

Message

From: Steve Newcomb (Nekei) [snewcomb@nekei.com]
Sent: 1/29/2004 11:23:03 AM
To: dhanson@agile.tv; pcook@agile.tv; smaddux@agile.tv; mfooster@agile.tv; bkeating@nekei.com
Subject: Executive Summary with changes from Toby, Bill Keating and Dave Hanson
Attachments: AgileTV Executive Summary.pdf

Attached is the final executive summary approved by Dave, Bill and Paul.

Kind Regards,

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AgileTV Corporation

Executive Summary



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“Agile’s mission is to be the global leader in voice-controlled navigation services for entertainment and communications services”

INTRODUCTION

AgileTV Corporation (“Agile”) provides voice navigation services to industries experiencing increasing challenges delivering programming and services that now require improved navigation and consumer friendly user interfaces. Since we founded the company in 2000, our primary focus has been building a voice navigation service for the Cable Industry. The team that we have assembled represents a unique combination of cable industry, speech recognition, software/hardware design and consumer product expertise that has enabled us to reach our technical and business milestones. Our technology, which represents a fundamental breakthrough in voice navigation, gives us substantial first mover advantage in the Cable Industry with an intellectual property position including 21 filed patents. While our long-term vision is to expand the application of our technology to multiple markets, the Cable Industry has been our primary focus because of its size, the negative consumer and financial consequences that result from an inadequate navigation solution for consumers and our deep relationships within the Industry. Our focused efforts in the Cable Industry have resulted in investment from industry players including Motorola, Insight Communications and SpeechWorks; and most recently a commitment to invest from Comcast in our Series D round.

Today, we believe we are an attractive investment because we are at an inflection point in our deployment roadmap. Having built the technology and jointly completed the ROI model, lab tests and focus group trials with Comcast and Time Warner, we are in the process of initiating consumer market trials with Comcast’s subscribers at their flagship headend in Philadelphia - the final step prior to mass deployment. In conjunction with the Comcast investment and commitment from existing investors, Agile is currently seeking Series D financing to enable us to reach profitability by 2005 and revenues of over \$100 million by 2006.

PROBLEM

Current consumer perception is that voice recognition doesn’t work: systems are either inaccurate or only support a limited vocabulary. Existing server-centric voice recognition solutions, such as banking or airline reservations systems, suffer from limited vocabulary, low accuracy and awkward navigation. Embedded voice recognition systems, such as those currently in cell phones, only handle a small number of recognized words, thus limiting their usefulness as well. No one has been addressing voice recognition from a comprehensive, system-wide perspective: from microphone, through transport and to the server-side recognition engine.

At the same time, digital Cable subscribers are frustrated with poor navigation capabilities and overwhelmed by a sea of content choices, undermining the value they place on digital TV. Digital subscribers are either going back to basic cable or switching to Satellite TV, resulting in 60% churn of digital cable subscribers per year, amounting to significant revenue losses (according a leading cable industry analyst, Paul Kagan). In order to be successful, the new generation of Digital Cable demands the next evolution of TV navigation.

SOLUTION

Agile’s large-scale distributed voice navigation system represents a fundamental breakthrough in voice recognition. Unlike existing analog systems, our technology solves all of the fundamental challenges associated with deploying a voice navigation service to millions of consumers. Agile’s large-scale distributed voice recognition technology includes several areas of unique intellectual property, including a server-centric architecture, the use of multiple acoustic models, digital voice compression input, data transport acceleration and “voice in-display out” technology. When combined, these technologies address the core challenges of delivering a voice navigation system that works the way a consumer expects. Our solution provides intuitive navigation, a large and dynamic phrase database, high accuracy, instant access, low latency, the ability to handle multiple accents, the ability to handle male, female and children’s voices and transport acceleration. The result is a sophisticated voice navigation system with a low per-consumer deployment cost.

The Agile system is designed to scale from thousands to hundreds of thousands of voice-enabled subscribers served from a single cable system headend. Through the use of a universal remote control with a built-in microphone and a small receiver attached to the cable customer’s existing set-top box, a user’s voice commands are compressed and transmitted to the cable system’s headend. The remote control looks and feels like a traditional remote, with the addition of a push-to-talk button that activates the microphone function. At the headend, the Agile software running on commercially available Intel X86 based computers recognizes the user’s voice commands and transmits requests for programming or information back to the television set with less than one second latency.

STRATEGY

The vision of AgileTV Corporation ("Agile") is to become the preeminent provider of effective, usable voice navigation systems to entertainment and communication service industries. Our strategy to achieve this vision has four key components:

- ∞ **Superior Management Team.** Assemble an experienced management team that combines expertise in voice recognition technology, the cable industry, hardware/software and consumer product design
- ∞ **Market Focus.** Deploy in Cable with 68 million subscribers as our top priority.
- ∞ **Differentiated and Defensible Technology.** Build a usable, effective voice recognition system, compiling a substantial asset base of intellectual property and patents that encompass the core areas of our technology.
- ∞ **Replicable Execution Model.** Create a milestone-based execution model applying our technology and execution model to the Cable Industry and others such as the Mobile Communications Industry that involves deep involvement from network operators. The model includes joint involvement in the completion of technology, ROI models, focus groups and lab trials through mass deployment plans.

