Confidential

PRIVATE PLACEMENT MEMORANDUM

January 31, 1984

ANDROBOT, INC.
101 East Daggett Drive
San Jose, California 95134

(408) 262-8676

The information contained in this offering memorandum is confidential and proprietary to Androbot, Inc. (the "Company"). It is being submitted to prospective investors in the Company with the express understanding that, without prior permission of the Company, such persons will not release this document, discuss the information contained herein, make reproductions or use it for any purpose other than to evaluate a potential investment in the Company. This memorandum has been prepared by the management of Androbot, Inc. Androbot, B.O.B., Topo, F.R.E.D. and AndroMan are trademarks of Androbot, Inc.

ANDROBOT, INC.

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SUMMARY

THE COMPANY

The Company is engaged in research and development, manufacture and sale of personal robots, which it calls Androbots™. The Company believes that Androbots represent a new and evolutionary family of products with applications in the fields of education, entertainment and communications. The Company believes that the market for personal robots, now in its infancy, will grow substantially as practical household and commercial applications are made available. The Company has four products, two of which are in the final stages of development (F.R.E.D.™ and Andromán™), one which is about to enter production (B.O.B./XA™) and one (Topo™), which is currently being distributed and sold worldwide.

CAPITAL STOCK OUTSTANDING
(December 31, 1983)

Preferred Stock
(before offering)

	Shares Outstanding	Common Stock Equivalents
Series A (each share is convertible into two shares of Common Stock)	465,000	930,000
Series B (each share is convertible into 1.5 shares of Common Stock)	270,000	405,000
Series C (each share is convertible into one share of Common stock at $2.50 per share)	1,498,903*	1,498,903
Common Stock Outstanding	4,041,520	
Total Common Stock and Common Stock Equivalents Outstanding		6,875,423

*Assumes conversion of convertible notes into 400,000 shares of Series C Preferred Stock.

SUMMARY
(Continued)

THE OFFERING

Shares Offered	2,000,000 shares of Series C Preferred Stock, convertible into Common Stock. The shares offered represent approximately 22% of the outstanding stock after the offering. The terms of the Series C are set forth in a Certificate of Determination included in this Memorandum as Appendix F.
Price Per Share . . .	$2.50
Valuation	Before Offering - $17,200,000 After Offering - $22,200,000
Conversion Price . . .	Each share of Series C is convertible into one share of Common Stock at an initial conversion price of $2.50 per share, subject to adjustment for stock splits, dividends, and certain sales of stock at less than $2.50 per share.
Other Features of Series C	- Liquidation perference - $2.50 per share - No dividend preference - Not redeemable - Right to participate in future financings - Demand and piggyback registration rights
Use of Proceeds . . .	The net proceeds from this financing will be added to working capital and used (i) to fund the remaining development of F.R.E.D. and AndroMan; (ii) to fund continuing development of B.O.B.; and (iii) to fund marketing and manufacturing expenses of Topo, B.O.B. and F.R.E.D.

SUMMARY
(Continued)

Stock Purchase Agreement	A copy of the proposed Stock Purchase Agreement (without exhibits) is included in this Memorandum as Appendix E.
Type of Investor . . .	This offering is being made only to highly sophisticated investors who have no need for liquidity in their investments, who understand the high risks of investment in the securities offered and who can afford the economic risk of a total loss of their investment.

FINANCIAL SUMMARY

Statement of Operations Data:	Year Ended 12/31/82 (Audited)	Three Months Ended 3/31/83 (Audited)	Nine Months Ended 9/30/83 (Unaudited)
Net sales	$ ---	$ 46,760	$ 220,894
Net income (loss)	$(1,555,040)	$ (1,334,713)	$(5,492,563)
Net income (loss) per common share	$ (.57)	$ (.34)	$ (1.06)
Weighted average shares outstanding	2,724,000	3,984,000	5,168,350

Projected Financial Results:
(in thousands)

	Years Ended December 31,				
	1984	1985	1986	1987	1988
Net sales	$16,718	$27,700	$49,638	$78,750	$119,000
Pre-tax income	$ 1,257	$ 4,848	$ 9,771	$14,175	$ 23,804
Net income	$ 1,257	$ 4,848	$ 5,277	$ 7,655	$ 12,854

Financial Statements for the periods set forth above are included in this Memorandum as Appendix A. Financial projections for 1984 and future periods are included in this Memorandum as Appendix B.

INTRODUCTION

The Company

The Company believes that a new industry will develop around personal robots during the next several years. Like early models of the personal computer, early versions of personal robots will have limited utility and applications. Development of more sophisticated hardware, better and more flexible operating systems and a broad base of software applications is expected to create a substantial market for personal robots. The Company's strategy is to take a dominant role and to establish the standards for the personal robot industry. The Company will develop and market a family of Androbots, which generally will be modular, expandable and upgradeable, and will also participate in the development and marketing of software and accessories for its products. The Company believes that the software and accessories market for personal robots will become more important than the hardware market.

The personal robot industry currently has approximately eight companies competing domestically and internationally. Today, this industry is defining the form and substance of personal robots which will provide educational, entertainment and technical value to their owners. As demands for personal robots mature, the Company will be able to provide more advanced hardware, more sophisticated operating systems, and a broader base of software applications, all of which will allow Androbots to operate without being programmed by the user and thereby appeal to a broad range of non-technical consumers.

Of the Company's four products, one (Topo) is already in production and being shipped to the world-wide marketplace, and two (B.O.B./XA and F.R.E.D.) are expected to be in production during the first quarter of 1984. The fourth product (AndroMan) is being developed by Androbot but will be manufactured and marketed by Atari, Inc. pursuant to an agreement with that company.

Products

B.O.B./XA

B.O.B./XA, an acronym for "Brains-On-Board" (XA for "eXpandable Androbot") is a modular, expandable and upgradeable mobile computer on wheels. B.O.B. is a personal robot which will ultimately function as a personal servant, companion, entertainer, educator and personal computer. Presently, B.O.B./XA functions primarily as a robotic development system based upon the IBM PC architecture and is intended for the

programmer who can develop applications which will lead the way to the ultimate household and commercial functions described above for B.O.B. to perform.

B.O.B.'s on-board computer plus planned add-on accessories will give it the capabilities of movement, navigation and communication as well as the sensory ability to perceive and react to its environment. It presently is programmed in the high-level, interpretive language FORTH. However, the Company plans to offer a BASIC language with robotic extensions and other robotic development languages in the future. The Company expects to commence shipments of B.O.B./XA during the first quarter of 1984. It is currently in the production engineering phase and is scheduled for pilot production in February 1984.

