

**Birmingham Angel Network, LLC
Confidential Company Due Diligence Report**

Company		ACME	CEO	-----	Report Date	-----
Description		ACME is an online retailer specializing in the _____. The company's current retail store is ACME.com covering the _____ segment. ACME.com started in March, 2007, and in 2009 the company is projecting over \$5.5 million in revenue, doubling its 2008 sales of just under \$2.8m. ACME will launch its second store, ACME.com, to offer _____ and accessories in 2009, and has plans to expand into four additional arenas in the next two years. The new markets will include _____.				
Note: \$544,000 has been raised in a bridge round, and will convert on BAN's terms + 10%						
Rating	Management	ACME began its transition from being founder-led to professionally-led fast Fall, and hired its first outside management team member, _____, in January as CFO. _____, founder and CEO, is a very strong marketing person, and is supplementing himself with key hires. CTO _____ is strong in the back office systems that the Company is moving to quickly. Outside director and investor _____, CEO of website operator _____, brings great success in web-based businesses. The team must continue to recruit additional members in sales management and in inventory-based business management in 2009 and 2010. CFO _____ successfully led _____ as CEO from 12 months old to a \$7million exit in 6 years. The Company may need to hire a CEO with experience in scaling to the \$50 million level.				
1.0	Products	ACME's product is a branded, web-based retailing platform targeted at the 16 - 28 year old _____ markets. The brand and business system are designed to be replicable across many _____ markets. It has been successfully established in the _____ accessories and gear market since 2007, and it plans to enter _____ additional markets in late 2009.				
0.7	Markets, Marketing & Sales	The company sets itself apart using a very unique marketing approach. Most of the competition has focused on building an online catalogue and pushing the industry's brands. ACME focuses on branding itself, while still offering all the usual product brands. The company uses its unique brand of humor, a corporate mascot and a short, easy-to-remember web store URL to increase the customer return rate, thereby reducing its long-term advertising costs.				
0.8	Competition	The markets have a number of established, successful competitors, verifying the legitimacy of the markets. In a period when the overall markets are flat or slightly declining, ACME has taken significant market share from the _____ competitors, none of which follow ACME's branded approach.				
0.2	Competitive Advantage	No other competitor has established a branded web presence to this point, and ACME considers that to be their competitive advantage. Speed to market share is everything here. While ACME has trademarked its brand, other competitors could possibly make the same move.				
0.5	Intellectual Property	The ACME brand is trademarked, but there is no patentable intellectual property in this model.				
0.6	Valuation, Terms and Potential	We derated the ACME financial projections and plan by 25% in evaluating the deal. If they make their plan to \$50 million revenues in 2013 and sell the company for approximately 0.98 times revenues, and presuming they raise no additional capital, they will return approximately 6x our money. The Company accepted most of our standard Participating Preferred terms, with only minor modifications. The pre-money valuation is \$5 million, and the investors will receive 14.5% ownership for their \$965,000.				
-0.1	Financials	ACME financial reporting so far has left a lot to be desired, but they are moving rapidly to remedy this with the hiring of their CFO and the installation, scheduled for September, of an inventory and financial management system from NetSuite. The committee spent a lot of time listening to ACME's plans here, they have made good progress on several fronts, we came away encouraged by their plans, but it remains a risk.				
-0.5	Exit Strategy	The Company's exit strategy is to seek an acquirer in 2013 as the _____ market begins to mature, and as the other online _____ markets are still growing at high rates. A multiple of 0.98 seems to be valid in M&A transactions for online retailing companies. See Exit Strategy in the business plan for more detail.				
0.0	Investors	Founder _____ has a dominant share of ownership (60% fully diluted when objectives are met). Other founders and the bridge loan investors (who will come in on our terms) are acceptable. Some, like _____, bring great added value.				
0.2	Legal	No legal issues.				
0.4	Risks	There are several risks: 1) a better-heeled competitor adopts ACME's strategy and muscles them out of the market leadership position. 2) The online branding and sales model that has been successful in the _____ segment fails to be effective in other _____ segments, and the company stagnates at \$15 to \$20 million in revenues.				
-0.4	Miscellaneous	No issues.				
0.0	What's The Bet?	1) That the online branding and sales model is repeatable in other _____ market segments. 2) That the Company can successfully transition from founder-managed to professionally-managed, and they can successfully put in place the infrastructure necessary to grow to the \$50 million revenues range necessary for a good exit. 3) That CFO _____ can do it again.				

Due Diligence Committee	Rating						Ratings Key	
Member A	0.30						2	Very Positive
Member B	0.39						1	Positive
Member C	0.14						0	Neutral
Member D	0.08						-1	Negative
Member E	0.61						-2	Very Negative
Concensus	0.30							

Other Comments: ACME is a relatively mature company by the BAN's standards. Revenues have begun, revenues are growing rapidly, and profitability is expected this year. Because a good deal of the risk has been removed, the Committee derated its financial projections by 25%, rather than our usual 50%, and we expect exit in year 4 after investment, rather than 5 years. ACME was led and managed by its founder, _____, until January 2009, when _____ was hired as CFO, and the company began its transition to a professionally-managed company. The due diligence team's relatively low ratings reflect their concerns over the Company's plans to add additional management, to move to a new facility and to install a suitably sophisticated online store, back office management system, and financial accounting system. The Company's board of directors is just forming and is not yet operational but has some very good talent on it, including one member with significant success in web retailing.