

Chapter 18: Magic in Coto de Caza



The pc revolution was instantaneous and ubiquitous. We were seeing our clients, such as Wilson, Spalding or AMF, were buying their own PCs and hiring good programmers for the same price as paying us, and thus able to keep what they thought was a tighter control on their marketing and product planning.

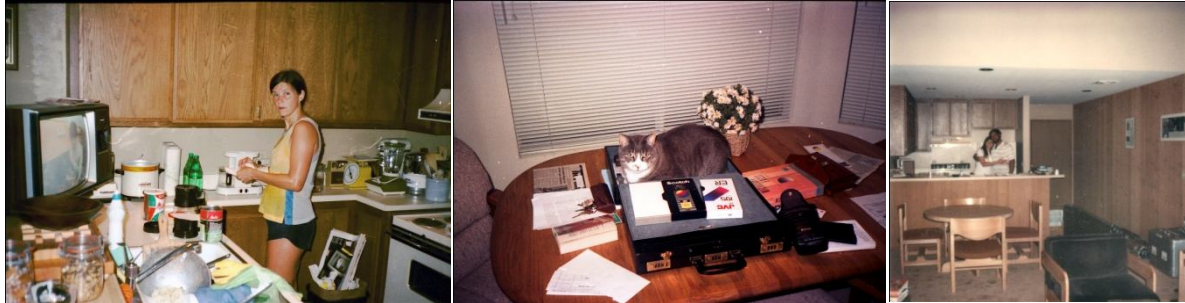
So we decided to make our own big move. We would refashion our software and hardware for the IBM PC and close the Coto Research Center. We would give back our share in the Research Center to the Coto De Caza Corporation and settle the financial ownership so everyone would be happy.

By this time the Coto De Caza Corporation had already sold most of its land to new owners for a hefty profit and, as a real estate corporation, were no longer interested in great athletes coming to the premises. The Corporation's main concern was selling land and houses. Our fame as an Olympic Training site and place where athletes could improve themselves was used as part of the selling and advertising. And I have no doubt that my bringing the Olympics to Coto De Caza also helped sell the thousands of homes and real estate properties for them. In fact, because of the Olympics in Coto De Caza, the US Government financed a new road to Coto which made accessibility much easier, which also increased the value of the real estate. However, the administrator of the Coto de Caza real estate company had no romance with the Olympic ideals. To my amazement, even now, the Coto De Caza owners never use the Olympic Rings symbol on their restaurant or the arriving gate. Being an Olympic site, they have the right to use the rings for their marketing. Sequa Valley has been doing it for years since the Winter Olympics were held there.

In 1987, the Research Center was quiet. The Women Volleyball team had left Coto after the 1984 Olympics. And after the Los Angeles Olympics ended, less and less athletes were coming to us for analysis. It is normal that immediately after the Olympics, athletes take a rest period for a few months.

The Coto Research Center also represented a huge overhead. All we needed was a smaller location with an efficient laboratory to perform small projects. And our current plan was to expand our marketing efforts to sell the Ariel Performance Analysis System (APAS) software (on the PC) as well as continue selling our computerized exercise machines, which were still very much in demand.

So we had to find a location. Ann and I had lived in the same condominiums, near the



In our condo

Tennis College, since we had first moved from Amherst. We decided we should find ourselves a more elegant house and maybe find a location where there were two houses next to each other. One for us to live in, and the other for our new laboratory and business.

We didn't want to leave the area, but we knew that could present a problem since Coto De Caza is a gated community and does not allow any commercial business within their hamlet. In fact, there are no stores or schools or other urban facilities in Coto De Caza.

However, I took my small Honda motorcycle and started driving around Coto to new development locations to find us a home. After a while, I found two model houses, one beside the other, designated to show potential buyers what the houses could look like in newly developed areas of Coto.



Two houses I found one beside the other

I stopped by the real state office which was close by and asked them if these two new houses were for sale. They told me that, in fact, just that week they had been released for purchase.

“I’d like to buy these two homes immediately,” I said in my thick Israeli accent, rushing my hands through my hair.

The two lady realtors looked at each other and then at me with my shorts and flip flops, a man who had just parked his little motorcycle next to their office. They looked me over suspiciously. “Well,” one lady said, “you will have to make a down payment which amounts to \$50,000 on each house.”

“No problem,” I answered, hurrying them.

“Do you want to check out the houses and see the inside?” one of the realtors asked, humorously.

“No, I want to buy them as they are,” I replied, seriously.

They thought I was totally meshugenah which I probably am but how could I go wrong with houses in Coto De Caza which cost more than twice as much as any house outside this gated community. To get a feel for the community, you just have to watch “House Wives of Orange County” which was shot in our little gated Coto. They even interviewed me for this terrible program (Show number 7). In the show, I had to run a baseball analysis on one of the sons of a baseball pro who lives in Coto. Needless to say, after I watched the first episode, I tried to get out of it, but could not. The director of the show, Mr. Scott Dunlap, used to work for me and his brother was the attorney for the US Olympic Committee when I worked with them.

“Well could you fill the form out,” the realtor said, “and we need the down payment.”

“Can I use your phone to call my girlfriend? “

So, I called Ann. “Ann, could you bring a check for \$100,000? We are buying two houses here, one beside the other.”

“What?”

She is used to me by this point, and trusts my hunches, so she got into our Chevy-71 with a \$100,000 check. By the way, the cleaning lady who came to clean our condo each week drove a Chevy-85.

For me a car that has four wheels is the best car I can drive. I really do not care for cars, such as my new neighbor does who drives his Rolls Royce, and his 17 year old daughter who drives the newest BMW. Even today (2011), I still drive my Chevy-89. They are great cars and made in the USA.

Ann, totally in shock, has a bit more sense than me so, when she arrived, she asked to see the inside of the houses. The realtor ladies, also in shock, took us into the interior of the buildings.

Both homes turned out to be ideal. One house is a one story 4,000 square foot building, perfect for living in, and the other house is two stories, perfect for office space at 5000 square feet.

After examining the houses and what our new life style would be like, Ann did not mind paying the balance due on the houses, 1.4 million dollars. We paid it in one check, full amount. Always trust a



Our two new houses at Coto De Caza. The living house and the office house

man on a motorcycle.

We had a lot of moving to do from the Coto Research Center to the new office building. We didn't feel we were violating the 'NO BUSINESS' rule in this “very special” community since our business was now going to be internet-based, and would not require any manufacturing or big trucks to pick up merchandise. In fact, even now, no one in the community knows what this big two story house is for. We had another company manufacturing our exercise machines, so very little traffic goes in and out of the office house.

So we began dismantling the Coto Research Center. It was heart breaking to watch all our inventions and equipment go into the trash. The Data General computers were now useless. We had to hire a corporation to move our computers to the dump. Ten years of work. Millions of dollars of equipment

thrown out. Out went the special room with a special floor and special air conditioning to maintain the Data General computers.

Now for a few thousand dollars, we had as many PCs as we wanted in our homes and they could be worked at on a kitchen table or anywhere else. When a computer went bad, it was cheaper to replace it with a newer model than fix it.

I set all the communication technologies up in the houses. There were no important technologies that we did not have. I knew that the Internet would be the way to go in the early 70's and always kept up on it. I converted both houses to solar power. We were the first in the whole Orange County to be totally independent of electric power, using solar panels. Our electric meter rotates backward which amazed the inspector for a long time. In fact, in the early 90's the electric company was required to buy our excess electricity that we produced on the roof of our two houses.



Our solar panels supplied us all the necessary energy



Inside our house



Outside our house

Adapting to our new life, we discovered we were blessed with a wealth we had not heretofore experienced: free time. No athletes in our place. No multiple projects to complete. Less overhead and less expenses. It was as if we moved from New York City to some small town in the middle of nowhere,

since we seemed to have so much more serenity. We had both been workaholics, working night and day, and now our lives became much simpler.



Inside our new office and laboratory



Developing the Exercise Machine (RED) for NASA-Mike Greenisen and Jeremy Wise – In our new Office/Lab



Our dog Malka

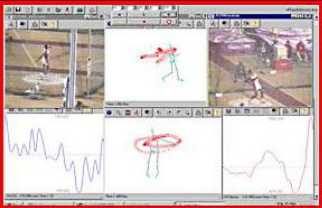
I still had professionals inviting me to Biomechanics and Sports Sciences conferences to make speeches. So, once again I started traveling around the world giving presentations about the capabilities of our systems in Sports Biomechanics. This time I was not talking about Data General, but about our software and our system and how people could see the benefits immediately – anywhere in the world.