B.O.B.'s enhancements will include many hardware and software accessories which will permit it to grow in function and capability. Users will regularly purchase many of these additional accessories to further enhance their B.O.B. or to provide a functional application of their choosing.

Various prototypes of B.O.B. have been shown at the Consumer Electronics Shows in January and June of 1983. They were intended to demonstrate Androbot's technological capability in developing a mobile, multi-tasking computer with the capability to perform programmed tasks semi-autonomously. While the reaction from the consumer electronics trade and retail public was very positive, it became apparent, through engineering evaluation, that producing a semi-autonomous, applications-oriented personal robot, considering the magnitude and complexity of the software task, was not practicable for B.O.B.'s initial version.

B.O.B./XA is the introductory version of a Brains-On-Board Androbot that will grow into an accessory-rich, software applications driven, personal robot of the future. In January 1984 the Company demonstrated the speech and navigation capabilities and utility of B.O.B./XA at the Consumer Electronics Show. B.O.B./XA's operating software has been substantially improved so that applications programs may be developed in significantly less time than previously was the case.

Topo

Topo is an Androbot which is an animated extension of a personal computer. It operates primarily in conjunction with a personal computer, and its motion and speech is remotely controlled using commands initiated at the computer keyboard or a joystick accessory connected to the computer. Topo can also be made to move through manual operation of the direction switch on the top of his head.

Shipments of the new digital Topo to domestic retailers and international distributors began in December of 1983. Topo is upgradeable and has provisions for sensory capabilities that can be added in the future. It can be used currently with an Apple computer and, in the near future, will function with many other personal computers. The Company sold approximately 675 units of a prototype analog version of Topo earlier in 1983 and has shipped approximately 260 units of the new digital Topo through the first two weeks of January, 1984.

F.R.E.D.

F.R.E.D. (an acronym for "Friendly Robotic Educational Device") is a small, remote-controlled, computer peripheral intended for educational and entertainment applications, especially where space is at a premium. F.R.E.D.'s motion and speech can be controlled through a computer in the same manner as Topo. In addition, F.R.E.D. can be operated with a hand-held remote controller supplied with the product. A retractable pen can be used to draw a precise user-defined pattern or design. F.R.E.D's motion will be depicted on the computer screen as it is moving. Various software packages for use with several models of personal computers will be available during the second quarter of 1984.

The Company has introduced a prototype of F.R.E.D. for the purpose of evaluating customer reaction and securing retail orders. Initial shipments are planned for the second quarter of 1984.

AndroMan

AndroMan is a small, remotely-controlled Androbot designed for use with an Atari VCS 2600 game computer. AndroMan is controlled by means of a joystick only, and is an interactive video-game peripheral. The Company recently entered into an agreement with Atari, Inc. under which Androbot will complete the development of AndroMan and Atari will manufacture and market AndroMan. Initial introduction of AndroMan is expected in the fall of 1984. AndroMan functions as a three-dimensional video game.

Risk Factors

The Company is still in the development stage. Its revenues to date have been insignificant and it has incurred cumulative losses through December 31, 1983 estimated at $8,750,000. It expects to incur substantial additional losses through the second quarter of 1984 and may incur losses thereafter. No assurances can be given that the Company will

be able to develop, manufacture or ship its products in accordance with its schedule or that the anticipated market for its products will develop.

USE OF PROCEEDS

The net proceeds from the sale of the Series C Preferred Stock offered hereby are estimated to be approximately $5,000,000 assuming all 2,000,000 shares are sold. The proceeds will be added to the Company's general corporate funds and will be used to finance the remaining development of F.R.E.D. and AndroMan; to finance the continuing development of B.O.B. and to finance initial marketing and manufacturing expenses for Topo, B.O.B. and F.R.E.D. None of the proceeds will be utilized to repay debt owed to Nolan K. Bushnell or past amounts owed to Catalyst Technologies. Mr. Bushnell's debt may be converted into Series C stock.

The Company believes that the net proceeds of this offering, together with internally generated funds from projected product sales, will be sufficient to fund its operations through the end of 1984. See Appendix B for projected sales of the Company's products. No assurance can be given that such projected sales will occur.

CAPITALIZATION

The following table sets forth the capitalization of the Company at (i) September 30, 1983; (ii) as adjusted to give effect to the issuance of Series C Preferred Stock, the issuance of Notes convertible into Series C Preferred Stock and additional borrowings from Nolan K. Bushnell, all during the fourth quarter of 1983; and (iii) as further cumulatively adjusted to give effect to the sale of 2,000,000 shares of Series C Preferred Stock in this offering.

	Outstanding	As Adjusted for Series C Notes	As Adjusted for this Offering
Long-term debt:			
Payable to shareholders (1)	$4,176,396	$2,585,000	$2,585,000
Payable to Catalyst Technologies	402,625	402,625	402,625
Total long term debt	4,579,021	2,987,625	2,987,625
Shareholders' equity (deficiency):			
Preferred Stock - 5,000,000 shares authorized (2)			
Series A - 465,000 shares authorized and issued	1,143, 518	1,143,518	1,143,158
Series B - 270,000 shares authorized and issued	1,350,000	1,350,000	1,350,000
Series C - 4,265,000 shares authorized; 1,498,903 shares issued as adjusted for Series C Notes and 3,498,903 shraes issued as adjusted for this offering	--	3,746,702	8,746,702
Common Stock: 20,000,000 shares authorized; 4,041,520 shares issued (3)	341,388	341,388	341,388
Deficit accumulated during the development stage	(7,110,349)	(7,110,349)	(7,110,349)
Total shareholders' equity (deficiency)	(4,275,443)	(528,741)	4,471,259
Total capitalization	$ 303,578	$2,458,884	$7,458,884

(1) The Company is indebted to Mr. Bushnell in the aggregate principal amount of $2,585,000, represented by promissory notes bearing interest at 1% above the prime rate of a New York bank and due December 31, 1984. Mr. Bushnell loaned the Company approximately $950,000 subsequent to September 30, 1983. Mr. Bushnell converted $2,000,000 principal amount of his debt into Series C Preferred Stock in November 1983 at a conversion price of $2.50 per share. The Company was indebted to Sysorex International in the amount of $500,000 bearing interest at 9% and due June 30, 1984, which debt was converted into Series C Preferred Stock in November 1983 at a conversion price of $2.50 per share.

