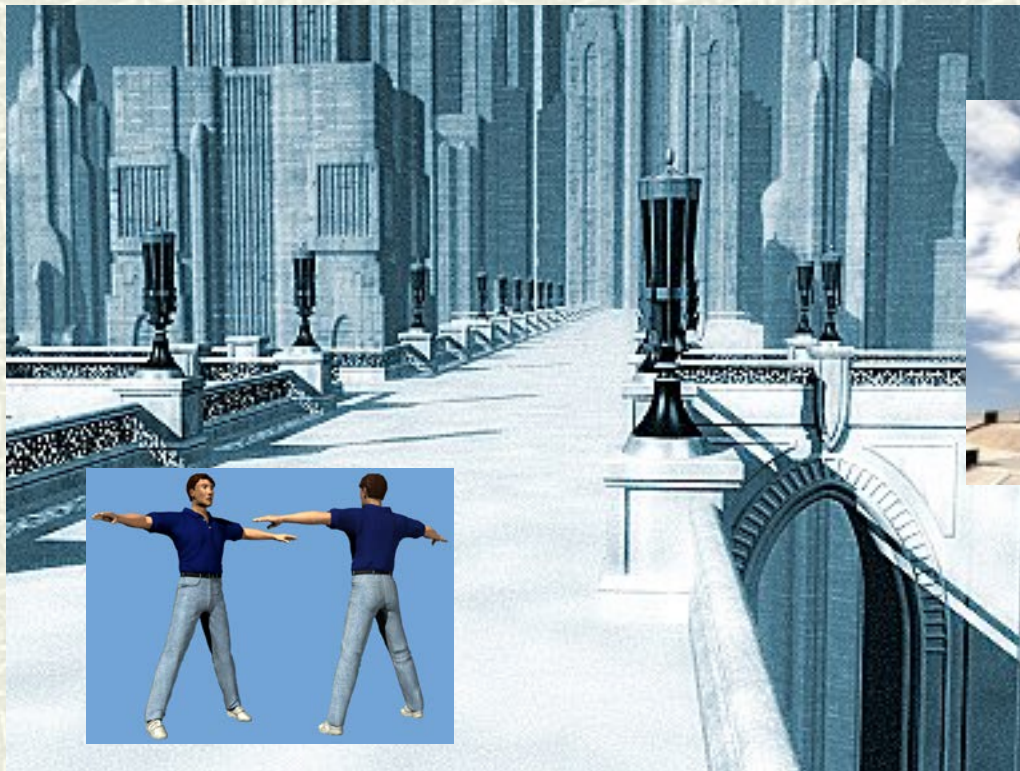


Avatania

- *Avatania* is the *zVerse*'s portal to many 3D virtual worlds
- *Avatania* is itself a destination for commerce, community building, classic games, and more
- All worlds share *Avatania*'s common user interface elements and data management. So users can take their virtual belongings with them as they move among the various worlds
- Partners can setup commerce locations in *Avatania*
- Advertising can be targeted based on user profiles



Avatania



Katerra – Personal Worlds

Membership Kits Include:

- Membership Information (online or fax forms and instructions)
- Katerra browser software (full version)
- Katerra Avatar Generator
- Katerra Universe core files and utilities
- Katerra Personal World Generator
- User Manual and Set-up Instructions
- Katerra Universe Map and Suggested Destinations