I presented hundreds of presentations from Israel to China, to the UK to Spain, India, all around the globe. Here are some of my presentations:

Slides Outline

1. EVALUATION OF HUMAN MOTION USING BIOMECHANICAL INTEGRATION: A SYNCHRONIZED APPROACH TO COMPUTER ASSISTED VISUAL EVALUATION
Gideon Ariel, J.C. Brond, Alfred Finch¹, and Ann Penny²
2. Technological advances have made it possible to integrate motion data, and biomechanical data, video, and force data into a synchronized evaluation.
3. PRESENTATION OF THE APAS WIZARD SYSTEM
Main Images:
- 3D Joint Figures
- Kinematic & Kinetic Data in graphical format
- Ankle Moment from force plate & 3D data
- Applications
- CLINICAL APPLICATIONS
- SPORT PERFORMANCE
- RECREATIONAL APPLICATIONS
4. Hardware
- Main Computer System
- Workstations
- High Speed Camera

EVALUATION OF HUMAN MOTION USING BIOMECHANICAL INTEGRATION: A SYNCHRONIZED APPROACH TO COMPUTER ASSISTED VISUAL EVALUATION



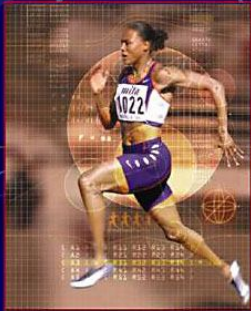
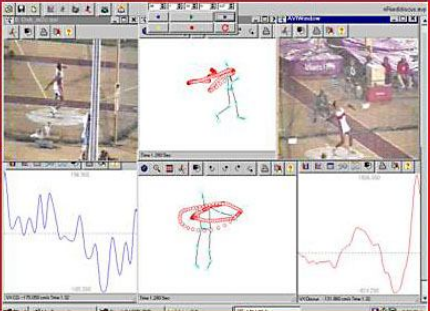
Gideon Ariel², J.C. Brond, Alfred Finch¹, and Ann Penny²

¹Indiana State University, Terre Haute, Indiana, United States
²Ariel Dynamics, San Diego, California, United States

Slides Outline

1. Optimizing Athletic Performance Through High-Technology Utilizing the APAS Wizard System
2. [Image of a track and field event]
3. [Image of a person running]
4. MOVEMENT ANALYSIS CAN BE APPLIED TO:
 - Athletics
 - Industry
 - Medicine
 - Space

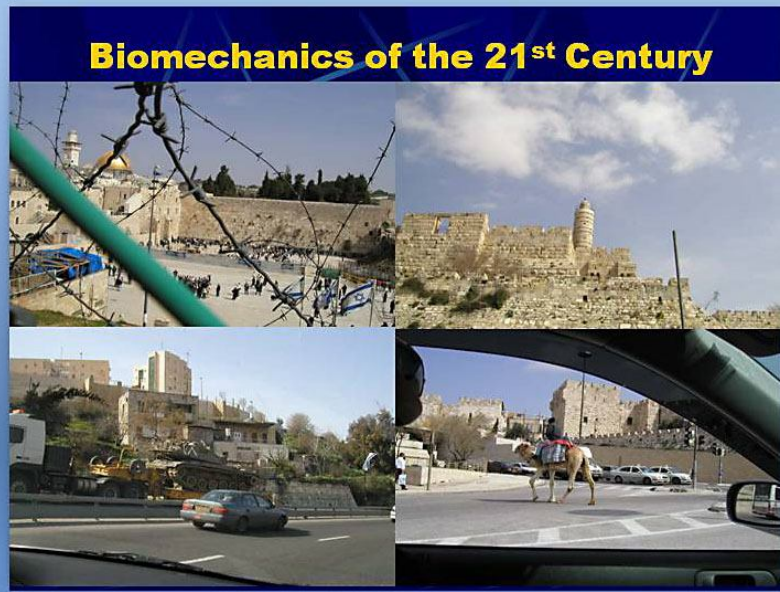
Optimizing Athletic Performance Through High-Technology Utilizing the APAS Wizard System

By Gideon Ariel, Ph.D.
Athens Olympics, 2004

Slides Outline

- 1 Biomechanics of the 21st Century
- 2 Biomechanics of the 21st Century
- 3 BIOMECHANICAL ANALYSIS CAN BE APPLIED TO:
 - Athletics
 - Industry
 - Medicine
 - Space
- 4 ALL APPLICATIONS UTILIZED SIMILAR QUANTIFICATION TECHNIQUES



Slides Outline

- 1 The Biomechanical Wizard
- 2 APAS/Wizard
- 3 APAS/Wizard

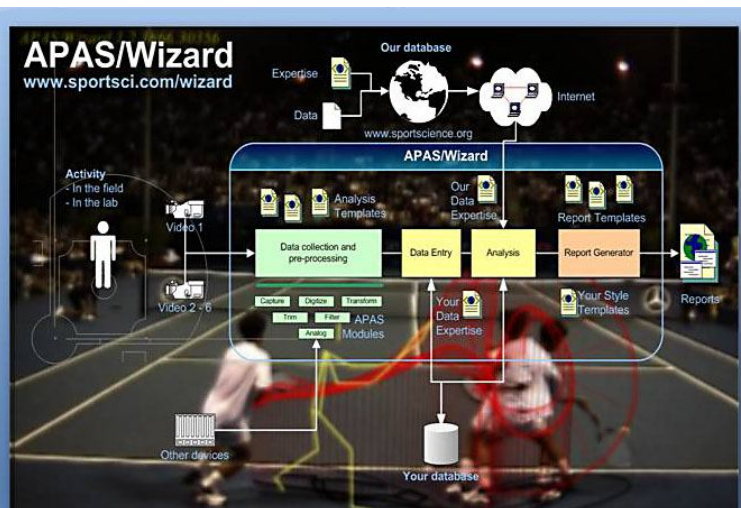
The Biomechanical Wizard

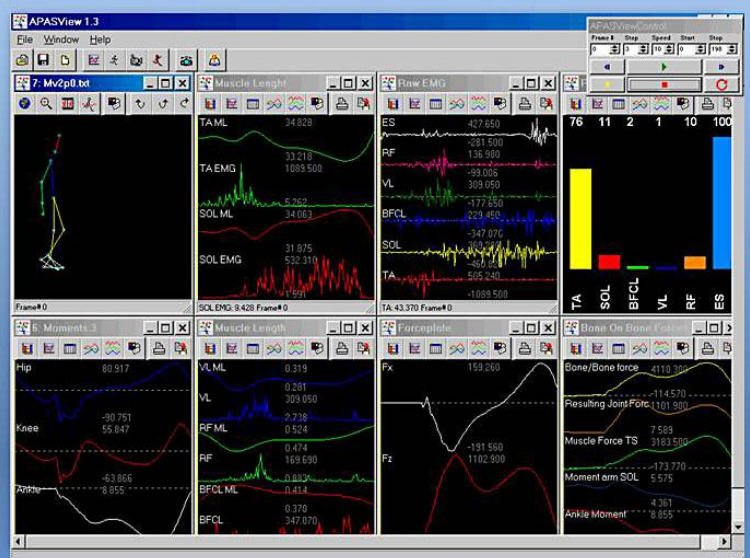
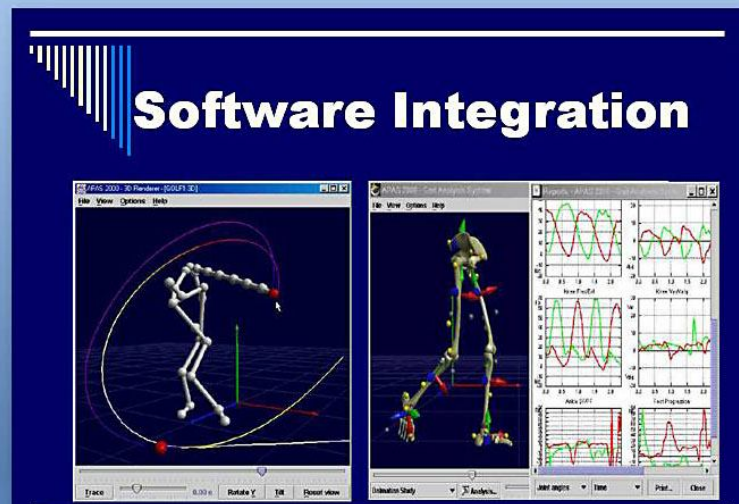
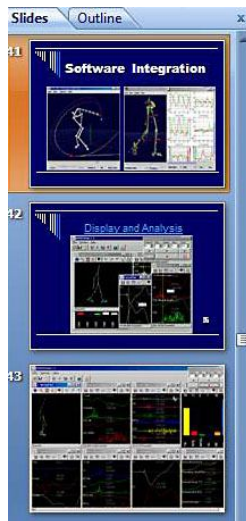
By Gideon Ariel, Ph.D.

Guangdong Provincial
Institute of Sport Science
February 22nd 2005

Slides Outline

- 1 The Biomechanical Wizard
- 2 APAS/Wizard
- 3 APAS/Wizard



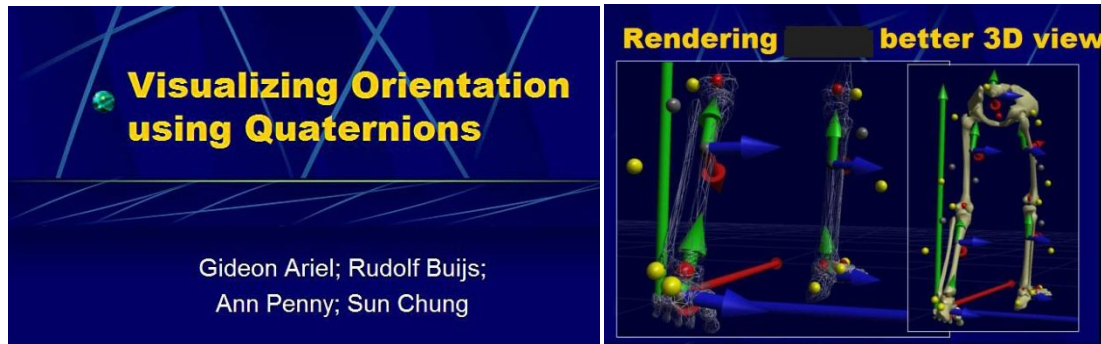


BIOMECHANICAL SPORT ANALYSIS THROUGH DATA INTEGRATION

A. Finch¹, G. Ariel², J. Brond²,
A. Penny² & J. Wise²
¹Indiana State University
²Ariel Dynamics

Camera Views





These presentations gave us international recognition and increased our business significantly, even better than the days at the Research Center with the projects we had with big corporations. Now we had smaller projects, but we also had far more clients.

