



# Virtual Reality

## BUSINESS PLAN

CINE MEDIA STUDIOS, INC.

37404 Bedlington Park Pl.  
Bedlington, WA 56390

June 23, 1992

*CineMedia Studios is an aggressive developer of unique virtual reality entertainment products. Catering to the intelligent user seeking a game with intellect, it is seeking additional capital to fund more projects in its already well-received line. Following is an outline of a progressive company plan that can provide insight into product development and marketing.*

- EXECUTIVE SUMMARY
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- FINANCIAL PROJECTIONS
- OBJECTIVES
- MANAGEMENT
- PRODUCT/SERVICE DESCRIPTION
- INTERACTIVE MOVIE MARKETING
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## EXECUTIVE SUMMARY

In 1990, CineMedia Studios was formed to fill the void in the marketplace for intelligent, sophisticated, interactive entertainment. The studio has grown to create world-class, interactive multimedia software products designed to take advantage of the rapidly expanding market. CineMedia Studios follows an artistic vision of interactive storytelling and entertainment, defining new boundaries of personal involvement with computer-based cinema. It continually explores the territory of this new media, charting ways to bring together user interaction, video, text, graphics, animation, music and sound.

CineMedia Studios now intends to capitalize on the immediate opportunities for growth in this explosive market by building our business to the next tier, expanding our operations to encompass publishing as well as production, and significantly increasing the number of innovative titles we produce each year.

## Background

For the last several years, this industry has been geared towards children, and sales of computer games and equipment have risen steadily. Unfortunately, parents have found it much more difficult to find computer software that will challenge as well as entertain. This trend will continue as the Nintendo generation grows up; one need only take a look at all of the computers being used in classrooms around the country to see the potential adult market.

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CineMedia Studios believes adults are hungry for intelligent, interactive entertainment that takes advantage of the computer but jettisons the adolescent trappings of computer and video games. The advent of the large installed base of CD-ROM drives coupled with the increased sophistication of computer technology has now made the delivery of this kind of content possible. According to a new study done by Simba Information, Inc., the market for consumer-based CD-ROM titles is expected to double this year, generating over \$300 million. With the increased penetration of CD-ROM drives leaving consumers searching for more diverse content, audiences are clearly ready for the titles that CineMedia creates.

In the past, CineMedia Studios has developed distribution arrangements in order to produce our interactive software. We now seek capital to develop our own titles, and to establish a publishing arm. This will solidify the future of our development, and is designed to capitalize on the enormous opportunity in this industry - one that, like the golden age of Hollywood, may never come again.

Our company developed The Lunacy of Ronald, which sold out of its initial run by the end of 1993. We have operated at a break-even position ever since because every dollar we make is immediately put back into the development of the company and additional software products. Revenue projected for fiscal year 1995 is expected to be \$2,000,000. Annual growth is projected to be at least 50-60% per year through 1996. We are now ready to expand our operation to achieve maximum growth in the next five years.

## Concept

CineMedia Studios' target market includes educated adults ages 18 to 45 who have the latest in computer technology available in their homes and a disposable income. This combines the current market of "early adopters" with females 21-40 and college-educated families with growing children.

Our strategy for dominating the competition is through the continued development of products, each as entertaining and technologically advanced as the last. Future products, will be strategically designed to chart a course for the market, and then follow up with products that will capture the interest of our audience again and again, building brand awareness and encouraging repeat customers.

Our work on CD-ROM has already broken new ground and will continue to lead the industry in interactive cinema. Our competition is just now entering the market and must develop the expertise and experience we already bring to our titles. The ability to develop award-winning interactive films from the ground up is unique to CineMedia. Our customers expect intelligent, engrossing entertainment and leading-edge technology when they reach for our products. Since our products take a completely different approach of the traditional computer game, we've found a niche others have not been able to capture.

We have just completed the development of Astral Gate: No One Sleeps Here, a full-length, interactive movie. The press we've received for this product has been voluminous, and our proprietary method of presentation, Absolute Cinema (patent pending), is setting the standard for interactive movie entertainment.

All products from CineMedia Studios are protected by trademark, copyright laws, and patents.

We are currently developing two titles, Astral Gate II and Gateways, an interactive movie theater environment that contains ten interactive films: six new films and four others that have already garnered multiple awards, including two Best of Shows at Quick Time™ Festivals.

In addition to our existing products, we have written treatments for another dozen software products that will build on the technology available and the demands of the market. We also have a project list of seventy other titles.

Other services include teaching and speaking engagements by our CEO and founder, James St. Clair. We are also beginning to involve other members of our organization in these capacities, including our resident composer, our computer programming team, and our award-winning digital architect.

CineMedia has been watching the movement of the interactive industry, and we have now decided to move into



a strong growth phase, both to keep up with the sheer number of CD-ROM titles being distributed every year, and to capitalize on the current market opportunities for a company such as ours. This approach is generating a tremendous amount of interest throughout our industry. For example, CineMedia's recent signing with the Agency for the Performing Arts in Hollywood resulted in coverage on the front page of the Business Section in the Los Angeles Times Sunday edition.

Responses from customers and the press indicate that our software titles are enjoying an excellent reputation, and a shelf life that is far above average. Inquiries from prospective customers suggest a considerable demand. Relationships with leading retailers, manufacturers and other distributors substantiate the expectation of CineMedia Studios for rapid growth and accomplishment in our industry.

## Objectives

Our current objective is to place the company into a prominent market position. We feel that within two years CineMedia Studios will be in a suitable position for even greater expansion or an initial public offering. To accomplish this goal we have developed a comprehensive plan to intensify and accelerate our marketing and sales activities, product engineering and development, and customer service.

We also intend to take on a strategic partner, either a distributor or a publisher, who can guide us into the future while providing us with some of the necessary services that CineMedia inherently avoids. We will implement a publishing division designed to bring unique, marketable titles to an expanding audience. Our partner will help get these properties into retail channels in a time when shelf space is becoming scarce, and will also help us achieve our goal of marketing our titles through innovative sales channels.

To implement our two-year plan, we require an initial investment of \$2 million, followed by a second tier funding of \$6-10 million for the following purposes:

- Develop ten new innovative, interactive software titles for the mainstream market.
- Solidify relationships with strong strategic partners/distributors, exploring innovative new sales channels.
- Hire and develop a small, focused publishing team that will bring in new products and collaborate with the marketing department to sell them through known or unique channels.
- Develop a campaign to promote our current products and services, in order to maximize sales, educating and exciting our customers as we go.
- Augment company staff to support and sustain prolonged growth under the new marketing plan.
- Increase Research & Development to create additional technologies as well as to further fine-tune our competitive advantages through our existing proprietary software tools.

## Management

Our Management team consists of seven men and women:

**James St. Clair**, MFA, is our founder, CEO, and Artistic Director. His background consists of over ten years' experience as an award-winning actor, director and author combined with eight years' computer experience. He is now on the faculty of San Diego State University's Multimedia Studios Program and a coveted lecturer all over the world.

**Evelyn Halistrom**, President, has seven years' experience in sales and marketing and single-handedly propelled CineMedia from a two-person operation to the leading-edge growth company it is today.

**Katherine Mailor**, Executive Vice-President, serves as an integral part of the day-to-day management of the company, acting as both Director of Human Resources and Production Coordinator.

**Jack Lockheart**, Vice-President and Chief Marketing Officer, has fourteen years of sales and marketing experience in various arenas, including the Live Aid Concert where he raised over \$20 million, the 1984 Los



Angeles Olympics, and most recently, major motion pictures.

**Diane Armstrong**, Vice President and Chief Financial Officer, has seven years of financial, corporate development, management and systems consulting experience; in her last position, she worked with American General Life Insurance Company.

**Thomas Calloway**, Vice-President of Technology, has twelve years' experience in systems engineering and design, including nine years with NASA and other aerospace development companies.

**Michael Peters**, Vice President of Audio Production, is a musician with twenty years' experience in the music industry. He composed, arranged, performed, recorded, produced and engineered the complete soundtracks for both of our interactive films.

In addition, our Advisory Council offers outside management advice and consultation. This nine member council provides tremendous support for management decisions and creativity. A list of council members is available on request.