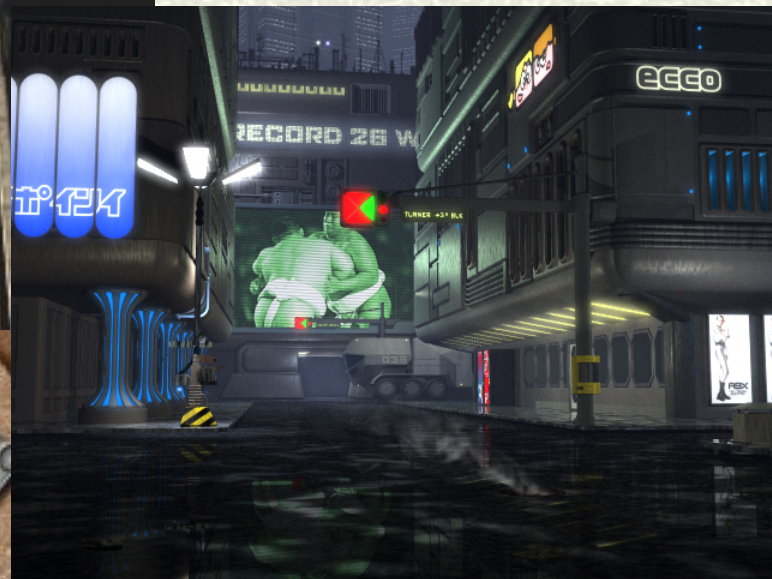
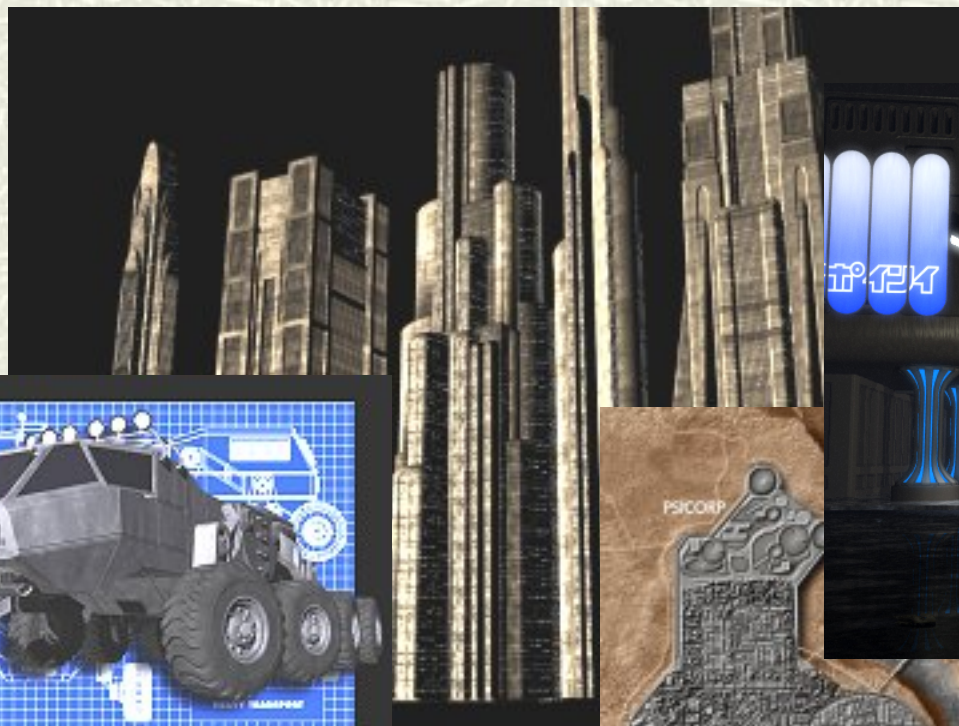
Continuum

Continuum

- *Continuum* is a role playing game in the genre of *Ultima Online* and *EverQuest*
- The theme is a futuristic world in which corporations run the cities (as in the movie *Blade Runner*)
- Players compete and cooperate to gain experience and “move up the corporate ladder”
- Combat, gadgets, and an ultra cool environment will keep players coming back for more
- Most of the zVerse tools will be developed in order to create *Continuum*, thus providing a *real world* proving ground
- This is the marquee world for the launch of the zVerse and the initial reason for people to come



Continuum



At The Crossroads

At The Crossroads

- Classic games are the foundation of internet gaming
Millions play classic games on the internet weekly
- At The Crossroads provides high quality classic games that will be used as the initial games in Avatania (*card games, board games, word games, puzzles, etc.*)
- Building membership on ATC will provide a very fertile initial target market for the zVerse
- Marketing ATC and selling advertising will produce revenue and create an experienced team to market the zVerse



At The Crossroads in Avatania



Revenue Sources

- Katerra Platform
 - Third party royalties and fees
 - Virtual rent (server operations)
 - Revenue sharing (%)
 - e-Commerce fees
- Continuum
 - Membership
- AtTheCrossroads
 - Advertising



Operating Statement

(Amts in 000s)	2000	2001	2002	2003	2004	2005
Revenue			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			-246%	-5%	25%	41%
EBITDA	(3,181)	(11,226)	(34,903)	(3,805)	56,271	168,595
EBITDA margin			-242%	-4%	26%	42%