However, I was finding that I was spending at least 6 months out of the year away from home.

The media were all over us with new articles and TV clips as you can see below:



Articles



TV-Productions

In one of my presentations, I met Herbert Lightstone, who turned out to be a dealmaker. He was very impressed with my technology and asked me to meet with him. As I had done before with Larry Graham, I invited him to Coto to see my facility. At this point, of course, we were no longer a kitchen laboratory.

Mr. Lightstone had already seen a few television reports on my system. When he came to us, he saw our office, met Ann, my staff, and most importantly, my dog, and suggested that I meet with his friend Dr. Don Brucker in San Diego. Dr. Brucker was an entomologist and one of the inventors of the Hard Contact Lens. This fact impressed me from the start. Here must be another "crazy" scientist-inventor like myself. Mr. Lightstone told me that Dr. Brucker just sold his patent to Bausch and Lomb for 120 million dollars and had a lot of money to invest in a new venture.

We all, Ann, Mr. Lightstone and Dr. Brucker met again in Coto and Dr. Brucker offered to be an exclusive distributor for my system. He mentioned that his experience in business and his financial resources would allow us to build a large company which would be very profitable to all. Originally, I agreed only to the computerized exercise machine distribution but eventually he included the motion analysis system also. That meant he was the sole distributor for the APAS System and the ACES Exercise System. My attorney, Mr. Norman Zaftman, drew a protective contract which allowed me to still sell my systems if I wanted to, but gave Dr. Brucker the exclusive right as my distributor. We called the new company Ariel Life Systems. Each sale of our systems would pay us a good amount of royalties (7%), so in addition to my own sales of my systems, I would be adding more income to the company. It sounded and seemed a totally positive situation for us.

Dr. Brucker resided in La Jolla, California, and upon signing the contract in 1990, he threw himself into the business. He created an amazing office with a full staff in the most expensive building in La Jolla. In fact, he owned this building and a restaurant on the second floor. We at ALS (Ariel Life Systems) had 3 floors. Dr. Brucker hired at least 50 people, from professional manufacturers to high paid secretaries. I understood that the overhead reached around \$300,000 per month.

The staff and I began going to shows, and sales started climbing. We would sell at least 20 machines each month for an average price of \$25,000 each and at least 10 APAS systems for an average price of around \$35,000 each. Profit was great and everyone was happy.

The ALS target market seemed enormous. As Dr. Brucker saw it, it was primarily the aging population, baby boomers bent on staying young, who were the people destined to spiral health care costs. Our market was also those industries being bankrupted with workers' compensation claims and the Americans with Disabilities Act (ADA). These insurance industries and businesses needed our technology to address the buzz words of the decade, such as "functionality, " "risk assessment, " "fitness, " "prevention, " and "rehabilitation." Our technology was right for them more than any other technology or combination of technologies.

Because of all this, we saw our largest markets for Ariel Life Systems' products to be the medical community, followed by sports, research & education, fitness & health, aerospace & military, and industrial engineering. Specifically, we saw tremendous opportunities with physical therapy clinics (such as Bob Wainwright operated in New Jersey) which are on the rise since insurance prefers members to use P.T. rather than pay for the expense of operations. Hospitals were a large target, also, since about 50% of these facilities have rehabilitation departments. In addition, we were sure orthopedic surgeons could use the ALS system for pre- and post-operative evaluations as well as rehabilitation. Add to that we

foresaw physiatrists (rehabilitation physicians) using our systems since 10% of them work directly with sports and industrial medicine clinics. Chiropractors and podiatrists were another target market.

On top of that was the whole product analysis part of our business. ALS could be used to analyze prosthetic devices to ensure their maximum efficiency. Industrial medicine, safety and ergonomic products began examining the possibility of using Ariel systems internally. The U.S. Bureau of Mines was using APAS to develop safety standards. And besides new medical markets, we saw that 50% of the neurological community could potentially utilize Ariel products for the diagnosis and treatment of conditions such as Parkinsons disease, MS, and for neuro rehabilitation (a growing sub-specialty), independent of hospitals and clinics. Cardiac rehabilitation, rheumatology, the geriatric market, and pediatric were also powerful markets.

You could see why Dr Brucker took us on. The marketplace was enormous.

On top of that, there was the whole research & education market, 400 educational facilities in the United States which currently have biomechanical departments or laboratories. All of these facilities were potential users of both the APAS and the CES. In addition, though military and aerospace budgets were diminishing, Ariel technology was critical for advancement in the areas related to human performance.

And then of course, was our old favorite: the sports market. Over 25 million individuals played at least one round of golf in the United States. We felt the potential market for golf analysis using the APAS to produce video cassettes of an individual's playing was approximately 10% of this population, many of whom would purchase repeated analysis as they progress through a teaching program.

Same went for tennis. With 5 million tennis players in the United States, we felt there was an opportunity for a potential 250 facilities to provide tennis analysis through the use of the APAS.

And then the rise of Health Clubs. An excess of 25,000 gym/health clubs exist in the United States today. With the growth of rehabilitation services in these facilities, and the expanded use of personal trainers, the potential for computerized exercise system (CES) use was enormous. We estimated that in excess of 2,000 of the higher-end facilities could use the CES today.

And of course the Olympians. Presently the Australian, Czechoslovakian, Finish, French, German and Spanish Olympic facilities have Ariel technology, and there were plans to equip the new U.S. Olympic training facility scheduled to be built in San Diego with Ariel equipment. College/professional sports would also be an important market since we had already worked with many of them, such as the Philadelphia Eagles, Houston Oilers, Cleveland Indians, and Toronto Blue Jays.

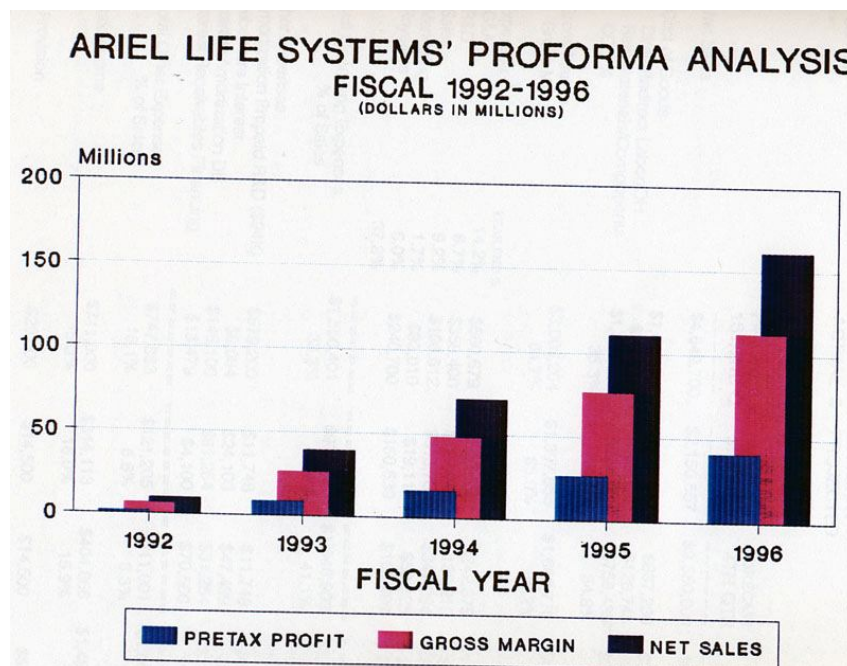
Dr. Brucker even saw potential in the industrial engineering market, such as for the analysis of car crashes, air bags, and related subjects. And we saw interest from insurance companies and the legal community becoming directly involved in using and owning the equipment.

It seemed the potential was limitless!

We made some improvements to the product in order to increase sales. These included:

- A six pound notebook computer capable of operation and/or demonstrating the entire system
- Panning cameras, hardware and software, which allow an unlimited number of cameras to follow a subject's movements.
- CES machines designed for specific three dimensional movements.

Dr. Brucker's business advisors saw the initial U.S. market for Ariel technology being as large as \$2 billion, with a continued follow-up market of software and hardware upgrades. In addition, reliable figures were not available for the non-United States markets. However, there was considerable growing interest and sales in Europe, Australia and the Far East, especially in the area of industrial medicine, research and sports. It was believed that the potential for foreign markets would approach that of the United States.



To put it in numerical values to potential investors, here was how everyone saw it:

ARIEL LIFE SYSTEMS, INC.