## Marketing

Overall, our company can be characterized as a high profile producer of worldclass interactive multimedia entertainment.

The fundamental thrust of our marketing strategy in the short term involves reaching the audience searching for intelligent adult entertainment, through traditional software retail stores as well as untapped channels.

In the near future, we plan to lead the industry in the production of interactive movies for television and theater, and computer platforms. We anticipate a campaign aimed at filmgoers, and intend to reach this market segment by placing a variety of advertisements in industry publications and mailing a full-color catalog to retail outlets every three months.

A partial list of current customers includes:

- Warner Music Enterprises, Inc. (client)
- Arthur Anderson Consulting, Inc. (client)
- Media Vision, Inc. (distributor)
- Micro Warehouse, Inc. (catalog distributor)
- Tiger Software (retailer)
- Educorp, Inc. (retailer)

Also, we are targeting Europe as a strong future market: a deal is being negotiated for distribution and localization of The Lunacy of Ronald throughout Japan and Australia, and 35,000 copies of Astral Gate I: No One Sleeps Here have already been shipped overseas, resulting in very favorable press.

## Finance

Based on conservative estimates, CineMedia Studios' asset base approximates \$3,000,000, including cash, receivables, equipment and the value of copyrights and patents pending. In just two years we will have grossed \$28,000,000 in sales and our investors will be able to collect a return on investment within five years.

## Vision

CineMedia Studios' long-term strategy is keyed to the future of interactive media. We are currently pursuing all possible trademarks, copyrights, and patents, in order to increase the value of our intellectual property and our technology. We are already negotiating to license the appropriate material to other companies who seek to duplicate our methods of interactive filmmaking and its related elements.



CineMedia is very aware of the changing face of the industry, and is constantly preparing for the future. For example, raw film assets are archived at the highest possible levels for repurposing in a future iteration of the medium. Possibilities might include a port to another platform, interactive television, and forms of new media that have yet to be invented. Our proprietary perspective-switching technique is ideally suited for feature-like films, delivered via interactive television, and Absolute Cinema is equally appropriate for virtual reality-based programs.

CineMedia Studios is a content producer first and foremost, and until a standard is established, will continue to work on whatever platform is exciting and commercially viable.

## Conclusion

CineMedia Studios enjoys an established track record as a unique supplier of interactive entertainment to our audience. By carving the niche in the marketplace for interactive cinema, we intend to continue our advances in the multimedia marketplace with many more exciting entertainment products, geared toward a sophisticated, educated customer.

## PRESENT SITUATION

### Market Environment

This fledgling industry is only now beginning to be taken seriously by investors and market forecasters. Fortunately, we had already begun our groundwork over three years ago when interactive multimedia is just beginning to develop and digital video was not yet a reality for the desktop. CineMedia Studios is poised on the cutting edge of a rapidly changing growth environment, better positioned than other companies who are just now facing the challenges of this industry.

### Products and Services

We currently have two titles on the market: the critically acclaimed interactive novel, The Lunacy of Ronald and Astral Gate I: No One Sleeps Here, the first interactive movie to take advantage of the technology of Absolute Cinema. (patent pending).

We have just completed work on a Macintosh version of Astral Gate, and by September will have finished. Astral Gate II for the MPC. We are developing an interactive CD-ROM version of Warner Music Enterprises' "rockvideomonthly," which will begin shipping in January, and will start work this fall on The Lunacy of Ronald Book II, which has just received a development contract. We also have twelve products in various stages of development, including four interactive movies. Written treatments for these products are available on request.

### Product Life Cycle

Because our work is leading edge, our products have shown themselves to have a long life cycle. For example, The Lunacy of Ronald earned awards a full year after it was introduced and its sales reflected this.

### Pricing and Profitability

Current prices are decreasing, but profits are rising far more rapidly. As price points continue to drop, market awareness and profitability will grow.



## Customers

Current customers are using our products for their own entertainment; our titles have also been used by many professors as teaching tools. Our customers are requesting more of the same — intelligent titles with universal themes.

## Distribution

Currently we make available Astral Gate I: No One Sleeps Here through a distributor that does not have right of first refusal on any new products we develop. We distribute The Lunacy of Ronald through various catalog retailers around the world and are about to ink a distribution relationship for this title (a letter of agreement has already been signed).

## Management

Our management team is largely in place. We have proven we have the right talent to develop world-class interactive cinema, and our business, simultaneously. However, as the studio expands, we certainly intend to bring on more strong, dedicated talent, including a COO.

## Financial Resources

Current cash available is \$55,765

Our Current Ratio is:

Assets/Liabilities=1.8:1

Our Quick Ratio is:

(Cash & Equivalents + Accounts Receivable + Notes Receivable)/Total Current Liabilities = 10:1

## OBJECTIVES

The primary objectives of our organization are to:

- Continue to create world-class interactive cinema, literature and entertainment.
- Grow the company in two significant steps that will allow CineMedia to go public within two years, ensuring that investors receive a substantial return on investment within five years.
- Expand our technological and employee base as the market expands, exploring new arenas in the interactive multimedia frontier.
- Create a commercial niche as creators of leading-edge titles.
- Produce unique, highly-marketable products resulting in a library of titles that will drive this industry forward.
- Establish a marketing and communications model that exploits untapped new and existing revenue channels for multimedia titles.

## Business Goals

The business goals of CineMedia Studios, in order of their importance are as follows:

- **Quality Products.** CineMedia is in the business of producing the highest quality products. This is our number one priority and our greatest strength.
- **Profits/Customer Satisfaction.** We must remain profitable to sustain the company in this rapidly changing industry; with our software products, we are fulfilling a customer demand that others in this



field have not been able to meet.

- **Growth.** We realize the vital importance of growth at this phase in the marketing cycle in interactive multimedia products. We would like to take CineMedia Studios public within two years -our interim plan includes employee and market share growth to accomplish our goal of producing at least ten titles each year.
- **Management.** Up to now, our company is been self-managed, but we recognize the need for a special type of developer management structure as growth takes hold. When small developers are purchased by large distributors, we have often witnessed the unfortunate drop in product quality; the management paradigm is entirely different, and developers cannot operate within the confines of a traditional corporate management structure. We, therefore, intend to add additional strong management personnel to allow us to remain selfmanaged within a more non-traditional structure.
- **People.** The people who work for CineMedia Studios are the best in their fields, and we not only utilize their specific industry skills, we incorporate their special talents into our company's vision.

## Rationale

Based on our previous work and the talented management of this company, we are poised to create inroads in the technology of this medium, where others are just now learning the basics. Our work is innovative and marketable because we have the industry experience, technological innovation, and creative content, combined with marketing and management savvy to stay on the leading edge in a rapidly changing business.

## The New Market

The market for interactive cinema will be comprised of the "early adopters" of new media, and traditional moviegoers who are open to new forms of entertainment. These will include both men and women, both game-players and computer neophytes. Just as the home market is expanding to become the fastest-growing segment of computer users (Multimedia News, June, 1994), so is the market for interactive cinema growing to accommodate users who now have something intelligent, innovative, and engaging to purchase.

Interactive cinema is certainly not designed to replace linear film. With the advent of Hollywood, movies did not replace the traditional theatre, which remains a worldwide form of entertainment after seventy years of filmmaking. However, movies became a distinct, profitable venture, and found overwhelming acceptance despite the early years of nay-sayers and the now apocryphal stories of people running screaming from the theater because they thought the locomotive would run them down. When people have something to watch, they will begin to embrace interactive film as an alternative, and even an enhancement, to traditional movies; the positive international attention CineMedia has received for its work only endorses this theory.

## Position for Growth

- Understand customers, competition and industry
- Develop product/channel/customer congruency, & new revenue channels
- Achieve short-term goals while strategically planning for long-term
- Monitor and manage product life cycles
- Monitor growth by fields of interest
- Balance people/management/business goals
- Transition from single-point to distributed management
- Hire the best people
- Grow to 50 employees
- Continue to develop our vision

Within the next year, we will ally ourselves with a major motion picture studio or a major name director, in



order to further facilitate the acceptance of interactive films as true entertainment. Also, we will take on the first portion of growth capital as CineMedia charts its course for the future.

