Slep-Tone Entertainment Corporation
14100 South Lakes Drive Charlotte, NC 28273
704-583-1616 Fax 704-583-1871

Rec'd 9-4-07

August 31, 2007

The Honorable George W. Foley, Jr.
United States Magistrate Judge
United States District Court
District of Nevada – Las Vegas
333 Las Vegas Blvd South
Las Vegas, NV 89101

Via UPS Next Day

Reference Civil Action No. 2:07-cv-00056 --DG-GWF

1st MEDIA, LLC, Plaintiff
Vs.
NAPSTER, INC., REALNETWORKS, INC., KSOLO, INC., and SLEP-TONE ENTERTAINMENT CORPORATION d/b/a SOUND CHOICE ACCOMPANIMENT TRACKS, Defendants

Dear Sir:

We are writing to the court in reference to Civil Action No. 2:07-cv-00056 and the recent filing of "Plaintiff 1st Media LLC's Application for Entry of Default Judgment" against our company, Slep-Tone Entertainment. We believe the court needs to have sufficient background information from the our company, Slep-Tone Entertainment Corporation, the defendant in this case, to make the proper determination as to whether a default judgment should even be granted, and if so, to what financial amount. We cannot afford and will not spend upwards of a hundred thousand dollars to lawyers to defend ourselves from what we believe is an unwarranted lawsuit brought by 1st Media against us.

We are enclosing with this letter the email correspondence and letters between the two parties, 1st Media and Slep-Tone, since the first known correspondence less than one year ago on September 12, 2006.

The most important matter is that we have attempted to be reasonable and negotiate a settlement, under the pressure of this lawsuit which is unwarranted in our eyes. As the court is aware, the lawsuit against us is not for using their patent but for being "a contributory patent infringer and/or an active inducer of infringement" which we deny.

As recently as July 19, 1st Media contacted us to discuss whether we wanted to make a reasonable last ditch offer, at which time we made the same offer we had made back in May. The total revenues we have derived from licensing our music content to **company's that approached us to obtain the use of our content in their applications,** from late 2004 to the present have been approximately $460,000 gross revenues, so we had offered to pay the difference between 2.5% and 5.0% royalty rate on this, even though we did not use the technology the patent is for, which would have been a settlement of $17,000. They wanted $250,000. We almost agreed to this, but when we really thought about it further, we realized we were being taken advantage of and countered with what would be a fair settlement based on actual revenues generated from our content being used by licensee company's that used 1st Media's patent.

The numbers that 1st Media's attorneys have used to arrive at their request for damages are wrong. They took a copy of the financial statements we provided to them for the 1st quarter of 2007 and took the net sales number from the financials, the number being $249,418.64. This number represents ALL of our sales (which are primarily real compact disc products) and was for the month of March 2007, not the full quarter. If they had looked more closely at the financials, they would have seen that it shows a "current" and a "year to date" column. Further, of the $249,418.64 for the month of March 2007, "digital" content sales for which they are claiming we should pay them a royalty on were $17,000 for the month, or 7%. For the quarter, "digital" content sales were $84,000, or 8.5%, so a blended average would be $75,000 for a quarter, which if we were truly liable (which we deny having any liability) would result in a royalty of $3,750 for the quarter at 5%.

Finally, as it relates to their projections, why should be have to pay on something in the future that we don't even know if we are going to have revenue on through 2013? They have settled with the actual users of their patent, therefore, they should not expect the provider of content to also pay a royalty. This would be "double dipping".

Summary Background:

We were surprised to be included in this lawsuit to begin with. No real effort was made by the original law firm (Niro law firm) to discuss what 1st Media's position was on this. If you will read the first two correspondence, one from Mr. Flachsbart dated September 12, 2006, and our response on November 29, 2006, you will note that **nowhere in Mr. Flachsbart's letter did he reference that we were inducing infringement.** In addition, Slep-Tone was not hiding from this as we did attempt to discuss this earlier than September 12, when we were first contacted about this patent. Everything explained and presented previously related to "web-based technology" that this patent covered, and we explained that we did not use or provide any technology as covered by this patent.

In his letter, he specifically kept referencing that "The claims of the '946 patent appear to cover several **web-based technology's** current **offered** by Sound Choice". Further, he went on to state "Please examine 1st Media's '946 patent and its claims to satisfy yourself that they have direct application to the various web-based technology's **practiced** by

Sound Choice". The key words in his letter were "web-based technology's", "offered" and "practiced" by Sound Choice.

In our response letter of November 29, 2006, we explained that we are a music producer and provide content to various markets, primarily in the form of actual compact discs. We specifically responded to his statements correctly that we "do not have any web-based technologies related to this patent" and further "we are not, and have not been in violation of your client's patent, since we do not have, nor do we provide, web-based technology covered by your clients patent".

We then specifically asked for a response in the last paragraph by saying "I hope this explanation will suffice and we would appreciate your response and confirmation that you understand we are not in violation of the referenced patent".

We were not given a chance to discuss this further, and it is evident in our letter that we were open to discussions. We stated our understanding and position based on the facts presented to us. The next correspondence received was the lawsuit.

Conclusion:

We respectfully implore the court to review this default judgment and recognize the inequities in granting the judgment, both 1) from the correspondence in the case and our attempts to settle the matter reasonably, and 2) the fact that the claims made that we as the defendant were "a contributory patent infringer and/or an active inducer of infringement" would really from any reasonable parties perspective be deemed without merit.

Sincerely,
Slep-Tone Entertainment Corporation

William C. Becker

William C. Becker
CFO

Attachments:

Cc: Copy to Plaintiff's Attorney's via Fax and U.S. Mail:

Edward R. Nelson, III
FRIEDMAN, SUDER & COOK
Tindall Square Warehouse No. 1
604 East 4th Street, Suite 200
Fort Worth, TX 76102

L. Kristopher Rath
HUTCHINSON & STEFFEN, LLC.
10080 West Alta Drive, Suite 200
Peccole Professional Park
Las Vegas, NV 89145

ATTACHMENTS:

1. Niro, Scavone, et al letter to Sound Choice September 12, 2006
2. Sound Choice response to Niro Letter November 29, 2006
3. Friedman, Suder & Cooke letter announcing lawsuit January 18, 2007
4. Email to Ed Nelson from M. Lukse January 23, 2007opening discussions
5. Email from E. Nelson to J.Miller (Slep-Tone local attorney) outlining proposals February 19, 2007
6. Email to Dr. Lewis from M.Lukse outlining Slep-Tone financial position, asking to be dropped from case, and/or pay 2.5% of net revenues at that time estimated at $350,000 from digital sales related to 1st Media patent April 13, 2007
7. Email from Dr. Lewis to M. Lukse offering to settle for $250,000 plus future royalties April 13, 2007.
8. Email from M. Lukse to Dr. Lewis, indicating "fair compromise", but asking if understanding of transaction is correct April 13, 2007.
9. Email from E. Nelson to M. Lukse with Settlement Agreement draft April 19, 2007
10. Email from M. Lukse to E. Nelson respectfully rejecting the Settlement Agreement and requesting that we be dropped from the lawsuit May 15, 2007
11. Email from E. Nelson to M. Lukse responding to May 15, 2007 rejection dated May 16, 2007
12. Email from M. Lukse to E Nelson responding to Mr. Nelson's email of May 16, 2007 and again offering a $17,000 settlement amount, dated May 18, 2007
13. Email from Dr. Lewis asking if we want to make a reasonable last ditch offer dated July 11, 2007 and M. Lukse response on July 17 indicating he would respond.
14. Email from M. Lukse to Dr. Lewis again offering $17,000 which we felt was fair, dated July 19, 2007 and a further request for an answer on August 2, 2007,.which was not received.
15. Copies of the Balance Sheet and Income Statement for Slep-Tone Entertainment dba Sound Choice as of 3 months ending March 31, 2007.

