

mTropolis Licensing Proposal

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A discussion document to table the proposal of the mTropolis userbase and other interested parties buying the rights to mTropolis' source code from Quark Inc. for further development as a profit making organisation.

PLEASE NOTE THAT YOU MUST READ, UNDERSTAND AND RESPOND TO THIS DOCUMENT BY 4:00PM GMT, THURSDAY, APRIL 9TH 1998.

Introduction

LICENSING MTROPOLIS

mTropolis' source code has been approved for licensing by Quark Inc, and rights may be sold to an organisation that meets with Quarks approval, and, most importantly, can raise the capital required to license the code.

Mekon are proposing that the mTropolis user base buy the rights to mTropolis through a US. The combined intellectual, physical and financial resources that reside within the mTropolis Community could easily facilitate this proposal. The minimum amount of investment capital required is \$1.5 Million US.

Mekon believe this proposal is the only viable option that will save mTropolis and maintain any kind of control by the user base over it's destiny. A relatively small capital investment made by a significant number of individuals or companies could easily raise the capital required.

If this idea was to proceed, it would (as far as we know) be unprecedented in the software industry and it is believed that this would create a huge amount of loyalty and attention from the media, existing and potential customers and importantly, it's own team of developers. Some thoughts about how this proposition might be achieved and managed follows.

PLEASE NOTE: This document is by no means exhaustive. This document does not constitute an actual offer to Quark Inc. by Mekon Ltd. or any of its principles to license mTropolis.

RISK

At first glance, a \$1.5 Million investment does sound daunting. However, over 6 years of development time and at least \$10.5 Million in venture capital alone has already been invested in mTropolis. mFactory was valued at over \$40 Million. Adobe offered \$14 Million just one year ago.

INVEST IN MTROPOLIS OR DIRECTOR?

The risk would be relatively high for one entity, but, with the investment spread across 500 individuals and companies, the risk is about the same as buying a couple of copies of Director 6.0, or whatever alternative authoring platform you choose if mTropolis does indeed reach it's demise.

The worst case scenario of this proposition is that you will be able to use and rely on mTropolis as your development tool of choice for some time to come. Even if the company failed, with MOM completed 3rd party development will continue long after mTropolis was discontinued. The best case scenario is that Mekon Inc. will be floated on a public stock exchange and shareholders will benefit financially.

OPPORTUNITY WAITS

mTropolis has recently been included as part of new media courses in over a dozen universities and colleges in the UK alone. Some have over 20 licenses. We have a commitment from another UK learning facility to purchase over 100 licenses once mTropolis is ported to the Windows platform. Undoubtedly there are other similar opportunities waiting to be exploited in the 17 other countries where mTropolis distributors are already established.

It is the intention to facilitate the adoption of mTropolis in every learning facility by making mTropolis virtually free to accredited universities. This concept was never fully understood or supported by mFactory. It is crucial that the thousands of student in new media courses world wide graduate and go into new jobs asking the question "why aren't we using mTropolis?".

In addition, there are many prospective customers awaiting the commercial release of mTropolis v2.0, and a substantially greater number committed to purchasing mTropolis on the MS Windows/95/98/NT platform once it is available. There is huge opportunity for sales on the Windows platform that has not yet been exploited.

ABOUT MFACTORY

mFactory Inc. was the original developer mTropolis, the Multimedia Authoring Software for Macintosh computers, and held several patents relating to mFusion, the underpinning architecture. mFactory was originally founded in Vancouver, Canada funded by venture capital company Helix, with first round financing of about \$2 Million. The company then moved to San Francisco with an investment of \$8.5 Million from Adobe Ventures LP, a venture capital fund jointly financed by Hambecht and Quist and Adobe Systems Inc.

mFactory Inc. found itself in close to bankruptcy 2 years later due to poor management and inability to adapt quickly enough to changes in the market place. When negotiations with Adobe Inc. to buy out mFactory collapsed, Quark Inc. stepped in and completed the acquisition in May of 1997. In March of 1998 Quark announced that mTropolis was no longer part of their long term strategy, and would discontinue further development and support of the product.

ABOUT MTROPOLIS

mTropolis is an internationally recognised product with a fiercely loyal user base of over 4000 developers of CD ROM and Internet based Interactive Multimedia. The technology has been embraced by software developers and the media around the world and has won many respected awards.