Major Milestones

Product demo (<i>3 minute fly-through</i>)	Complete
Complete design specs (<i>server & client</i>)	Complete
Server infra-structure	Complete
Functional client rendering	Complete
Third party tools available	Nov '00
Functional client user-interface	Dec '00
Working model (<i>limited functionality & real estate</i>)	Mar '01
Alpha (<i>internal</i>) test	Jul '01
Beta (<i>external</i>) test	Dec '01
Katerra Platform/Avatania Launch w/classic games	Feb '02
Continuum Launch	Jul '02



Capital Requirements

- # \$6 Million initial investment – *funding through Q1'01*
- # **\$4-6 Million extension to first round:**
 - Needed by Q2'01 to complete S/W and accelerate Continuum
- # \$20 Million required in future round(s):
 - \$11 Million needed in Q4'01 to setup operations
 - \$9 Million needed in Q1'02 for marketing
- # Purpose:
 - Product Development - \$12 Million
 - Launch activities - \$24 Million
 - Operations setup and staffing - \$4 Million
 - Marketing & Sales - \$20 Million



Management Team

Management

- CEO Randy Hujar
- President, COO Gary Skiba
- CFO Jim Bologna
- Chief Tech. Officer Russell “Rusty” Dawe
- VP of Game Development Mark Tsai
- Dir. of System Software Vince Binder