NIRO, SCAVONE, HALLER & NIRO

181 WEST MADISON STREET-SUITE 4600

CHICAGO, ILLINOIS 60602-4515

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KARA L. SZPONDOWSKI
ROBERT A. CONLEY
ERIC J. MERSMANN

September 12, 2006

This letter contains a settlement proposal and is being made as part of on-going settlement discussions between the parties. It should be understood that neither the letter nor its contents can be used in the litigation and that this and any future settlement discussions between the parties will be treated under Rule 408, Fed.R.Evid., or its equivalent around the world.

Via Federal Express

Mr. Kurt Slep, CEO
Sound Choice
14100 South Lakes Drive
Charlotte, NC 28273

Re: 1st Media LLC's U.S. Patent No. 5,464,946

Dear Mr. Slep:

We represent 1st Media LLC in the licensing and enforcement of its United States Patent No. 5,464,946 ("the '946 patent"). The '946 patent relates to multimedia transmission and covers a broad range of web-based interactive multimedia, including karaoke applications. A copy of the '946 patent is enclosed for your convenience. Sound Choice has previously contacted us by telephone to discuss 1st Media's activities in connection with the '946 patent. The claims of the '946 patent appear to cover several web-based technology's currently offered by Sound Choice. One example is the "Karaoke Channel" which Sound Choice provides in conjunction with Akimbo Systems.

1st Media would very much like to amicably and promptly resolve all issues with Sound Choice through a settlement, rather than through litigation. In that spirit, 1st Media is prepared to offer Sound Choice a full release and paid-up license under the '946 patent on highly favorable terms.

Please examine 1st Media's '946 patent and its claims to satisfy yourself that they have direct application to the various web-based technology's practiced by Sound Choice and give me a call at your earliest convenience. Please also feel free to contact us should you need any further information or if we can answer any questions you might have.

Please get back to me within the next two weeks to discuss terms.

Sincerely,

W. W. Fl

William W. Flachsbart

Enclosure

#2

INNOVATORS IN ENTERTAINMENT

November 29, 2006

Via Fax and Email

Mr. William W. Flachsbart
Niro, Scavone, Haller & Niro
181 West Madison Street
Suite 4600
Chicago, Illinois 60602

Reference: 1st Media LLC's U.S. Patent No. 5,464,946

Dear Mr. Flachsbart:

We are in receipt of your letter of September 12, 2006 (attached) with reference to the 1st Media LLC patent. In your letter you state that "the claims of the '946 patent appear to cover several web-based technology's currently offered by Sound Choice".

Slep-Tone Entertainment Corporation, d/b/a Sound Choice, is a music producer, recreating hit songs to which we own the "copyright to the sound recording". These music tracks are licensed to many different companies for their use, whether it be on an actual music compact disc (CD), or used in toys, or used for commercials, for television, or for internet applications. Sound Choice also has its own line of karaoke cdg's (compact discs with graphics) which we market to music stores and mass merchants under the Sound Choice brand.

Slep-Tone Entertainment Corporation does not have any web-based technologies related to this patent that we offer for any commercial value. We are not a creator of web-based applications in any form. We are purely a content provider, providing music tracks in various formats for use by our licensees. You referenced an example of the "Karaoke Channel" which Sound Choice provides in conjunction with Akimbo Systems. Specifically, Akimbo was using our music content under a license from us, but the actual "channel" was Akimbo's application. Again, we just licensed the music content to them.

In summary, we are not, and have not been in violation of your client's patent, since we do not have, nor do we provide, web-based technology covered by your clients patent.

14100 South Lakes Drive • Charlotte, NC 28273 • Phone: 704-583-1616 • Fax: 704-583-1871
www.soundchoice.com

I hope this explanation will suffice and we would appreciate your response and confirmation that you understand we are not in violation of the referenced patent.

Sincerely,
Slep-Tone Entertainment Corporation
d/b/a Sound Choice

Michael J. Lukse
Business Consultant

Fax to 312-236-3137
Email to flachsbart@nshn.com
Attachment: Niro, et al letter of Sept. 12

Cc: Kurt J. Slep, CEO

#3

FRIEDMAN, SUDER & COOKE
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EDWARD R. NELSON, III

DIRECT DIAL: 817.334.0572
E-MAIL: nelson@fsclaw.com

January 18, 2007

VIA FEDERAL EXPRESS

Mr. Kurt Slep, CEO
SOUND CHOICE
14100 South Lakes Dr.
Charlotte, NC 28273

Re: *1st Media LLC v. Napster, Inc., et al.*
U.S. Patent No. 5,464,946

Dear Mr. Slep:

We represent 1st Media LLC in the licensing and enforcement of U.S. Patent No. 5,464,946 (the "'946 patent"). The '946 patent relates generally to a broad range of web-based interactive multimedia, including karaoke applications such as those for which Sound Choice provides content in the form of karaoke tracks/albums produced under the Sound Choice label. You were introduced to the '946 patent previously by letter dated September 12, 2006 from Wil Flachsbart.

As you know, the '946 patent issued on November 7, 1995 to Dr. Scott Lewis. Dr. Lewis received B.S. and M.S. degrees with honors in mechanical and electrical engineering from M.I.T. He earned his Ph.D. from Oxford University in adaptive digital signal processing as a Marshall Scholar. And he holds an M.B.A. from the Harvard Business School. Dr. Lewis is a pioneer in the use of broadband internet and multimedia applications. He led the development of single-chip video and audio compression solutions, as well as the first automotive video cellular telephone.

Dr. Lewis is the driving force behind several companies, including 1st Media, which own a portfolio of patent rights in multimedia communication technology including the separation, processing, and recombination of multiple streams of multimedia data. This processing can include enhancement, compression and other forms of data manipulation. The inventions of Dr. Lewis' patents are used in many online entertainment systems. In addition to presently issued patents, Dr. Lewis' companies have pending patent applications which cover other aspects of multimedia transmission.

Enclosed is a CD-ROM containing a chart applying claim 16 to Sound Choice as a contributory patent infringer and/or active inducer of infringement. Specifically, the chart implicates

Sound Choice for its extensive distribution of karaoke audio and video content through various online multimedia karaoke entertainment systems.

To protect 1st Media's choice of venue, we filed a Complaint against Sound Choice and others in the United States District Court for the District of Nevada, alleging infringement of the '946 patent. A courtesy copy of the Complaint is enclosed on the CD-ROM for your review. While we proceeded with service of process at the time of filing the lawsuit, we are, as always, amenable to discussing an early resolution.