The user base includes some of the most influential multimedia companies in the world and includes such famous names as Thomas Dolby's 'Headspace',

the BBC Multimedia Centre, Douglas Adams' 'Digital Village', 'Jim Henson Interactive/Disney/Activision' 'Rocket Science' and Peter Gabriel's 'Real World Multimedia' and 'Abbey Road Interactive'. (Apologies to those omitted in this snippet).

mTropolis was recently included as the flagship authoring tool in an international roadshow promoting the Apple Computer's 'G3' Mac with Quicktime 3.0 as the reference platform for Multimedia Authoring.

ABOUT MEKON

Mekon are the UK distributors for mTropolis, and were the first company to distribute and provide training on mTropolis outside of the US. Established in 1990, Mekon provide Document and Digital Media solutions for corporates that range from print based publishing through to Interactive Multimedia. Our Multimedia division relies heavily on mTropolis and we have 12 registered copies.

Structuring the Aquisition

OWNERSHIP

Mekon Ltd. (UK) would act as the Broker and complete negotiations with Quark on behalf of the shareholders. The new corporation would be a company registered in the US.

A share offer would be made to individuals and company's, that either own mTropolis, are currently distributors, have an interest or used to work for mFactory. These shares would be made available at an agreed cost to all parties. Exception would be made however for Ex-mFactory engineers that came on board as full time employees. In this case a share offer would be made as part of an offer for employment.

Share allocation. Mekon Ltd. would release 75% of the common (voting) shares of the US company to be used as a vehicle to execute this deal. We would commit to completing and managing the deal, which would be completely at our risk initially.

A contingency for major voting issues such as a 60% majority required to pass a motion could be established in order to protect the interests of the Group as a whole.

BENEFITS OF OWNERSHIP

- A vote in the way the Company is run.
- A say in the way mTropolis is developed.
- The security of knowing that no one person can alter the destiny of mTropolis.
- Income if the company does well financially.
- Ownership of a great piece of software, and potentially, a great company.

RESPONSIBILITIES OF OWNERSHIP

- Every share holder becomes a mTropolis evangelist and helps spread the good word.
- Ensure that legal obligations are policed like legitimate licenses and use of logo's and mTropolis animated movies used for maximum exposure of the mTropolis brand.

TERMS OF THE LICENSE

We are currently waiting for Quark to forward the proposed terms and conditions of the Licensing Agreement. What we do know is that the asking price is fixed and non-negotiable, and that Quark will negotiate in areas like the term, royalty payments, non-competitive use and selling the company.

Quark would still own the source code and patents to mTropolis. We would need to have an agreement without time restrictions, and Quark would not be able to have access to the new code once new development started.

I do believe that this is the last chance to save mTropolis.

RAISING CAPITAL

The first mission of the Mekon Ltd. is to obtain letters of intent from interested parties to raise investment capital equal to or greater than the purchase price of mTropolis source code (+ legal and any other set up costs). The target is \$1.5 Million which would easily fund the purchase price, set up costs and running costs for the first few months without relying on new sales to generate income.

If we receive a sufficient number of responses by the cut-off date, we will then set up a trust account and ask that all letters of intent be executed. A trust holder agreement will be drafted and cash deposited based on that agreement. (That the money will be used for the acquisition providing certain pre-defined conditions have been met with regards to the Licensing Agreement).

Once the funds have been transferred, we will then make a formal offer to Quark and negotiate the terms and conditions of the Licensing Agreement.

Minimum start up capital required: \$1,500,000.00
Cost per share \$250.00
Total Shares available 7,500

Shares will be sold in minimum blocks of 3 shares.

BUSINESS PLAN

A detailed business plan will be forwarded to all interested parties once letters of intent have been received.

SHARE HOLDER PRIVILEGES

- All shareholders will have access to a shareholders only Extranet.
- All shareholders will be able to vote on issues relating to mTropolis development and major decisions effecting the Company.
- The shareholders agreement would be set up and a 60% majority vote on major issues would be needed.
- We do not recommend giving any discounts to shareholders on any products or chargeable upgrades. The number of potential shareholders who might be entitled to discounts could seriously effect cash flow, especially in the first 2 years. Dividends and control are the goal.

