

StairSmart

A Unique and Proprietary Solution To A Significant and Pervasive Household Hazard



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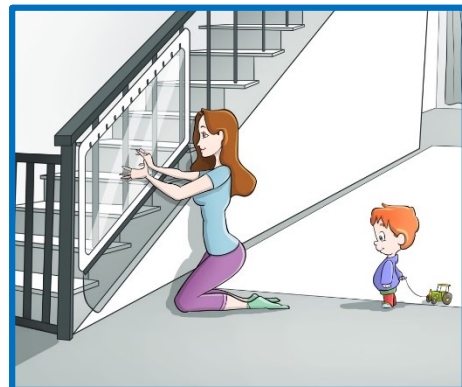
II. Executive Summary

The stairway is a universally recognized hazard in the home. Yet, despite the nearly universal adoption of child safety gates, every year in the US more than 93,000 children – **one every six minutes** --suffer injuries in stairway related accidents of sufficient severity to send them to the emergency room. A source of serious injury that has been overlooked by the industry is falling while climbing on the outsides of stairways as illustrated in the drawing at right.



No product addresses this hazardous activity. After hearing multiple stories from friends whose children suffered catastrophic injuries or were rescued by parents at the last moment, we were compelled to explore solutions to this issue. Consequently, we developed the StairSmart system to address this critical need.

The company has designed and developed the StairSmart external stairway climbing prevention system -- a unique and proprietary product that addresses a source of potentially life-threatening injury in the home. The StairSmart™ system prevents a child from both stepping on the exposed end of the step as well as gaining a handhold on the spindles. By preventing the child from climbing the outside of the stairway, the product significantly reduces the chance of stairway related injuries in the home. The company has analyzed building codes and architectural conventions to generate a product that adapts to a wide variety of stairway dimensions. Typically, the StairSmart system is installed on the lower steps of the stairway, however, the system is flexible and may be of essentially any dimension and may extend further up the stairway.



Our business model is to focus on the strengths of the founders: to innovate with new products, to establish an extensive intellectual property portfolio for those products and then enter into a business relationship with one or more major companies in the field to leverage their expertise in the manufacturing and marketing to most effectively and expeditiously commercialize the company's products. It is the goal of the company to enter into a business relationship with a major company with an established presence in the child safety field. We believe that by leveraging the marketing expertise of a major company, the product will be commercialized to the greatest segment of the population in the most expeditious manner. We view our customers

as juvenile product manufacturers and distributors, particularly companies that have a significant commercial presence in the stairway safety product market with accounts with nationwide big-box and specialty retail outlets.

Critical to support a licensing model and justify investment in bringing a new product to market is market exclusivity. The company is founded by two experienced patent attorneys. The team also brings experience in licensing and negotiation skills essential to execute on the company's licensing strategy. The skills of the company founders provide a significant asset and competitive advantage to the company.

There is a significant market for this product. There are approximately 4.0M children ages 2-4 currently living in homes with open stairways with an additional 1.3 million children added annually. Retail and wholesale pricing as well as manufacturing costs for the product are established and verified by industry experts. Given a conservative market adoption rate, the company offers a corporate partner exclusive access to a multi-million dollar revenue stream. The company has pursued a flexible licensing model that will provide significant revenue to the company with minimal reliance on infrastructure of third parties.

The company has made significant progress in bringing this product to the attention of industry and consumers. We have established an on-line presence and has engaged thought leaders in the baby-proofing community to raise awareness of the product. The product was recently exhibited at one of the world's largest children's product conventions and was very favorably received across the board by industry analysts and potential customers. As a result of these efforts, the company has initiated discussions with multiple major companies in the child safety product market.

In summary, the company has developed the StairSmart external climbing prevention system that helps to give parents what they desire most in a child safety product: peace of mind. The founders believe that the StairSmart system is an important advance in the field and will serve to avoid injuries to countless children in the future. We believe that we have established a path that will bring this important product to market quickly and to the greatest possible range of customers while ensuring to the manufacturing partner security in its investment.

III. General Company Description

The company seeks to create and bring to market innovative child safety products that address unmet needs in the industry. The field of child safety products is a rapidly growing product sector. The child safety product market is projected to have a compound annual growth rate of 5.28% in the period 2014-2019. (*Global Baby Safety Products Market 2015-2019*, Published by TechNovio, April 2015, Report ID: 3175822). Consequently, we believe that we are well positioned in a growing industry sector.

The company has designed and developed a unique and proprietary product that addresses a source of potentially life-threatening injury in the home. The company has made significant progress in bringing this product to the attention of industry and consumers. It is the goal of the company to enter into a business relationship with a major company with an established presence in the child safety field. We believe that by leveraging the marketing expertise of a major company, the product will be commercialized to the greatest segment of the population in the most expeditious and professional manner. We view our customers as juvenile product manufacturers and distributors, particularly companies that have a significant commercial presence in the stairway safety product market with accounts with nationwide big-box and specialty retail outlets.