This is the third lawsuit filed concerning the '946 patent, and the second filed in Nevada. Amicable resolutions were achieved with the parties to the first suit filed in Illinois. The first Nevada suit (second overall) is pending. 1st Media recently licensed one of the parties, and the parties await rulings on claim construction and the defendants' motion for summary judgment.

While in some ways it is gratifying that at company like Sound Choice has done well distributing its music through technology owned by 1st Media, at the same time it would be most fair if Sound Choice would begin paying for its use. 1st Media would very much like to amicably and promptly resolve all issues with Sound Choice through a license, rather than through any unnecessary litigation. Should Sound Choice have an interest in entertaining a license, please contact the undersigned. I will be happy to provide a proposed agreement and address any questions you may have.

Sincerely,

Edward R. Nelson, III

ERN/dh

#4

Michael Lukse

From: Michael Lukse
Sent: Tuesday, January 23, 2007 9:06 AM
To: 'nelson@fsclaw.com'
Cc: Steve Boone
Subject: 1st Media LLC Lawsuit Against Slep-Tone Entertainment
Attachments: 1st Media Letters.pdf

Dear Mr. Nelson,

We are in receipt of the lawsuit filed by 1st Media LLC against Napster, et al, including Slep-Tone Entertainment d/b/a Sound Choice Accompaniment Tracks. In anticipation of our phone call this morning, I wanted to present some information.

We were surprised to be included in this lawsuit to begin with. No real effort was made by the Niro law firm to discuss what 1st Media's position was on this. If you will read the attached PDF file which contains two correspondence, one from Mr. Flachsbart dated September 12, 2006, and my response on November 29, 2006, you will note that **nowhere in Mr. Flachsbart's letter did he reference that we were inducing infringement.** In addition, Slep-Tone was not hiding from this as we did attempt to discuss this earlier than September 12, when we were first contacted about this patent. Everything explained and presented previously related to "web-based technology" that this patent covered, and we explained that we did not provide any technology as covered by this patent.

In his letter, he specifically kept referencing that "The claims of the '946 patent appear to cover several **web-based technology's** current **offered** by Sound Choice". Further, he went on to state "Please examine 1st Media's '946 patent and its claims to satisfy yourself that they have direct application to the various web-based technology's **practiced** by Sound Choice". The key words in his letter were "web-based technology's", "offered" and "practiced" by Sound Choice.

In our response letter of November 29, 2006, we explained that we are a music producer and provide content to various markets. We specifically responded to his statements correctly that we "do not have any web-based technologies related to this patent" and further "we are not, and have not been in violation of your client's patent, since we do not have, nor do we provide, web-based technology covered by your clients patent".

We then specifically asked for a response in the last paragraph by saying "I hope this explanation will suffice and we would appreciate your response and confirmation that you understand we are not in violation of the referenced patent".

We were not given a chance to discuss this further, and it is evident in our letter that we were open to discussions. We stated our understanding and position based on the facts presented to us. This lawsuit will now cost us legal fees just to answer it. This obviously was not ethically followed through by the Niro law firm nor 1st Media LLC.

Further, the new claim that we are "inducing infringement" is interesting. We take exception to this claim and deny that we are a "contributory patent infringer and/or active inducer of infringement".

However, in order to assess the impact of this lawsuit and this patent, we respectfully request information on what 1st Media LLC is offering as a license. This should be based on our company being a content provider to the platforms (company's) that use the patent technology. Again, we do not provide a web-based technology to anyone.

I will wait for your phone call today.

Kind regards,
Michael J. Lukse

#5

From: Ed Nelson [mailto:nelson@fsclaw.com]
Sent: Monday, February 19, 2007 1:55 PM
To: Jason Miller
Subject: Proposals for Sound Choice

Jason,

As we discussed, the following are the various basic proposals for Sound Choice's consideration. I look forward to discussing one or more of these with you:

1) Immunization from suit only

a) $200K paid up

b) $25K payment for past infringement plus 10% of downloadable karaoke revenue payable quarterly, or

c) $75K payment for past infringement plus 5% of downloadable karaoke revenue payable quarterly, or

d) $125K payment for past infringement and a credit for 3 million downloads (e.g. $50K + $75K for the 3M @ $0.025/song) plus 2.5% of downloadable karaoke revenue or $0.025/song (after the 3M downloads -- counted from the very first Sound Choice karaoke track download to the present and into the future until the 3M downloads is met) which ever is greater payable quarterly.

2) Complete License (which would include the ability of Sound Choice to establish its own online distribution system for karaoke downloads)

a) $1M paid up license, or

b) $150K payment for past infringement plus 20% of downloadable karaoke revenue payable quarterly, or

c) $250K payment for past infringement plus 10% of downloadable karaoke revenue payable quarterly, or

d) $400K payment for past infringement and a credit for 3 million future downloads (e.g. $250K + $150K for the 3M @ $0.05/song) plus 5% of downloadable karaoke revenue or $0.05/song (after the 3M downloads) which ever is greater payable quarterly.

Ed

Edward R. Nelson, III
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#6

Michael Lukse

From: Michael Lukse
Sent: Friday, April 13, 2007 11:43 AM
To: 'swl@1sttechnology.com'
Cc: Kurt Slep; Derek Slep
Subject: Settlement Discussions and Proposal

Dear Scott,

I apologize for the delay but we have had to really look at this and also look at the reality of our company's financial situation, as well as the personal financial situation of the two owners, Kurt and Derek Slep. Sometimes pride overshadows reality. We initially did not want to expose our current plight, but under the circumstances, we have to explain to you where we are financially so that you can appreciate and understand our proposal.

As I have reiterated before, we tried to cooperate with your prior law firm who misrepresented the issues to us in September 2006, and then deliberately did not respond to our letter of November 2006, where we asked for confirmation. We were never advised one time until the lawsuit was filed that you were claiming that we were "inducing infringement". We would have pursued discussions then to try to prove that we should not be involved in this at all. Proper discussions would have led to what we believe would have been a true understanding that we should not be involved in this at all. The responsibility rests solely with the companies with the web based technology. We truly believe you would have eventually understood that and dismissed any issues with us.

We still do not believe that we are even involved in this as we do not have web-based technology. The idea that we are inducing infringement is really a stretch. It is like saying the makers of radar detectors induce speeding, yet I have never seen a radar detector company charged in that way. We believe that a jury would not find us guilty of inducing infringement as their was never anything known about this patent, but we do not have the money to defend ourselves.

Now to our financial situation. As of December 31, 2006, we are in a negative equity position for our company, as well as currently at the end of March 31, 2007. We had huge losses in 2006 due to major returns from mass merchants, and extremely disproportionate overhead for our business as our sales have continued to slide downwards due to piracy, and lack of publisher cooperation to obtain karaoke sync licenses for newer music releases. I have attached copies of our 2004, 2005, and 2006 Form 1120S Tax Returns, and our internally generated financial statement as of March 31, 2007. We are on a calendar year basis. You will see from these returns that our business has suffered greatly in the past three years and we are barely making ends meet even today. We do not have ANY extra funds for legal fees or for purported past infringement settlement.