(2) Each share of Series A Preferred Stock is convertible into two shares of Common Stock; each share of Series B Preferred Stock is convertible into 1.5 shares of Common Stock and each share of Series C Preferred Stock is convertible into shares of Common Stock at an initial conversion price of $2.50 per share. In November 1983 the Company issued $1,000,000 principal amount of notes convertible into Series C Preferred Stock. The Notes will be automatically converted if this offering is completed and are treated as having been converted for purposes of the above table.

(3) Excludes (i) 1,455,070 shares reserved for issuance under the Company's 1982 Stock Option Plan, of which options to purchase 612,878 shares were outstanding at January 31, 1984 and (ii) 265,000 shares reserved for issuance pursuant to options and warrants not covered by such plan.

SELECTED FINANCIAL DATA

The following table summarizes certain selected financial data and is qualified in its entirety by the more detailed financial statements included elswehere herein.

Statement of Operations Data:	Year Ended 12/31/82 (Audited)	Three Months Ended 3/31/83 (Audited)	Nine Months Ended 9/30/83 (Unaudited)
Net Sales	$ --	$ 46,760	$ 220,894
Operating expenses:			
Manufacturing	56,106	330,022	1,259,895
Research & Dev.	1,074,193	435,105	1,446,440
Marketing	138,633	416,520	1,678,302
General & Adm.	255,458	178,793	1,162,114
Interest - net	30,700	21,033	166,700
Total	1,555,090	1,381,473	5,713,457
Net income (loss)	$(1,555,090)	$ (1,334,713)	$ (5,492,563)
Net income (loss) per common share	$(.57)	$(.34)	$(1.06)
Weighted average common shares outstanding	2,724,000	3,984,000	5,168,350

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The Company was formed in October 1981. At that time it commenced its research and development activities with the aim of developing a marketable personal robot. For the period from inception through December 31, 1981, the Company had no revenues and had expenses of approximately $60,000. The expenses consisted solely of research and development costs, primarily salaries for the Company's engineering staff and fees for engineering consultants.

Throughout 1982 the Company continued in its research and development activities. It had no revenues and a net loss of approximately $1,560,000 for the year. Approximately $1,070,000 was spent on research and development, as the Company increased its engineering staff from and retained the services of several engineering consultants on a part-time basis. Of the balance of its expenses, approximately $260,000 was incurred for general and administrative expenses, approximately $140,000 represented marketing expenses, approximately $60,000 was incurred in the manufacture of several units of a prototype of Topo, and approximately $30,000 represented interest expense.

During the first quarter of 1983, the Company reported its first revenues, approximately $50,000 from the sale of approximately 125 units of an initial version of Topo. However, the Company experienced a net loss of approximately $1,330,000 during the period. The Company further accelerated its research and development efforts in the first quarter of 1983, resulting in approximately $440,000 in such costs for the quarter. Marketing costs were approximately $420,000 due to the Company increasing the size of its marketing group and the cost of participating in the 1983 Consumer Electronics Show in Las Vegas (approximately $220,000). General and administrative expenses of approximatley $180,000 were also incurred in this period due to increases in the number of Company employees, increased rent and administrative fees due to Catalyst Technologies as a result of the increase in the Company's operations. The Company incurred approximately $330,000 in manufacturing expenses for the quarter as a result of manufacturing an initial version of Topo, including inventory writedowns of prototype parts of approximately $80,000.

During the first nine months of 1983, the Company reported revenues from the sale of 674 units of its initial version of Topo. The Company experienced a net loss, however, of approximately $5,492,563 as a result of continuing research and development ($1,446,440), expenses accrued for a withdrawn public offering ($500,000), expenses incurred in connection with participation at trade shows ($406,000) and increased rent and general and administrative fees as a result of the Company's expanded activities.

During October, November and December, 1983 the Company incurred additional losses aggregating approximately $1,700,000, primarily as a result of continuing research and development expenses and general and administrative expenses.

Liquidity and Capital Resources

To date the Company's operations have involved principally research and development. It has, however, engaged in increasing amounts of marketing and manufacturing activities since the third quarter of 1982. Cash for its operations has come almost entirely from external sources as revenues from product sales have been insignificant. The Company's three principal shareholders have been the principal source of outside financing, through loans and stock purchases in the aggregate sum of approximately $8,600,000. See "Certain Transactions." Aggregate investment in the Company to date has been approximately $9,800,000.

The Company's current cash expenditures approximate $500,000 to $650,000 per month. In December 1983 and January 1984 the Company underwent a reorganization resulting in a substantial reduction in its staff and cash requirements. The Company's cash requirements are expected to increase in the future as the Company moves beyond the research and development phase of its growth to the production and distribution of its products. Research and development efforts will be continuing as a result of the Company attempting to further refine its products and develop software packages and other accessories. In addition, as the Company's sales increase, the Company will need capital resources to support anticipated increases in working capital items, principally accounts receivable and inventory. The Company believes that the proceeds of this offering, together with internally generated funds will satisfy its cash requirements for development and operations through the end of 1984. Additional cash could be required at an earlier date if revenues or costs vary materially from the Company's projections.

BUSINESS

The Company has taken the preeminent role in developing and establishing the personal robot industry and plans to be the dominant force as the industry expands to one equivalent to or exceeding the market for personal computers.

The Company believes that a massive industry will develop around personal robots during the next five years. As with early models of the personal computer, early versions of personal robots will have limited functional utility and mechanical applications.

The high perceived value in both the educational and entertainment environments is expected to lead to early market penetration. More importantly, as the marketplace matures and more sophisticated hardware and software applications emerge, the broader base of the mass consumer market will become established.

The Company will set the pace for development of upgradeable hardware and software applications. Once a substantial number of Androbot base units have been sold, a corresponding business will emerge for accessories and software sales. In the long term, the software and accessory market will likely overshadow the base unit hardware market, because the market for personal robots ultimately will be determined by the perceived utility of the tasks that personal robots can perform.

Technology

The development of software for personal robots is currently the most significant limiting factor in the creation of products which have practical utility and user friendliness. In this regard, the personal robot industry is closely parallel to the personal computer industry. The Company believes that the software development tasks ahead, especially for B.O.B., are substantial. While the Company will continue to improve B.O.B.'s operating system, its strategy is to direct its efforts to the development of applications software for B.O.B. The Company's primary engineering development team is located at the corporate headquarters in San Jose, California.

In addition to the Company's in-house staff, the Company will utilize, to a significant extent, the talents of the numerous third-party software development firms and individual programmers available worldwide to accelerate the process of software applications development.

Software applications for F.R.E.D. are now being developed. Applications for Topo and B.O.B. will begin shortly. The Company believes, for reasons of time and economy, that the best software strategy is to produce resident ROM (Read Only Memory) firmware and to then make available to third-party developers the documentation necessary to develop applications software.