Our business philosophy is to focus on the strengths of the founders: to innovate with new products, to establish an extensive intellectual property portfolio for those products and then enter into a business relationship with one or more major companies in the field to leverage their expertise in the manufacturing and marketing to most effectively and expeditiously commercialize the company's products.

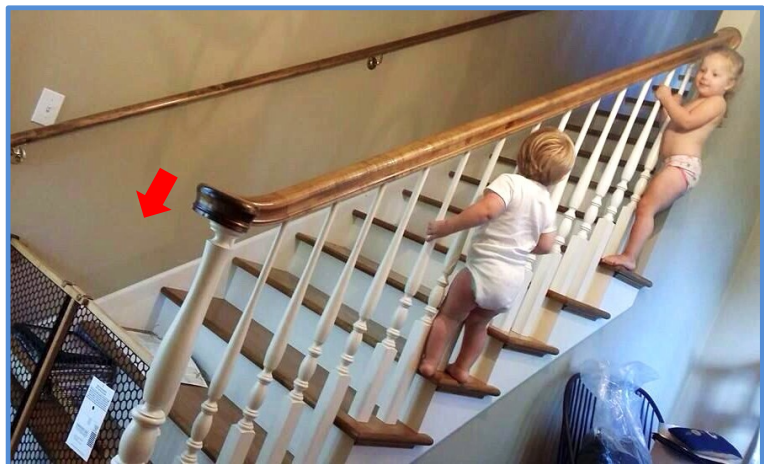
Critical to support a licensing transaction and justify investment in bringing a new product to market is market exclusivity. The company is founded by two experienced patent attorneys. The company contributes experience in developing intellectual property positions having executive experience of managing intellectual property in Fortune 50 corporations. The team also brings experience in licensing and negotiation skills essential to execute on the company's licensing strategy. The skills of the company founders provide a significant competitive advantage to the company relative to its competitors as the skills contributed by the founders would generally not be affordable to founders of start-up companies. Therefore, our company has a significant competitive advantage in the market.

IV. Product

A Critical Problem:

The stairway is a universally recognized hazard in the home. It is nearly impossible to imagine a parent of small child that does not have a safety gate to deny the child unsupervised access to the stairs. Yet, despite the nearly universal adoption of child safety gates, every year in the US more than 93,000 children – **one every six minutes** --suffer injuries in stairway related accidents of sufficient severity to send them to the emergency room (*Stair-Related Injuries to Young Children Treated in US Emergency Departments, 1999-2008*, Zielinski, et al. (2012) Pediatrics 129(4): 721).¹ Clearly, the current range of products is insufficient to protect children from stairway hazards.

One source of such stairway related injuries derives from children climbing the outside of open stairways (see photo). Despite the presence of the safety gate, the children in this photo have been able to climb to a height where a fall is potentially life-threatening. It is worth noting that a fall from this activity is typically a free-fall backward onto a hard surface. The energy of the impact associated with such a fall is significantly greater than the typical tumbling down the center of a stairway where the energy is dissipated more slowly in the course of the tumbling action. A free-fall from a height of only six feet results in an impact speed of nearly 15 MPH – a speed sufficient to induce severe spinal and head injuries.

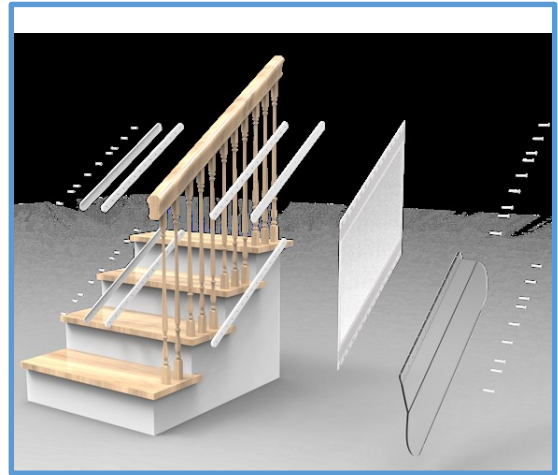


After hearing multiple stories from friends whose children suffered catastrophic injuries or were rescued by parents at the last moment, we were compelled to explore solutions to this issue. Consequently, we developed the StairSmart system to address this critical need.

¹ It is difficult to exactly quantify the percentage of stairway related injuries directly associated with falling from open stairways because there is not independent diagnosis code in the industry standard International Statistical Classification of Diseases and Related Health Problems or "ICD" coding system by which an emergency room would code distinguish this source of injury. The ICD code W10 only notes the location of the injury as "fall on and from step or stairs."