We expect to develop a market niche dominated by CineMedia Studios, Inc. We will sign at least one strategic partnership with a distributor this year, in addition to finding distributors for specific products. We will work with various companies as we search for a distributor who understands and believes in our family of products and the company vision.

## FINANCIAL PROJECTIONS

### Projecting Returns in a Growth Industry

According to a study completed in June 1994 by Frost & Sullivan, an international high-technology research firm, the U.S. market for multimedia hardware and software will more than quadruple from \$4.9 billion in 1993 to over \$22 billion by the end of the decade.

"End-users are increasingly aware of the impact multimedia can have on a range of applications prominently including training and education, business presentations and home entertainment," Frost & Sullivan note. "And multimedia's ability to bring together sound, animation, motion video and still images together with text on a PC or workstation will eventually make it the dominant form of computing."

In this type of growth industry, financial projections can be difficult to make. The urge is to be optimistic, and in the short history of multimedia, not unfounded. A long-term track record has not yet been established, although all signs suggest massive growth.

With the success of the video game markets and sales in the billions of dollars, the potential profits into the year 2000 are very lucrative indeed. All of this movement in the industry by hardware developers is excellent for CineMedia Studios. The demand for content to fill the vacuum established by better hardware is already a familiar cry; the need for more entertaining and unique software to run on these machines will soon be overwhelming.

### Use of Funding Proceed

CineMedia Studios has developed a line of interactive multimedia software products that is entertaining, leading-edge, and unique, pioneering its own niche in the industry. In order to service the identified target markets and the potential markets with these exceptional products, significant capital infusion is required.

Specifically, the required \$2 million will be allocated appropriately to:

Marketing Advertising	\$100,000
Equipment	\$200,000
Research & Development	\$200,000
Operational Expenses	\$500,000
Title Development	\$1,000,000
Total	\$2,000,000

Marketing Advertising	\$100,000
Equipment	\$200,000
Research & Development	\$200,000
Operational Expenses	\$500,000
Title Development	\$1,000,000
Total	\$2,000,000

### Financial Reports

The following pages contain historical financial information, current figures (as 4/30/94), and projections.

Источник бизнес-плана: <http://www.referenceforbusiness.com>



These reports are included:

- CineMedia Studios Balance Sheet 1992, 1993
- CineMedia Studios Balance Sheet as of 4/30/94
- CineMedia Studios Income Statement 1992, 1993
- CineMedia Studios Income Statement (month of 4/94)

## Balance Sheet

ASSETS	1992	1993
<i>Current Assets</i>		
Cash	3,960	16,317
Accounts Receivable	0	708,428
<i>Fixed Assets</i>		
Furniture & Fixtures	1,934	7,519
Computer Equipment	23,674	20,176
Computer Software	0	30,741
Music Equipment	0	19,872
Other Equipment	0	17,833
Accumulated Depreciation	-4,406	-4,406
<b>Total Assets</b>	<b>\$25,161</b>	<b>997,479</b>
<b>LIABILITIES &amp; EQUITY</b>		
Accounts Payable	0	4,255
Loans Payable	0	35,000
Equipment Lease Payable	0	224,673
<b>Total Liabilities</b>	<b>0</b>	<b>331,220</b>
<b>STOCKHOLDER EQUITY</b>		
Retained Earnings	14,718	-84,540
Current Earnings	10,443	750,799
<b>Total Equity</b>	<b>25,161</b>	<b>662,59</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>25,161</b>	<b>97,479</b>

### ASSETS

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**ASSETS****STOCKHOLDERS EQUITY**

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Current Earnings	10,443	750,799
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<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>25,1619</b>	<b>97,479</b>

**Balance sheet****As of 4/30/94****ASSETS**

<i>Bank and Cash Accounts</i>	
Checking Account I	0.00
Checking Account II	55,764.69
<b>Total Bank and Cash Accounts</b>	<b>55,764.69</b>

<i>Other Assets</i>	
Accounts Receivable	201,628.80
Accumulated Depreciation	(4,406.33)
Computer Hardware	289,194.94
Computer Software	71,039.29
Filming Equipment	53,746.48
Furniture & Fixtures	15,280.34
Sound Equipment	22,341.48
<b>Total Other Assets</b>	<b>648,825.08</b>

<b>Total Assets</b>	<b>704,589.69</b>
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**LIABILITIES**

Credit Cards	5,032.79
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<i>Other Liabilities</i>	
Accounts Payable	20,549.92
Equipment Lease Payable	358,490.13
Loans Payable I	4,999.00
Payroll Taxes Payable	0.00
<b>Total Other Liabilities</b>	<b>386,039.05</b>

<b>Total Liabilities</b>	<b>391,071.84</b>
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<b>NET WORTH</b>	<b>313,517.85</b>
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<i>Total Liabilities</i>	391,071.84
<b>NET WORTH</b>	313,517.85

**Income and Expense Statement (1992-1993)**

	1992	1993
<b>INCOME</b>		
The Lunacy of Ronald	35,000	86,927
IMAGIN action magazine	2,526	-570
Astral Gate I: Macintosh	0	157,104
Astral Gate I: MPC	0	572,308
RADS	5,000	0
Gateways: Macintosh	0	125,150
Astral Gate II: MPC	0	358,071
Gateways: MPC	0	190,263
Teaching Income	0	3,720
Miscellaneous Income	27,567	24,211
<i>Total Income</i>	70,093	1,517,184
<b>COST OF GOODS SOLD</b>		
Cost of Sales	14,494	17,502
<b>GROSS PROFIT</b>	55,599	1,499,682
<b>EXPENSES</b>		
Salaries	0	133,987
Contract Labor Costs	0	214,574
Consulting Fees	0	27,428
Payroll Taxes	0	76,835
Advertising	0	15,474
Art Expenses	90	2,221
Bank Service Charges	81	321
Conference Fees	1,042	5,974
Cost of Credit	0	385
Dues & Subscriptions	102	2,069
Entertainment	2,563	2,598
Filing Expense	52.2	9,714
Gifts	0	372
Insurance	0	3,634
Interest Expense	0	481
Licenses	50	970
Travel Lodging	200	4,505
Travel Meals	828	4,490
Travel-Airfare Expense	1,520	19,574
Moving Expense	0	13,131
Miscellaneous Expense	21,059	140,035
Music Expense	160	35
Office Expense	7,337	7,595
Patents/Copyrights	0	11,245
Postage/Freight	1,797	8,190
Rent-Office	1,130	6,655
Rent-Equipment	4,258	25,205
Rent-Vehicles	0	2,453

1992 1993

**INCOME**

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Licenses	50	970
Travel Lodging	200	4,505
Travel Meals	828	4,490
Travel-Airline Expense	1,520	19,574
Moving Expense	0	13,131
Miscellaneous Expense	21,079	140,835
Music Expense	160	35
Office Expense	7,537	7,595
Patents/Copyrights	0	11,745
Postage/Freight	1,797	8,190
Rent-Office	1,130	6,655
Rent-Equipment	4,258	25,205
Rent-Vehicles	0	2,453
Rent-Other	1,786	643
Repairs & Maintenance	0	24
Telephone	1,082	6,466
<i>Total Expenses</i>	<i>\$45,157</i>	<i>748,883</i>
<b>NET OPERATING INCOME</b>	<b>10,443</b>	<b>750,799</b>
Rent-Other	1,786	643
Repairs & Maintenance	0	24
Telephone	1,082	6,466
<i>Total Expenses</i>	<i>\$45,157</i>	<i>748,883</i>
<b>NET OPERATING INCOME</b>	<b>10,443</b>	<b>750,799</b>