FIVE YEAR PROFORMA

(FISCAL 1992 -1996)

	1992	1993	1994	1995	1996
NET SALES					
CES Exercise Machines	\$3,197,788	\$15,020,460	\$30,047,200	\$50,582,700	\$78,696,800
APAS Analysis Systems	\$5,217,443	\$20,742,540	\$35,272,800	\$52,647,300	\$72,643,200
Software Upgrades	\$467,513	\$1,768,500	\$2,840,000	\$3,885,000	\$4,830,000
Technical Service	\$187,005	\$707,400	\$1,136,000	\$1,554,000	\$1,932,000
Ancillary Products	\$187,005	\$707,400	\$1,136,000	\$1,554,000	\$1,932,000
Miscellaneous Accessories	\$93,503	\$353,700	\$568,000	\$777,000	\$966,000
TOTAL NET SALES	\$9,350,257	\$39,300,000	\$71,000,000	\$111,000,000	\$161,000,000
COST OF GOODS SOLD	\$3,280,368	\$12,617,129	\$22,586,359	\$34,861,487	\$48,852,959
COS %	35.1%	32.1%	31.8%	31.4%	30.3%
GROSS MARGIN	\$6,069,889	\$26,682,871	\$48,413,641	\$76,138,513	\$112,147,041
Gross Margin %	64.9%	67.9%	68.2%	68.6%	69.7%
OPERATING EXPENSES					
General Administration	\$1,323,114	\$4,404,600	\$8,520,000	\$12,210,000	\$17,710,000
Research and Development	\$624,661	\$2,235,846	\$4,970,528	\$7,770,528	\$11,270,528
Sales	\$859,676	\$5,106,000	\$9,798,000	\$13,708,500	\$20,608,000
Marketing	\$162,452	\$2,816,400	\$2,840,000	\$6,660,000	\$8,855,000
Royalties	\$559,938	\$2,713,725	\$4,615,000	\$7,215,000	\$10,465,000
TOTAL OPERATING EXPENSES	\$3,529,841	\$17,276,571	\$30,743,528	\$47,564,028	\$68,908,528
% of Sales	37.8%	44.0%	43.3%	42.9%	42.8%
OPERATING INCOME	\$2,540,047	\$9,406,300	\$17,670,113	\$28,574,485	\$43,238,513
% of Sales	27.2%	23.9%	24.9%	25.7%	26.9%
OTHER EXPENSES	\$1,080,069	\$686,760	\$1,207,000	\$1,776,000	\$2,093,000
% of Sales	11.6%	1.7%	1.7%	1.6%	1.3%
PRETAX INCOME	\$1,459,978	\$8,719,540	\$16,463,113	\$26,798,485	\$41,145,513
Pretax %	15.6%	22.2%	23.2%	24.1%	25.6%
PROVISION FOR INCOME TAXES	\$58,000	\$3,496,536	\$6,607,964	\$10,756,376	\$16,514,986
% Rate	6.2%	40.1%	40.1%	40.1%	40.1%
NET INCOME	\$1,401,978	\$5,223,005	\$9,855,149	\$16,042,109	\$24,630,527
% of Sales	15.0%	13.3%	13.9%	14.5%	15.3%

What fantastic projections. We were better positioned than Microsoft!

One of the salesmen Dr. Brucker hired was John D'Aquisto. John had been a professional baseball player for the Padres in San Diego, and now he was one of our Directors of Sales. In fact, I appeared with him on TV analyzing famous baseball players:



John D'Aquisto and I on a TV interview

More than 25 articles in the San Diego area and various other magazines made the community aware of the new company residing in a very affluent location and doing business successfully right from the start.

Because our sales were so good and our organization stood in good standing, John suggested to Dr. Brucker that we should try to go public and raise more money. I did not like the idea, however the others believed it was a good plan. Don had to buy me a banker's suit and a banker's tie which I did not own and we flew first class to New York City to meet with J.P. Morgan on Wall Street.

I gave my presentation, and right away the wheels of finance started turning. Price Waterhouse did the due diligence which came out very well and they valued the company at 40 million dollars. Even though we were selling maybe close to 7 million dollars worth of software and hardware, they valued us at 7 times the sale income. I guess this is normal upward evaluation. Here are only two pages out of many Price Waterhouse evaluations:

Ariel Life Systems, Inc.			
Financial Statements			
June 30, 1992, December 31, 1991 and 1990			
To the Board of Directors and Shareholders of Ariel Life Systems, Inc.			
In our opinion, the accompanying balance sheet and statements of income, cash flows and of equity for the period ended at Ariel Life Systems, Inc. are			
Price Waterhouse			
Ariel Life Systems, Inc.			
Balance Sheet			
	June 30, 1992	December 31, 1991	1990
Assets			
Current assets:			
Cash	\$ 195,200	\$ 20,200	\$ 2,800
Accounts receivable, net of allowance for doubtful accounts of \$85,200, \$43,900 and \$24,800	2,357,400	297,200	160,100
Inventories	524,100	431,000	165,200
Other current assets	18,000	21,900	18,800
Total current assets	3,094,700	770,300	346,900
Equipment, net	94,200	109,200	106,200
Other assets	122,600	24,500	23,200
	<u>\$ 3,311,500</u>	<u>\$ 904,000</u>	<u>\$ 476,300</u>
Liabilities and Shareholders' Deficit			
Current liabilities:			
Bank overdraft	\$ 276,300	\$ 24,300	\$ 129,000
Accounts payable	490,900	342,800	83,700
Due to related parties	834,400	901,000	208,100
Other accrued liabilities	226,200	227,500	53,800
Note payable to bank	210,000	240,000	239,900
Current portion of capital lease obligation	15,000	15,700	11,700
Total current liabilities	2,052,800	1,751,300	726,200
Capital lease obligation, net of current portion	18,600	26,500	38,300
Deferred rent	50,200	68,500	48,800
Shareholder loan	3,064,900	2,290,500	285,000
Subordinated convertible debentures	675,000		
Total liabilities	<u>5,861,500</u>	<u>4,136,800</u>	<u>1,098,300</u>
Shareholders' deficit:			
Common stock, no par value - 10,000,000 shares authorized, 1,377,100, 1,302,100 and 1,302,100 shares issued and outstanding	542,300	541,500	541,500
Accumulated deficit	(3,082,300)	(3,774,300)	(1,163,500)
	<u>(2,550,000)</u>	<u>(3,232,800)</u>	<u>(622,000)</u>
Commitments and contingencies (Note 11)			
	<u>\$ 3,311,500</u>	<u>\$ 904,000</u>	<u>\$ 476,300</u>

No wonder we looked so good to Price Waterhouse. We seemingly were profitable with no debt and seemed to have an almost unlimited future. In addition, the President and CEO, Dr. Brucker, the inventor of hard contact lenses and a multi-millionaire himself, was running the company.

While all this was going on, I was enjoying myself. I had less administrative work to do, since ALS had such a large staff, and could concentrate on interesting research projects and travel around the world with Ann. We finally had some time for our own interests.

Don and John started finding investors willing to put substantial amounts of money into the company. This money was used for shows, travel, salaries, and manufacturing as well as sales expenses. Seemingly, the company was doing exceptionally well.

Here are some of the "placement offers" by the company to investors:

PRIVATE PLACEMENT MEMORANDUM
(CONFIDENTIAL)

200,000 SHARES OF COMMON STOCK
\$3.75 PER SHARE
ARIEL LIFE SYSTEMS, INC.
(a California Corporation)

THESE SECURITIES INVOLVE A HIGH DEGREE OF RISK

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND ARE BEING OFFERED TO PROSPECTIVE PURCHASERS IN RELIANCE UPON AN EXEMPTION UNDER THE ACT. NO REGISTRATION STATEMENT OR SIMILAR FILING HAS BEEN MADE WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION. LIKEWISE NO REGISTRATION STATEMENT HAS BEEN FILED AND REVIEWED BY ANY STATE SECURITIES REGULATORY AGENCY IN ANY STATE IN WHICH THIS OFFERING MAY BE MADE IN RELIANCE UPON EXEMPTIONS FROM REGISTRATION OR QUALIFICATION. ANY BENEFITS NORMALLY ACCRUING TO INVESTORS BY A REVIEW OF AN OFFERING BY THE SECURITIES AND EXCHANGE COMMISSION OR BY SUCH A STATE AGENCY WILL NOT BE AVAILABLE TO INVESTORS.

	Per Share	Aggregate	
		Minimum	Maximum
Offering Price.....	\$ 3.75	\$ 500,000	\$ 750,000
Net to Company*.....	\$ 3.75	\$ 500,000	\$ 750,000

Exclusive of certain unaffiliated individuals or entities who offer shares on behalf of the Company and who may be paid a commission of up to 10% on shares sold by them. No commissions will be paid to officers

or directors of the Company. This Net to Company is before other offering expenses, including legal costs.

*offered by Officers and Directors
of
ARIEL LIFE SYSTEMS, INC.
P.O. Box 1169
1299 Prospect Street, Suite 305
La Jolla, California 92038
(619) 459-6659
Attention: Donald Brucker*

INTRODUCTION

Ariel Life Systems, Inc. (the "Company") is a company engaged in the business of manufacturing, marketing and distributing sophisticated computerized exercise equipment that combines advanced theories of biomechanics, the science linking physics of motion to the human body, and computer science. The Company proposes to offer a minimum of 133,333 shares for a total consideration of \$500,000 and up to a maximum of 200,000 shares for a total consideration of \$750,000 of the Company's Common Stock. The proceeds of this Offering will be used by the Company primarily to purchase capital equipment and to cover any cash shortfall between the Company's sales and its receivables.

This offering is being made, and shares will be sold, only to accredited investors, the criteria for which are set forth under "Suitability

Standards and Subscription Documents" on p. 7 of this Private Placement Memorandum.

There were many meetings at our La Jolla office. I was asked to present the scientific side of the technology. Don presented the business side of the company and Herb Lightstone comforted the potential investors with his years of experience in business. John D'Aquisto ran around showing plaques on the wall and all the articles about the company. Two of the plaques seemed to affect the potential customers the most. One was my induction to the Jewish Hall of Fame for sports sciences as it is shown below:



Ann and I preparing for the induction

Jewish Sports Hall of Fame

HONOREES

1975-1976

MARK SPITZ	SANDY KOUFAX	BARNEY ROSS
SID LUCKMAN	AARON ROSENBERG	PHIL HANDLER
WILLIE HARMATZ	HANK GREENBERG	

1979-1980

FRANKIE GOODMAN	DAVID MATLIN	JULE RIVLIN
CARROLL ROSENBLUM	ABE SAPERSTEIN	GENE SELZNICK
LARRY SHERRY	NORM SHERRY	

1980-1981

HARRY BOYKOFF	LARRY BROWN	ALLEN FOX
DEBBIE LIPMAN	BENNY LEONARD	IRENA SZEWSKA
KEENA ROTHAMMER WEISBLY	MAX WOZNIAK	
ESTHER ROT	AMITZUR SHAPIRA	

1981-1982

GIDEON ARIEL	HAROLD ABRAHAMS	DAN DWORSKY
BUD GREENSPAN	SID GILLMAN	BERNIE OPPER
MAXIE ROSENBLUM	ARIE SELINGER	



Dr. Gideon Ariel
Sports Medicine

The founder of Coto Research Center and Computerized Biochemical Analysis. His ultra-modern scientific approach to sports is the first created specifically to evaluate the dynamics of human motion. A former member of the Israeli 1960 and 1964 Olympic Team in the Discus and Shotput, he is currently the Director of the U.S. Olympic Team Computer Science and Biomechanic Department.



