

QMiX™ - Introduction

*"...A million hours of entertainment, sports and information...
...at my fingertips... what I want; no more, no less ... delivered
right away...at a very low price...easy to view...and store..."*

For the first time in history, the high expectations of media consumers surpass technology's ability to meet their needs. The industry struggles to keep pace with a 30 billion dollar market that wants its entertainment fast, cheap and personal. It costs money to bring products to market and these costs must be reflected in price. Still, the lower the demand for any title, the more it costs to sell and a vast majority of content is held in libraries of continuously diminishing value.

More serious problems arise when a consumer-driven solution (like Napster) ignores the rights holders' expectation of a fair return. From a consumer's perspective, P2P is an ideal solution; from a content provider's perspective, it's a disaster. Content sellers compensate by withholding product, by overspending on marketing, bundling for mass appeal, deep discounts, fortifying anti-piracy efforts and other stop-gap measures. Customers don't care. They want only what they want, on their terms, and at a low price.

QMiX solves three of the major problems facing the entertainment industry today:

- *The plague of file-sharing piracy.*
- *Awful scale economies selling inventory product.*
- *A risky migration from retail DVD to online distribution.*

Mission

QMiX enables consumers to access, organize and purchase custom-tailored entertainment, sports and information from a vast catalog, and delivers this personalized content on a secure DVD at a highly competitive price.

*QMiX promotes its DVD/OD (DVD On-Demand) catalog to the mass-market by means of the **QMiX Channel** -- a direct-response (DR) programming network and fulfillment service carried by cable, DBS and broadband/IPTV. The QMiX Channel is a commercial-free showcase of entertaining program segments drawn from a vast inventory of studio and specialty content -- all available for purchase. The QMiX catalog includes recent movies, first-run TV, film classics and vintage highlights, as well as a huge selection of entertainment, sports, music and other specialty content. The QMiX platform allows customers to choose the video they want, in the order they want it, and delivers a custom-made DVD to their home. Each personalized QMiX ("quick-mix") is shipped overnight on a disc format specified by the buyer (standard, HD, Blu-Ray, WMV, etc.) Orders are placed using either the QMiX website or by a set top cable/satellite user interface when available.*

The retail price for a QMiX DVD is on a per-minute basis and very competitive with other retail outlets, ranging from 6 to 18 dollars depending on length (10 minutes to 2 hours) This includes built-in shipping costs within the US.

Market Dynamics

QMiX creates the first shopping network devoted entirely to entertainment content. It combines the powerful economics of direct response television with the market muscle of DVD. QMiX amplifies the consumer benefit of the DVD standard by delivering a fully customized product (a la iTunes) direct to the consumer (NetFlix) at a low retail price (Wal-Mart).

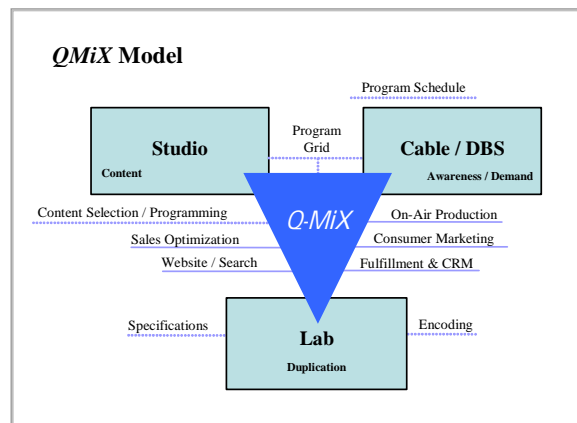
As theatrical attendance drops and DVD sales flatten, studios must turn to their libraries for continued growth. Recent studies estimate that by 2009 DVD sales will exceed \$40B annually, while theatrical sales will be only \$10B. In 2004, sales of specialty and lower-demand titles increased more than 16.3% compared with only 3.3% growth for DVDs as a whole. In 2005, DVD sales are expected to exceed \$24B, an increase of over 31% from 2004 -- much of this driven by lower-demand product, not mainstream titles.

We project the Total Available Market for DVD/OD content to be \$2 billion in the US in 2006. QMiX's projected share of market is \$250 million in 2009 -- less than 5% of the projected total market.

QMiX provides all rights holders – from major studios to independent content libraries – a new source of revenue previously unreachable via existing channels, yet without cannibalizing any existing revenue streams.

QMiX integrates the mutually-beneficial attributes of three industry segments:

- **Rights Holders** (studios, etc)
- **Bandwidth to the Home** (cable, satellite, telecom)
- **Media Asset Managers** (duplication labs)



QMiX eliminates the high cost-of-sale typically associated with library content and passes this savings along to consumers.

QMiX allows rights holders to sell inventory as complete programs or partial elements. It reduces the marketing expense for any content element to an extremely low fixed cost regardless of its category, age or demand.