MANAGEMENT TEAM

Agile has assembled an impressive management team with extensive experience in software and hardware development, speech recognition, cable television and consumer products.

- ∞ **Paul Cook, CEO.** Agile's CEO and founder, Paul Cook, is a veteran Silicon Valley visionary and entrepreneur. Mr. Cook is the former Chairman of Nuance and previously founded Raychem, building it into a Fortune 500 company as its long-time CEO.
- ∞ **Mark Foster, CTO.** Mark Foster, founder/CTO previously with Apple Computer, Digital Equipment Corporation and Zenith Data Systems, leads a team of world-class experts in software development, speech recognition, systems architecture, consumer electronics and cable television equipment.
- ∞ **David Hanson, SVP.** David Hanson, founder/Senior Vice President of Business Development has over 30 years of experience in the cable industry with companies including Viacom, Showtime and DIVA.
- ∞ **Dr. Harry Printz, VP.** Dr. Harry Printz, Vice President of Speech and Language Technology, formerly with IBM's T.J. Watson Research Center is a recognized leader in voice technology and applications.
- ∞ **Dr. Jay Kistler, VP.** Dr. Jay Kistler, Vice President of Software Engineering, formally with Akamai and Digital Equipment Corp, manages the largest group of Agile employees with software development teams in Menlo Park and Australia.
- ∞ **Scott Maddux, VP.** Scott Maddux, VP of Consumer Applications, has extensive experience forging new technologies into consumer products working with companies including Apple Computer, Hasbro Toys and IDEO.

MARKET FOCUS

Agile is initially targeting the U.S. Cable Industry. This industry constitutes 68 Million total subscribers and a rapidly growing base of digital cable subscribers growing 20% per year and estimated at over 23 million by the end of 2003. Cable markets outside the U.S. represent additional large, long-term growth opportunities for Agile. Worldwide digital cable subscribers are expected to number 90 million by 2008.

Agile's voice navigation solution is compelling to the Cable industry for several reasons:

- ∞ **Establishes new revenue stream.** Cable companies can offer the highly profitable fee-based service to 100% of its existing digital subscriber base;
- ∞ **Enhances existing revenue.** By increasing customers' ability to navigate content, it will improve customer satisfaction and increase usage of existing content and services such as VOD, thereby decreasing churn and increasing existing service revenues;
- ∞ **Can be deployed in mass.** Agile's technology can be deployed using existing deployed set top boxes;
- ∞ **Extends life of existing set top boxes –** Agile's data transport acceleration technology enables new classes of interactive applications beyond voice navigation on the 26 million deployed boxes;
- ∞ **Provides strong competitive differentiation from Satellite.** Takes advantage of Cable's most significant differentiator from Satellite – the \$68 billion "two-way" plant infrastructure. Due to Satellite's inherently "one-way" technology, Satellite companies will be in a poor position to offer a competitive service;

Agile sees many opportunities to apply its innovative voice recognition solution beyond the Cable Industry, particularly in the Mobile Communications Industry. In the same manner that we engaged the Cable Industry, we have had direct discussions with leading executives in the Mobile Industry. Through these discussions, we have realized that the navigational problems and needs are largely the same between the Cable and Mobile Industries. The problems are similar, the technology needed is similar and much of our work and business strategies will be reusable. Because of these similarities, we believe that 75% of our technology is applicable to new markets and we can meet our milestones in ½ the time it took us in the Cable Industry. In the near term however, it is important to stress that we will remain focused on our Cable initiative, but we will actively seek input from industry experts and our investors on these new areas of opportunity.

DIFFERENTIATED & DEFENSIBLE TECHNOLOGY

The Company's Intellectual Property strategy is to dominate the market for server-centric voice control in cable and solidify strong patent positions in other industries. Agile has filed 21 patent applications with over 1000 claims covering the AgileTV Software and the broader Agile System. With over 100 man-years of development in our intellectual property, our domestic and foreign patents cover inventions in speech recognition, user interface, software technology and services and integrated hardware.

In terms of potential competitors, companies such as Microsoft, Philips, Thomson, IBM, Nuance and Speechworks are involved in various aspects of voice recognition, but we are unaware of any efforts by these or other potential competitors to develop a headend centric voice-controlled navigation service that might compete with the Agile Service in the cable television market. There is no direct competition at this time.

EXECUTION MILESTONES

Agile's business strategy is to create an execution plan that is realistic, establishes deep relationships with our customers and can be replicated in other markets. We have completed the following milestones:

Secured Initial Funding

From the beginning of Agile, senior management has been able to quickly attract interest and investment from key industry players. To date, Agile has raised \$37.5 million in equity from Insight, Motorola, SpeechWorks and private investors.

