



Due Diligence Report

Version 3.0

Company evaluated:	TheCompany Multimedia Systems LTD.
Address:	- street - -area-, Rehovot 76705 Israel
WWW:	www.TheCompany.com
General Manager:	Person1

Preface

1. Method of Evaluation

The analysis was conducted according to the *M⁵Method*[™] that analyzes a venture according to the following 5 M-dimensions:

- M₁ - **Men** – Personnel (employees, head count and breakdown, key decision-makers and influencers involved in the venture).
- M₂ - **Machine** – Products, technology and technical aspects.
- M₃ - **Market** – Product market analysis (market need, competitors, market trends, key players, market growth, market share, and market life cycle stage).
- M₄ - **Marketing** – Marketing efforts (Sales, marketing strategy, business development, partners, alliances, promotions).
- M₅ - **Money** – Financial status (balance sheets, Financial ratios, Cash flow, company valuation, outstanding shares, current stock holders and share portfolio).

The findings yielded by the *M⁵Method*[™] process for each M-dimension were summarized using the *SWAT* method (Strengths, Weaknesses, Opportunities, Threats) tables at the end of each section. Also included in the summary section an *M⁵Method*[™] non-quantitative grading table.

2. Guidelines

1. The mandate for this due diligence is mainly technical. Very limited information was available as to the financial statements and financial status of TheCompany.

3. Evaluation Proceeding & Sources of Information

1. Visit to the offices of TheCompany, meeting with Person1, General Manager of TheCompany and test-driving with Ezfone.
2. Review of Executive Summary (outdated), Spec sheet, and advertising material supplied by Media Sonic.
3. Review of TheCompany's Web site.
4. Meeting and conversations with several Vocaltec executives.
5. Market research through news sources and analysts.
6. Review of Phone2Net IPO prospectus and other related material.

4. Summary, Recommendations & Conclusions

The results of the review detailed below in this report can be generally summarized into the following illustrated grading table:

Dimension	Grading	Main Issues
<i>Men</i>	🤔	<ul style="list-style-type: none"> • Tends to be a "one man show" • No actively strong board of directors • Person1, General Manager, posses deep knowledge and understanding of the materia and seems to be with excellent personal and managerial traits.
<i>Machine</i>	😊😊	<ul style="list-style-type: none"> • Simple yet unique technology • Excellent quality and ease of using
<i>Market</i>	😊	<ul style="list-style-type: none"> • Reemergence of the IT and VOIP markets. • Telcos are in the game now. • More ordinary users join the Internet.
<i>Marketing</i>	😞😞😞	<ul style="list-style-type: none"> • No strategic alliances • Poor product familiarity in the market
<i>Money</i>	🤔 / 😊	<ul style="list-style-type: none"> • Relatively low pre-money valuation proposed by TheCompany • Limited financial statements were presented.
Grading Legend: 😊 = Good grading 🤔 = Bad grading 🤔 = Not enough information to grade		

Based on the following facts:

- Technical superiority of the Ezfone.
- Simple yet unique solution.
- Lately reemergence of the Internet Telephony and VOIP markets.
- The need for such a solution.
- Relatively low pre-money valuation proposed by TheCompany.



Our general recommendation is positive but strictly under the terms mentioned below. We believe that accomplishing the following terms will turn an investment in TheCompany to be worthwhile. Failing to impose those terms means not getting involved in TheCompany.

a) **Terms for Investment**

The major terms for a worthwhile investment in TheCompany are as follows:

- **Fundamental restructuring and high prioritization of the marketing strategy and marketing activity of TheCompany, including a deep analysis of the dependency on COMPANY2.**
- Establishment and special emphasis on business development activity, mainly establishment of **strategic alliances** both with Telco giants and Internet consumer players. We are confident that the current lack of familiarity with the Ezfone product and the lack of strategic alliances are the main threats to any success of this venture.
- Reinforcement of the company with additional qualified dominant personnel at managerial level and establishment of actively involved and supervising board of directors.
- If amount of investment is greater than \$500,000 then a staged investment in time is recommended. The staged investment will break down according to company's success measured in pre-determined milestones.

It is important to note that while a staged investment cash flow is beneficial for the investor, it might encapsulate certain difficulties to the money-receiving venture.

The relatively early stage in which the VOIP & IT market as a whole and the PC2Phone segment in particular are in together with the mature condition of TheCompany's technical offering yield a "not too late" opportunity to TheCompany, assuming that the drastic changes obliged by the above terms will be executed.

5. Recommended Action-Items Prior to Decision

In order to complete the picture as to TheCompany operation, we recommend executing the following action items, prior to making any decision of investment in the company:

- Review of updated financial statements of TheCompany, including Cash Flow reports and balance sheets.
- Meet with COMPANY2 executives (recommended: Ivan, the principal stockholder in COMPANY2) and have their review on TheCompany. We feel that this meeting is necessary since COMPANY2 holds 43% of TheCompany and currently functions as its principal marketing and sales hand.
- Meet with other TheCompany key personnel and learn more about the company's mentality.



b) Analysis

1. M₁ - Men

The following personnel hold key positions at TheCompany:

Person1- General Manger.