## Income Statement 4/1/94-4/30/94

### INCOME

<b>The Lunacy of Ronald</b>	
Catalog	10,620.79
Individual order	242.63
Retailer	599.60
<i>Total The Lunacy of Ronald</i>	11,463.02
<b>Other Income</b>	
Teaching	1,340.00
<i>Total Other Income</i>	1,340.00
<b>Gateways</b>	
Gateways MPC Milestones	4,341.45
<i>Total Gateways</i>	4,341.45
<b>Astral Gate II</b>	
AGII MPC Milestones	178,594.86
<i>Total Astral Gate II</i>	178,594.86
<b>Rock Video Monthly</b>	
Development	3,000.00
<i>Total Rock Video Monthly</i>	3,000.00
<b>Stock Sale</b>	
Common Non-Voting 3	31,194.00
<i>Total Stock Sale</i>	31,194.00
<b>Income-Unassigned</b>	0.00
<b>TOTAL INCOME</b>	229,933.33

### INCOME

#### The Lunacy of Ronald

Catalog	10,620.79
Individual order	242.63
Retailer	599.60
<i>Total The Lunacy of Ronald</i>	11,463.02

#### Other Income

Teaching	1,340.00
<i>Total Other Income</i>	1,340.00

#### Gateways

Gateways MPC Milestones	4,341.45
<i>Total Gateways</i>	4,341.45

#### Astral Gate II

AGII MPC Milestones	178,594.86
<i>Total Astral Gate II</i>	178,594.86

#### Rock Video Monthly

Development	3,000.00
<i>Total Rock Video Monthly</i>	3,000.00

#### Stock Sale

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**Income-Unassigned** 0.00

**TOTAL INCOME** 229,933.33



## Income Statement 4/1/94-4/30/94

### EXPENSES

<b>Advertising</b>		
Contest Fees	500.00	
Press Kit Supplies	106.89	
Public Relations	846.30	
Reprints	175.00	
<i>Total Advertising</i>		1,628.19
<b>Art Expenses</b>		
Creative	223.61	
Print Materials	356.78	
Supplies	8.20	
Tools	57.32	
<i>Total Art Expenses</i>		645.91
<b>Bank Charges</b>		
Service Fee	16.00	
<i>Total Bank Charges</i>		16.00
<b>Entertainment</b>		
Meals	35.85	
<i>Total Entertainment</i>		35.85
<b>Filming Expense</b>		
Actor Airfare	424.00	
Actor Expenses Other	511.50	
Actor Insurance	3,733.00	
Meals	238.04	
Miscellaneous	5.50	
Stage Rental	10,056.12	
Tapes/Film CDs	266.54	
<i>Total Filming Expense</i>		16,135.60
<b>Insurance</b>		
Equipment	165.00	
Group Health	447.87	
Life	2,215.00	
Worker's Comp	2,771.97	
<i>Total Insurance</i>		5,599.84
<b>Licenses</b>		
State	35.00	
<i>Total Licenses</i>		35.00
<b>Miscellaneous</b>		
Fines/Charges/Fees	559.83	
<i>Total Miscellaneous</i>		559.83

### EXPENSES

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**Miscellaneous**

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<i>Total Miscellaneous</i>		559.83

<b>Office Expenses</b>		
Books/Magazines	140.53	
Food/Meals	182.00	
Moving Costs	(11,000.00)	
On-Line Services	587.65	
Postage/Freight	4,464.10	
Repairs	457.15	
Supplies	1,012.27	
<i>Total Office Expenses</i>		(4,156.30)

<b>Payroll</b>		
Contractors	25,636.08	
Employees	60,645.97	
<i>Total Payroll</i>		86,282.05

<b>Rental Expense</b>		
Computer Equipment	370.88	
<i>Total Rental Expense</i>		370.88

<b>Tax</b>		
Payroll Tax	25,636.09	
State Sales Tax	1,367.78	
<i>Total Tax</i>		27,003.87

<b>Travel</b>		
Airfare	2,219.00	
Booth Expenses	750.00	
Conference Fee	63.45	
Ground Transportation	48.36	
Hotel/Motels	89.53	
Lodging	607.47	
Meals	235.20	
Miscellaneous	35.28	
Phone Calls	73.09	
<i>Total Travel</i>		4,091.38

<b>Utilities</b>		
Telephone	687.20	
<i>Total Utilities</i>		687.20

<b>TOTAL EXPENSES</b>		139,195.82
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<b>INCOME LESS EXPENSES</b>		90,737.51
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**Office Expenses**

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## Office Expenses

### Payroll

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Total Utilities		687.20

**TOTAL EXPENSES** 139,195.82

**INCOME LESS EXPENSES** 90,737.51

## MANAGEMENT

"Generally, management of many is the same as management of few. It is a matter of organization."

—Sun Tzu, *The Art of War*

### How We Started

CineMedia Studios was founded in 1990 by James St. Clair. He was joined by Evelyn Hallstrom, Michael Peters, Thomas Calloway and Sarah St. Clair, who formed a general partnership in 1992 after realizing the work they were doing in interactive multimedia was unique and marketable.

On October 1, 1993, the partnership incorporated into a C corporation. This was the most appropriate move for the company given its growth potential and current exposure.



## Founding Partners

Of the twenty-three people who make up the company staff, there are four founders who hold the following positions:

James St. Clair, Artistic Director and CEO

Evelyn Hallstrom, President

Thomas Calloway, Vice President of Technology

Michael Peters, Vice President of Audio Production, Composer

Of the five founders, each has been provided with a percentage of the original stock issue. Sarah St. Clair serves on our advisory council, but is not involved in the day-to-day operations of the company.

## Management Team Overview

Three other members of our staff, while not among the original founders, are an invaluable part of our management team.

Katherine Mailor, Executive Vice President

Diane Armstrong, Vice President of Finance, CFO

Jack Lockheart, Vice President of Marketing, CMO

The founders and key managers of CineMedia Studios have combined experience exceeding forty years in the artistic, computer and business industries.

The strength of the CineMedia management team stems from synergistic expertise in artistic, management and technical areas. This has produced outstanding results over the past two years.

The leadership and alignment characteristics of CineMedia Studios' management team have resulted in broad and flexible goal setting, to meet the ever changing demands of the fast-paced marketplace requiring our products. This is evident when the team responds to situations that necessitate new and innovative solutions.

## Responsibilities

**James St. Clair** , *CEO and Artistic Director*

Conceiving, writing, directing and producing all interactive films completed by CineMedia. Managing artistic side of organization.

**Evelyn Hallstrom** , *President*

Strategic and organizational planning and management, organizing, actuating and controlling business side of organization. Point person for new business ventures and company growth.

**Katherine Mailor** , *Executive Vice President*

Managing all human resource functions for company, coordinating all aspects of production, acting as liaison between Artistic Director and production teams, President and employees. In charge of special projects as requested by Artistic Director and/or President.

**Thomas Calloway** , *Vice President of Technology*

Managing all product technology development, including quality control, product design, new product development improvement, and improvements on existing products.

**Diane Armstrong** , *Vice President of Finance, Chief Financial Officer*

Managing working capital including receivables, inventory, cash and marketable securities. Performing financial forecasting, including capital budgeting, cash budget, pro forma financial statements, and external financing requirements.

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### **Jack Lockheart** , *Vice President of Communications, Chief Marketing Officer*

Managing market planning, advertising, public relations, sales promotions, and merchandising. Identifying new markets (including foreign markets), corporate scope and market research.

### **Michael Peters** , *Vice President of Audio Production*

Composing, arranging, performing, recording, producing and engineering all soundtracks and music for CineMedia Studios' interactive films. Managing all sound production and editing for films, as well as other employees in sound department.

## **Outside Support**

Our Advisory Council, including highly qualified business and industry experts, assists our management team in making appropriate decisions in order to take the most effective actions.

## **Board of Directors**

Our Board of Directors is made up of the original founding partners and our Chief Financial Officer.

## **People/Talent We Require**

CineMedia Studios' development team recognizes that additional staff is required to properly support marketing, sales, systems administration, and support functions.

Currently, CineMedia is composed of twenty-three people; a total of up to fifty will be required to meet the demands of the projected market over the next five years. Our company expects to expand in the following direction:

Management	4 new hires, including a COO
Computer Programmers	4 new hires
Softimage experts	2 new hires
Marketing/PR	5 new hires
Administration	5 new hires
Filming/Sound	4 new hires
Financial	3 new hires

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Administration	5 new hires
Filming/Sound	4 new hires
Financial	3 new hires

## **Government Regulations**

CineMedia Studios is operating in the multimedia/film industry, and we are under regulation of the State Licensing Bureau, Incorporation law, the IRS, and the Screen Actors Guild.