Product:

The StairSmart™ external climbing prevention system prevents a child from both stepping on the exposed end of the step as well as gaining a handhold on the spindles. As illustrated at right, one embodiment of the system is comprised of a guard element that prevents children from gaining a foothold on the exposed end of the step and/or from placing their foot between the spindles and a vertical drape element that prevents the child from grasping the spindles as support. The system may also comprise a handrail guard element (not shown) that prevents children from grasping the handrail to aid in climbing.



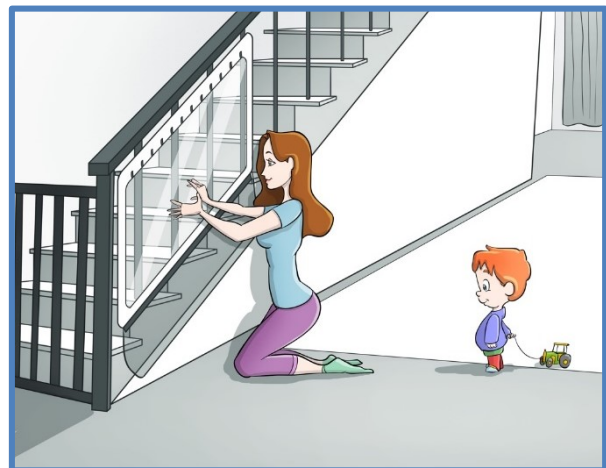
By preventing the child from climbing the outside of the stairway, the product significantly reduces the chance of stairway related injuries in the home.

Typically, it will be sufficient to install the StairSmart system on the lower steps of the stairway. By covering these initial lower steps the small child is effectively prevented from climbing because the child is physically unable to vertically jump to a sufficient height to gain access to the first uncovered stair end. However, the system may be of essentially any dimension and may extend further up the stairway.

The StairSmart™ system has been designed to adapt to a wide variety of stairway dimensions. We have studied the various building codes and architectural conventions relating to stairways and have designed the product to adapt to the widest possible range of stairway dimensions including curved stairways. The product is also designed to be symmetrical enabling a single design to be used whether the left, right or both sides of the stairway are open.

The product is designed to attach to the stairway without damage. The product was developed to include a unique mounting system to enable the product to be easily installed and removed by the homeowner without tools.

The StairSmart system was designed to be constructed from durable non-toxic materials in accordance with industry regulations and JPMA guidelines and may be produced using conventional manufacturing techniques.



In addition to preventing children from climbing the outside of the stairway, the StairSmart system may also be used to prevent pets (e.g. cats and small dogs) from climbing the outside of the stairs. Our research suggests that this is a significant issue for pet, particularly cat, owners. Since the pet does not rely on clinging to the balustrade to aid climbing, the lower guard component of the system may be used alone for pet applications. This would enable product differentiation for a product in this distribution stream so as not to cannibalize sales of the child safety product which would typically include the drape element. We believe that the pet applications provide a significant additional market for this product and we are exploring this application in parallel.

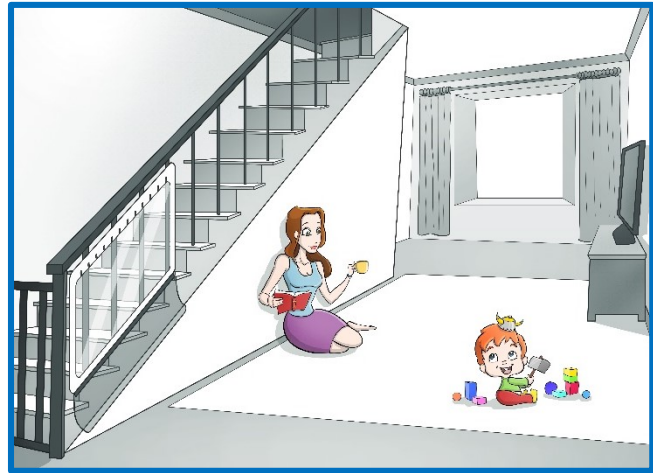
Consumer Friendly Design

The business has devoted considerable efforts to designing an optimized product that is acceptable to and easily used by consumers.

- **Easy Installation and Removal:** A key aspect mentioned by multiple potential development partners is the ease of installation and removal by the homeowner. The StairSmart system was designed to install securely in minutes without damage to the stairway, handrail or spindles. It uses a unique clamping system to securely mount the system to the balustrade using cushioned surfaces to prevent marring of painted or varnished surfaces. The StairSmart system was designed to provide easy installation by a homeowner without mechanical skills.
- **Attractive Design:** Most homeowners wish to avoid obtrusive baby proofing products. The StairSmart climbing prevention system was designed to be as invisible possible. For purposes of illustration, these renderings show the guard element of the StairSmart system in a shaded plastic. The StairSmart guard is constructed of transparent clear high-grade shatterproof non-leaching polycarbonate rendering it nearly invisible when attached to the stairway.
- **Adaptable:** The StairSmart climbing prevention system adapts to a wide variety of stairway dimensions and to both straight and curved stairways.
- **Durable/Non-Toxic:** The StairSmart climbing prevention system will be constructed of durable materials to ensure years of use and will incorporate non-toxic materials in accordance with regulatory requirements and Juvenile Product Manufacturers Association guidelines.