R&D

Person2 – Team Leader - Low & Medium level software development.

Person3 – Team Leader – Hardware

Person4 – Team Leader – Applications.

Sales & Marketing (COMPANY2 Personnel)

Person5 – Business Development- COMPANY2 US (Santa Clara)

Person6 – Sales – COMPANY2

Person7 – Sales – COMPANY2/US (Los Angeles) + Manager of the 1World Connect

Other related COMPANY2 Singapore personnel

Person9 – Principal stockholder of COMPANY2.

Person10 – Marketing Asia.

Person11 – QA team leader

a) Analysis

We were deeply impressed by the qualifications, knowledge and expertise of Person1 and it seems that he posses excellent personal and managerial trait.

It is our impression that most decisions making, both strategic and operational is done by TheCompany’s general manager, Person1. We could not track any solid management forum or a structured hierarchy of responsibilities. Moreover, we have the ground to believe that no active board of directors is currently in place.

b) Summary of Major Strengths and Weaknesses

Strengths	Weaknesses
<ul style="list-style-type: none"> Person1 – deep knowledge and understanding of the materia, seems to be with excellent personal and managerial traits. 	<ul style="list-style-type: none"> “One man show” as to decision making figures. No strong active board of directors. No solid management forum.



2. M₂ - Machine

TheCompany's main product line is Ezfone, a type of product known by the industry's term of "Low Density Gateway".

A gateway is a component (software or/and hardware) that bridges between the protocols of the analog telephony world (PSTN) and the protocols of the digital IP telephony (H.323). Ordinary gateways enable routing of many concurrent calls between the digital network and the PSTN network. Low-density gateway interconnects one single call between the ordinary analog telephone appliance and the digital IP network.

The Ezfone is comprised of both hardware (PC card) and software. Thanks to his functionality, a user can use his telephone device rather than a microphone and a speaker set. In this way, the user interface for conversing through the digital network (e.g. Internet) is the same as for regular phone calls – operating a telephone device. In addition, many quality problems caused by the speaker and microphone set are eliminated (e.g. sonic echo).

In contrast to other personal gateways, which usually are software only, Ezfone makes use of a DSP processor on the card to perform all compression tasks. By this, latency and breakouts caused by interrupts to the compression task by other tasks running on the central processor of a PC, in the case of software based gateway, are eliminated.

Also in production, Ezfone Pro, a "private gateway". Ezfone Pro has the functionalities of the Ezfone product plus an additional plug for a phone line connected to the PSTN network. With Ezfone Pro, features like call forwarding and remote access are available.

In the R&D pipeline exist future products such as a Virtual PBX, Ezfone PBX, Multi port Ezfone, Ezfone Call Center and PCI and USB versions of the slot card (currently only ISA).

a) **Product Manufacturing**

All manufacturing of the Ezfone product line is done by COMPANY2 in Singapore. TheCompany used to have a manufacturing facility at Yokneam, which was recently closed.

b) **Adherence to standards**

The standard protocol governing the VOIP market is H.323 whereas on the analog hand govern the traditional PSTN switching protocols.

Ezfone fully supports both parts. On the digital IP side, Ezfone communicate using H.323 while on the analog side it is fully compliant (connection to the telephone device and/or connection to the telephone PSTN network).

c) **Analysis**

Based on our review of the product design and our test-driving of the appliance, we were impressed by the improved quality of sound and the simplicity of the user interface.



We see great added value of this component to existing PC to Phone and PC to PC solutions in the market where the PC end is based on software with a microphone and speakers.

d) Summary of Major Strengths and Weaknesses

Strengths	Weaknesses
<ul style="list-style-type: none">• Improved quality of sound• Excellent and familiar user interface (ordinary telephone user interface)• Support of standards• Ability to function as a personal low end gateway (Ezfone Pro)• Technical added value to existing PC to PC/Phone solutions	<ul style="list-style-type: none">• ISA card version only.

Sample Report



3. M₃ - Market

a) Market Definition

The market in which TheCompany is operating is the VOIP (Voice Over IP) market and specifically the IT (Internet Telephony) market.

VOIP means that a digital representation of a voice data is being transported over the familiar IP (Internet Protocol) transport layer instead of the usual analog modulation representation and transportation which is being used by the traditional systems (such as the PSTN global telephony, PBX internal systems, etc.). The VOIP yields many advantages, among them the ability to make use of the organization's internal LAN or WAN also for the telephony system and the ability to use the global Internet as the network for transporting voice, including and especially long distance and international real-time phone calls. The latter implementation is known by the name **Internet Telephony (IT)** and its main purpose is to achieve low-cost telephone calls over the Internet.

b) Internet Trends

Since the Internet serves as the medium for the underlying market and the success of this market and consequently the success of TheCompany is therefore highly dependent on the Internet, it is important to highlight the current forecasts as to the Internet.