The Company believes that consumer acceptance of Androbots will be enhanced if they are perceived as having certain human characteristics, such as personality. The Company also believes that the perception of "synthetic personality" is closely linked with the balance between random versus predictable behavior. The Company's understanding of these factors allows Androbots to be highly personable.

PRODUCTS

Although the Brains-On-Board concept appears to the Company as the ultimate evolution of the personal robot, an alternative approach was judged to be the most prudent way to establish market acceptance. Therefore, the Company embarked upon the development of two distinct types of products; those with the computer on board the robot (B.O.B.), and those that rely on off-board computer intelligence (Topo and F.R.E.D.). With this latter concept, the personal robot may be viewed as a battery-operated peripheral to a personal computer. The Company believes this concept makes sense from a marketing standpoint since the installed base of personal computers used both at home and in the work environment is currently very large and still growing. Second, having already purchased a computer, the consumer already owns the "brains" necessary to give an Androbot the rudiments of artificial intelligence.

B.O.B./XA

B.O.B. was developed to incorporate the feature of "intelligence" in an Androbot. An initial prototype of B.O.B. was introduced at the Consumer Electronics Show (CES) in Las Vegas in January of 1983. Another version was demonstrated in June at the Chicago CES. These represented the product of the Company's initial development efforts and were intended to provide the Company with a vehicle for assessing technological problems and determining customer reactions.

The retail, press and public reactions to B.O.B. were overwhelming. The Company, armed with the valuable market information derived from these shows, plus 18 months of research on these prototypes, embarked in July of 1983 on the development of an inexpensive and producible B.O.B./XA robot which is scheduled for introduction in the first quarter of

1984. This product incorporates many of the important modular and upgradeable characteristics of form and function as well as the sensor technology explored by the Company.

B.O.B./XA is currently in the final stages of development. Its expandability is derived from a modular design which gives owners a great deal of freedom in determining how it will look and what capabilities it will have. As part of its design, modular accessories are offered which will provide B.O.B. with the ability to operate independently and navigate in unfamiliar environments. The Company plans to introduce new accessories on a regular basis and to develop additional software to help support customers in designing their own applications programs.

B.O.B./XA initially will appeal primarily to engineers, programmers and robot hobbyists. B.O.B./XA is programmed using the on-board computer and interpretive language FORTH. Purchased or user-developed software can be down-loaded into B.O.B. via a direct interface. Once loaded, B.O.B. can then be disconnected from the computer and function under its own control. To accomplish independent operation, it has a powerful on-board computer with 64K of dynamic RAM (Random Access Memory) expandable to 640K. On-board software support cartridges are included in the logic unit to provide the FORTH interpreter and supply the motor, sensor, and speech operating commands.

The performance of this initial version of B.O.B. will depend on the imagination and expertise of the user. However, on-going development within the Company is geared specifically to produce an interface which will appeal to non-technical users as well. Further, the Company intends to encourage the rapid development of applications software by third parties by entering into royalty agreements with selected programmers or companies specializing in software development.

To ensure that B.O.B. evolves into THE household personal robot that has challenged imaginations for years, a variety of available sensor accessories allow B.O.B./XA to study his surroundings, identify rooms and objects, and navigate successfully through various environments. A voice synthesis system is an option which provides the user with the ability to program speech in any language. A complete lifting system will soon be available which will greatly expand its mechanical applications potential. Additional accessories and software packages now under examination will allow it to accomplish room mapping, voice recognition and auto-recharging.

Markets

The Company expects that the B.O.B./XA package initially will have a retail price of $2,495.00 (U.S.). This package will include a 16-bit microprocessor, 64K of dynamic RAM, and input/output connections for sensor, speech and memory expansion modules. The on-board software support includes a FORTH interpreter and system controls for the drive motors, speech and sensors. A fully configured B.O.B./XA (including all speech and sensor systems) will increase the retail price to approximately $4,000.00 (U.S.).

The initial targeted markets include: professional computer programmers, engineers, robot hobbyists who already own personal computers, schools, universities and research institutions, and third-party software developers. As software applications become available, the Company expects the high-end technical consumer market (VCR, stereo enthusiast, etc.) to grow significantly. The initial purchasers will be consumers with a high disposable income, who are experienced with computer programming and who have the desire to create personality and utility for their personal robot.

It is expected that the market for B.O.B. will consist of: Educational/School - 15% (college and universities for studies of robots, artifical intelligence and similar programs); Educational/Home - 5% (advanced computer education); programmers - 20% (software development companies and individuals developing applications software); hobbyists - 60% (electronics, computer and robot hobbyists who enjoy working with tecnhical products).

Topo

Topo is an Androbot which was developed to perform as a peripheral to a personal computer. Although Topo can be operated manually with a switch located in its head, sophisticated applications will require the use of a personal computer. Commands are directed via an infrared datalink through a personal computer with software developed by the Company and initiated by the user. Topo also can be controlled by manipulating a joystick attached to the keyboard of a personal computer. Topo's software, called TopoSoft, is based on FORTH, which was developed primarily as an easy-to-use tool to control mechanical devices. Optional software is also available from the Company to control Topo using the LOGO software language. LOGO provides the educational instructor or student user with an extra dimension of interaction and control.

A prototype version of Topo was introduced in January 1983 at the Consumer Electronics Show in Las Vegas. About 650 of these prototype versions of Topo were manufactured and sold by the Company between March and July of 1983 for the purpose of testing the market and assessing demand. The reaction of retailers, dealers, and consumers to the product was very favorable. Approximately two-thirds of these Topos were purchased by school systems.

The Company recently introduced a new digital version of Topo and began shipments in the fourth quarter of 1983. The new Topo, reflecting improved product engineering and reliability, a digital electronic configuration and easily comprehensible software, has a voice synthesis system which can be user-programmed to speak in English or any foreign language. Through the first two weeks of January 1984 the Company shipped approximately 260 Topos.

Topo currently interfaces with an Apple computer. Early in 1984, the Company will make available interfaces with other personal computers including, Commodore, Radio Shack, Atari, Sinclair Spectrum and BBC Accorn. An attachable carrying tray as well as a wagon which can be pulled along are currently being offered as accessories.

Topo's retail price is $1,595.00 (U.S.). Additional software and accessories for Topo will be sold separately.