Currently, all appropriate legal requirements have been met, and all appropriate licenses, patents, and copyrights have been applied for and are in the process of being granted. When we prepare our initial public offering, licenses with the SEC will be processed.

## **PRODUCT/SERVICE DESCRIPTION**

Proprietary information pertaining to product proposals is available to investors upon signature of a Non-



disclosure Agreement.

Our principle product, interactive multimedia software, currently includes The Lunacy of Ronald, Astral Gate I: No One Sleeps Here (MPC & Macintosh), and IMAGIN action: the Art of Storytelling.

Under production at this time is the sequel to Astral Gate, called Astral Gate II: Incubus. Also in production is an interactive cineplex theater called Gateways that will feature ten films, four of which have already garnered multiple awards including Best of Show, Best Narrative Film, and Best Other Film at the First Annual Quick Time Film Festival; Best of Show and Best Interactive at the Second Annual Quick Time Movie Festival; Best Narrative at the second Quick Time Film Festival, and an Award of Merit at the 1993 In Vision Multimedia Awards.

All of our current and future titles offer intelligent, stimulating entertainment for a mainstream audience prepared for something besides the traditional computer game.

Interactive movies work in many ways, but all allow the user to affect the movement and experience of the story/movie. Your choices ultimately determine the outcome of the story, or in Absolute Cinema, the reactions of the characters you encounter. This individual control is a capability unique to Virtual Cinema and is greatly enjoyed by our customers.

## Current Products/Services

**The Lunacy of Ronald** Based on the story of a knight in the service of Charlemagne, this interactive novel is told through several different points of view through which the reader can move at will. Each character tells their own, often contradictory, version of the story. Ronald uses 256-color paintings, animation, Quick Time video, original music, professional "radio theatre" narration, hyper textual links and a complete soundtrack to transport you to the world of Charlemagne's France.

The Lunacy of Ronald is the winner of numerous awards including Top 50 CDROMs (#12) Mac User Magazine; Best Interactive, Quick Time Movie Festival, 1992; Best Interactive, Quick Time Film Festival, 1993; and Best of Show at the Dot. Pixel. Image National Graphic Design Contest, 1993.

**Astral Gate 1: No One Sleeps Here** In this interactive science fiction story world, the viewer assumes the perspective of Drew Griffin, a young medical student stationed on an alien planet. Earth's armed forces are there, at least officially, to protect a vital mission: to mine material needed to counteract terrible ecological damage, wrought by centuries of mankind's destructive use of technology. As Griffin, the viewer interacts with complex characters in situations that demand a search for truth far more sophisticated than virtual reality (VR) battle suits and seemingly dangerous aliens might suggest.

Astral Gate was named a Business Week Best Product of the Year the month it was released, and has gone on to win a silver medal for Best Interactive Movie at the 1994 In Vision Multimedia Awards, and a Multi Media World Reader's Choice Award for Best Interactive Movie.

**IMAGIN action: the Art of Storytelling** The first product developed by CineMedia Studios, features interactive fiction, art, political satire and music in a magazine format. Winner of numerous awards, including Editor's Choice for A+/In Cider Magazine and the Mac User Top 100. This product is on hiatus until resources can be devoted to its production needs, but will return as a formidable contender in the newly emerging interactive magazine format, where it was the first pioneer.

**Work For Hire** CineMedia now accepts work for hire on a project-by-project basis, as a way of expanding our horizons and bringing in additional funds. Our current project is " **rock** video monthly" for Warner Music Enterprises, a monthly CD-ROM that will ship in up to five different formats. CineMedia has planned the interactive interface design from the ground up, and will also perform the work each month on the CD-ROMs, which will be shipped to an installed base of CD-ROM owners for a nominal fee. CineMedia has already been approached by two other companies to perform similar tasks for them.



## Pay Back

For most customers, our products pay for themselves immediately in terms of hours of sophisticated, exciting entertainment not previously available. Our software is robust, requiring minimum maintenance, and customers are beginning to see a brand name identity they can count on in CineMedia's titles, and are starting to anticipate a certain quality of product from us — an expectation we encourage.

## Key Benefits of All Products/Services

The major benefit for customers of our Absolute Cinema products is entirely entertainment-based: complete immersion into the story worlds we create, while allowing the user freedom to experience the story in their own personal way. Our titles offer true interaction with filmic experiences that are world-class, entertaining and exciting.

## Product/Service Life Cycle

Our products have been on the shelves for a relatively short period of time, but judging by the continued press coverage for Ronald, and its recent new distribution deal, the life cycle for our software is three to five years. This is mostly due to the fact that nothing else like it exists currently. Over the next few years, many other developers will attempt to produce products to compete with ours, so this shelf life may decrease.

In the meantime, we are developing at least four titles or ports by the end of the year, and we will continue to produce many new products each year to keep ahead of the competition. By bringing on a significant amount of capital by the end of the year, we anticipate being able to grow the company to achieve this level of commitment to the industry.

## Planned Products

CineMedia Studios plans to continually develop new products and enhance existing products. New products currently being developed include Gateways and Astral Gate II: Incubus, plus ports of Astral Gate I and Gateways to other viable platforms. The Lunacy of Ronald has just been ported to the MPC platform, and the new, hybrid MPC/Mac version of the product will include Quick Time 2.0 for the Macintosh, complete with full-screen video and MIDI sound.

Concepts for our next generation of interactive products include a ghostly western, Western InSpecter; a swashbuckler, Barbary Coast; a "Three Musketeers" film, Sword & Saber; a hard-hitting modern action film called Mission; and a rock music flight simulator game called RockFlight. A complete listing of our more than seventy project ideas is available on request.

# INTERACTIVE MOVIE MARKETING

## Advertising & Promotion

CineMedia Studios' titles are vastly different from the traditional CD-ROM games. This presents a marketing challenge, approached by highlighting the unique product features, for example, interactive movies and Absolute Cinema. To illustrate, CineMedia's campaign for Astral Gate I & II, which will be presented as true interactive movies, is outlined below. This includes all publicity and marketing efforts.

Distributors often encourage collaboration with us, because they recognize that the emerging market niche of interactive movies requires unique marketing techniques. As detailed below, we will guide our distributors in defining an aspect of their publishing division as "interactive movies."



## General Positioning Ideas For Astral Gate (Mac) and Astral Gate II

- Highlight interactive movie features and Absolute Cinema
- Overcome consumer expectations of Astral Gate being game through initiating a movie image campaign
- Create hype over Absolute Cinema as a hook for publicity and consumer attention
- Add marketing and publicity milestones to title production to properly and completely develop our CD-ROM titles

### Promotion

- Conduct interactive movie "screening" promotions in conjunction with national retailers

### Design & Advertising

- Design all product packaging and advertising to reflect movies, not games
- Offer distinctive product packaging

### Publicity

- Launch publicity campaigns for each title as if they were movie
- Produce electronic press kits for national distribution, just as if this were a feature film

### Bundling

- Bundle CineMedia titles with the distributor hardware (if possible), then spotlight the benefits of true interactive movies playing well on new home entertainment multimedia systems

At CineMedia, we are already moving forward with many interactive movie marketing strategies. We have created an electronic press kit (EPK) and seen immediate success, with segments airing on national and local broadcast media. Publicity events focused on "the movie" and Absolute Cinema angles have earned us great attention. Also, we have conceptual designs for packaging, and overall promotional program ideas that will affect the thrust of "interactive movies" in the industry.

We know distributors and other publishers recognize the success of emphasizing the movie marketing angle from traditional linear films. CineMedia offers strong design, advertising development and communications services for all products and seeks financial support program ideas that will affect the thrust of "interactive movies" in the industry.

We know distributors and other publishers recognize the success of emphasizing the movie marketing angle from traditional linear films. CineMedia offers strong design, advertising development and communications services for all products and seeks financial support for these efforts as a part of the complete development of CD-ROM titles.