Harold Abrahams
Athletics

Great Britain's 1924 Olympic 100 Meter Track Champion, he also won a Silver Medal leading of the 400 Meter Relay. A lawyer by profession, he also became a distinguished Journalist and Broadcaster, a Vice-President of the British AAA, Honorary President of the Worldwide Association of Track and Field Statistician and President of the Achilles Club.

בית האלופים

Jewish Sports Hall of Fame

MACCABI UNION USA
invites you to the induction
of

GIDEON ARIEL	SID GILLMAN
HAROLD ABRAHAMS	BERNIE OPPER
DAN DWORSKY	MAXIE ROSENBLUM
BUD GREENSPAN	ARIE SELINGER

into the
1981 JEWISH SPORTS STAR HALL OF FAME

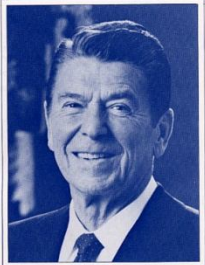
THE PRESENTATION
OF
THE MACCABEE AWARD
1981 JEWISH Athlete of the Year

SHARON SHAPIRO

all proceeds will go to the sponsored

Jewish Sports Hall of Fame
בית האלופים
BEIT HALUFEIM In Israel

Dinner and Entertainment
at
CENTURY PLAZA HOTEL 2025 AVENUE OF THE STARS
WEST SIDE ROOM Century City, Ca 90067



THE WHITE HOUSE
WASHINGTON

December 16, 1981

I am delighted to send my greetings and warmest personal regards to all those attending the 1982 Jewish Sports Hall of Fame Dinner.

Since my days as an athlete and sports announcer, I have admired the significant contributions of American Jews to sports in our nation. You have brought dignity and distinction to every field of endeavor. By providing deserved recognition to outstanding Jewish athletes and sports figures, you foster and encourage the rich cultural heritage that is the foundation of our country's strength and unity.

May I also take the opportunity to extend my congratulations to all of those you are inducting into the Hall of Fame: Maxie Rosenbloom, Bud Greenspan, Sid Gillman, Arie Salinger, Harold Abrahams, Dan Dworsky, Gideon Ariel, Bernie Opper, and also Sharon Shapiro, winner of the 1981 Maccabee Award and Jewish Athlete of the Year. Your immeasurable talents, dedication, and meticulous sense of sportsmanship are an inspiration to all those who participate in sports, and your achievements are a source of pride to all Americans.

You have my best wishes for a wonderful banquet and for continued success in the future.

Ronald Reagan

The other was a framed letter from the American Cup winner in 1992, the America-3. They used our technology to win the World Championship yacht race. In addition, our computerized exercise machines were being used to help train the Navy Seals in San Diego. This struck people, too.

It all helped to raise money.

The investors we now had were what are called mezzanine investors. They invest money before the company puts out an IPO. These investors make a bundle, since they have taken a risk before the other investors do so a year later. This was all done legally, according to Price Waterhouse's prospectuses and numbers.

There were approximately 60 investors, most of them from San Diego and some from New York and other locations. I personally was not involved in this process. I was to find out later what a mistake I made by showing myself so liberally to these investors, when presenting the technology.

Dr. Brucker accomplished his goal and raised millions of dollars from the investors who met with us.

But it turned out the reality of ALS was something else entirely. I should have seen it coming because there were red flags all along. Our initial contract with Don granted ALS the licensing rights to manufacture and market the CES and in return was to pay us a seven percent royalty (7%), as noted.

In addition, we would make money by ALS purchasing the APAS system at a reasonable price and my company would profit from sales in markets which we were not yet addressing. The commission which ALS was to pay for each sale of the APAS system was 33 1/3 percent of the selling price. A distributor contract was prepared and signed up. Since my company normally paid sales people a 25 percent commission, it was consistent with acceptable business practice to pay ALS a distributor commission of 33 1/3 percent for larger quantities of sales.

In order to make the CES available to ALS, I had to resolve the following situations:

- Buy back the Ariel patents from Wilson Sporting Goods Inc.
- Terminate the relationship with the existing CES manufacturer.
- Terminate existing CES liabilities with CES manufacturer.

To complete the above, I needed cash. Don explained to Ann, Norman, Herb and me that just the inventory alone, which I already owned, would more than pay for these outstanding obligations. At that time, I had 57 fully assembled CES machines. These had already been fully paid for at a cost to me of approximately \$10,000.00 each. The price and the fact that they were already paid for was my normal method of business -- no paper work, no hassles, no problems regarding credit, and no time demands!!! These 57 fully assembled and ready-to-go machines were worth \$2,280,000.00 retail income (57 at the list price of \$40,000.00). In the presence of Norman

Zafman, Ann, and Herb Lightstone, Don agreed to pay all my expenses from the initial sale of the equipment which were to be contributed to ALS by me. In addition to the 57 CES machines, there were 62 computers to run them, and 200 valves to be used on future machines. These various items had cost me approximately \$600,000.00 which did not include the money previously paid for the 57 CES machines. I had raised the money through various loans and commitments. The interest bearing on this money sometimes exceeded 30 percent per year. During the negotiations involving Norman, Herb, Ann, and myself, Don stated that any loans which I secured should be for short terms with none more than a maximum of one month. (The cost for one month was \$25,000.00!) Based upon the recommendation of all parties involved, I arranged the financing and paid all the obligations to free the patents and to buy the additional inventory from the company which had been manufacturing the CES machines.

Why did I do it? I thought I was investing in our future. We were opening up an incredible market, and I did not have the infrastructure myself to open it. Nor did I have the inclination. I am an inventor not a businessman. I decided to go with Dr. Brucker's plans and aid them in making the big dream a reality.

However, I had not realized that I had created a liability for myself in excess of \$600,000.00 and, since ALS had all of my inventory, I had nothing to sell. Since ALS was to pay me everything within a month and was to pay 7% on sales, there seemed no reason for concern. With the new cash from ALS, I could continue my small scale operation of APAS sales and focus on R&D efforts.

After receiving my CES machines, ALS began selling the equipment, however, I did not receive any payments. Don always had some reason why the money needed to be delayed until the following month. In the meantime, I myself had to make payments towards the loans from the R&D monies paid by ALS to Ariel Dynamics (ADI). It became increasingly more apparent to me that I had been taken and was in deep financial commitments. Don was selling the CES machines but would not pay the monies due me for either the original equipment or the royalties. Also, according to the contract, ADI was suppose to receive a minimum monthly license fee to help both companies in the event that there were slow months relative to CES sales. These fees were not made during the first 8 months which placed ADI in difficult financial problems.

Don complained that ALS was unable to pay ADI because of the low commission fees associated with APAS sales and he demanded a more advantageous arrangement, namely, a 50 percent commission instead of the current 33 1/3 percent. With this amendment, he insisted that ALS would be able to meet the financial obligation to ADI. By this time, the funds had been due for more than a year. The Amendment was made but payments to meet the ADI commitments continued to be unpaid.

During this time, Don had full control over the CES machines since he manufactured them, but now he demanded that all sales of APAS should be made from ALS, so he could pay the money he owed ADI. In other words, he wanted to rob Peter to pay Paul, or more accurately, rob Ann and me to pay Ann and me.

Don became relentless in demands for APAS. He insisted on more ALS sales opportunities and better financial terms (larger and larger commissions) with ADI.

I called Herb several times to obtain his help but with no success. In fact, Herb was busy with a new venture created within ALS which was called Ariel Financial Corporation. I was never told about this financial entity and when I asked for information, I was turned away.

(Moral here: Scientists and business do not match. I think this has been true since the beginning of time. Da Vinci was always trying to find ways to finance his inventions. He seems to have done better than I was doing at the time.)

Meanwhile, Don continued to stonewall on payments to ADI so that the royalty, expense, and R&D commitments increased continually. Norman was informed about the problem but he was unsuccessful in obtaining any financial information. ADI's accountant, Colin Hatch, also could not obtain the necessary information to determine the actual and accurate facts about ALS. There seemed to be many systems leaving ALS, but any and all financial information was sealed from Ann and me by Don, Laura, Peter and Neville (Dr Brucker's staff). Since no system could leave ALS without an ADI/CBA software implementation, I had some limited knowledge about the number of systems being shipped, the customers, and the information provided on the invoice. Whether any system was ever delivered to a customer, the accuracy of the invoice, or payments made or not, was never available to me, his professional assistant staff, or from ANYONE at ALS. Little or no monies which were legitimately due me and which were associated with each sale were paid or accounted for except for partial information which I had to obtain surreptitiously from some employees.