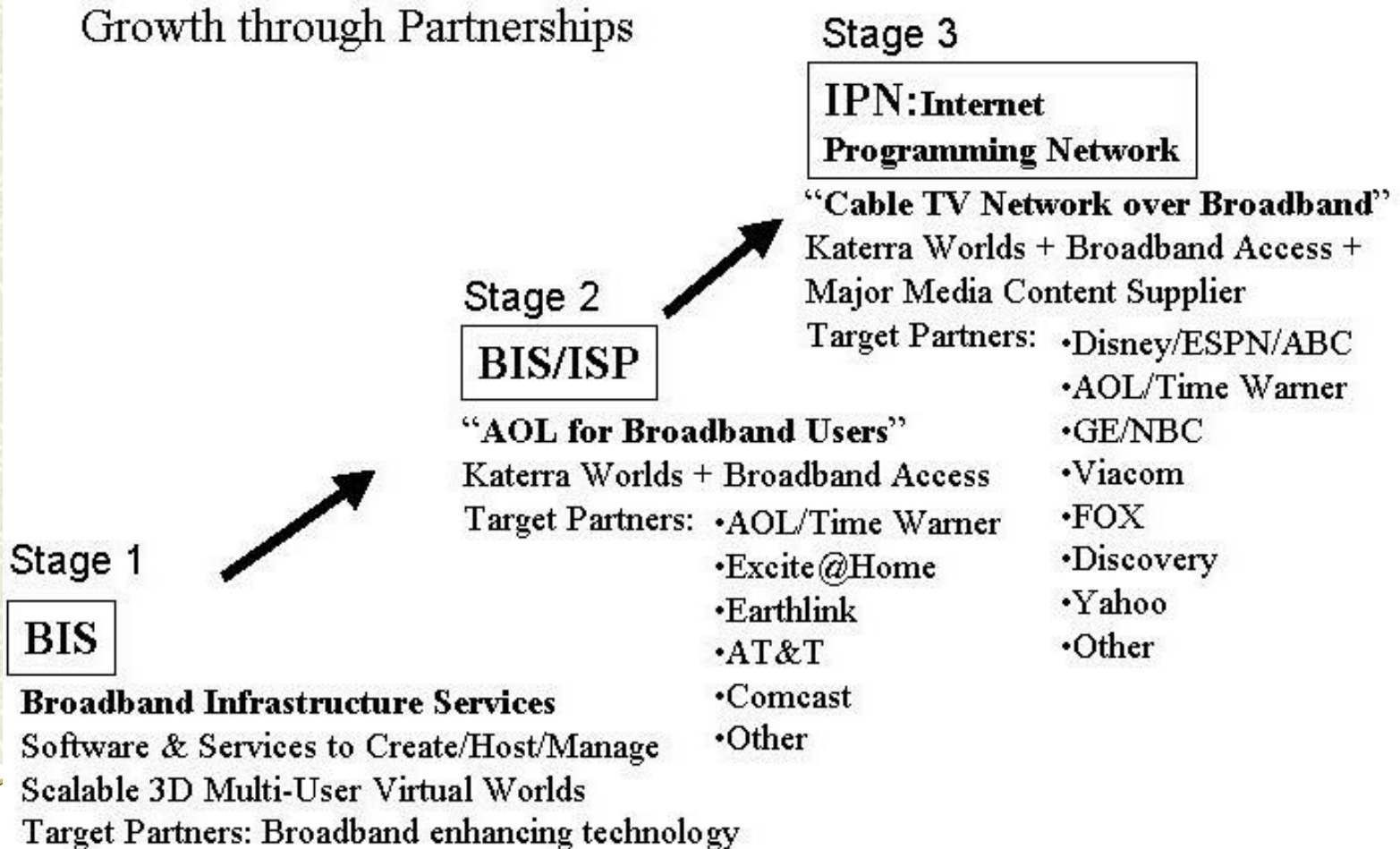
Board of Directors

- Chairman Mark Swartz
- Members D. Kozlowski, R. Foley, G. Skiba
D. Janke, C. Kozlowski



Katerra Business Vision

Growth through Partnerships



Katerra

Accomplishments to-date

- # Hired key personnel
 - Client: Mark Tsai, experienced game developers and artists
 - Server: Vince Binder & 5 of 5 core server team
- # Development offices
 - Woburn, MA – opened 4/7
 - Oakhurst, CA – opened 4/17
- # Initiated setup of company-wide comm net
 - Data, Voice, Video
- # Purchased Crossroads Media Group
 - Hired mktg mgr and initiated growth plans
- # Initiated contact w/developers at GDC and Comdex
 - Significant B2B and Game Developer interest generated





Strengths

- # Experienced development talent
- # Experienced management team
- # Industry conditions – aligning toward zVerse concept
- # Business model – flexible and profitable



Weaknesses

- # Competitive labor market for software engineers
- # Complexity of the zVerse project



Opportunities

- # Complexity creates barrier to competition
- # B2B accounts for significant portion of revenue and profit
- # Potential for very high shareholder value