A complete plan of marketing and communication milestones is under development for inclusion as a part of our future product development. This will be presented to the distributors and publishers of all CineMedia products. This plan will add additional revenue and advantageously position CineMedia and its products in the marketplace.

### Selling Tactics

The following is an outline of an interactive movie screening promotion to be sponsored by the distributors and publishers of CineMedia Studios products.



## Objective

Identify and introduce qualified multimedia users (including prospective system buyers) to the distributor's interactive movies and other CD-ROM titles. Also, offer them incentives for purchasing all the distributor titles (especially CineMedia interactive movie titles), as well as other products, through cosponsoring retailers. Additionally, establish the distributor as specialists in publishing interactive movies. The number one selling point for both movies and CD-ROM titles is word-of-mouth. Nothing accomplishes word-of-mouth better than preview screenings and product sampling.

## Program

On a first come, first served basis, our targeted audience is invited to a facility for the distributor's Interactive Movie Premier Screenings. The evening consists of door prizes, limited refreshments, one-night only product sales discounts, sales coupons, and a 90-minute preview of one or more of the distributor's interactive movie titles. This may include an opening of 60-second spots (like coining attractions) of other titles, or new hardware product announcements from the distributor.

## Overview

- Multimedia screening nights sponsored by the distributor & national retail chains
- One or two interactive movie titles by the distributor are partially screened
- Initial test held in top ten or limited nationwide markets at retailer sites, nearby movie theater, or college campus
- Screening of new (and current) interactive movie titles published by the distributor
- Complete direct-mail, promotion, publicity & advertising campaign in each market

## Promotion & Publicity

- Press release distributed nationwide with saturation at local screening markets
- Electronic press kits for feature title(s) distributed to screening market media
- Press representatives on-site at each event stocked with review copies and publicity materials
- Distributor & co-sponsor announcements will be made before the film begins
- Developers attend and demonstrate as appropriate
- Distributor uses passes and event as an incentive to area distributors and local sellers

## Promotional Materials

For each screening:

- All materials include the distributor and retailer logos
- Screening passes (mailed, or picked up at participating retailer)
- Survey cards with limited market research question for the distributor & retailer
- Movie programs with the distributor advertisements listing several titles
- Ad posters posted around participating retailer and screening facility
- Movie posters distributed

## Advertising

- Cooperative local print and radio advertising campaign
- Direct mail including:
  - Databases from registered owners of the distributor & multimedia buyer's club



- Purchased lists
  - Print advertising response cards
  - 800 number responses
  - Retailer's consumer databases
  - Online announcement inquiries
  - User Group memberships
  - Databases of developers whose titles are previewed
- Event site & point of purchase signage

### Coupons & Giveaways

- Distributor gifts, door prizes, interactive movie title merchandise, and coupons will be distributed at each event
- Distributor CD-ROM sampler given to guests as they return a completed survey card

### Distributor & Coming Attractions

- A medley of movie trailer-style CD-ROM previews by the distributor are run before the main features

### Next Step

Develop a proposal for the most appropriate retail chain (e.g., COMP USA) for co-sponsorship participation. This entire program may be sponsored exclusively by a single publisher (e.g. Viacom Interactive, Electronic Arts) as a vehicle to solidify distributor and retailer relationships in addition to publicity and consumer awareness. After approval in concept, the screening markets would be identified, followed by the selection of a third party promotional agency for implementation.

### "Image" Advertising & Limited Sales

**Select Print Advertising Campaign** 1/3 page size column ads highlighting all current and announcing upcoming releases. Specifying the distributor's 800 number to buy product, CineMedia number for general info; also identifying new project deals, major trade shows and speaking engagements, awards, and company vision. A few possibilities:

- Multimedia World
- New media
- Wired
- Compute
- Specialty publications

**On-line Services** Places listing with opportunity to communicate, buy or call us for CineMedia titles and list company vision in every possible area, then keep track and respond promptly!

- America Online
- CompuServe
- AppleLink
- Genie
- User Groups

Special targeted advertising efforts and discounted product offers would be made to reach user groups.

**Direct Mail** Continue to build major database for quick response for moving announcement, new product releases, company vision, CineMedia product owner communicate, etc.



## Mailings will include

- Reader response cards from print ads and publicity "bingo cards"
- The Lunacy of Ronald registration cards
- Rented mailing lists

## Direct Sales

- Catalog sales of The Lunacy of Ronald on a limited basis.
- Response card sales from direct mail
- Sales at trade shows to offset expenses

**Trade Shows & Speaking Engagements** Several select shows a year. Since James often presents or conducts seminars, shows can easily be chosen to coincide with speaking engagements for maximum exposure.

**CineMedia Newsletter** One major full-color piece produced bi-annually with an occasional two-color smaller version distributed (four times annually). Distributed to our entire collective database of media, industry, customers and prospects.

**Advance Product Demos, Teasers and Broadcast Video** For each title we will produce teaser footage and demos to be included into our internal milestone schedule. The distributor will provide demos if they have an installed base of kiosks to be utilized.

## Demo & Video Plans

- Video version montage e.g., movie fast-cutting teaser trailer
- Actual title demo 2-3 months in advance to create retailer pull-through

## New Business Development

- Music business
- New major projects based on our project proposals
- Greeting cards
- Monitor interactive advertising pursuits
- Entertainment Agencies

# Communications

## Milestones

Our CineMedia Studios titles must be presented as interactive movies to consumers, the industry and especially to our publisher. We have repeatedly discovered that we are the best source to introduce titles properly. Therefore, the production/milestone schedule will include communications and marketing elements. This involves incorporating both simple and involved steps into our production schedule. We will schedule steps and projects that will generate abundant resources for advance publicity, market anticipation and ultimately sales.

## Press Releases

We will create a schedule for press releases corresponding to product news, shipping releases and all major media events.

## Publicity

A wide variety of publicity materials is available and constantly updated. This includes screen shots, publicity skills and candid shots, sell sheets (one sheets), a standard press kit, and an electronic press kit. The most

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effective way to maximize the current buzz surrounding multimedia is through personal accessibility and making an abundance of publicity materials available. CineMedia also holds regular media days on the set while shooting our interactive films. These are an integral part of CineMedia's successful publicity campaign.

### **E.P.K. - Electronic Press Kit**

Created in standard feature film publicity format, highlighting Absolute Cinema, the purpose is to stimulate broadcast media and print coverage.

Items for inclusion into title development milestone schedule:

- Product photography
- Media events surrounding production phases
- Main title/logo design
- Step by Step "making of screen captures and PICT files
- Newsworthy software usage, Beta testing (e.g., Adobe, QuickTime, etc.)
- Advance screen shots for 35mm slides
- Demo creation (kiosks, promotional videos)
- Electronic Press Kit development (for each title)
- Copy prepared from storyline for all materials
- Trade show, conference title preview preparation
- Packaging/carton design
- Jewel case insert
- Registration card
- Print advertisement full page layouts
- Suggested Standee, poster, and POP design

### **Customers**

CD-ROM buyers are expanding to include computer users of all ages, and even those most familiar with games are reaching out to widen their spectrum. Consumers brought to computer entertainment through Nintendo have grown up, and are starved for something more. This consumer demand added to the exploding installed as of CD-ROM drives leaves an open niche for interactive movies.

Currently, the new media market is broken in to four distinct segments; business, home user, education, and professional. The new media home user markets primarily consist of productivity, entertainment, education, and home business applications.

At the end of 1992, multimedia market share was dominated by the professional market, followed by business, education, and home computer use. By 1996, the home computer user market will be the largest segment.

CineMedia's customers are familiar with movies, demand more intelligent content than the market currently holds, and expect innovative technological artistry. Our studio satisfies these needs.

### **Competition**

Some developers claim they create interactive movies as a selling point. But often the claim of "movie" is where the resemblance to interactive films ends. They produce games with little or no story content. In fact, their addition of video elements, live actors, and a movie declaration typically detracts from what their products really are: games. Though other developers are beginning to come on the scene who are following our lead, CineMedia is the definitive leader in the creation of interactive movies, as exemplified by our recent awards. This is the niche we have created and defined, as we educate consumers about a new type of entertainment. Now it is our intention to own and dominate this niche, evinced by CineMedia's recent signing



to a major Hollywood agency, The Agency for Performing Arts. These extensive efforts will lead us to the peak of CD-ROM sales and into interactive TV and beyond.