Since 2004, where we had sales of $7.6 million with a profit of only $108,000, we have declined through 2006 to sales of $3.2 million and a loss of $3.985 million. The owners, Kurt and Derek, have used the last of their personal funds to finance the business over the past two years, each putting in several hundred thousand dollars, which was all that they personally had available. As you will see from their personal financial statements attached, they are both personally broke, each having significant divorce settlements outstanding.

The digital revenues we generate today that come from the licensing of our content to companies with web based platforms has been approximately $350,000 revenue before publisher royalties. We just started to provide these licenses in late 2004 and have had only two years of successful implementation, with actual net results negative due to the overhead costs involved. The larger part of the revenues are generated by the web-based companies. We just get a license fee for our content used, from which we have to pay publishers in most cases.

In summary, we respectfully request that you consider dropping us from this case. We will not be able to defend ourselves in court since we do not have the financial ability to do so, and, if you were to win, we would be hard pressed to pay you. If you choose to insist on making us pay for others to use our content on their platforms, then we feel the best we could do would be to pay 2 and one half percent on our net revenues, with no prior use charges, as we legitimately did not know this patent existed and since, in reality, the "inducement to infringe" is really not what we were doing. Your former lawyers were totally unethical in not responding and explaining your company's position, probably because they knew it was wrong to make such a claim, and that if we were brought into a federal court suit, we would just roll over.

Please seriously consider our circumstances. We are providing this information under confidentiality and would hope that you respect our confidential financial information. We further believe that your dismissing us from this case will not impact any of your cases as your claim against us is solely the "inducement of infringement", whereas you have a stronger case against any web based technology company that seems to be in violation of your patent.

We will wait to hear from you on this, and again, our apologies for the delay, but we had to really look at this in light of our real financial position we are in.

Kind regards,
Michael J. Lukse

From: swl@1sttechnology.com [mailto:swl@1sttechnology.com]
Sent: Friday, April 13, 2007 5:21 PM
To: Michael Lukse
Cc: Kurt Slep; Derek Slep; nelson@fsclaw.com
Subject: Email Response

#7

Dear Michael,

Thanks for your belated email - because of the delay I have informed our lead legal counsel to continue discussions from now on on a lawyer-to-lawyer basis. However as a courtesy I will respond this last time to your email. Overall your proposal to pay either nothing or 2.5% of net sales isn't a good faith offer given our guidance call of last week, or even a candidate for settlement discussions.
I understand your financial position and it is our goal that we reach an agreement that is successful to all parties. In this spirit I will make one final offer below for an agreement between the parties after which you should direct your communications to our lead legal counsel Edward Nelson, Esq.

Quarterly net sales, percent of net sales payable quarterly:
$0-$250K 2.5% of total quarterly net sales
$250K-$500K 5% "
$500K-$750K 7.5% "
$750K+ 10% "
Until a cumulative of $250K paid is reached, after which the amount payable drops to 2.5% of total quarterly net sales.

Regards,

Dr. Scott Lewis
CEO, 1st Media LLC

#8

~~**From:** Michael Lukse~~
Sent: Friday, April 13, 2007 5:42 PM
~~**To:** 'swl@1sttechnology.com'~~
Cc: Kurt Slep; Derek Slep; 'nelson@fsclaw.com'
Subject: RE: Email Re$ponse

Dear Scott,

Under the circumstances, this is a fair compromise, as neither of us will have to spend any further dollars on legal costs.

So if I am clear, what you are suggesting is that the revenue stream to 1st Media will be as follows:

On net sales of the following annual sales assuming the following levels-

		Cummulative
Assume year 1 sales of $250,000 @2 ½%	$ 6.250	$ 6,250
Assume year 2 sales of $500,000		
2 ½ % of $250,000	$ 6.250	
5% of $250,000	$12,250	$24.750
Assume year 3 sales of $750,000		
2 ½ % of $250,000	$ 6.250	
5% of $250,000	$12,250	
7 ½% of 250,000	$18,750	$72,000
Assume year 4		
2 ½ % of $250,000	$ 6.250	
5% of $250,000	$12,250	
7 ½% of 250,000	$18,750	
10% of 250,000	$25,000	$134,250

Etc.
After the cumulative amount reaches $250,000, the percentage drops back to 2 ½%.

If this is the offer, we are amenable to it, as it allows for a long term outlook, and is based on the incremental profit on the higher sales.

Please let me know if this is a correct understanding. Also, we would expect that any agreement would depend on the life of the patent, and would not extend further than the patent life, and/or if the patent is potentially overturned.

Thank you for understanding our situation. We appreciate your view as well, and although we still feel that content should not be subject to this patent, it is a far better arrangement than to spend time arguing our respective positions.

Kind regards,
Michael

#9

Michael Lukse

From: Ed Nelson [nelson@fsclaw.com]
Sent: Thursday, April 19, 2007 11:54 AM
To: Michael Lukse
Subject: Draft 1st Media / Sound Choice Settlement Agreement
Importance: High

Michael,

Attached is the initial draft of the settlement agreement for your review and comment. I send it to you in .doc format for ease of edit/redline if necessary. Please feel free to contact me with any questions.

Ed

Edward R. Nelson, III
Friedman, Suder, & Cooke
Tindall Square Warehouse No. 1
604 East 4th Street, Suite 200
Fort Worth, Texas 76102
817.334.0572 (direct)
817.334.0401 (fax)
www.fsclaw.com

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into as of April ___, 2007 (the AEffective Date@) between **1ST MEDIA, LLC,** a Nevada limited liability company ("1st Media"), and **SLEP-TONE ENTERTAINMENT CORPORATION D/B/A SOUND CHOICE ACCOMPANIMENT TRACKS,** a North Carolina Corporation ("Slep-Tone").

WHEREAS, this Agreement pertains to, *inter alia*, U.S. Patent No. 5,464,946 entitled "System and Apparatus for Interactive Multimedia Entertainment" (the APatent In Suit@);

WHEREAS, 1st Media owns the entire right, title, and interest in and to the Patent In Suit and maintains the exclusive right to license and enforce the Patent In Suit and enter into this Agreement;

WHEREAS, Slep-Tone produces and disseminates audio and video Karaoke media for online commercial distribution;

WHEREAS, 1st Media has filed a patent infringement action against Slep-Tone numbered and styled 2:07-cv-00056-LDG-GWF, *1st Media, LLC vs. Napster, Inc., et al.*, pending in the United States District Court for the District of Nevada, (the "Pending Action"); and

WHEREAS, the parties to this Agreement seek an amicable and final business resolution and settlement of any and all claims relating to the Patent In Suit, including the Pending Action, which were, could, or can in the future be asserted in any lawsuit, on the terms and conditions set forth below:

NOW, THEREFORE, in accordance with the foregoing recitals, and in consideration of the mutual covenants contained herein, 1st Media and Slep-Tone agree as follows:

1. <u>DEFINITIONS</u>.

a. <u>1st Media Patents</u>. The term "1st Media Patents" means the Patent In Suit as well as all United States or foreign patents that have issued or may issue on applications whose subject matter in whole or in part is entitled to the benefit of the filing date of the Patent In Suit, including, without limitation continuations, continuations-in-part, divisions, derivatives, reissues, reexaminations and extensions thereof.

b. <u>1st Media</u>. The term "1st Media" means 1st Media, LLC.

c. <u>Slep-Tone</u>. The term "Slep-Tone" means Slep-Tone Entertainment Corporation d/b/a Sound Choice Accompaniment Tracks and does not include Slep-Tone affiliates, subsidiaries, agents, assigns, partners, co-venturers, or current and/or future customers.

d. Net Sales: The term "Net Sales" means online Karaoke products and services gross sales less reasonable (and itemizable) returns as particularly reported as "Net Sales" on Sound Choice's Income Statements (an exemplary copy of which is attached hereto as Exhibit A for reference).