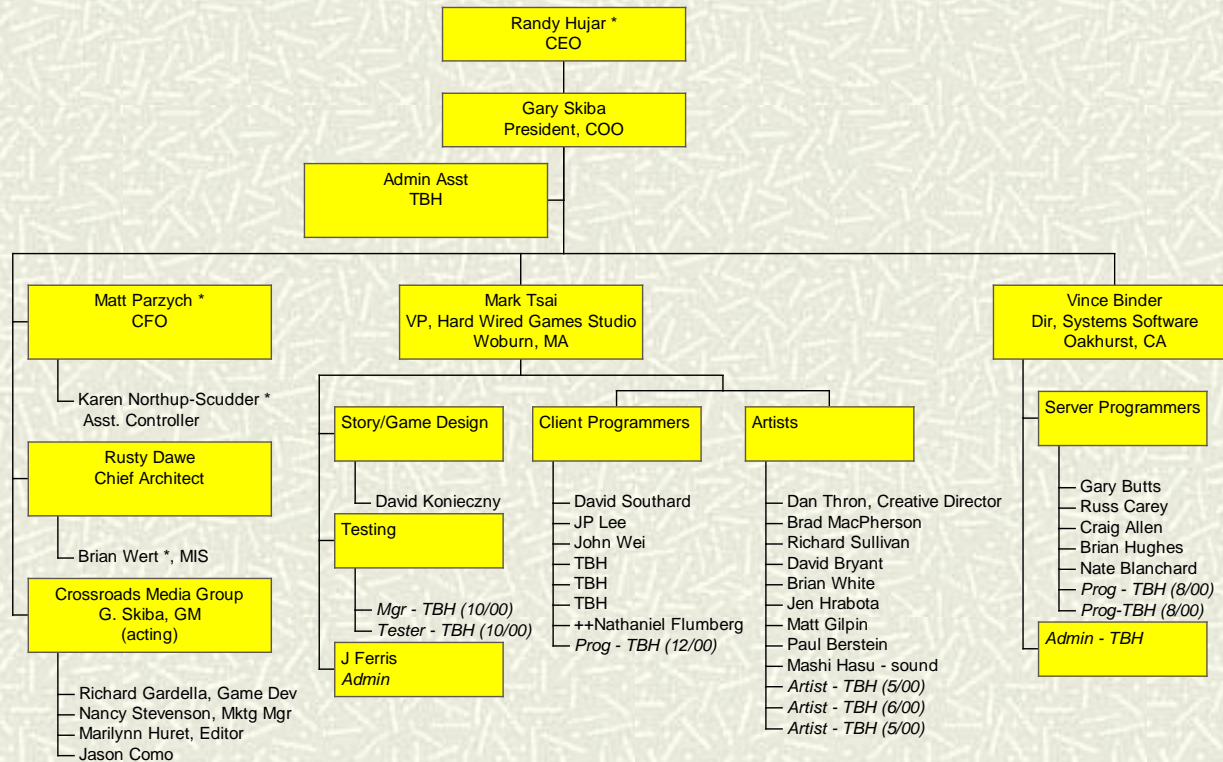


Threats

- # Internet companies may fall out of favor with investment community
- # Competitive alternatives for third parties would reduce our B2B revenue