Markets

The market for Topo is roughly 25% of the approximately 20 million personal computers expected to be in businesses, homes and educational applications. The Company expects to penetrate .1% of this market during 1984. The installed base of various popularly priced computers is as follows: Apple (500,000); Commodore 64 (1,500,000); Atari (600,000); TRS Color (300,000); TRS 80 (600,000); IBM PC (1,000,000); Sinclair Spectrum (800,000); and BBC Accorn (300,000).

The chief advantage of Topo to existing computer owners or those contemplating the purchase of a computer is the excitement it brings to the development of computer literacy, the facility with which robotics can be explored, the entertainment value of a three-dimensional, talking, mechanical device and the utility that can be derived using pre-programmed or user-developed software. The technique by which Topo is programmed is entertaining and educational for children and adults.

End-users who will be interested in Topo's capabilities are computer programmers, robot hobbyists, educators, computer owners with children, and businesses. It is expected that the market for Topo will consist of: Educational/Schools - 20% (classroom use for children aged 7 to 15 years); Educational/Home - 20% (response to school exposure in homes with incomes above $40,000); programmers - 15% (software enthusiasts); robot hobbyists - 25%; computer hobbyists -20% (those with relatively high disposable income who enjoy technical products).

F.R.E.D.

F.R.E.D. is a small, 12-inch high, remote-controlled Androbot intended primarily for educational and entertainment purposes. As with Topo, it receives its commands via an infrared data link. F.R.E.D. can be operated with a hand-held remote-control transmitter delivered with the product. As a result, F.R.E.D. will be attractive to consumers who do not own or have access to a personal computer. In addition, a standard computer interface is available with software for use with a growing variety of personal computers.

The key product features are on-board voice synthesis and a retractable pen with which the user can draw a precise design or pattern.

F.R.E.D. can be operated on smooth, flat surfaces like floors and table tops. A personal computer is required if the user wants to explore the full educational potential of F.R.E.D., but is not essential for those who want to enjoy maneuvering F.R.E.D. with the hand-held remote-controller. The controller can also be used to manipulate the pen mechanism as well as to initiate speech. Considering solely the personal computer peripheral market, the customer base for F.R.E.D. will be similar to that for Topo. However, because of F.R.E.D.'s substantially lower retail price of $350.00 (U.S.), the Company believes the appeal will be considerably broader. In addition, the ability to operate F.R.E.D. without a computer should open wide segments of the market which were previously unreachable.

F.R.E.D. will interface with many personal computers on the market; initially, the Commodore 64, Apple II and Sinclair Spectrum. Provisions for the addition of supplemental vocabulary, electronic sensors and mechanical accessories have been incorporated in the product. In keeping with the Androbot design strategy, each unit will be field upgradeable when these additions are available.

A wholly-owned subsidiary of the Company, Androbot PTE, Ltd., a Singapore corporation (Androbot Singapore), has entered into a contract with an independent engineering firm

pursuant to which this firm will, based on the specifications and approvals of Androbot Singapore, design and develop F.R.E.D.. Mass production quantities of F.R.E.D. will likely be manufactured off-shore by independent producers of consumer electronics products.

The Company has introduced prototypes of F.R.E.D. for domestic and international sales promotion. Shipments are scheduled to begin in the second quarter of 1984.

Markets

Major retailers in the U.S., Canada, Australia and the major common market countries are already recognizing the enormous product potential of F.R.E.D.. The Company believes that a major factor leading to this enthusiasm is the recognition that F.R.E.D. has been designed to enhance the excitement surrounding current emphasis on computer literacy. F.R.E.D. is a robot which will provide, at a modest price, a unique dimension in the growing market of personal computer hardware and software accessories.

It is believed that the market for F.R.E.D will consist of the following categories:

Educational/Schools - 40%
Institutions will purchase F.R.E.D. for use by teachers in classrooms from grade 1 through early high school.

Educational/Home - 40%
F.R.E.D. will be purchased by families with or without computers where extra attention is taken to provide for the learning process. Parents with a college education and technical professionals who want their children to be computer literate will purchase F.R.E.D. because it is an inexpensive way to enhance the learning process.

Computer Software Professionals - 20%
Those who are employed in the expanding software field for a living or are hobbyists will use F.R.E.D. as a way to test and develop their programming skills.

AndroMan

AndroMan is a remote-controlled robot designed for use with the Atari VCS 2600 video game computer. It is operated under joystick control and receives its commands from an infrared data link similar to that used by Topo and F.R.E.D. An owner need not be computer literate. The Company expects that it will be sold as a complete package consisting of the following:

- AndroMan - a battery powered, microprocessor controlled 12" tall robot with about 50 words of speech and one bar code reading sensor;

- Infrared transmitter - which plugs into the video game computer and sends signals to the robot and receives information from the robot;

- Game Scape - a 3' x 6' folded cardboard playing field;

- Game Pieces - 3-dimensional plastic play pieces which are placed on the game scape and add difficulty to the game; and

- Game Cartridge - which plugs into the video game computer and provides the game play on the TV screen as well as the "intelligence" for sending and receiving information from the robot.

The market for AndroMan is the installed base of 15,000,000 owners of Atari 2600 video game computers. AndroMan is the natural evolution of the current video game because it adds a real third dimension to the flat television screen.

AndroMan is expected to retail in the $100-$150 range for the complete five piece system. Additional games are under development. Each additional game will include the game scape, a cartridge and play pieces.

The Company believes that a substantial worldwide market exists for AndroMan. For AndroMan to reach the market potential envisioned, substantial cash resources for manufacturing high volumes and advertising to mass markets is required. With that in mind, the Company believes that AndroMan's full potential cannot be reached with the financial resources that the Company currently has available to commit. Accordingly, the Company recertly entered into an agreement with Atari, Inc. which will assume the manufacturing and marketing responsibilities for AndroMan. In return, the Company received an initial cash payment and will receive continuing royalties on the retail sales of both AndroMan,

peripherals, accessories and additional games. The Company is obligated to complete the initial development of AndroMan and the initial games and plans to develop additional peripherals, games and accessories. AndroMan is being developed pursuant to a contract with an independent engineering firm.

MANUFACTURING AND PRODUCTION

The Company currently plans to assemble and test each of its product lines at least through their first 90 days of full production at its primary facilities in San Jose, California. Products such as F.R.E.D., which are particularly well suited for high-volume mass production, will be manufactured thereafter at an off-shore site. Although mechanical and electrical sub-assemblies for more complicated and lower volume products such as B.O.B. and Topo may eventually be sourced off-shore, the Company plans to do final assembly and test in San Jose. Regardless of any off-shore commitment, the Company intends to continue to produce 10% of the production requirements of each of its products in San Jose to ensure that an efficient and timely review of cost reduction techniques can be carried out.