2. COVENANT NOT TO SUE. Subject to the fulfillment of the payment provisions of this Agreement, 1st Media hereby covenants and agrees that neither 1st Media, nor any entity previously, or in the future, partially or wholly owned by 1st Media, nor any successor to or transferee or assignee of 1st Media, will hereafter bring any lawsuit, cause of action, claim or demand of any kind against Slep-Tone for any act involving the creation or distribution of audio or video Karaoke content/media for use in online downloading or streaming via third party distribution systems. This covenant shall not, and does not, extend to any Slep-Tone affiliate, subsidiary, assign, agent, partner, co-venturer, or current and/or future customer. No rights in and to the 1st Media Patents are granted Slep-Tone by virtue of this covenant, and, accordingly, no rights in and to the 1st Media Patents are granted to any third party.

3. ASSIGNMENT. Except in the event that all or substantially all of Slep-Tone's stock, assets or business is sold or transferred, the covenant not to sue embodied in this Agreement, is personal to Slep-Tone and is not transferable or assignable to any other entity without the express written consent of 1st Media. In the event of an assignment, the covenant not to sue herein shall not apply or extend to pre-existing products or processes of the assignee.

4. COMPENSATION SCHEDULE. Slep-Tone shall pay to 1st Media a percentage of Slep-Tone's cumulative Net Sales in accordance with the following schedule:

a. 2.5% for $0 to $250,000 in annual Net Sales;

b. 5% for $250,000.01 to $500,000 in annual Net Sales;

c. 7.5% for $500,000.01 to $750,000 in annual Net Sales; and

d. 10% for annual Net Sales over $750,000.

Once 1st Media receives a cumulative total of $250,000, the compensation schedule recited above will be abandoned and payment of a flat rate of 2.5% of Slep-Tone's Net Sales will take effect and remain in effect until either: 1) the 1st Media Patents expire; or 2) this Agreement is no longer in effect.

5. QUARTERLY PAYMENTS REQUIRED. Compensation payments from Paragraph 5 will be made by Slep-Tone on a quarterly basis. A quarter is equal to three calendar months with the first quarter covered by this Agreement being the second quarter of 2007, starting on April 1, 2007 and ending on June 30, 2007. All quarterly payments under this agreement must be made within thirty (30) days after the last day of the quarter.

6. QUARTERLY REPORTING. Quarterly payments from Sound Choice shall be accompanied by an Income Statement substantially in the form of the Income Statement attached as Exhibit A which summarizes, among other things, Net Sales.

7. PAYMENTS. Payments shall be made in U.S. currency and without deductions or withholdings of any kind. This sum shall be payable by wire transfer to 1st Media and its attorneys, FRIEDMAN, SUDER & COOKE, to the following client trust account:

Mr. Vern Spurlock
Private Banking
Bank One, N.A.
420 Throckmorton, Suite 300
Fort Worth, TX 76102
Ph. 817-884-4464

ABA/Routing No. 111000614
Friedman, Suder & Cooke Trust IOLTA
Account No. 1880206196

8. AUDIT REQUIREMENT. Upon 30 days notice, Slep-Tone agrees to make its books and records available once a year to 1st Media for auditing at no cost to 1st Media other than the costs detailed herein. 1st Media will bear all costs associated with hiring and employing an accountant to conduct such an audit. If the audit reveals a deviation of more than 10% between the Net Sales reported to 1st Media from Slep-Tone and the Net Sales actually received by Slep-Tone, Slep-Tone will: 1) reimburse 1st Media all costs incurred by 1st Media in conducting the audit, including the costs incurred by 1st Media in hiring an accountant; 2) pay 1st Media a penalty equal to 200% of the discovered deviation; and 3) be in material breach of this Agreement.

9. DISMISSAL OF LITIGATION. Within three (3) business days of Slep-Tone and 1st Media executing this Agreement, 1st Media shall file a Motion to Dismiss the Pending Litigation, whereby 1st Media will move to dismiss its claims against Slep-Tone. 1st Media and Slep-Tone agree that all costs incurred therein (including attorney and expert fees and expenses) shall be borne solely by the party incurring such costs

10. TERMINATION. This Agreement will expire immediately upon the material breach of any provision of this agreement or upon the expiration of the 1st Media Patents.

11. CONFIDENTIALITY. The parties shall keep the terms of this Agreement confidential except: (a) 1st Media may disclose the terms hereof to a specific third party at its election when 1st Media is engaged in bona fide licensing negotiations with that third party (subject to written restrictions against further disclosure); (b) where disclosure is required by law; and (c) where the information in question has become publicly known without breach of this Agreement. Notwithstanding the foregoing, the parties may, without breaching this section, disclose information concerning this Agreement to: (a) the Internal Revenue Service or foreign equivalent; or (b) their attorneys, accountants, or financial advisors, provided that such attorneys, accountants, or financial advisors agree to the terms of this paragraph 13. Further notwithstanding the foregoing, Slep-Tone shall release the press release attached hereto as Exhibit B to PR Newswire, or an equivalent service, and to one or more industry recognized news websites within ten (10) days of execution of this Agreement.

12. CONTROLLING LAW. This Agreement shall be governed by the laws of the State of Nevada without regard for the choice of law principles, statutes, or regulations of this or any other jurisdiction.

13. DISPUTE RESOLUTION. Any dispute arising under this Agreement shall be submitted to binding arbitration in Las Vegas, Nevada with one arbitrator having experience in patent matters, pursuant to the commercial arbitration rules of the American Arbitration Association, with only critical discovery allowed.

14. EXECUTION AUTHORIZED. Each party hereto warrants and represents to the other that its execution hereof has been duly authorized by all necessary action of such party.

15. FACSIMILE SIGNATURE. This Agreement will become binding and effective upon the exchange of facsimile copies of the required signatures.

16. ENTIRE AGREEMENT. The Agreement contains the entire agreement of the parties with respect to the subject matter hereof, and all prior oral and written agreements and understandings, if any, are merged herein. This Agreement may not be amended, supplemented, or modified, nor shall any obligations hereunder or condition hereof be deemed waived, except by a written instrument to such effect signed by the party to be charged. If any provision of this Agreement is found to be invalid, illegal, or unenforceable, such invalidity, illegality or unenforceability shall not render the remaining terms of this Agreement null and void, nor otherwise limit or affect the validity or enforceability of the remaining provisions of this Agreement.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be signed and delivered, either individually or by a duly authorized officer as indicated below, as of the date indicated.