Organization



* - Resource shared with Miacomet
 ++ New headcount

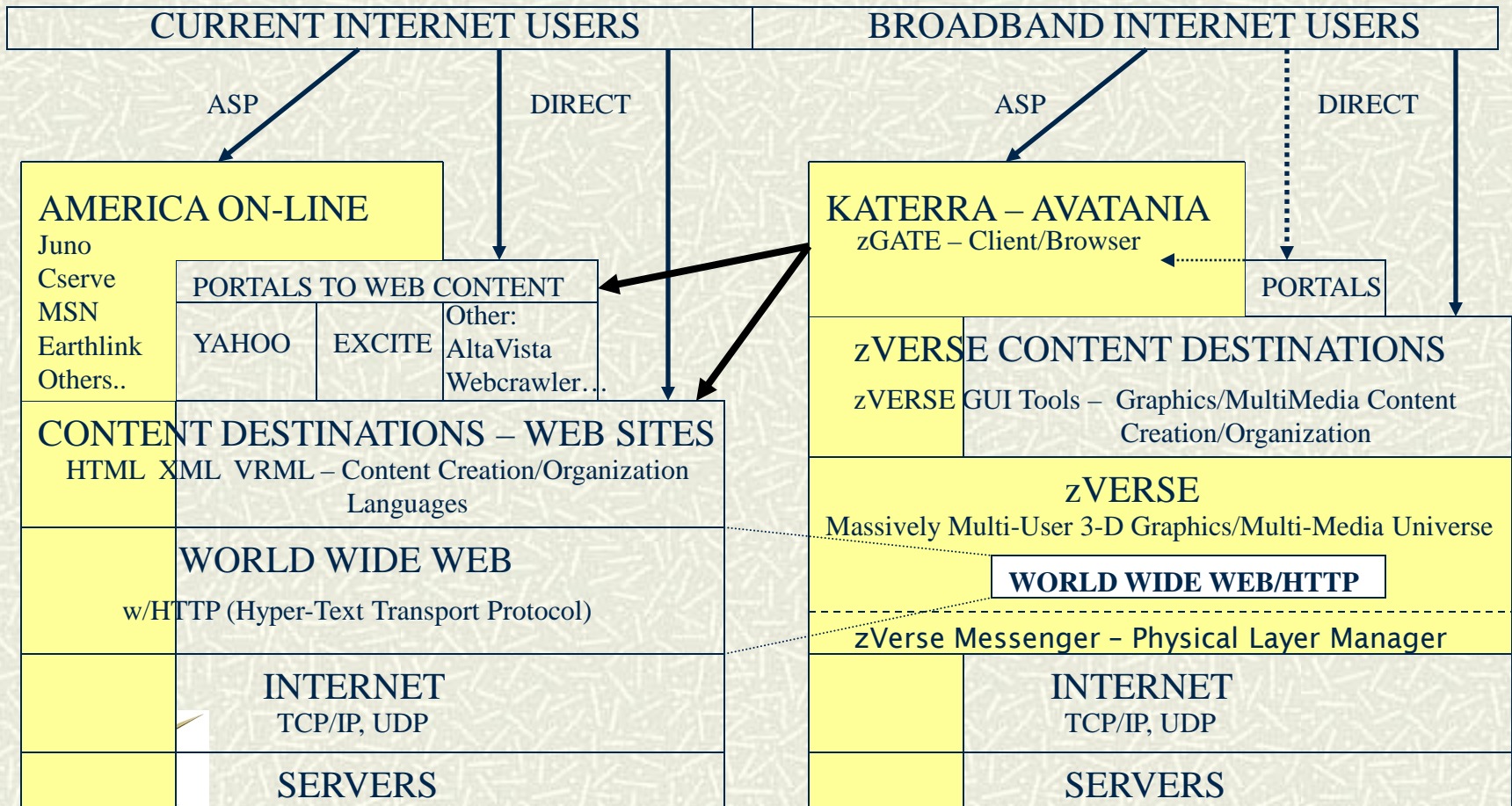


Usage assumptions

	2002	2003	2004	2005
Continuum members (000s)	200	250	250	250
Partners	15	50	150	250
Total users (000s)	1,100	3,340	9,649	16,589
Unique Users as % of Total Users	90%	50%	50%	50%
Unique Users (000s)	990	1,670	4,825	8,294
% of unique users at peak load	10%	15%	20%	20%
Users at peak load (000s)	99	251	965	1,659

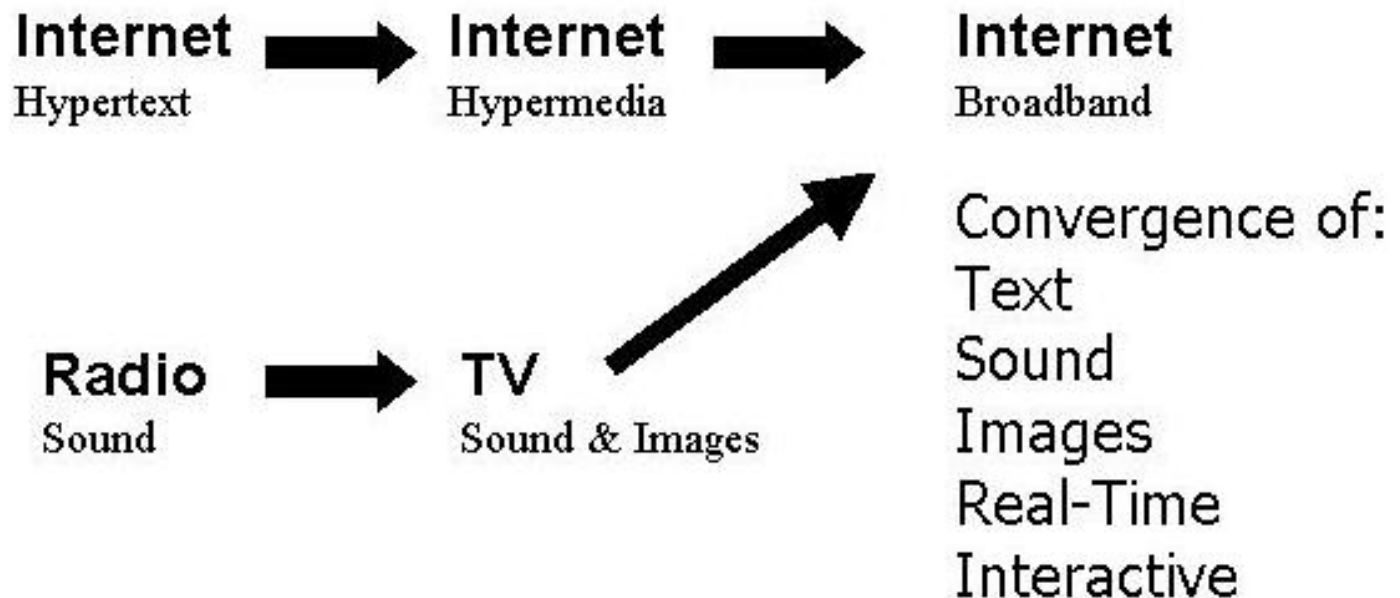


Katerra Technology Overview



Convergence of Radio/TV/Internet

Internet: Broadband
A New Broadcast Medium
Convergence of Radio/TV/Internet



Paradigm Shifts

Personal Computers	PC (IBM)	1982
Graphical User Interfaces	Mac (Apple)	1984
	Windows (MS)	1991
WWW – Browsers & Portals <i>(Narrow-band internet)</i>	Navigator (Netscape)	1995
	Yahoo	1995
The 3-D Virtual Net <i>(Broad-band internet)</i>	The Katerra Platform	2002



Avatania – Portal to Katerra Worlds