Met the requirements of the Cable companies

Agile has been working directly with the major Cable companies to define requirements for its solution. To date, Agile has met or exceeded all of its primary requirements:

- Integrate with the most widely deployed set top box – Motorola DCT2000
- Integrate with the most widely deployed VOD server supplier - SeaChange
- Reduce total capital/service cost to Cable company to less than \$1.00 per sub per month
- Demonstrate latency of less than one second in a large scale deployment
- Attain better than 90% voice recognition accuracy
- Handle more than 100,000 phrases, and create ability to dynamically upload new phrases

Created ROI scenario model with Cable companies

In parallel with the technology development, Agile worked directly with senior executives at Comcast and Time Warner to create a Cable ROI deployment scenario model. The purpose of the Cable ROI model is to be able to run multiple marketing deployment scenarios using subscriber input from the Cable-backed focus groups. The model helps the Cable companies determine the proper marketing strategy, the profitability of the voice navigation service and the possible financial impacts voice navigation has on churn reduction and increased revenue from other services.

Conducted Cable-backed focus groups and field trial

Agile conducted a combination of focus groups and a 15 month field trial to determine likely buy rates, pricing and interest level. In December of 2003, Comcast and Time Warner supported a focus group that was conducted at Agile's corporate offices. Executives from both companies participated in the development of the research plan. A 3rd party consumer research expert conducted the focus groups and every group was video taped.

The results of the focus groups were promising:

- 69% indicated that they would likely buy this service
- Median Monthly Fee: \$4.95
- Median Consumer Premise Equipment (CPE) Purchase Price: \$49.95
- 96% of the participants were able to install the CPE without any help

Agile conducted a field trial beginning in August, 2002 in a cable system owned by USA Media near Monterey, CA. This Field Alpha Trial deployment successfully operated for over 15 months. USA Media Subscribers successfully used voice navigation to control their television viewing throughout the trial deployment. A subscriber usage study was conducted at the end of the field trial. The results were that 100% of the participants said they would subscribe to the service for \$5.00 or more a month, and 78% of the participants said they would subscribe to the service for \$10.00 or more a month. Voice navigation greatly enhanced their overall television viewing experience which resulted in their placing a higher value of their digital cable service.

Modeled ROI with focus group data

Agile worked with Comcast and Time Warner to input the subscriber data from the focus group into the ROI scenario model to determine baseline profitability. The purpose of this joint effort was to demonstrate profitability for both Agile and the Cable Company as well as to determine the ability of the participants to self install the service and begin controlling the television set by voice commands without training, both of which were successfully demonstrated.

Input – per subscriber Costs		Results – per subscriber Profit to Cable Company	
Software License	\$15.00	Monthly revenue per subscriber	\$4.95**
Charge for CPE	\$27.00	AgileTV system charges per month	\$0.85
Headend Equipment	\$03.00	MSO operating costs	\$0.50***
Total Amortized Cap Cost	\$ 0.75*	MSO Profit per subscriber per month	\$3.60
Monthly Subscription	\$ 0.10	Cash payback within 12 ½ months	
Total Agile System Charges	\$ 0.85		
Truck Rolls	5%	** from MSO focus groups	
* 60 month amortization		*** truck rolls + marketing + support	

A 20% penetration of Comcast's existing digital subscribers with these assumptions will deliver over \$43 million in additional annual profit to Comcast (without considering any benefit from reduced churn and uplift of other services.) A 4% worldwide penetration of Agile's voice navigation in digital cable with these same assumptions will result in revenue of over \$100 million in revenue to Agile.

Market Trials and Customer Traction

Once the focus groups and ROI results were completed, the stage was set to complete the next milestone – market trials. Market trials are live subscriber trials conducted by Cable companies to determine the final pricing and marketing strategy. Comcast and Time Warner are in the process of signing a definitive 3-way marketing trial agreement with Agile that starts in Q2 of 2004 and ends in Q3 of 2004. The next phase is early deployment followed by full scale mass deployment.

In addition to the strength of our relationships with Comcast and Time Warner, we also have received an MOU from Insight Communications, the 11th largest cable operator to deploy. We are in discussions with several other Cable companies and have strategic relationships established with Motorola and SeaChange.

DEPLOYMENT ROADMAP

Agile will initially focus its efforts on deploying at Comcast on the most widely installed set top box -- the Motorola DCT 2000 which is presently used by a 22 million digital subscribers. We will then focus on deploying with other Cable companies that have the Motorola box deployed such as Charter, Cox, AOL/Time Warner, Adelphia and Insight. Next, Agile will focus on integrating with Scientific Atlanta boxes, which is currently supplied to another 11 million digital subscriber base. In 2006, Agile will expand its services to include the worldwide Cable market.

FUNDING STRATEGY MOVING FORWARD

Agile is seeking \$18 million Series D financing needed to reach profitability in 2005. For the Series D financing, we currently have a commitment from Comcast Cable to invest \$2,000,000 into this round with additional financial commitments from prior strategic and individual investors. Detailed financial information and a full business plan are available upon request. All requests should be directed to Paul Cook, Chief Executive Officer, AgileTV Corporation, 333 Ravenswood Avenue, Building 202, Menlo Park, CA 94025, 650.859.2897, pcook@agile.tv