Benefit to the Consumer:

The StairSmart system is designed to give peace of mind to the ultimate consumer. Parents of small children are perpetually concerned that they will engage in some hazardous activity and be injured. The potential for catastrophic injury arising from the external climbing of open stairways is a source of potential injury for which there are no existing solutions. Additionally, the caregivers of many small children are grandparents or individuals with physical disabilities who, even if they were to see the child on the outside of the stairway in time, may not be able to rescue a child from a high location due to physical limitations. The StairSmart system provides parents with peace of mind that a source of potential injury has been minimized at an affordable cost, without disrupting the décor of their home and without requiring professional installation or significant mechanical skills.



Proprietary Position:

The company's competitive advantage lies in its proprietary position. The StairSmart climbing prevention system was developed by two experienced patent attorneys who have invested significant efforts in establishing a robust intellectual property portfolio for the StairSmart product.

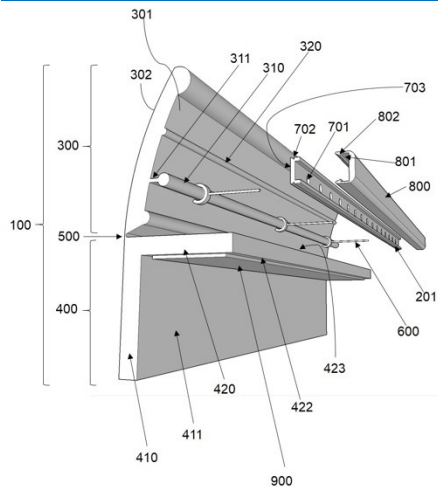
The company has filed multiple utility patent applications to cover a wide variety of embodiments of the invention. The product illustrated in the drawings is merely one embodiment of the range of products covered by our pending patent applications. Patents issuing based on these applications could provide exclusivity through 2035. Additional design patents directed to specific configurations are in progress will be filed in the near future. Trademark applications for the STAIRSMART mark have been filed in multiple classes of goods and the StairSmart domain is registered.

This significant intellectual property portfolio developed by the business provides long-term security for the business income stream to support the investment in developing a unique commercial product.

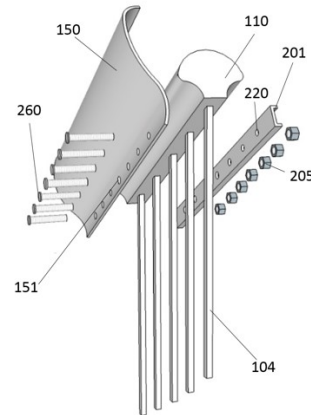
Regulatory Compliance:

At the present time, there are no regulatory guidelines or regulations that apply to this product. We have met with representatives of the Consumer Product Safety Commission (CPSC) and confirmed that, other than ensuring standards for material toxicity are complied with, there are no specific regulations that apply to this class of product.

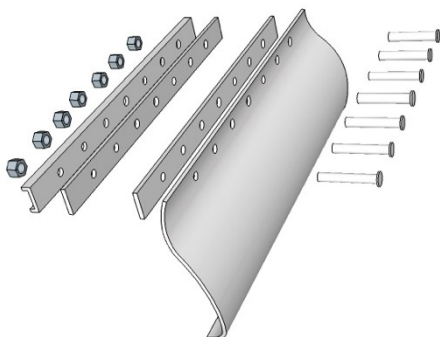
Some Exemplary Variations of the StairSmart Design



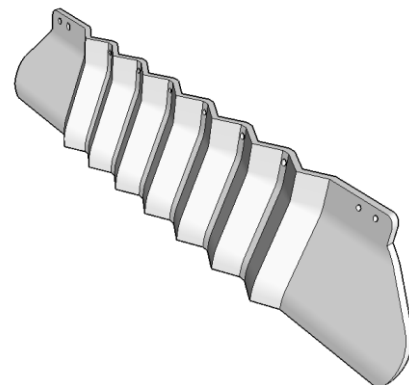
A design to adapt to variations in external stair protrusion width having an upper hinged section and further incorporating a pressure sensitive alarm system.



An illustration of the handrail guard which may be used in conjunction with the stairway guard and balustrade fabric drape to further protect against gaining a handhold on the balustrade.



A design of the lower guard component having a curved transition from top to bottom making an even smoother surface to prevent gaining a foothold.