I responded very angrily and told Laura that she worked for me as much as for Don, and I needed to see this information. However, *Don* intervened and persuaded me to calm down. He told me that "The money's coming next week ..." However, time passed and Don exerted greater authority in all areas including the R&D areas by insisting on a new CES machine for the Back NOW, new software such as DELTA and GAIT programs, yet he continued to hide the financial activities from me and any of my associates, as well as refused to pay the obligations. Each time that I reached a point of complete frustration and was ready to terminate the relationship which I was basically having to subsidize, Don promised that when ALS went public there would be millions of dollars available to pay all of ALS's obligations to ADI and me. According to Don, this time was very soon.

From that point, the Public Offering was the reason for the delay in payment and became the new scenario in Don's ALS arsenal of arguments that he used to make me change the agreement for the APAS to only 7 percent. Norman insisted on a condition in this agreement which included a protection for us in view of the consistent failure of ALS and Don to pay the monies due to ADI. I was granted a UCC1 to protect the overdue investment which I and ADI were unwillingly providing. Don accepted this condition and I owned the UCC1 which protected me as first creditor.

At that point ALS owed ADI in excess of one million dollars but Don decided that the company would look more favorable to potential investors with different payment structures and, based on this opinion, he modified the financial books. With the help of the accounting department, which consisted of Laura, Peter, and Neville, the books were made to reflect a lower level of royalties and commission owed to ADI. Without having access to the books, I discovered that the amount of money due to ADI was now \$640,000.00. At this point, I knew that something was terribly wrong.

But I really knew something was wrong when I found that people I did not know about had invested substantial amounts of money in ALS. It was this source of money, along with Don's continuous financial contributions, which was the substance of ALS rather than product sales. In other words, I thought that Don's contributions were to cover recurring cash flow difficulties. I thought the few outside investors who I was aware of were important people who would be useful in the future or were past friends of Don's; clearly, I was nowhere near the true story. As I became increasingly more concerned about what I was discovering at ALS, I immediately called Herb for help. Herb came to ALS and, after only one week of digging into the business, told me that many things were bad and the books might actually be fraudulent. Also, Herb made it known that a promise had been made to investment bankers from New York that the Ariel patents were available for sale.

At that point, I faxed Michael Gardner and Steve Sanders in New York indicating that I did not now, and never had, any intention of selling the patents at any price. This event caused the people from New York to carefully examine the situation.

It was clear that ALS had spent too much money on various marketing scenarios. Wall Street and I soon learned that systems had been sent to customers to reflect greater numbers of sales than actually existed to indicate to Wall Street that sales were booming. Only Don and the accounting staff really knew, until recently, that these sales were bogus and, in some cases, did not even exist! Price Warehouse's auditing report also led the Wall Street people to believe that sales were fantastic. Don had borrowed more money to support his effort to reflect high sales. Whenever I asked Peter or Laura if these sales were realistic, they assured me that the "Money is in the bank."

Since the accounts receivable which were shown to individuals like me reflected over 5 million in sales, Don obtained another loan from the bank to cover the time during the "cash flow pinch." The bank for this transaction was Riviera. They demanded a UCC1 before they would advance ALS one million dollars against the accounts receivable. Don approached me to relinquish my UCC1 so that ALS could grant a UCC1 to Riviera. I called Norman and we demanded a payment of \$300,000.00 credited against my royalties. At that point ALS officially owed me in excess of \$600,000.00 and unofficially, if the "real" sales were audited, more than one million dollars. Don had no choice. If I relinquished the UCC1, he must pay me \$300,000.00 which would allow him to keep \$700,000.00. This agreement was reached in the presence of Norman, Herb, and Peter. Norman demanded a new contract be prepared and signed, reflecting the

agreed upon terms. Don became very angry and said change must be executed immediately since Riviera was on the line.

"Don't you trust me to give you the money tomorrow?" he asked.

No, I thought, but I could not conceive that Don would take a chance on lying in front of Herb and Norman; therefore, I gave up the UCC1 in favor of Riviera. The next day, Riviera advanced the million dollars to Don but he never did pay the \$300,000.00. Amazingly, he spent the money on other expenses and did not meet the obligation to me. When I called Norman, he could not believe it!

This is where the expression throwing good money after bad must originate. Once you're in a bad deal, sometimes you have to keep feeding it in order to get out. Ann and I had run a cash/no debt business. We delivered on our promises and, thus, we were out of our league with all these lies and distortions. We had run a small business that did exceptionally well, based on exceptional products and service. Now we were in the land of bogus marketing and financing.

At this point I knew that ALS was doomed as a company. I would not continue to work under these conditions. I resigned as Chairman and from the Board and wanted no further involvement in any way with Don. I warned Herb to immediately investigate what was going on.

And to add to everyone's troubles, this was 1992. There was a sort of crash of the stock market and some of the investors lost a lot of money in their other investments. They had to capitalize on the money they had given Dr. Don Brucker and they asked ALS to return the money to them.

He hadn't paid me and he couldn't pay them. He was in over his head. The company ran out of money and two investors forced the company into bankruptcy. This led to bankruptcy legal procedures which are very time consuming and annoying. In addition, some of the investors began to sue everyone involved in Ariel Life Systems, including me and my company, even though we had nothing to do with the ownership of ALS.

The lawsuits continued for six years and I would not budge or settle out of court, since I had not done anything wrong. I insisted on going to trial. The trial came to court in 1995 and the Jury decision against me was Not Liable. I was free of the lawsuit, but to get there, I had to spend over a million dollars in legal fees.

So what really was the truth about ALS? Don had not realized or perhaps accepted that CES and the APAS were not ready to go public since the markets were not yet really formed. ADI had the best product on the market but that market was very small, one that Ann and I had painstakingly tilled and achieved. The huge market Don fantasized about had not been created. Don thought that such a market could be built and he spent millions of dollars in his efforts to do so. In fact he spent all his money and, at that point, he needed other people's money so he switched from legitimate business practices to illegitimate ones. Books were changed and sales were

exaggerated. These activities were legitimized by Price Warehouse, a reputable accounting firm. Don was able to fake the best in the field.

For me, unfortunately, it was like watching a movie since I never knew what to believe or what not to believe. Even the people I met who worked in and around Wall Street assured me how great the company was going to be. I remember asking Michael Gardner how it is possible to invest in something that has not yet happened. He assured me that this is the way American business is done.

It wasn't the way we had done business, I can tell you that.

Even my own staff, Jeremy, wrote a message to the Biomechanics list to separate us from ALS:

Contrary to John Blackwell's statement, the demise of Ariel Life Systems is quite irrelevant to those who have an Ariel system or are thinking of purchasing one.

Ariel Life System was merely a distributor for Ariel products, and a non-exclusive one at that. Ariel Life did not develop the products or own the products, it merely sold them. Ariel Life was the dealer not the car maker. The inventor of the products and the owner of the intellectual properties involved, Dr. Gideon Ariel, was only a minor player in Ariel Life.

For many years before Ariel Life Systems came into existence, we at Dr. Ariel's own company, Ariel Dynamics Inc., developed the systems, marketed the systems, and supported the customer base. We will continue to do so into the future to the best of our abilities.

If one reads the article mentioned you will see that the Ariel products are spoken of very highly as being on the cutting edge of the technologies involved. Also, there is absolutely no reference to losses by customers. Quite to the contrary, even with the demise of Ariel Life the customers were treated very well. The only persons to have suffered a loss were investors. Although one can have sympathy for these people, investing in Ariel Life was not like investing in IBM or DEC which turned out to be very poor investments, or even a risky IPO. Investing in Ariel Life was investing in a complete startup, which is as risky a business as one can get, and the nature of the risk was clearly presented. People who invested accepted the risk for the potential of high gain. It comes with the territory.

Those persons who have or are thinking of purchasing Ariel products should be unaffected by the demise of Ariel Life. We may not be able wine & dine as well as Ariel Life but as for development and support for the Ariel products it has never been better.

Dr. Jeremy Wise
Dir R&D Ariel Dynamics Inc.

ALS went bankrupt. We got out of this mess after 6 years of legal battle. But we have never stopped selling our technologies and making progress. One thing, though, that I did change is that I did not want to meet with the media anymore.

Ann and I were hurt by the “dirtiness” of all this and decided to retreat a bit from the world of “business” that seemed to thrive on backbiting, deception and chicanery. We would make our own sales, service our customers with integrity and leave it at that.

And, we decided to take a break. We had been working round the clock since college. We began traveling around the world. We would bring back home “memories” from the countries we visited. Our home started to look more and more like a museum.





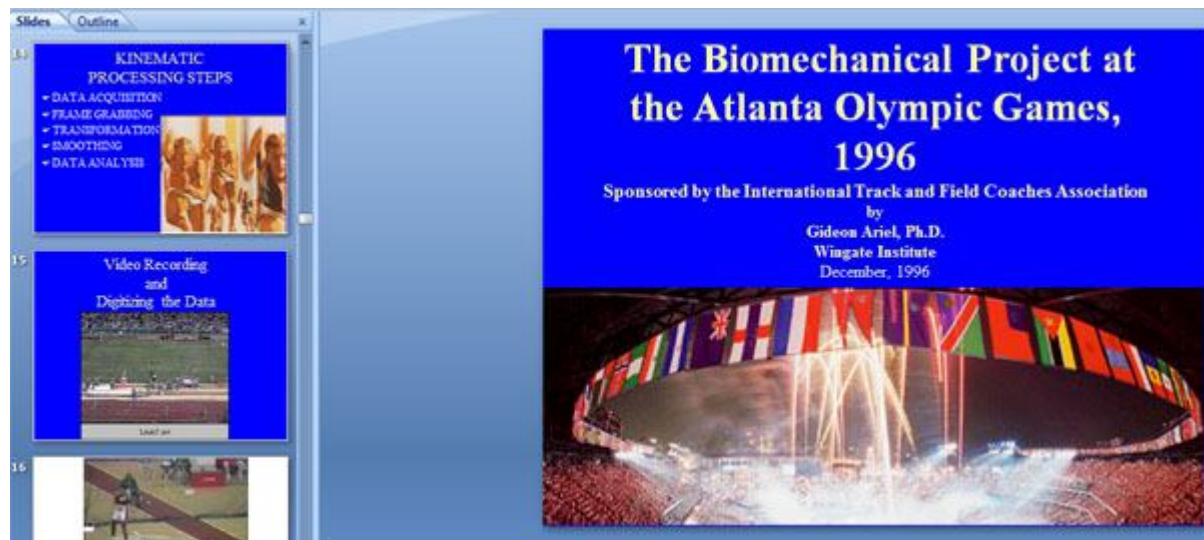
Our biomechanist dogs, Hertz and Shaloma

We were happy in our virtual business. We had 5 people working from home and this was not completely new for us anyway. Only when we had to meet with customers or give a presentation, would we meet in our office in Coto De Caza. We could now operate from any place we wanted to with our notebook and global internet connection. We could be in England, China, Singapore, Hong Kong, France, Israel etc. etc. and run our business as if we were working from our office. Even our staff in Amherst and San Diego did not know where we were emailing from most of the time.

