

# Piedmont Angel Network, LLC

## Company Due Diligence Report

### Confidential

**Company** Cashflow Tech      **Clark Kent, CEO**      **Report Date** 12/10/01

**Description** Cashflow Tech is developing a unique product class that enables service providers to offer both high-speed packet services and traditional voice/data/video services over an optical packet network. Cashflow's platform will be sold to fiber-based carriers that wish to avoid the cost and complexities of building several networks to deliver their services.

**Recommendation** \$250k by PAN plus Add-ons in a like amount in a round of approximately \$2m.

	Last Year	This Year	Next Year	Year 3	Year 4	Year 5
<b>Revenues</b>	\$0	\$0	\$3,500	\$20,000	\$115,000	\$310,000
<b>Pretax Profit</b>		(\$2,700)	(\$9,000)	(\$5,000)	\$5,000	\$28,000
<b>Capital Needed</b>	\$750	\$2,000	\$6,000	\$25,000	Total Capital Needed	\$33,750

- 0 CEO** Clark Kent is a mature and technically proven leader who will drive product development. He lacks long-term credentials, is weak in finance and deal making. He will need to be replaced in time.
- + Marketing** PT Barnum, an experienced marketer, has only recently joined. At this early stage, they are doing a good job reaching potential clients.
- + Management** Presently assembled team is appropriate to the company's stage: good on technical side, startup experience, need fund raising help. Will need additions to the team as company grows.
- ++ Uniqueness** Cashflow Tech has an early mover advantage with a unique technology. They need to exploit this before others see the potential.
- + Competition** There is no hard evidence that another startup or existing company is doing the same thing. A hot network market provides incentive for another company to move into same space.
- ++ Market** Huge Market size, but Cashflow Tech's sector has not been developed. Operating T1 and T3's over an IP network could be a blockbuster if IP centric networks gain a foothold.
- 0 Valuation** Valuation is \$5.75 M – extension of the Series A round.
- ++ Potential** This deal has a lot of risk, but a high reward as an early M&A candidate. Cashflow Tech could be a significant player in a multi-billion dollar market.
- 0 Failure Risk** The highest risk of failure would arise if Cashflow Tech were unable to make its milestones prior to the next round of funding. After that, large later rounds of funding are needed to get the company home.
- ++ Exit Strategy** Cashflow Tech would make an attractive M&A target once the product is accepted. Potential acquirers are today's competitors and strategic partners. The size of this market could lead to an IPO.
- Investors** Blue Sky Ventures is leading this round, but this round's syndicate is not big enough to fund the next, larger round.

**What's the bet?** Cashflow Tech must achieve its milestones before running out of cash, continue to lead the market with its technology, and find a bigger VC to lead the 4Q02 round. If IP-centric networks gain significant traction, we could have a home run. This is a big play requiring the deep pockets of national VC's. The current climate makes this an unlikely scenario, but change is expected by year-end 2002.

Due Diligence Committee	Rating	Add-ons	Key
Kemo Sabe – Chair	++	yes	++ Very Positive
Tonto	+	yes	+ Positive
Sarah Bernhardt	-	no	0 Neutral
Cecil B. Demille	0	no	– Negative
Annie Oakley	/	no	/ Very Negative