A design of the lower guard component illustrating (in exaggerated fashion for purposes of illustration) a central corrugated region to provide enhanced flexibility for use with curved stairways.

V. Market Opportunity

The StairSmart System Presents A Significant Market Opportunity:

The baby and child safety products market is a multi-billion dollar worldwide market. TechNavio has projected that this market segment will grow at a CAGR of 5.28 percent over the period 2014-2019. (*Global Baby Safety Products Market 2015-2019*, April 2015, TechNavio, Report ID 3175822).

The business is focused in the stairway safety product market. Approximately 3.5 million child safety gates sold annually in the United States alone. Essentially the only child stairway safety product available is the traditional stairway gate. Since stairway gates are a commodity item having being in production for many years, no single company has a proprietary position. Consequently, competition in this sector is largely based on superior marketing, brand recognition and control of distribution channels. A company with this national reach is a preferred corporate partner for the commercialization of the StairSmart system.

However, the sector also provides a wide variety of companies who offer stairway gates yet do not possess the marketing power of the larger players. The proprietary nature of the StairSmart system would provide these smaller companies with an opportunity to offer a unique and innovative product that would enable them to establish relationships with major distributors and obtain a greater market share in this space. Therefore, the product is potentially attractive to these smaller companies as well.

The following is an overview of the significant market opportunity the company provides to a potential corporate partner as well as demonstrating a significant revenue stream to the company.

Opportunity to Acquire A First-In-Class Proprietary Product:

At the present time there is no product offered for sale that achieves the function as the StairSmart system. We have performed an extensive search online of the commercial and patent literature and are unaware of any product that prevents children from climbing the outside of open stairways. In speaking to industry representatives at the ABC Kids Expo in Las Vegas, many with more than 30 years of experience in the stairway safety product field, no one was aware of any product that addresses this critical need. Therefore, we feel very confident that the StairSmart system is unique in the industry and that will make the product attractive to potential corporate partners, particularly

Target Market Size for the Product:

Existing Market: The primary age group that would engage in the climbing of the outside of stairs are toddlers aged 2-5 years. There are approximately 12 million children aged 2-4 in the United States. Approximately one-third of households in the US have an open stairway. Therefore, there are approximately 4.0M children ages 2-4 currently living in homes with open stairways. We estimate that this market will decrease by approximately 50% year by year in years 2 and 3 post

launch. We are assuming that this pre-existing market will be zero by year 4 post launch either due to simply to the children growing out of the target age range or failure to adopt the product.

Recurring Demand: Additionally, there are approximately 4 million babies born in the United States every year. Since approximately 1/3 of these children will be born into a household with an open stairway, the market is ever greening at the rate of approximately 1.3 million each year. The birthrate in the United States has remained relatively consistent and we do not project a significant variance in this rate over the 5 year period post launch.

Consequently, based on the foregoing the potential market size is summarized in Table 1 below.

Table 1. US Market Size (in Millions)					
Year	Year 1	Year 2	Year 3	Year 4	Year 5
Existing Market	4.0	2.0	1.0	0	0
Recurring Demand	1.3	1.3	1.3	1.3	1.3
Total Potential Demand	5.3	3.3	2.3	1.3	1.3

Pricing and Cost Assumptions:

We believe that StairSmart system will support a retail price of approximately \$40. This price is consistent with existing prices of stairway safety products and is competitive with the most popular models of existing baby gates at Amazon.com, Wal-Mart and Target. Conversations with industry representatives have validated this retail price assumption.

Additionally, in discussions with a senior marketing representative of a major manufacturer suggested that the StairSmart system could be combined with the company's current safety gate and marketed at a premium price of approximately \$80 per unit. Such a combination product would provide a manufacturer to capture a greater share of the commodity baby gate market providing a potentially attractive upside to a company in the baby gate industry.

In accordance with industry norms, we have estimated a wholesale price of approximately 50% of the retail price or \$20/unit.

We have engaged with manufacturing companies and industrial designers to provide a preliminary manufacturing cost for the product. Preliminary manufacturing estimates suggest a manufacturing cost of approximately \$7 per unit. In our discussions with major manufacturers, this cost of goods assumption was validated.

Market Adoption:

The demand for stairway safety products is high. Even though only 4.0 million children are born each year in the US, there are 3.5M baby gates sold annually. However, we recognize that this

is a new class of products and will present challenges to initial market adoption. In accordance with the industry standard new product diffusion curve, we anticipate an initial adoption among innovators in the first year of approximately 2% of the total potential market. In year 2, early adopters will likely result in significant increase in adoption to approximately 5%. We expect the product to be accepted more mainstream in year 3 as reflected by an adoption rate of approximately 13%. We believe that by year 4 the product will become more widely adopted as reflected by a market adoption of 20% in Years 4-5.