SLEP-TONE ENTERTAINMENT CORPORATION	1ST MEDIA, LLC
By: ______________________	By: ______________________
Title: ______________________	Title: ______________________
Date: ______________________	Date: ______________________

#10

From: Michael Lukse [mailto:MichaelL@SoundChoice.com]
Sent: Tuesday, May 15, 2007 5:25 PM
To: Ed Nelson
Cc: Kurt Slep; Derek Slep; Bill Becker; Steve Boone
Subject: !st Media vs Slep-Tone Entertainment Corporation

May 15, 2007

Mr. Edward Nelson
Friedman, Suder & Cooke
Tindall Square
604 East 4th Street, Suite 200
Fort Worth, Texas 76102

Re: 1st Media LLC vs. Napster, Realnetworks, KSolo, and Slep-Tone Entertainment

Dear Mr. Nelson,

Recent events have caused the owners of Slep-Tone Entertainment to reconsider their position as it relates to the lawsuit we find ourselves in with 1st Media LLC. The settlement proposal sent by Mr. Lewis of 1st Media, after further review, is totally out of line with what we have learned on our own about patent law and damages. While we recently indicated that a settlement outlined by your client seemed reasonable, it was based on our misunderstanding of the patent law and damages. Your client and your firm are deliberately using the court system and the inherently significant legal fees surrounding representation in federal court and the rules which prohibit a corporation from defending itself, to induce us to settle an issue that we are not guilty of at all.

As I have reiterated before, we tried to cooperate with your client's prior law firm who **misrepresented** the issues to us in September 2006, and then deliberately did not respond to our letter of November 2006, where we asked for confirmation. We were never advised one time until the lawsuit was filed that you were claiming that we were "inducing infringement". We would have pursued discussions then to try to prove that we should not be involved in this at all. Proper discussions would have led to what we believe would have been a true understanding and the conclusion that we are innocent. The responsibility rests solely with the companies with the web based technology. We truly believe you would have eventually understood that and dismissed any issues with us.

We still do not believe that we are even involved in this as we do not have web-based technology. The claim made by you and your client that we are "inducing infringement" and/or "contributory infringers" is ridiculous and without any merit. It is like saying the makers of radar detectors induce speeding, yet I have never seen a radar detector company charged in that way. We believe that a jury would not find us guilty of inducing infringement as their never was anything known about this patent, but we do not have the money to defend ourselves, so we will never know what the jury would find on our behalf.

Again, not to be redundant, but we were surprised to be included in this lawsuit to begin with. No real effort was made by the original counsel from the Niro law firm to discuss what 1st Media's position was on this. Once again I make reference to the attached PDF file which contains two correspondence, one from Mr. Flachsbart of the Niro law firm dated September 12, 2006, and my response on November 29, 2006. You will note that **nowhere in Mr. Flachsbart's letter did he reference that we were inducing infringement.** Slep-Tone was not hiding from this as we did attempt to discuss this and requested an answer to our response on November 29, 2006. Mr. Flachsbart's letter on September 12 related to "web-based technology" that this patent covered, and we explained that we did not provide any technology as covered by this patent.

In his letter, he specifically kept referencing that "The claims of the '946 patent appear to cover several **web-based technology's** current **offered** by Sound Choice". Further, he went on to state "Please examine 1st Media's '946 patent and its claims to satisfy yourself that they have direct application to the various web-based technology's **practiced** by Sound Choice". The key words in his letter were "web-based technology's", "offered" and "practiced" by Sound Choice.

In our response letter of November 29, 2006, we explained that we are a music producer and provide content to various markets. We specifically responded to his statements correctly that we "do not have any web-based technologies related to this patent" and further "we are not, and have not been in violation of your client's patent, since we do not have, nor do we provide, web-based technology covered by your clients patent".

We then specifically asked for a response in the last paragraph by saying "I hope this explanation will suffice and we would appreciate your response and confirmation that you understand we are not in violation of the referenced patent".

We were not given a chance to discuss this further, and it is evident in our letter that we were open to discussions. We stated our understanding and position based on the facts presented to us. **Your client's former lawyers were totally unethical in not responding and explaining your client's position, probably because they knew it was wrong to make such a claim, and that if we were brought into a federal court suit, we would just roll over.**

We have previously explained our financial situation, but I will again summarize it. As of December 31, 2006, we are in a negative equity position for our company, as well as currently at the end of March 31, 2007. We had huge losses in 2006 due to major returns from mass merchants, and extremely disproportionate overhead for our business as our sales have continued to slide downwards due to piracy, and lack of publisher cooperation to obtain karaoke sync licenses for newer music releases. I have previously provided copies of our 2004, 2005, and 2006 Form 1120S Tax Returns, and our internally generated financial statement as of March 31, 2007. You will see from these returns that our business has suffered greatly in the past three years and we are barely making ends meet even today.

The owners, Kurt and Derek, have used the last of their personal funds to finance the business over the past two years, each putting in several hundred thousand dollars, which was all that they personally had available. As you will see from their personal financial statements previously provided, they are both personally broke, each having significant divorce settlements outstanding.

The digital revenues we generate today that come from the licensing of our content to companies with web based platforms has been approximately $460,000 revenue LIFE TO DATE before publisher royalties. We just started to provide these licenses in late 2004 and have had only two years of successful implementation, with actual net results negative due to the overhead costs involved.

In summary, we respectfully request again that you drop us from this case. We will not be able to defend ourselves in court since we do not have the financial ability to do so, and, **WE ARE NOT GUILTY OF INDUCING INFRINGEMENT OR ARE WE A CONTRIBUTORY INFRINGER**. Please seriously consider our circumstances. We are providing this information under confidentiality and would hope that you respect our confidential financial information. We further believe that your dismissing us from this case will not impact any of your cases as your claim against us is solely the "inducement of infringement" and "contributory infringement", which again we emphatically claim is without merit and which we completely deny.

We will wait to hear from you on this, and again, our apologies for the delay, but we had to really look at this in light of our real financial position we are in. We are sending this letter to the court as well to document our position, and that we cannot afford to defend ourselves, and therefore will anticipate the court to review the facts as best it can, and decide accordingly.

Kind regards,

Michael J. Lukse
Slep-Tone Entertainment Corporation

#11

From: Ed Nelson [mailto:nelson@fsclaw.com]
Sent: Wednesday, May 16, 2007 2:42 PM
To: Michael Lukse
Cc: Steven Hartsell; Jon Suder
Subject: RE: !st Media vs Slep-Tone Entertainment Corporation

Michael,

I would like to as briefly as possible address your latest email; the vitriolic nature of which is neither appreciated nor likely to garner you much sympathy.

First, your repeated complaints about 1st Media's former counsel are misplaced and absolutely irrelevant. The Niro Scavone firm put Sound Choice on notice of the patent-in-suit quite some time ago. The fact that Niro Scavone did not expressly characterize Sound Choice as an active inducer of infringement makes no difference. A crucial element of induced infringement is that the inducer must have actual or constructive knowledge of the patent. This is undeniably the case here.