QMiX provides a low-risk transition between "hard" DVD retail and "soft" video-on-demand distribution. The QMiX catalog becomes a trusted destination for buyers and sellers.

Target Market

Our target market is television viewers who own and use DVD players (over 120 million worldwide). QMiX creates a flexible-response 24/7 marketplace through which owners of any content can showcase and sell their inventory – from blockbuster movies to the most specialized content – at a price point at or below competitive retail channels.

QMiX combines the “stickiness” of MTV with the appeal of a movie channel and the user benefits (and brand loyalty) of iTunes. QMiX is commercial-free entertainment that will appeal to different audience segments throughout the day.

Revenue Model

QMiX combines the unique benefits of three distinct revenue structures: the online product aggregator (*Amazon*), the home-shopping network (*QVC*), and the commoditized retail marketplace (*iTunes*). By incorporating the best qualities of each, QMiX creates a consumer retail engine that eliminates the high cost-of-sale typically associated with entertainment and passes these savings along to its customers in the form of low retail pricing for customized, on-demand DVDs.

The combination of the studios’ massive inventory, cable’s vast audience, and the labs’ manufacturing capacity each contribute to the economic value of QMiX in a “compounding effect.” QMiX’s unique model enables a retail DVD/OD exchange that extracts high-margin, zero-risk income from undervalued content, channel capacity and media services.

As with iTunes, the bulk of each dollar earned will go to the content owner as a fixed license fee per minute of content. The remainder is split between QMiX and the network operator. This model encourages every content holder to contribute a wide inventory to the exchange. The more product available, the more attractive the QMiX network and catalog become to its consumers. This translates to more sales, which attracts more inventory, and so on. One important side benefit: this traffic allows QMiX to sell inventory DVDs at low retail prices yet with higher margins.

Customer Service and Support

QMiX’s approach is built on a basic premise: personalized content, delivered in a timely manner, at low cost. The consumer drivers will be convenience, personalization, reliability and price. QMiX will employ the best-practice strategies from home entertainment, direct response, online retail and other high-quality service providers.

Technology

QMiX is built on mature, ubiquitous, market-tested and accepted technology – the DVD. Its enterprise partners – the labs -- are respected for their ability to manage large databases of video content securely and to burn customized one-off DVD’s in high volumes. Fulfillment will be via cost-effective and highly competitive ground-delivery networks.

Competition

QMiX will pursue a First-to-Market / First-to-Critical-Mass strategy from its inception. To achieve Critical Mass quickly, QMiX will launch with a robust technical infrastructure, a substantial catalog, and a massive consumer awareness drive fueled by continuous cable exposure.

To discourage direct competition from its content partners (as when Blockbuster assaulted Netflix’ market), there are safeguards built into the QMiX fee structure. Only QMiX will be positioned to provide the catalog breadth, customer service and reliability guarantees that would-be competitors, even well-funded ones, will find difficult to challenge.

Funding & Milestones

While the capital required to launch QMiX will be considerable (\$38M to profitability), it is important to see how aggressive deployment and speed-to-market can be achieved by a timely exploitation of uncertainties in the current marketplace.

Funding required - \$38M over 36 months:

- **Phase 1:** Inception to Launch - \$22M (18 months)
 - 1st Tranche: Content Signed, Carriage Signed - \$1.8M
 - 2nd Tranche: System developed and tested - \$8.2M
 - 3rd Tranche: Production and Channel launch - \$12M
- **Phase 2:** Launch to Profitability - \$16M (18 months)

Management Team

Don DiPietro

A seasoned executive with hands-on experience in television, cable, and Internet ventures, Don served as President and CEO of *NetColonies*; VP, Business Development and Strategy for *iCOLLEGE* (now *BlackBoard, Inc.*); Vice President, *MGM/UA New Media Group*; and Senior Producer for *NBC Digital Productions*. Don received his MBA from the Marshall School of Business at USC and his BFA in Film/Television from California Institute of the Arts.

Gary Myer

Bringing two decades of executive experience in satellite, cable, consumer electronics, broadband and Internet industries, Gary has been CEO and President of *Streetspace, Inc.*, President of *Sony Digital Media of America*, directing Sony’s US efforts in digital satellite, cable and set-top technology; and Vice President, and charter member of the senior staff at *DIRECTV International* and *DIRECTV US*. Gary holds a Bachelor of Science degree in physics from the University of California, Los Angeles, and post-graduate work in business and marketing.

Peter Forman

Peter has over 16 years experience starting, building and managing enterprises focused on digital media. As President of *Antaeus Group, Inc.*, he provides strategic, development and due-diligence support to a broad array of technology and venture capital clients. Peter served as CEO of *DemoGraFX, Inc.*, was co-founder and CEO of *Ligos Corporation*, founded *New Video Corporation* and was a Senior Manager with *Deloitte & Touche Management Consulting*. He has a MBA from the Anderson Graduate School of Management at UCLA and a Bachelor of Fine Arts degree in Design from CalArts.

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