The Company is aware of periodic industry shortages of certain microcontrollers, microprocessors and other related electric components used in sophisticated electronic hardware. While there can be no assurance of the availability of ongoing supplies needed to meet the product volume during 1984, the Company has been informed by its suppliers that it will be able to meet or be able to obtain a sufficient quantity of such electronic components as to permit the Company to produce the major proportion of its projected sales.

COMPETITION

While the Company believes that it has a leading position in the development of personal robots, this lead could be reduced by rapid product development by its competitors.

The Company believes that its competitors can be categorized into three groups: companies currently producing hobby or personal robots such as the Heath Company and the RB Robot Company, which produce the HERO robot and RB5X robot, respectively; all other companies which are producing or have announced plans to produce hobby or personal robots; and other companies, many of which have large financial, technical and manufacturing resources, which could enter the market at any time.

HERO from Heath is positioned as a competitor to B.O.B./XA. Information from Heath indicates that during 1983, HERO robot sales volume has approached the 15,000 unit mark. The product sells in two forms; one as a kit and one totally assembled. Prices range from $2,000 to $3,000. According to industry sources, 75% of the sales have been kits. While the Heath Comany has contributed to the market awareness of the personal robot industry, its products primarily focus on small segments of the buying public, those customers of a strong hobbyist nature who are more interested in the hands-on manipulation of the hardware than the ultimate applications of the robot's performance. Also, because HERO requires programs to be developed by its user in assembly language, a large part of the public who are interested in owning a robot, but are not desirous of such a difficult programming exercise, have been excluded. Nevertheless, HERO has sold approximately $35,000,000 worth of product in its first year, which is further indication that a large market exists for personal robots.

The RB Robot Company of Denver, Colorado is a small public company which also manufactures a hobbyist oriented robot called RB5X. It is believed that RB5X sales to date have been approximately $500,000. The Company believes that RB Robot is targeting its products towards a very specific and rather narrow hobbyist market like Heath, although RB Robot's management is known to be interested in the broad consumer market.

The Company is aware of several other companies, both domestically and abroad, which are producing or have announced plans to produce hobby or personal robots. In each instance, these companies are targeting their products toward a very narrow segment of the market with products which require a highly developed technical knowledge and programming expertise.

The third category of potential competition is the large body of computer or consumer electronic companies who may enter the personal robot market in the future. This includes companies like Coleco, Atari, Commodore, Milton Bradley and Parker Brothers.

Because the Company has devoted significantly greater resources than its competition over the period of the last two years toward the specific development of personal robots which are intended for a broader market category of educational and home entertainment use, the Company believes that it has a significant lead in establishing itself as the leader in the personal robot industry. The lead, however, could be affected by the emergence or announcement of a strong competitor with a major market penetration capability and a broad distribution channel.

DISTRIBUTION

U.S. Sales

Androbot has hired seventeen manufacturer's representative organizations to represent the Company in the continental U.S. These companies employ a total of 85 field sales personnel who specialize in sales, service and technical training.

These organizations are responsible, under the Company's supervision, for establishing and supporting the retailers who sell all Androbot products to the public. A description of the Company's distribution network is included in this Memorandum as Appendix C.

In the military marketplace, the Company's distributor is the Bose Corporation. Bose is responsible for sales, promotion, advertising and service for the world-wide U.S. Army and Air Force Exchange System and military offshore markets.

International Sales

Androbot has hired fourteen exclusive distributors in countries outside the U.S. Each has complete responsibility for representing Androbot in its respective country. These distributors perform the functions of marketing, sales, promotion and service. Each has developed a plan for selling Androbot products to the personal computer, consumer electronics and department store retailers appropriate to its own country. These distributors buy product from Androbot on letters of credit and have committed to sell a mutally agreed upon quota of products. See Appendix C.

Advertising and Collateral Support

Androbot has allocated extensive funds to promote the sale of its products. Approximately 10% of projected sales in 1984 will be devoted to marketing support, of which slightly in excess of half that amount is targeted directly at print advertising space. Dealers are provided with complete sets of merchandising tools to promote fast retail sell-through. International distributors will use U.S. advertising and merchandising as a foundation for the creation of materials tailored to their particular country. European distributors are each planning local advertising programs directed at mass markets and educational marketplaces.

Warranty

Androbot products carry 90-day warranties similar to those of personal computers, software and consumer electronics products. Routine repairs are sent to Androbot corporate headquarters or regional service centers. Servicing dealers receive technical training and have access to the necessary parts inventory, schematic diagrams, and service literature. International distributors will establish product warranties according to the legal and technical requirements of their country.

EMPLOYEES

As of January 15, 1984, the Company had 50 full-time employees, of which 23 are on its engineering staff, 15 in manufacturing, and the remaining 12 are in sales, management and administration. As the Company begins to manufacture and distribute its products on a greater scale, additional personnel will be required.

MANAGEMENT

Officers, Directors and Key Employees

The following table sets forth information regarding each of the Company's current officers, directors and key employees.

Name	Age	Position with Company
Nolan K. Bushnell*	40	Chairman of the Board
Skip Steveley*	38	Director and President
John L. Cassell, Jr.	35	Chief Financial Officer
John B. Anderson	41	Director and Vice President
Lawrence Calof*	39	Director and Secretary
Joseph J. Lubinski	28	Director of Engineering
Steven G. Kern	37	Director
Wayne Kirk	39	Director
Jerry R. Crowley**	44	Director
Daniel H. Fylstra**	32	Director
Warren Winger**	40	Director

*Member of Executive Committee
**Member of Audit Committee

Mr. Bushnell founded the Company in October 1981 and continues as its Chairman and principal shareholder. He also is the sole proprietor of Catalyst Technologies, which he founded in late 1981. Catalyst Technologies provides

management and services to the Company and other high technology companies. Mr. Bushnell is also the founder, Chairman of the Board and Chief Executive Officer of Pizza Time Theatre, Inc., a publicly-held company in the family entertainment business. Previously, Mr. Bushnell started and was Chairman of Atari Inc., a manufacturer of electronic games and personal computers.

Mr. Steveley joined the Company in April 1983 and was recently appointed President and a Director. Mr. Steveley started his career as a systems engineer with IBM in 1967. In 1970 he joined Decimus Corporation, a subsidiary of Bank of America engaged in computer leasing. He held various positions as an employee of and consultant to Decimus, and for the last five years served as Vice President of Data Processing.