I still was invited to be a keynote speaker at many conferences. The ones that I loved the most were the ones at the Olympic Games. I have never missed an Olympics from 1960 on, that was where my heart was, and that was where I had so many friends from my youth, and from my career as it evolved. There was my own participation in the Rome Olympics and in the Tokyo Olympics. In 1968 I was assigned to collect biomechanical data on the field in Mexico. In 1972 I gave a keynote address at the Munich Olympic Games. In 1976 I was a keynote speaker at the Montreal Olympic Games and assigned, again, to collect data on the field. The USA boycotted the Olympic Games in Moscow, so I was not there.

In 1984 at the Los Angeles Scientific Congress I presented a research paper related to the throwing events. In 1988 in Seoul, Korea, I presented a research paper related to the results of the 1984 Games. At the 1992 Barcelona Olympic Games, I was a keynote speaker at the Scientific Congress presenting the APAS system.

At the Olympics in Atlanta in 1996, I was assigned to collect data again and I presented a few papers at the Scientific Congress. Below is some of the documentation:



Biomechanical Analysis of Discus Throwing at the 1996 Atlanta Olympic Games

by

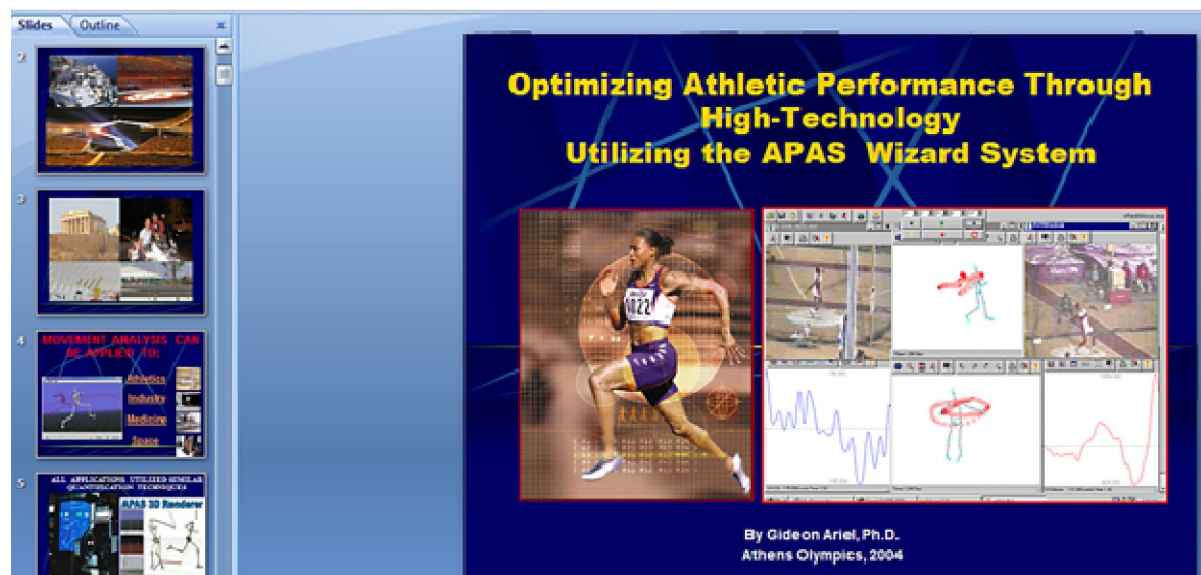
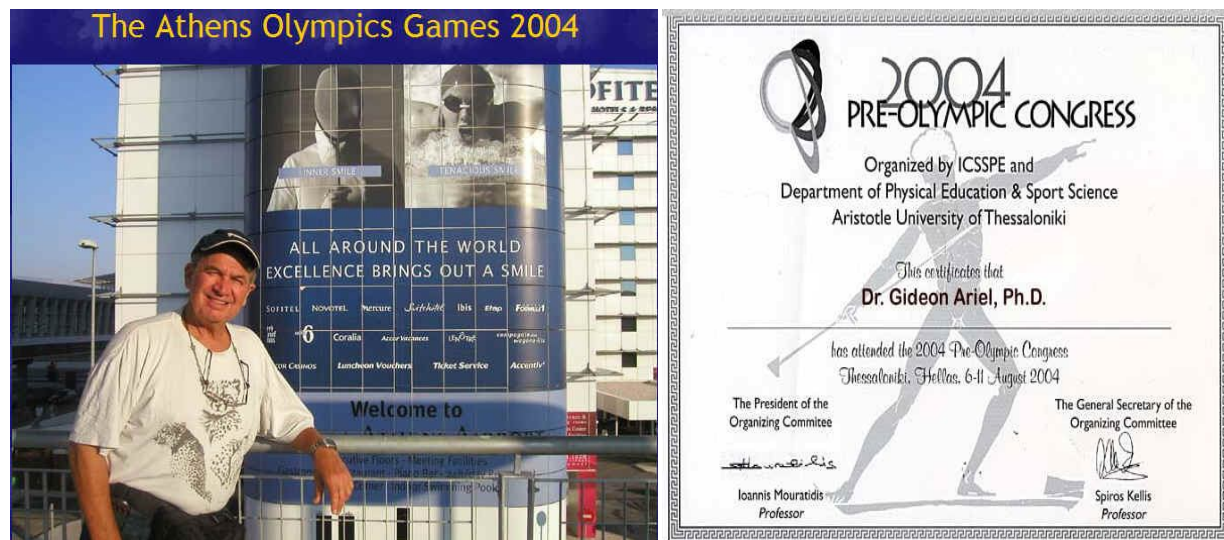
Gideon Ariel, Ph.D., M. Ann Penny, Ph.D., and Alfred E. Finch, Ph.D.