Five-Year Financial Projections:

Financial projections for years 1-5 of sales based on the foregoing assumptions regarding pricing, cost and market penetration are summarized in Table 2 below.

Table 2. Financial Projections Years 1-5 Post Launch (US Only). ²							
Year	1	2	3	4	5	Total Years 1-5	NPV Years 1-5
Potential Demand	5.3	3.3	2.3	1.3	1.3		
Market Penetration	2%	5%	13%	20%	20%		
Units Sold	106	165	299	260	260	1090	n/a
Retail Revenue	\$4.2	\$6.6	\$12.0	\$10.4	\$10.4	\$43.6	\$37.1
Wholesale Revenue	\$2.1	\$3.3	\$6.0	\$5.2	\$5.2	\$21.8	\$18.5
Cost of Goods	\$0.7	\$1.2	\$2.9	\$1.8	\$1.8	\$7.6	\$6.5
Margin	\$1.4	\$2.1	\$3.9	\$3.4	\$3.4	\$14.2	\$12.0

As can be readily seen from the foregoing, this product presents a significant market opportunity for both the company and its corporate partner. Although licensing transactions can adopt a wide variety of models for calculating royalties including sliding scales, milestone payments, etc. potential revenue can be approximated by conventional royalty rates. Typical royalty rates in the industry hover in the range of 5% of net sales (e.g. wholesale) to third parties. Therefore, apart from any initial license fees or milestones, it can be reasonably forecast that the company stands to receive a royalty stream having a 2015 NPV of approximately \$926,000 over years 1-5.

² Note: Potential Demand is in Millions. Units Sold is in thousands of units. Retail and Wholesale Revenue as well as Cost of Goods and Margin are presented in millions of dollars. The NPV (Net Present Value) is calculated using a 5% discount rate.

Further, we believe that the foregoing market projections are somewhat conservative. For example, even at peak year of projected sales (Year 3) the volume estimated is less than 1/10th of the yearly baby gate sales in the US alone. We have met with many representatives of the baby-proofing industry who have confirmed a long felt need in the field for a product that addresses this hazard. During discussions with Nancy Reynolds, a senior representative of the International Association for Child Safety who represents and certifies professional child-proofers nationwide, was very positive on this product inviting us to present it at their annual conference in New Orleans. Ms. Reynolds also stated that she would highlight the StairSmart as a new product in their next newsletter that is distributed to babyproofing companies throughout the United States and Canada.

We believe that the true value of this product lies in the future years where the corporate partner will benefit from long term exclusivity of the product. In recent years, the public has switched to a “culture of safety” which is demonstrated an accelerated rate of adoption of new safety technologies. There are many examples of this accelerated adoption of safety products. For example, although it took more than 40 years for seatbelts in automobiles to become the law, airbags were federally mandated at a much faster rate. Bicycle safety helmets were almost non-existent in the 1980’s where today they are required by law for minors in many jurisdictions. Child safety products have also experienced this exponential growth. Child safety seats are now required by law in most western countries for young children. We believe that once the public is educated to the magnitude of the potential hazard created by open stairways, adoption of the StairSmart system will become as ubiquitous as the stairway gate.

Consequently, we believe that this product will be adopted at a much greater rate than the assumptions on which the foregoing market estimates are based and thus the potential market opportunity to the partner is at least as high as presented above and most likely significantly greater.

Please note that the foregoing financial estimates assume a fixed COGs. In practice, it would expected that economies of scale will result in significantly lower COGs with increasing sales volume. Additionally, the “margin” presented in Table does not take into consideration marketing and distribution expenses for the product as these activities are anticipate to be within the control of the corporate partner. Such expenses will vary widely depending on the identity of the corporate partner and its position in the industry. Consequently, we are unable to provide accurate estimates of these expenses. However, we expect that these companies will be intimately aware of these factors and will be able to take them into consideration in evaluating the opportunity without additional guidance from the company.

VI. Marketing and Development Plan

The development and marketing efforts of the company are directed to achieving three primary goals:

1. to bring the product to the attention of the public and target companies in the industry;
2. to demonstrate the need for the product and market opportunity for the product to target companies; and
3. to present a flexible and attractive licensing model for the company.

1. Bringing the Product to the Attention of the Public and Target Companies:

The company has made significant progress in bringing the product to the attention of the industry. To date, the approach has been two-pronged: (1) raising awareness by traditional media as well as on-line and social media, and (2) directly contacting major commercial entities.

a. Media:

In order to raise awareness of the existence of the lead product, the company has established an online presence with a website (www.stairsmart.com) as well as a Facebook page (www.facebook.com/stairsmart). Since launching the website in May of 2015, we have experienced a steadily increasing volume of traffic to our site (see graph at right).