Mr. Cassell joined the Company in January 1984 as Chief Financial Officer. From June 1975 until August 1978, he was a Vice President with Crocker-Bank in Corporate Finance and Merchant Banking. Subsequently, he joined Wells Fargo Leasing Company as Treasurer, and in 1981 he founded and managed the Lease Syndications Department for Wells Fargo. In March 1983 he took a leave of absence to pursue personal interests.

Mr. Anderson became a Director and Vice President of the Company in 1982. In 1981 Mr. Anderson joined Catalyst Technologies as Executive Vice President, a position he continues to hold. From 1979 to 1981, Mr. Anderson was with Pizza Time Theatre, Inc., where he served as Vice President-Finance and as Treasurer. Prior to his employment with Pizza Time, Mr. Anderson was Vice President-Administration at Atari, Inc.

Mr. Calof has been the President of Catalyst Technologies since June 1982 and in July 1982 became a Director and the Secretary of the Company. Mr. Calof had been a partner with the law firm of Gibson, Dunn & Crutcher for more than five years prior to June 1982 and served as managing partner of that firm's San Jose, California office from January 1979 until he joined Catalyst Technologies.

Mr. Lubinski joined Androbot in early 1983 as Manager of Outside Product Development and was promoted to Director of Engineering in late 1983. Before joining Androbot, Mr. Lubinksi was Manager of Engineering at Yale Security Products, a division of Scovill, Incorporated. He also served previously as a project manager for the Fundimensions division of General Foods, and as an electronics engineer at Aurora Products (Aurora Marx Toys). Mr. Lubinski is responsible for the overall design, engineering and

development of Topo, B.O.B., F.R.E.D. and AndroMan personal robot products. Mr. Lubinski holds Bachelor of Science degrees in both Electronics and Mathematics from the University of Scranton (PA).

Mr. Kern joined Androbot in June 1982. From 1967 to 1981 Mr. Kern was with the accounting firm Arthur Young & Co., and was a partner, specializing in tax matters, in such firm from 1979 until his departure. Mr. Kern is a tax and financial advisor.

Mr. Kirk became a Director in November 1982. He has been a partner with the law firm of Thelen, Marrin, Johnson & Bridges for over five years.

Jerry R. Crowley was elected as a Director in May 1983. Mr. Crowley is President and Chief Executive Officer of OKI Semiconductor, Inc., a subsidiary of OKI Electronic Industry Company, Ltd., a Japanese company. He has served in that capacity since 1978.

Daniel H. Fylstra was elected as a Director in May 1983. Mr. Fylstra is Chairman of the Board and Chief Executive Officer of VisiCorp, a developer and distributor of microcomputer software. He founded VisiCorp in 1978 and served as its President until September 1980, when he was elected to his present positions.

Warren Winger was elected as a Director in May 1983. Mr. Winger is Chairman of the Board and Chief Executive Officer of CompuShop Incorporated, a publicly-held company he founded in 1977. CompuShop is engaged in the retail sale of personal computer systems and related products and services.

Stock Options and Warrants

The Company currently has in effect its 1982 Stock Option Plan (the "Plan") covering 1,900,000 shares of Common Stock. The Plan provides for the grant of incentive stock options, as the term is defined in Section 422A of the Internal Revenue Code ("Incentive Options"), and for the grant of nonqualified options ("Non-Qualified Options").

As of January 31, 1984, under the Plan, options covering an aggregate of 612,878 shares were outstanding, options to purchase 444,930 shares had been exercised, and 842,192 shares remained available for the grant of options in the future. Under the Plan, options granted must have exercise prices at least equal to the fair market value of the Common Stock on the date of grant, as determined by the Board of Directors, and expire no later than five years from the date of grant. Most options vest over a three year period. The Plan is currently administered by a committee of three directors, consisting of Skip Steveley, Lawrence Calof and Nolan K. Bushnell.

As of January 31, 1984, officers and directors of the Company held options granted under the Plan covering 38,400 shares of Common Stock with exercise prices ranging from $.05 per share to $2.50 per share.

Nolan K. Bushnell and Sysorex each hold three-year, non-qualified options, not granted under the Plan, to purchase 25,000 and 10,000 shares of Common Stock, respectively, at an exercise price of $3.33. See "Certain Transactions". In January 1984 the Company issued a warrant to purchase 20,000 shares of Common Stock at an exercise price of $2.50 per share to Jerry Crowley, a director.

In October 1983 the Company granted warrants to purchase 10,000 shares of its Common Stock to a leasing company. The warrants have a term of seven years and an exercise price at $5.00 per share.

In November 1983 the Company granted warrants to purchase 200,000 shares of Common Stock at an exercise price of $2.50 per share to the purchasers of notes convertible into Series C Preferred Stock. These warrants are presently exercisable as to 150,000 shares. The balance becomes exercisable if this offering is not completed prior to March 1, 1984.

The Company recently offered to adjust the exercise price of certain outstanding options held by employees and directors from $5.00 per share to $2.50 per share.

Certain Transactions

Nolan K. Bushnell, Chairman of the Board and principal shareholder of the Company has loaned the Company an aggregate of approximately $5,600,000 since inception. Mr. Bushnell converted $162,500 of such debt into 65,000 shares of Series A Preferred Stock in November 1982 and he converted approximately $2,040,000 of such debt at $2.50 per share into 889,681 shares of Series C Preferred Stock in November 1983. Presently Mr. Bushnell is owed approximately $2,585,000 represented by promissory notes bearing interest at 1% above the prime rate of a New York bank and due on December 31, 1984. In connection with one of his loans Mr. Bushnell was granted an option to purchase 25,000 shares of Common Stock.

Catalyst Technologies, a sole proprietorship owned by Mr. Bushnell, has provided (i) facilities and administrative services and (ii) equipment rentals to the Company at rates believed to be more favorable than would be available from unaffiliated parties. Amounts charged for (i) facilities and administrative services and (ii) equipment rentals during the fiscal year ended December 31, 1982, were approximately $110,000. For the nine months ended September 30, 1983, such charges aggregated approximately $444,000. The Company expects to use certain administrative services of Catalyst Technologies for some period.

In May 1983 Sysorex loaned the Company $500,000 and received the Company's promissory note in that amount. The Company's note bears interest at 9% per annum and was due and payable June 30, 1984. The Company granted to Sysorex a three-year, non-qualified option covering 10,000 shares of its Common Stock at $3.33 per share in connection with this loan. This loan was converted into 209,222 shares of Series C Preferred Stock in November 1983 at $2.50 per share.

In November 1982 the Company sold an aggregate of 465,000 shares of its Series A Preferred Stock for $1 million cash and cancellation of $162,500 of indebtedness. Each share of Series A Preferred Stock is convertible into two shares of Common Stock.