Second, your bald assertion that Sound Choice does not induce infringement rings thoroughly hollow. You offer no fact that would tend to support your position. You state only that Sound Choice does not offer a web-based solution for the distribution of Sound Choice music content. But having a web-based solution makes no difference to the inducement claim. Sound Choice aids and abets the infringements of those companies having web-based solutions when it partners with them for the exclusive purpose of distributing Sound Choice content online. By providing downloadable music content for sale, Sound Choice supplies a critical part of the infringing systems. And Sound Choice does this solely to make money.

Not long ago, Sound Choice negotiated a deal with 1st Media to settle this dispute. You wrote that the deal struck constitutes a "fair compromise." 1st Media was appropriately sensitive to Sound Choice's cash position and developed a running royalty scheme palatable to all involved.

In attempting to justify backing out of the deal, you claim to have garnered some heightened understanding about patent law. Apparently, your source for this greater knowledge leads you to conclude unequivocally that Sound Choice cannot possibly be guilty of inducement. I would suggest you consult a different source or get a second opinion, because the first source is doing Sound Choice a disservice.

As I stated in my voice mail message to you yesterday, if you do not intend to honor the negotiated settlement, then I encourage you to hire counsel to defend your company. Refusing to answer and defend the lawsuit, in my estimation, is the worst of your three choices.

As always, I am available to discuss this matter further. Please feel free to call or email me. I would hope that we can proceed to memorialize our settlement. Failing that, or failing to appear in the lawsuit, will leave 1st Media no choice but to seek entry of default and proceed accordingly.

Ed

Michael Lukse

#12

From: Michael Lukse
Sent: Friday, May 18, 2007 9:42 AM
To: 'Ed Nelson'
Cc: Steven Hartsell; Jon Suder
Subject: RE: !st Media vs Slep-Tone Entertainment Corporation

Hi, Ed,

I apologize for the vitriolic nature of my email to you, but this was out of shear frustration as it relates to this whole lawsuit, and our true belief that we are not guilty of inducing infringement nor contributory infringement. The further fact that we are barely breaking even as a company financially exasperates the situation a hundredfold.

We honestly knew nothing of your client's patent until the September 2006 letter from the Niro law firm. That letter was cordial and stated facts that Sound Choice was using the '946 patent because we had web-based technology, as explained in this excerpt, "The claims of the '946 patent appear to cover several **web-based technology's** current **offered** by Sound Choice". Further, he went on to state "Please examine 1st Media's '946 patent and its claims to satisfy yourself that they have direct application to the various web-based technology's **practiced** by Sound Choice".

So, we did examine the patent for the first time, and came to the conclusion that it related to technology that we did not use in our business. We wrongly assumed that this would put this to rest by our response in November trying to clear the air. Again, we honestly believed this was correct based on the September letter and our conclusions. Can you see that we were not playing a game here and were accurately responding based on what was stated in the letter?

The three other defendants in this lawsuit all apparently use the technology and therefore should obtain a license from 1st Media, which is probably why they have settled. We do not use the technology, so why would we need a license going forward? We should probably advise our future clients that this patent exists and require them to show us proof if they want to license our content for their web based applications which use the '946 patent.

Ed, we are respectfully asking you and your client to look at our situation differently. We did not willfully do anything. To be charged $250,000 by your client as a percentage of our total sales is impossible for us to handle. The total sales for downloads and streaming of our content has amounted to $460,000 since we started in late 2004. This amounts to a huge penalty for something that was unintentional, thus our frustration about the whole situation.

Again, we did not know anything about this patent and when advised of it, still believed that we are not responsible financially, but should advise clients going forward that they need to have a license for this patent use if they want to use Sound Choice content. If I conclude that in our special circumstance, we would have had a reasonable royalty rate of 2.5% to 5%, although it would not have been correct to charge Sound Choice at all, since we did not have the technology that the patent is based on, but assuming that, then the total amount that we would have paid your client under this real world revenue we generated of $460,000 would have been between $11,500 to $23,000 maximum, not $250,000 or 54% of our gross revenue.

Your settlements or potential settlements as indicated in your phone message earlier this week make sense as the other defendants are all major multimillion or multibillion dollar company's.

We honestly cannot afford a lawyer at this time. When I inquired back in February, the retainer was $100,000 from one firm.

Can you see clear to suggest to your client to drop us completely from this lawsuit? At best, can we just settle for $17,000, which is the midpoint between 2.5% and 5% of the revenue we generated.

Please email me back your thoughts. Again, I apologize for the tone of my email earlier this week, but it was out of total frustration about this whole situation. That should be understood and appreciated under our circumstances when we are not guilty in our eyes of this, and feel that we are backed into a corner with no way out.

Kind regards,
Michael

#13

Michael Lukse

From: Michael Lukse
Sent: Tuesday, July 17, 2007 6:01 PM
To: 'swl@1sttechnology.com'
Subject: RE: Email Response

Hi, Scott.

I have been out of town for my 60th birthday and did not have email connection. Just got back and will email you in the morning.

Kind regards,
Michael

From: swl@1sttechnology.com [mailto:swl@1sttechnology.com]
Sent: Wednesday, July 11, 2007 3:11 PM
To: Michael Lukse
Subject: RE: Email Response

Michael,

As you know, we are having to move into the legal domain. Should you wish to make a reasonable last ditch "CEO-to-CEO" offer to me, send me one. Otherwise things will have to take their course.

Regards,

Scott

Dr. Scott Lewis
CEO, 1st Media LLC

#14

Michael Lukse

From: Michael Lukse
Sent: Thursday, August 02, 2007 12:46 PM
To: 'swl@1sttechnology.com'
Subject: FW: 1st Media Lawsuit

Dear Scott,
I did not hear back from you so am I to assume that you have decided that no further discussions are required? I just wanted to know your thoughts and position.

Kind regards,
Michael

From: Michael Lukse
Sent: Thursday, July 19, 2007 10:55 AM
To: 'swl@1sttechnology.com'
Subject: 1st Media Lawsuit

Dear Scott,

Thank you for contacting us again and your inquiry as to a possible settlement. As you probably realize, we are utterly frustrated as it relates to this whole lawsuit, and our true belief that we are not guilty of inducing infringement nor contributory infringement. The further fact that we are barely breaking even as a company financially exasperates the situation a hundredfold. We cannot afford to defend ourselves in court because of the extremely high legal fees required in federal court. When I inquired back in February, the retainer was $100,000 from one firm.

We are respectfully asking you to look at our situation differently. We did not willfully do anything. To be charged $250,000 as a percentage of our total sales is impossible for us to handle. The total sales for downloads and streaming of our content has amounted to $460,000 since we started in late 2004. This amounts to a huge penalty for something that was unintentional, thus our frustration about the whole situation.

Again, we did not know anything about this patent and when advised of it, still believed that we are not responsible financially, but should advise clients going forward that they need to have a license for this patent use if they want to use Sound Choice content. If I conclude that in our special circumstance, we would have had a reasonable royalty rate of 2.5% to 5%, although it would not have been correct to charge Sound Choice at all, since we did not have the technology that the patent is based on, but assuming that, then the total amount that we would have paid you under the real world revenue we generated of $460,000 would have been between $11,500 to $23,000 maximum, not $250,000 or 54% of our gross revenue.