## TECHNOLOGY DEVELOPMENT & ACQUISITION

### Responsibilities of the Technology Division

The charter of the Technology Division of CineMedia Studios is:

- To provide the computer-based framework of our interactive titles.
- To provide and maintain the computer environment necessary to build our titles and run our business.
- To provide and implement the strategic plans for positioning our company at the technological forefront of the interactive film niche.

The type of entertainment products that CineMedia Studios creates relies on powerful technology. For the purposes of explanation, these are divided into three primary areas that correspond to the division's charter:

#### Area 1

Develop and maintain the software portion of our products.

**Develop the software systems that drive our titles** This includes building/using proprietary software engines, using third-party title authoring tools and building/using hybrids (generally third-party tools with sections of proprietary software linked in). A large part of this area involves working with the artistic director to define realms of feasibility for envisioned artistic goals.

**Testing our products** Alpha testing is the responsibility of the Technology division. Beta testing can be handled by the title's distributor (e.g., the Astral Gate series), or can be done on a formal basis with a number of industry contacts who have the necessary skills to beta test.

**Maintenance and customer technical support** In-house maintenance of title support software is performed in order to build a better foundation for new titles. Any patch-maintenance of title software required to solve current user problems falls under the domain of customer technical support. For our current set of titles, Media Vision has responsibility for full customer support of the Astral Gate series, and Gateways. CineMedia has responsibility for The Lunacy of Ronald, which averages approximately three technical support questions per month, each one resolved without additional software support.

#### Area 2

Management of software, hardware and data:

**Software tools** Used to build our titles, including asset authoring tools, project administration tools, and miscellaneous proprietary tools: the technology division recommends appropriate toolsets and makes purchases after reaching consensus with planners. In some instances, proprietary tools may be developed for in-house use if they cannot be found elsewhere.

**Hardware systems** Used to build our titles, including computer workstations, networks, video and sound equipment: the technology division recommends appropriate platforms and makes purchases after reaching consensus with planners.

**Configuration and maintenance of hardware, software and data** Includes data backup, archiving and cataloging, as well as software upgrade and license management. These tasks make up the jobs of system, network and data administration, and are performed in-house.

**Maintaining vendor relations** Acquire media used by our daily operations, including floppy disks, write-once



CD-ROMs and data cartridge tapes. Other video and audio media used by the company are the responsibility of the various departments that use them.

### Area 3

Research and development of enabling and supporting technology.

The early stage of this industry forces developers to explore many of their own methods, to build the technology that enables these methods and supports the final project.

**Planning the proper use of our development resources** (striking the proper balance between "make versus buy"). It is important for a company of our size that the investments we make in technology development give us what we cannot buy from a third party, and not waste valuable time developing technology that is readily available to us elsewhere.

**Maintaining knowledge** regarding the state of current software and hardware architectures and development systems. This informs decisions on how to shape our development environment, as well as the plans described above.

In all of these areas, the technology that we develop is designed for internal use only. However, we are open to consider licensing technology to interested parties who may initiate such negotiations. We have already been approached regarding our Absolute Cinema technology. This is very worthwhile for us, as the act of licensing a technology to at least one other agent has the effect of increasing the value of that technology, and thus the value of our company.

In addition, we use other technologies in order to bring our products to market.

### Area 4

CD-ROM disc mass production; printing, cutting and assembly of product boxes; assembly of product with jewel case, product box and shrink wrap. The tasks performed in this area are not performed by the technology division—they are contracted out-of-house, and the distributor of our titles is typically in charge of negotiating and maintaining these contracts.

## Develop Versus Acquire

In the first two primary technology areas, we decided whether to develop the system or tool using in-house expertise, or to acquire the system or tool from a third party. The technology division supports these decisions by analyzing costs of development versus acquisition, as well as benefits from owning versus licensing. We do not develop hardware; the decision is purchase versus lease; presently, much of our equipment is leased from an independent vendor.

## Research and Development

The technology division supports decisions on hardware acquisition by providing technical and pricing information, but is not solely responsible for all equipment purchase recommendations. Such decisions are made jointly with the company's core team members who do strategic planning.

One of the technology division's primary responsibilities is in the area of longterm strategic planning of technology needs. Responsibilities include:

- Evaluating proposals for new titles to determine technical feasibility and resources required.
- Evaluating new technologies for appropriateness for current and new title work.
- Maintaining a library of software either developed or acquired by us to support title development.



## New Titles Under Production

The following titles are currently in production. A document of base technology and enhancements to be developed to support these titles follows.

- Astral Gate II, Incubus for MPC
- Gateways for Macintosh
- Gateways for MPC
- Astral Gate: No One Sleeps Here for Macintosh (just completed)

## New Titles Under Evaluation

The technology division is responsible for developing a document of baseline technology required for the following titles, and making recommendations for development versus acquisition when necessary. To illustrate, several examples are listed below:

Barbary Coast	Candidate to use Absolute Cinema engine
Mission	Candidate to use Absolute Cinema engine
Sword & Saber	Candidate to use Absolute Cinema engine
Western InSpecter	Candidate to use Absolute Cinema engine
RockFlight	Requires significant technology development or licensing

<b>Barbary Coast</b>	Candidate to use Absolute Cinema engine
<b>Mission</b>	Candidate to use Absolute Cinema engine
<b>Sword &amp; Saber</b>	Candidate to use Absolute Cinema engine
<b>Western InSpecter</b>	Candidate to use Absolute Cinema engine
<b>RockFlight</b>	Requires significant technology development or licensing

## Technology Base and Enhancements for Astral Gate II for MPC

Astral Gate II will use the same multimedia delivery engine as Astral Gate I. Some of the aspects of the story script require new capabilities to be created for this engine. Following is a list of the three primary features to be added - Ubernarrative, Dreamscape and evolving diary.

### Ubernarrative

This term was coined to represent what is typically referred to as a drama's subtext. Here it is an active portion of the narrative that provides an arc over the whole piece, and joins all elements together. The unique aspect of the ubernarrative is that its essence changes in reaction to the viewer's choices, thus providing a subtext that echoes the viewer even as it draws them into the central character's experience — the central character, controlled by the user, is thus tailored to them.

This idea was conceived for Astral Gate I, but was cut from that project due to short development time. Since then, the concept has evolved, from the main character's voice-over thoughts into several new dimensions: colors, textures and music will all be tailored to reflect the user's choices. In addition, certain character interactions will be chosen, based on the current "Uberstate."

The mechanism driving the ubernarrative will be an external database/query system. This maintains a representation of the main character's emotional state, which is driven by the user's choices. Three extremes of emotion are chosen: angry, balanced, and secretive. Balanced is the "content" state, which exists between angry and secretive.

This technology will prove useful for many of our upcoming titles. The process of developing it is helping to bring Absolute Cinema to its full potential.

Primary support required by Ubernarrative: weighted average object functionality, and corresponding database



of weights and thresholds.

## Dreamscape

A new level of user interactivity will be introduced with the ability to move about a landscape of dreams. The viewer will find themselves moving forward through floating images that come to life when approached; if the user continues to explore the moving image, it will enlarge to become a full screen movie, which will play one of the main characters' dreams.

The technology used for the 3D battle sequence in Astral Gate I is being modified to accommodate this dream exploration mechanism. Primary modifications are:

- All current 3D and graphic objects (pyramids, friends, bugs, etc.) will be removed, and there will be no horizon, since the player is meant to be flying through the air.
- Dreams will appear as panels of various size and aspect ratio, above and below the viewer's perspective. This requires texture mapping a movie onto a flat plane in perspective, and has already been developed.
- The viewer will be constantly in motion; the mouse will control turning left/right and flying higher or lower, but there is no need to use arrow keys to initiate forward movement.

The video architecture used for the dreamscape technology will be Microsoft Video for Windows 1.1, which includes a very impressive full-screen full-motion mode that is suitable for the dream compositions.