OPERATING CAPITAL

Prior to new sales of mTropolis v2.0 commencing, it is proposed that Mekon Inc. charges a reasonable fee for mTropolis v2.1 which would include QT 3.0, making clear that this is necessary to replace lost 2.0 upgrade revenue and immediately fund continued development of mTropolis.

Based on 50% of estimated user base buying the 2.1 upgrade \$400,000.00 could be raised immediately once the company is formed. These funds would

be essential in order to fund the company until new sales are generated. All NEW sales would get a free upgrade to version 2.1 so that immediate revenue potential was not hindered. This idea is really just a way of policing voluntary payment for 2.0 as suggested by the mTropolis userbase.

BOARD OF DIRECTORS	The board of Directors will initially be appointed by Mekon Ltd, and will include at least one member of the Ex-mFactory team. There will be a vote within 6 months to elect a permanent Executive and Non-Executive Board of Directors.
ENGINEERING	It is absolutely critical for the success of any proposal to license mTropolis that Ex-mFactory engineers are committed to working for the new company. To date we have obtained the commitment of the Ex-mFactory engineers who have agreed to work for the new company based somewhere on the West Coast of N.America. Specific locations of interest to the Ex-mFactory team are being investigated.
SALES AND MARKETING	Central sales and marketing should be limited to the production of sales literature, the CD Sampler and PR. Each distributor will be required to run their own localised marketing activities (nothing new here!).
WINDOWS EDITOR	Development of the Windows Editor must be a priority. Only a crossplatform tool has any real chance of commercial success.
3RD PARTY MODIFIER SUPPORT	<p>Modifier development is crucial as it will greatly improve the functionality of mTropolis. Therefore MOM developers must have a dedicated collaboration mechanism with mGineers, and also with themselves to avoid redundant development.</p> <p>A channel should be supported to sell these MODS via a central Web site to increase sales and encourage developers to keep going.</p> <p>It is crucial that early development of mTropolis focuses on improving MOM's capabilities, as suggested by the mGineers.</p>
DISTRIBUTION	<p>Distributors who own a minimum of 20 shares will be given exclusive distribution rights in their territory. Current distributors who do not wish to invest will be allowed to continue distribution, but not under an exclusive agreement. The current distribution infrastructure simply needs support and confidence in the company. Once that support is in place mTropolis will have a good distribution infrastructure.</p> <p>A co-op marketing fund in the form of rebates on sales could be allocated to offset distributor marketing costs.</p>
FULFILMENT	Manufacturing, packaging and fulfilment to be determined.
PRODUCT MARKETING	<p>The direction that future mTropolis development takes, and actual features incorporated must address 4 important factors:</p> <ol style="list-style-type: none">1. The needs of the current user base

2. The anticipated needs of new users
3. Anticipate new trends (techno flavour of the month)
4. Exploiting new opportunities such as the Internet (Improving the Internet Plug-in, mPire) DVD, Interactive/Digital TV and Set Top Box OS, Sony Playstation.

WHAT TO DO NEXT

1. **Investors:** Email or Fax a copy of a letter of intent stating your full details and the amount of shares your are definitely willing to purchase if a mutually agreeable deal is reached with Quark and the buisness plan is approved by investors. Additionally please express or priority post the original to the address below. **Please put 'Investor' as the Subject.**
2. **Everyone:** Send this document to as many trustworthy people as possible that are Mac or mTropolis enthusiasts, and are interested in an investment opportunity.
3. **Current Distributors:** Distribute this document to your own user base, and speak to as many trustworthy contacts as you can. Translate to your local lan guage if appropriate.
4. Email any comments, suggestions, objections, ideas to: mtropolis@mekon.co.uk, or fax your comments to the attention of Ian McMillan.
5. Feel free to telephone me if you are serious about supporting this proposal and have any concerns or ideas you would like to urgently discuss.

There has been a lot of good will and enthusiastic support for the cause to save mTropolis but the time has come for action, not words. This is your opportunity to save mTropolis. ACT NOW!

THE DEADLINE FOR INVESTOR RESPONSES IS 4:00PM GMT, THURSDAY, APRIL 9TH 1998.

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