Additionally, in May 2015, we presented the StairSmart system on the Channel 6 morning news in San Diego CA at the invitation of Mr. A.J. Khobani (the founder of Telebrands, Inc. originator of the "As Seen On TV" moniker).



b. Direct Contact with Industry:

In addition to creating awareness of the StairSmart system through media channels, we have initiated direct contact with manufactures. In October 2015, we showed the product at the ABC Kids Expo in Las Vegas. The ABC Kids Expo is the largest juvenile products show in the western hemisphere with more than 12,000 attendees from 65 countries, with nearly 1000 exhibitors and 3000 buyers. At the ABC Kids Expo, we initiated contact with multiple major manufacturers of child safety products, primarily those with significant market share in the stairway safety product field. Communications with these parties is continuing.

Additionally, we have engaged with thought leaders in the baby-proofing industry who have been universally enthusiastic about the product. At the ABC Expo, we met with Nancy Reynolds, a senior representative of the International Association for Child Safety who represents and certifies professional child-proofers nationwide. She was very complimentary of the product indicating that it addresses a long-felt need in the field. She has agreed to feature the product in the organization's upcoming newsletter which will serve to further elevate awareness among an influential group of individuals who affect purchasing decisions.

2. Demonstrating Need for the Product and Market Opportunity:

Although most of our potential target corporate partners are well aware of the particulars of the child safety product industry, there is always a risk to introducing a first-in-class product. Therefore we believe it is important to de-risk the product and provide as much comfort to our potential licensee as possible. We intend to establish the market demand for this product through direct surveys of the consumer population.

We intend to conduct both on-line surveys through services such as Survey Monkey to gain feedback on potential adoption of the product and to demonstrate acceptance of the retail price point supported by the product. We believe that the target purchaser is primarily new mothers. We believe that the individual making the purchasing decision will most likely be the mother of the child. Survey Monkey enables us to specifically target this audience.

Additionally, we intend to conduct focus groups with prospective mothers through local hospital organizations. We believe that this direct feedback will provide the opportunity for the company to explore in-depth the thought process and reactions of the potential consumer to the product. This information will in turn be able to support the company's licensing efforts and rebut unsubstantiated doubts of naysayers within the potential licensee's organization.

We believe that this information will also assist the company in supporting its cost of acquisition in the event that the corporate partner simply wishes to acquire the product and associated intellectual property without an ongoing royalty stream.

3. Providing the Target Company With An Attractive Licensing Model

The company possesses significant expertise in the negotiation and drafting of complex licensing agreements. We recognize that the needs and demands of different organizations are different and that the company must remain flexible in working with other companies to accommodate their needs. Having established a relatively accurate estimate of the net present value of the income streams available under differing licensing models, market penetration and adoption scenarios the company is well positioned to enter these negotiations. The company will negotiate to establish terms and conditions which are favorable to the company.

relative to the costs incurred and future expenses associated with maintaining the intellectual property portfolio which forms the primary asset of the company.

The proposed business relationship is anticipated to take one of the three following forms:

- An outright acquisition of the product and associated intellectual property assets of the company by a major child safety product company;
- The grant of an exclusive license to the company intellectual property to a major child safety product company; or
- Engaging in a program of non-exclusive licensing to multiple companies in the child safety product field.

The detailed structure of such transactions would be subject to significant negotiation depending on the nature of the potential business partner, including marketing power, financial position, company track record and similar business matters.

In the context of a licensing transaction, the license agreement would be anticipated to provide the business with:

- An initial license fee;
- Ongoing product royalties based on the sales of the product including combination products comprising StairSmart guard system;
- Milestone payments;
- Provisions to ensure diligent development by the commercial partner.

Additionally, since the major commercial partner will have control over the design, manufacturing and distribution of the ultimate product which will be marketed under their name, they will bear the responsibility for maintaining sufficient insurance and for indemnification of the company.

VII. Operational Plan

The daily operation of the business is to engage in promotion of the product as described in the Marketing and Development Plan set forth above. However, we wish to address certain aspects of the business model as they would relate to typical business issues.

Production

The products will be designed and produced by the third party licensee. The business will not control these aspects of the end product offered for sale. Consequently, the licensee will be responsible for expenses associated with production, tooling, quality control, customer service, adverse event reporting to the CPSC.

Location

The business currently operates in a virtual mode from our residence. The business will engage only in prototyping of the product (completed) and the licensing of the product and associated intellectual property to third parties. Consequently, the business does not anticipate the need for an additional physical location as the business does not require facilities for operation, manufacturing, inventory or warehousing.

Legal Issues

There are no specific legal requirements that are incumbent on the business to procure other than standard business license. Since the business does not anticipate manufacturing the product and does not anticipate maintaining a facility, we do not anticipate that any permits will be required.

Pursuant to the licensing arrangement, the licensee shall have complete control of the design and manufacturing of the product and for maintaining sufficient insurance coverage for product liability. Additionally, a condition of the license agreement is indemnification of the business against third party claims.