Primary support required by dreamscape: texture mapping movies onto flat planes is perspective. This is nearly complete.

## Evolving Diary

As the story proceeds, the main character's journal will grow to include text that recalls this encounters; the emotions underlying the text will be taken from the Uberrnarrative database, and will match the user's style of interacting with the story. In addition, charcoal-like sketches of places and people will be included. These too will vary in nature according to the engine's perception of the viewer's mood: from heavy black rough strokes indicating a reading of anger to finer shadings for a more balanced interpretation. Finally, a sketch of the user's painted "imago" will appear if they choose to create one for themselves.

Primary support required by the evolving diary: true type font functionality; Uberrnarrative functionality to select appropriate passages based on viewer's choices.

## Technology Base and Enhancements Required for Astral Gate I for Macintosh

There were no significant changes made to Astral Gate I during its port to the Macintosh platform. We made two moderate changes to the video game segment in order to enhance playability. First, we modified the behavior of enemies so that there are fewer of them and they are more difficult to kill, with more interesting behavior for avoiding the player. Second, we reduced the load time of the game from 30 to 2 seconds. Neither of these enhancements added to the time required for porting the entire title. In fact, due to the dedication of the team involved in the work, the product was available for shipping one month ahead of its internal schedule.

## Technology Base and Enhancements Required for Gateways for Macintosh

By far, the bulk of Gateways for Macintosh will be realized using existing authoring tools: Macromedia Director 4.0 in conjunction with a simple shell written using HyperCard 2.2 or possibly Super Card 1.6. There is one feature that will require additional software development support — "The Actor Variations" will provide a simple movie editing environment. Super Card is easily capable of programming such a tool, as is HyperCard with the addition of some third party XCMDs.



## Technology Base and Enhancements Required for Gateways for MFC

The primary authoring environment for Gateways for MPC will be the multimedia engine developed and enhanced for Astral Gate II. The movie editing functionality will require further tool development, to provide multiple windows and an editing capability.

### Development Environment

Currently, the technology division has the following computer platforms at its disposal for software development and testing:

- (3) IBM PC-compatible 486/DX2/66 with CD-ROM and external monitoring for code debugging.
- (4) IBMPC-compatible 486/DX2/66 with CD-ROM.
- (1) IBM PC-compatible 386/SX/33 for low-end platform testing.
- (1) Macintosh Centris 650 with CD-ROM and external monitor for debugging.
- (2) Macintosh Centris 650 with CD-ROM.
- (1) Macintosh Quadra 800 with CD-ROM and large external disks for file service.

The software platform used for development on the PC side is Microsoft Visual C++ with Code View for symbolic debugging and Microsoft Assembler. The code analyzers Bounds Checker and PCLint are used to assure quality. The Defect Control System is used to collect, track and manage errors.

The software platform used for development on the Macintosh side is Apple's Macintosh Programmer's Workshop (MPW) Development System with MacApp, MPW C++, MPW Assembler, SADE debugger, Source Server code control system, and other tools.

All of these computers are networked together using Apple's system 7 file sharing capability for Macintosh, and Farallon's Phone Net PC for IBM-compatibles. Phone Net PC makes a PC platform look and work like a Macintosh to the network, the only difference being that PCs are not implicitly visible to other computers and require the use of an additional program (Timbuktu) to implement direct communication between users. The network architecture is Ethernet, cabled as 10 base-T. We use 10 base-T hub architecture now, and as our network traffic grows, we may consider buying a router in order to split off some workstations that typically require high volume network transfers into a separate zone.

File service in general is handled by a set of distributed file servers throughout our organization. The primary file server is a Quadra 800 with 6 gigabytes of external storage, to be used by anyone in the organization. Certain divisions within the company have reserved directories for their use. Daily backups are performed. Since the data are so voluminous, the backup plan alternates days; one part of the cycle covers the internal disk drives of all Macintosh programmer's workstations.

Other file servers are:

- Primary graphics station; 1 gigabyte external; backups performed daily, including 500 megabytes on the secondary graphics station.
- Sound station; 2 gigabytes external; backups performed remotely from the movie conversion station on a weekly basis.
- Primary movie editing stations (2); each with more than 3 gigabytes external; backups performed as necessary.
- Secondary movie editing station; 4 gigabytes external; backups performed remotely from the main file server on a weekly basis.
- Movie conversion station; 2 gigabytes external; backups performed daily, including three other administrative stations on alternate days.

The E-mail system in place is Quick Mail, used by both PCs and Macintoshes.



Media required to support development operations are:

- 3.5" floppy disks, 1.4MB capacity (DSHD). Volume is approximately 50 per month.
- 5.25" floppy disks, 1.2 MB capacity. Volume is approximately 1 per month.
- 4mm data cartridge tapes, 90 meter length, 1.3 gigabyte capacity. Volume is approximately 20 per month. 120 meter length tapes are preferred, but are not yet manufactured for data quality tapes. These should be available in second-quarter 94.
- 5" write-once CD-ROM discs, 74 minute length, 680 megabyte capacity. Volume is approximately 25 per month.

Due to the nature of computer hardware and software, there are three types of maintenance that must be performed on a regular basis:

- Maintenance of software configuration of machines, including system software and applications. This also includes preventative maintenance of directory structures, which can become corrupted during system crashes.
- Maintenance of computer hardware, including internal components and peripherals. There are some in-house software applications that can solve some of the problems; other difficulties require repairs, and replacement of the part with a working substitute, if available.
- Maintenance of network hardware and configuration, including regular analysis of packet traffic speed and line transmission quality. This also includes maintenance of any individual or network modem hardware and software.

There is one area of simple hardware repair that is performed in-house when necessary: cable assembly offers an opportunity to cut back on a low level of cash flow, plus the time required to order specialty cables and have them delivered or picked up.

## Software Quality

The robustness of the software we create and its ease of use (especially for PC installation software) is very important to the success of the title. Typically, two primary methods assure the quality of software: detailed design and extensive testing. However, due to the aggressive nature of our schedules, we are not afforded the luxury of long design or testing periods.

We rely quite heavily on the technical expertise of our software engineers to build code designs, structures and modules that are of high quality and performance. We evaluate progress on a very frequent basis, and strive to address concerns about performance, quality of presentation and compatibility with other platforms.

There are three forms of testing that we perform: unit testing, integration (alpha) testing, and beta testing. Our software engineers perform the unit and integration testing as they proceed, and also do a portion of the beta testing. Beta testing is performed chiefly by people who did not develop the software; other in-house personnel fulfill a portion of this role.

## People

The positions that make up the technology division are:

- Director of Technology
- Senior Software Design Engineer
- Software Design Engineer (SDE)
- Systems Administrator

At present, there is one director (who also performs most of the systems administration duties), a co-manager, one senior SDE, and two SDEs. All have the bulk of their experience programming on the PC, and the junior



SDEs are now programming on the Macintosh platform, using their experience on the PC to port the Astral Gate engine from there.

We are currently using other in-house personnel to assist with systems administration and will hire a full-time systems administrator as soon as a large development opportunity arises.

## Conclusion

Like the company itself, the technology division is young, growing and learning. We have a good work environment that promotes satisfaction among the engineers who work here, and they do consistently good, often inspired, work.

In summary, the goals of this division are to produce high quality software to support title development, to equip and maintain the computer/working environment of the entire company, and to blaze trails into new areas of technology, helping us to deliver titles of unequaled satisfaction for the consumer.

## CONCLUSIONS AND SUMMARY

CineMedia Studios is a promising, thriving company, ready to infuse growth capital into this business. In order to take advantage of our current market position and to continue to produce world-class, award-winning multimedia entertainment, we must obtain project funding.

Profits expected from this infusion of capital, already outlined in this plan, will allow our company to realize our vision; that is to:

Develop and pursue an artistic vision of interactive entertainment that defines new boundaries of personal involvement with computer-based media. CineMedia Studios will continue to explore the territory of this burgeoning growth market, charting ways to bringing together text, graphics, animation, sound, music, video and reader interaction to the complete satisfaction of ourselves and our customers.