In May 1983, the Company sold an aggregate of 270,000 shares of Series B Preferred Stock for $1,350,000 in cash. As a result of a recent change in the rights of the holders of the Series B, each share of Series B is now convertible into 1.5 shares of Common Stock.

In November 1983, the Company issued shares of Series C Preferred Stock in cancellation of indebtedness to Mr. Bushnell and Sysorex and issued promissory notes convertible into Series C Preferred Stock all at $2.50 per share. These notes are automatically converted when the Company obtains an aggregate of $5 million of financing from the sale of securities or the sale or license of certain assets. One of the puchasers of the notes, Catalyst Ventures, Ltd., is a venture capital company of which Messrs. Bushnell, Calof and Anderson are members of the general partner. Other purchasers of Androbot Preferred Stock include Horsley, Keogh & Associates, Heritage Venture Croup, Inc. and Mount Vernon Venture Capital Company.

PRINCIPAL SHAREHOLDERS

The following table sets forth, as of December 31, 1983, certain information with respect to the beneficial ownership of the Company's Common Stock by (i) each current director, (ii) all current officers and directors of the Company as a group, and (iii) each person known to the Company to beneficially own 5% or more of the outstanding stock of the Company. For purposes of the table, outstanding convertible securities and options or warrants held by the persons named are deemed to have been converted or exercised.

	Beneficial Ownership		
Name	Number of Shares	% Before Offering	% After Offering
Nolan K. Bushnell (1)	3,793,047	54%	42%
Sysorex International, Inc.	1,019,222	15%	11%
Skip Steveley	65,400	(3)	(3)
John L. Cassell	17,000	(3)	(3)
Steven G. Kern	100,000	(3)	(3)
Lawrence Calof	190,000	(3)	(3)
John B. Anderson	105,000	(3)	(3)
Wayne Kirk (2)	2,000	(3)	(3)
Daniel H. Fylstra	20,000	(3)	(3)
Jerry R. Crowley	45,000	(3)	(3)
Warren Winger	17,500	(3)	(3)
Horsley Keogh and Associates	600,000	8.5%	6.6%
All officers and directors as a group (9 persons)	4,334,547	61%	47%

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(1) Excludes 200,000 shares owned by Nancy N. Bushnell, Mr. Bushnell's wife.

(2) Excludes shares held by Sysorex. Mr. Kirk is the representative or Sysorex on the Board of Directors of the Company, but does not have voting or investment power with respect to the shares owned by Sysorex.

(3) Less than 1%.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 20,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock.

Common Stock

At January 31, 1984, there were 4,047,030 shares of Common Stock outstanding held of record by approximately 50 shareholders. The holders of the Common Stock are entitled to receive such dividends as may be declared from time to time by the Board of Directors out of funds which are legally available therefor. The Company presently intends to utilize any earnings for development of its business and, accordingly, will not pay dividends in the foreseeable future. Subject to preferences that may be applicable to any outstanding shares of Preferred Stock, holders of Common Stock will share ratably in the net assets of the Company in the event of liquidation. Holders of Common Stock are also entitled to cast one vote for each share held of record on each matter submitted to a vote of shareholders, and, upon giving notice required by law, may cumulate their votes in elections of directors. There are no redemption, conversion or preemptive rights associated with the Common Stock.

Preferred Stock

The Company has outstanding 2,233,903 shares of its Preferred Stock (assuming conversion of notes convertible into shares of Series C Preferred Stock). Of these shares 465,000 shares have been designated Series A Preferred Stock ("Series A"), 270,000 have been designated Series B Preferred Stock ("Series B") and 4,265,000 shares have been designated Series C Preferred Stock ("Series C"). The holders of the outstanding Preferred Stock are not entitled to any dividends, but no dividend may be paid on the Common Stock unless and until a dividend in the same per share amount (on an as if converted basis) is paid with respect to all shares of the outstanding Preferred Stock. Each holder of the outstanding Preferred Stock has the right to convert, at any time, each share of the outstanding Preferred Stock he holds into shares of Common Stock - two shares of Common Stock for each share of Series A; 1.5 shares of Common Stock for each share of Series B; and one share of Common Stock for each share of Series C. The conversion rate of the Series A and Series B is adjustable only in the event of stock splits, stock dividends, recapitalizaitons and similar events. The Series C

conversion rate is adjustable, in addition to the above events, if the Company issues certain securities at a price less than $2.50 per share.

Each share of the outstanding Preferred Stock is automatically converted into shares of Common Stock in the event that shares of Common Stock are sold to the public at a price of not less than $5.00 per share pursuant to a firm commitment underwritten public offering, with an aggregate offering price of $5,000,000 or more, registered under the Securities Act of 1933. Each share of Preferred Stock is entitled to a number of votes equal to the number of shares of Common Stock into which it is convertible. The outstanding Preferred Stock and the Common Stock vote as a single class except as required by law and except that a vote of 66% of the outstanding Preferred Stock is required to (i) approve and effect any consolidation or merger or sale of substantially all of the assets of the Company where a holder of the outstanding Preferred Stock does not receive cash, securities or property having a value at least equal to $2.50 per share in the case of Series A and Series C and $5.00 per share in the case of Series B, or (ii) change any of the rights, preferences, privileges or restrictions pertaining to the outstanding Preferred Stock; provided, however, such limitation does not require a vote of the holders of the outstanding Preferred Stock in connection with the creation of another series of Preferred Stock with a liquidation preference greater than or equal to the liquidation preference of the respective series.

Upon liquidation, the holders of the outstanding Preferred Stock are entitled to $2.50 for each share of Series A and Series C and $5.00 for each share of Series B before any payment is made to the holders of Common Stock. After payment of $2.50 per share to the holders of shares of Common Stock, the remaining assets and funds of the Company would be paid in equal amounts per share to the holders of shares of Common Stock and the holders of shares of the outstanding Preferred Stock. There are no preemptive rights or redemption provisions in connection with the outstanding Preferred Stock. The holders of the outstanding Preferred Stock do have, however, a right of first refusal, subject to certain limitations, to acquire a specified percentage of shares of Common Stock or securities of the Company convertible into or exchangeable for shares of Common Stock issued by the Company in the future.

The Board of Directors has the authority to issue additional shares of Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including the dividend rights, dividend rate, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any series or the designation of such series, without any further vote or action by the shareholders.

PROFESSIONAL ADVISORS

Gibson, Dunn & Crutcher acts as legal counsel to the Company and Deloitte Haskins & Sells acts as the Company's independent certified public accountants.