Your settlements as indicated in court documents make sense as the other defendants are all major multimillion or multibillion dollar company's, and they did have the technology that infringed on your patent. These company's all approached us to license our content. We did not approach them and induce them.

Can you see clear to drop us completely from this lawsuit? At best, can we just settle for $17,000, which is the midpoint between 2.5% and 5% of the revenue we generated. And, if so, on a payment plan over a few months?

Please email me back your thoughts. I think under our circumstances we are not guilty in our eyes of this, and feel that we are backed into a corner with no way out. Again, just short of begging, we implore you to consider this settlement.

Kind regards,
Michael

#15

Sound Choice
INCOME STATEMENT
COMPARISON TO PRIOR YEAR
March 31, 2007

	CURRENT PERIOD						YEAR TO DATE					
	THIS YEAR		LAST YEAR		CHANGE I/(D)		THIS YEAR		LAST YEAR		CHANGE I/(D)	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	%	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	%
GROSS SALES	$258,285.66	103.56	$599,500.34	106.83	($341,214.68)	(56.92)	$1,046,844.81	104.96	$1,647,581.46	118.29	($600,736.65)	(36.46)
SLS. RET. & ALLOW.	$8,867.02	3.56	$38,311.26	6.83	($29,444.24)	(76.86)	$49,502.10	4.96	$254,770.57	18.29	($205,268.47)	(80.57)
NET SALES	$249,418.64	100.00	$561,189.08	100.00	($311,770.44)	(55.56)	$997,342.71	100.00	$1,392,810.89	100.00	($395,468.18)	(28.39)
COST OF SALES	$37,510.89	15.04	$60,050.29	10.70	($22,539.40)	(37.53)	$84,791.39	8.50	$112,189.52	8.05	($27,398.13)	(24.42)
GROSS MARGIN	$211,907.75	84.96	$501,138.79	89.30	($289,231.04)	(57.71)	$912,551.32	91.50	$1,280,621.37	91.95	($368,070.05)	(28.74)
VARIANCE	$1,948.65	0.78	($8,746.99)	(1.56)	$10,695.64	(122.28)	($5,430.52)	(0.54)	($19,646.54)	(1.41)	$14,216.02	(72.36)
PERIOD COST	$42,887.01	17.19	$146,114.95	26.04	($103,227.94)	(70.65)	$299,853.05	30.07	$368,904.29	26.49	($69,051.24)	(18.72)
DISTRIBUTION EXPENSE	$16,100.07	6.46	$22,487.35	4.01	($6,387.28)	(28.40)	$51,447.10	5.16	$80,769.16	5.80	($29,322.06)	(36.30)
GROSS PROFIT	$150,972.02	60.53	$341,283.48	60.81	($190,311.46)	(55.76)	$566,681.69	56.82	$850,594.46	61.07	($283,912.77)	(33.38)
SELLING EXPENSE	$70,346.17	28.20	$161,131.36	28.71	($90,785.19)	(56.34)	$173,517.37	17.40	$403,599.67	28.98	($230,082.30)	(57.01)
GENERAL & ADMIN. EXP.	$124,764.49	50.02	$165,045.93	29.41	($40,281.44)	(24.41)	$368,587.05	36.96	$468,830.33	33.66	($100,243.28)	(21.38)
RESEARCH & DEVELOP.	$19,293.05	7.74	$26,220.10	4.67	($6,927.05)	(26.42)	$53,942.32	5.41	$72,888.54	5.23	($18,946.22)	(25.99)
OTHER INCOME	* $440.98	0.18	$85.27	0.02	$355.71	417.16	$9,183.06	0.92	$17,614.00	1.26	($8,430.94)	(47.86)
OTHER DEDUCTIONS	$20,871.76	8.37	$32,092.74	5.72	($11,220.98)	(34.96)	$79,548.31	7.98	$78,015.14	5.60	$1,533.17	1.97
NET INCOME	($83,862.47)	(33.62)	($43,121.38)	(7.68)	($40,741.09)	94.48	($99,730.30)	(10.00)	($155,125.22)	(11.14)	$55,394.92	(35.71)

Sound Choice
BALANCE SHEET
March 31, 2007

	CURRENT YEAR	LAST YEAR	CHANGE I/(D) AMOUNT	%
ASSETS				
CASH	$7,975.33	$113,292.57	($105,317.24)	(92.96)
TRADE RECEIVABLES - NET	$316,227.21	$1,845,569.65	($1,529,342.44)	(82.87)
INTERCO. RECEIVABLES	$74,675.31	$511,948.21	($437,272.90)	(85.41)
SUNDRY RECEIVABLES	$31,488.75	$27,066.36	$4,422.39	16.34
INVENTORY	$514,085.15	$892,572.64	($378,487.49)	(42.40)
PREPAID EXPENSE	$79,562.47	$149,899.39	($70,336.92)	(46.92)
CURRENT ASSETS	$1,024,014.22	$3,540,348.82	($2,516,334.60)	(71.08)
FIXED ASSETS - NET	$724,087.62	$928,706.91	($204,619.29)	(22.03)
OTHER NON-CURR. ASSETS - NET	$6,166.70	$8,597.30	($2,430.60)	(28.27)
TRADEMARKS	$5,216.75	$5,216.75	$0.00	0.00
NON-CURRENT ASSETS	$735,471.07	$942,520.96	($207,049.89)	(21.97)
TOTAL ASSETS	$1,759,485.29	$4,482,869.78	($2,723,384.49)	(60.75)
LIABILITIES				
ACCOUNTS PAYABLE	$540,515.94	$52,338.61	$488,177.33	932.73
SUNDRY PAYABLES	$14,227.52	$8,825.47	$5,402.05	61.21
NOTES PAYABLE	$150,000.00	$0.00	$150,000.00	100.00
SHORT TERM DEBT	$1,646,846.37	$390,283.91	$1,256,562.46	321.96
OTHER CURR. LIABILITIES	$889,043.55	$653,412.06	$235,631.49	36.06
CURRENT LIABILITIES	$3,240,633.38	$1,104,860.05	$2,135,773.33	193.31
LONG TERM DEBT	$365,965.88	$1,374,866.81	($1,008,900.93)	(73.38)
NON-CURRENT LIABILITIES	$365,965.88	$1,374,866.81	($1,008,900.93)	(73.38)
TOTAL LIABILITIES	$3,606,599.26	$2,479,726.86	$1,126,872.40	45.44
EQUITY				
CAPITAL STOCK				
PAID IN SURPLUS	$31,200.00	$31,200.00	$0.00	0.00
CURRENT YEAR NET INCOME	$462,808.00	$462,808.00	$0.00	0.00
RETAINED EARNINGS - C CORP.	($99,730.30)	($155,125.22)	$55,394.92	(35.71)
RET. ERNGS. - PREV. YRS. RMNG.	$57,937.06	$57,937.06	$0.00	0.00
	($2,299,328.73)	$1,606,323.08	($3,905,651.81)	(243.14)
TOTAL EQUITY	($1,847,113.97)	$2,003,142.92	($3,850,256.89)	(192.21)
TOTAL LIAB. & EQUITY	$1,759,485.29	$4,482,869.78	($2,723,384.49)	(60.75)