Personnel

The operational personnel of the company are the co-owners, Barbara and Richard Murphy. Since we do not anticipate producing and selling the product but rather managing only the intangible assets, the staff is sufficient to carry out the business needs.

Inventory

Since the business does not anticipate producing and selling the product directly to distributors, the business will not be responsible for inventory of product for sale.

Suppliers

Since the business does not anticipate producing and selling the product directly to distributors, the business does not rely on procuring raw materials from third party suppliers.

Credit Policies

Since the business does not anticipate producing and selling the product directly to distributors, the business does not extend any credit to purchasers or to purchase supplies on credit from third parties.

VIII. Management and Organization

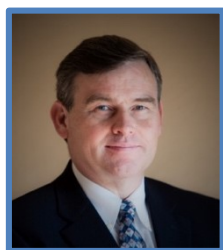
Operation of the business will be conducted by Barbara and Richard Murphy. A brief resume of each individual is provided below.

Barbara H. Murphy



Barbara Murphy has a diverse range of intellectual property experience, including procurement, licensing and litigation of patents, trademarks and copyrights. Mrs. Murphy received her Bachelor of Science degree from the University of Michigan, fulfilling concentrations in Biology and Microbiology. She also received her Master of Science degree from the University of Michigan, completing a concentration in Cellular and Molecular Biology. During graduate school, her research centered on the mechanism of action of interferon in leukemia patients. She received her J.D. *cum laude* from Wayne State University Law School. She is a registered patent attorney and is admitted to practice in both Illinois and California. In addition to her professional pursuits, Mrs. Murphy has been active in numerous charitable organizations, including Junior Achievement, The Lawyers for the Creative Arts, Girl Scouts and The Parent Connection.

Richard B. Murphy



Richard Murphy has over twenty-five years of experience in intellectual property law with a primary focus in the life sciences. He has experience with many technology areas including vaccines and pharmaceuticals, biochemistry, molecular biology, genomics, proteomics, diagnostics, biologics, pharmaceuticals and clean technology. Mr. Murphy was Associate Vice President of Intellectual Property for Sanofi-Pasteur, the world's largest maker of human vaccines. Prior to joining Sanofi, Mr. Murphy was responsible for patent prosecution, licensing and due diligence matters for Eli Lilly and Company and Schering-Plough Corporation (now Merck). Mr. Murphy was a co-founder of a biotechnology company and has experience in all phases of a start-up including the development of business plans, marketing forecasts, and corporate promotional materials. Mr. Murphy's scientific background is in biochemistry having majored in biochemistry at the University of Michigan. He earned his law degree from De Paul University in Chicago. Mr. Murphy is admitted to State Bars of California and Indiana, the United States Patent and Trademark Office and the United States Court of Appeals for the Federal Circuit. Mr. Murphy is a former Co-Chair of the Intellectual Property Committee of BIOCOM San Diego, a former consultant to the Institute of Medicine of the National Academy of Sciences and is currently an Entrepreneur-In-Residence for the CONNECT Program in San Diego responsible for coaching and advising start-up companies. Mr. Murphy has frequently lectured on intellectual property law and strategy having been an invited speaker for the American Conference Institute, Licensing Executives Society, CalBIO, the American Chemical Society and BIOCOM.

IX. Financials

Expenses to Date:

To date the company has been funded by the personal assets of the founders. Primary expenses have been in three categories: (1) intellectual property filing fees, (2) prototyping expenses, and (3) marketing expenses. To date these expenses total approximately \$10,000 in out-of-pocket costs.

Future Expenses:

The only significant costs associated with the operation of the company business are prosecuting and maintaining the patent and trademark applications. As the owners are able to act prosecute the IP portfolio without external counsel, the only costs associated with maintaining the IP portfolio are USPTO fees. In the event that the company decides to pursue international patent protection, additional fees of approximately \$30,000 will be incurred for filing prosecution and maintenance of the portfolio for years 1-5. The founders have access to sufficient funds to address these ongoing expenses and the company does not believe it will be necessary to obtain loans, grants or external funding to pursue the current business model.

Sources of Revenue

As previously noted, the company intends to pursue a flexible model for licensing the invention to third parties. As illustrated in Table 3 below, a variety of royalty rates based on the financial assumptions for the product set forth in Section I typical in the industry will provide a significant income stream to the company. Intellectual property protection from patents is anticipated to extend through 2035 with ongoing trademark royalties extending into the future.

Royalty	Year 1	Year 2	Year 3	Year 4	Year 5	Total Royalties Years 1-5	NPV of royalty stream 5% discount rate
3%	63600	99000	179400	156000	156000	654000	\$555,911.48
4%	84800	132000	239200	208000	208000	872000	\$741,215.31
5%	106000	165000	299000	260000	260000	1090000	\$926,519.13