Introduction

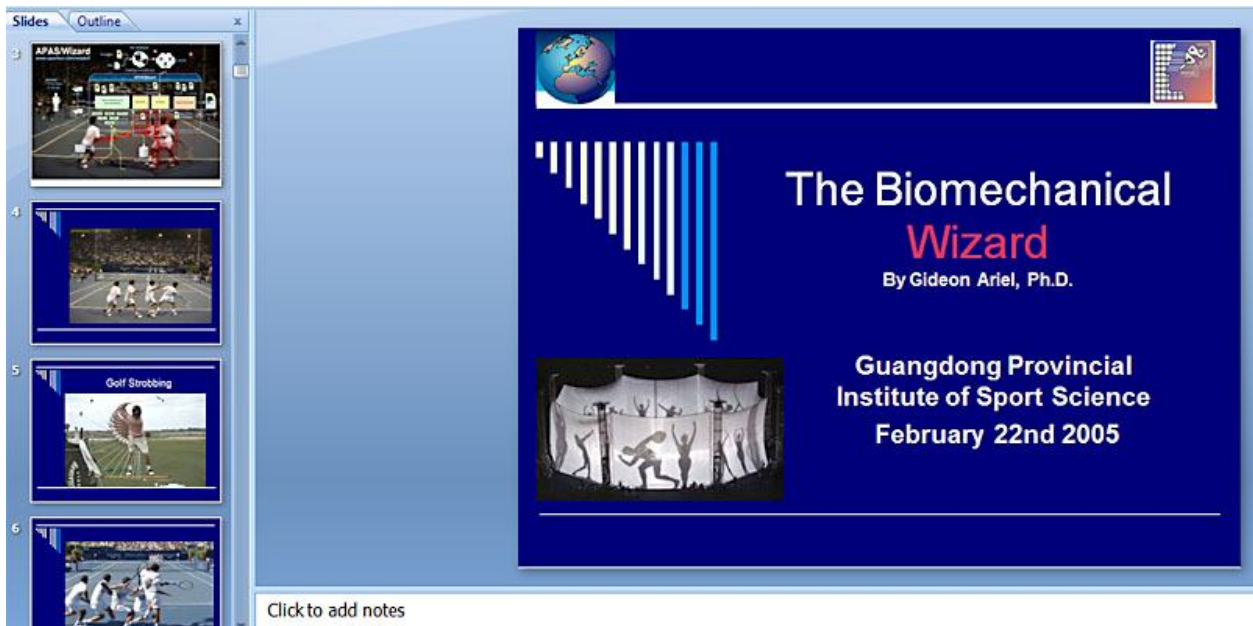
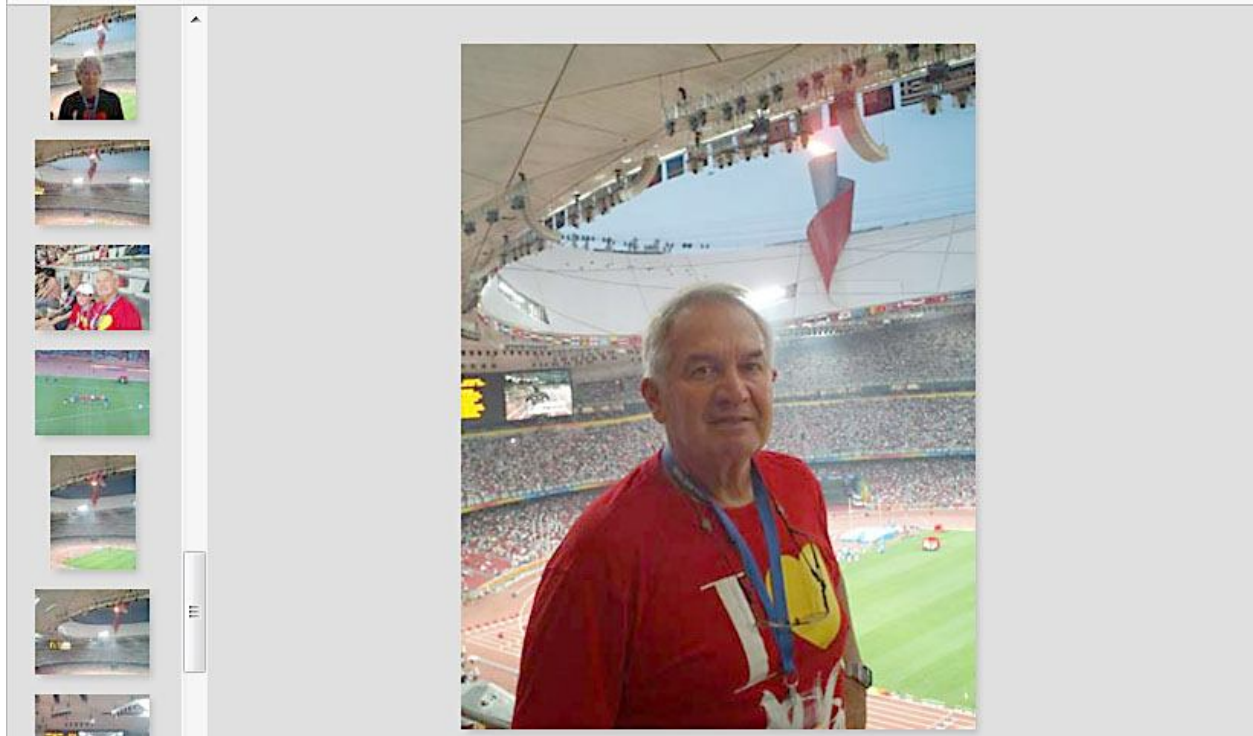
History was made at the Atlanta games by utilizing the Internet to provide Biomechanical data immediately for use at remote sites. The purpose of the research conducted at the XXVI Olympiad in Atlanta was to expand the biomechanical applications and the interactive capabilities of the Internet to make sport performances rapidly available to everyone. Under the auspices of the International Track and Field Coaches Association, the track and field events which were performed at the Atlanta Olympics in 1996, were selected to illustrate these procedures because these activities uniquely captivate an enthusiastic world-wide audience.

In the year 2000 we collected data at the Sydney Olympics in Australia, and I was again keynote speaker at the Scientific Congress. Next was the Olympics in Athens, Greece. I was assigned to collect data on the field and again presented results at the Scientific Congress, as shown below.



In 2008, at the Beijing China Olympics I presented a paper at the Scientific Congress, again:

Olympics-8-18-08
8/19/2008



The scope of this book does not allow us to show all the hundreds of interesting presentations which I made. However, what is important is that the business problems we had with the ALS Company did not affect our efficiency. We installed more than 10,000 APAS systems and more than 1,000 computerized exercise machines internationally.

And we continued to love our paradise in Coto. How could we not?



Since being virtual suited us, Ann and I began taking educational courses at Oxford University, Smithsonian, National Geographic and Stanford University. In fact we both became Honorary Fellows and Lifetime Affiliates at Stamford. She and I had met taking courses, and we have kept up taking courses together for the past 10 years, accumulating a more diverse knowledge base than we ever did when studying for our Ph.Ds.

These courses involved trips everywhere. Here are some of our photos from only a few travels:

Africa:

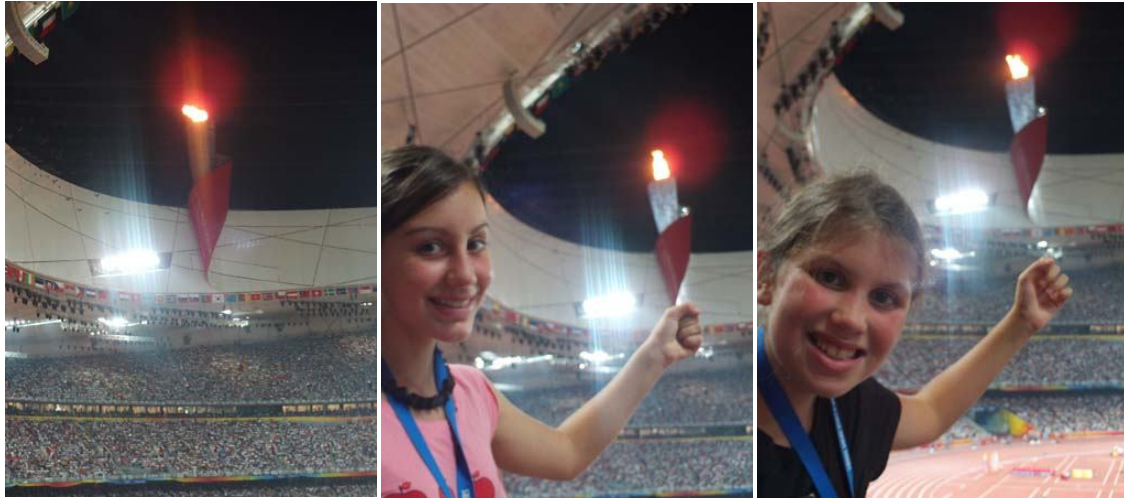




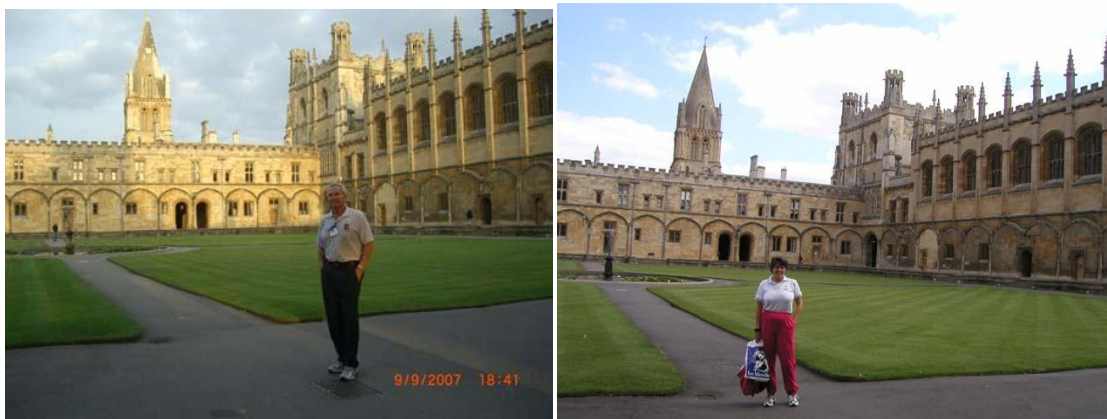
Australia:



China:



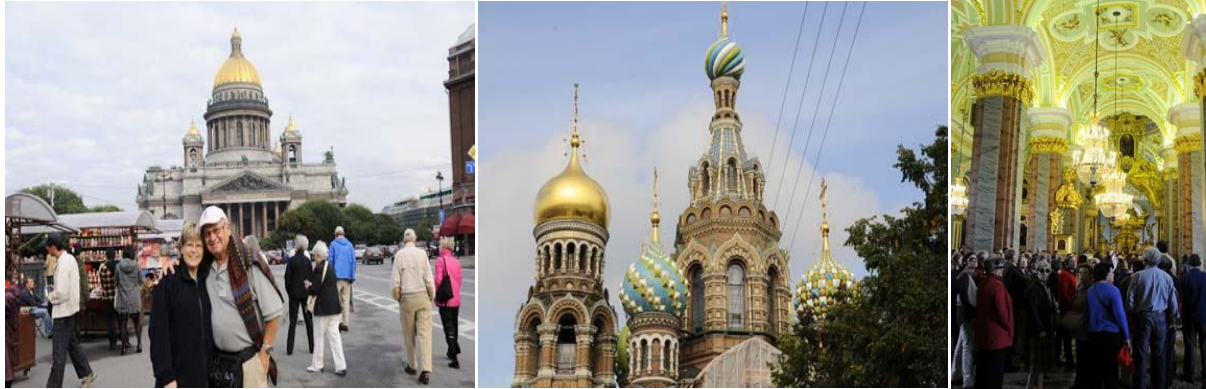
Oxford:



Peru:



Russia:



Now, in 2011 we still travel all around the globe and take courses – studying everything from History, Cosmology, Mathematics, Music, and Philosophy. We are going to continue until our brain cannot absorb anymore. At the same time we'll manage our continually growing business and probably will retire in our coffins... As the Japanese say, take rest after death.