The Internet is experiencing unprecedented growth as a global medium for communications and commerce. International Data Corporation estimates that the number of Internet users worldwide will grow from approximately 142 million at the end of 1998 to 399 million by the end of 2002. These users are increasingly using the Internet as a communications medium. A recent study by E-Marketer, a market research firm, estimated that 9.4 billion e-mail messages are delivered daily. Instant text communication through online "chat" rooms is also gaining widespread acceptance.

Online commerce is also becoming widely accepted as a means of doing business. According to International Data Corporation, Internet users worldwide purchased more than \$50 billion of goods and services in 1998. International Data Corporation projects that commerce over the Internet will grow to approximately \$1.3 trillion in 2003.

c) Emergence of The Internet Telephony Industry

TeleGeography, a market research firm, estimates that the international long distance market will grow to \$79 billion in 2001, with consumers and businesses making an estimated 143 billion minutes of international long distance calls. Despite the large size of this market and the number of minutes of calls made, traditional international long distance calls are still relatively expensive for the consumer. The primary reason for this expense is tariffs set by foreign governments and carriers that are passed on to consumers in the form of higher long distance rates.

Internet telephony has emerged as a low cost alternative to traditional long distance calls. International Data Corporation projects that the Internet telephony market will grow rapidly to over \$23.4 billion in 2003, from approximately \$1.1 billion in 1998.



Internet telephone calls are less expensive than traditional international long distance calls primarily because these calls are carried over the Internet or our network and therefore bypass a significant portion of international long distance tariffs. The technology by which Internet phone calls are made is also more cost-effective than the technology by which traditional long distance calls are made.

The underlying voice transmission is performed using a method called "packet-switching" to break voice and fax calls into discrete data packets, route them over the Internet or our network and reassemble them into their original form for delivery to the recipient. Traditional international long distance calls, in contrast, are made using a technology called "circuit switching" which carries these calls over international voice telephone networks. These networks are typically owned by governments or carriers who charge a tariff for their use. Circuit switching requires a dedicated connection between the caller and the recipient that must remain open for the duration of the call. As a result, circuit-switching technology is inherently less efficient than packet-switching technology which allows data packets representing multiple conversations to be carried over the same line. This greater efficiency creates network cost savings that can be passed on to the consumer in the form of lower long distance rates.

Integration of Voice into the Web

Internet telephony offers significant benefits to consumers and businesses over and above international long distance cost savings. The technologies that enable Internet telephony can be applied to integrate live voice capabilities into the Web. This integration can further enhance the potential for the Internet to become the preferred medium for both communications and commerce. For example, the integration of voice into the Web would supplement existing text-based modes of Internet communication such as e-mail and online chat by adding a live, secure, low-cost or free voice alternative. It is believed that this will be attractive both to consumers and businesses.

In addition, voice-enabling the Web would give Internet shoppers the ability to speak directly with customer service representatives of online retailers in order to ask questions and alleviate concerns about online security. This may increase the probability that a sale is made and may give online retailers a key competitive advantage by providing them with opportunities to sell higher margin and additional products to these customers. Voice-enabling a commercial Web site may also give online retailers the ability to provide more responsive customer support and service.

Integrating live voice capabilities into the Web would also enable Internet companies to offer enhanced communications services, such as providing Internet users with a central source for retrieving voicemail, e-mail, faxes and pages. It is believed this would allow these companies to attract more users to their sites and to increase the amount of time these users spend on their sites. This increased usage will allow these Internet companies to attract advertisers and secure higher advertising rates, thereby increasing revenue.

Limitations of Existing Internet Telephony Solutions

The growth of Internet telephony has been limited to date due to poor sound quality attributable to technological issues such as delays in packet transmission and network capacity limitations. However, recent improvements in packet-switching technology, new software algorithms and improved hardware have substantially reduced delays in packet transmissions. In addition, the use of private networks to transmit calls as an alternative to the public Internet is helping to alleviate network capacity constraints. Finally, the emergence of new, lower cost Internet access technologies, such as high-speed modems, are addressing local Internet access issues.



Several large long distance carriers, including AT&T and Sprint, have announced Internet telephony service offerings. However, many of these service offerings have not been deployed on a large scale. Many also require users to purchase other telecommunications services or allow only domestic calling. Smaller Internet telephony service providers also offer low-cost Internet telephony services from personal computers to telephones and from telephones to telephones. These services, however, are available only in limited geographic areas and require payment by credit card which may preclude many international customers from signing up for these services. It is assumed that existing Internet telephony service providers rely upon technologies and systems that lack large-scale billing, network management and monitoring systems, and customer service capabilities required for the integration of voice communication into the Web.

In addition, many companies currently provide Internet telephony software and services that allow Internet telephone calls to be made between personal computers. However, most of these companies require both the initiator and the recipient of the call to have the same software installed on their personal computers and to be online at the same time.

d) Market Segments

Several configuration models for IT and VOIP have evolved during the last 3 years:

- **PC to PC (Net to Net):** the original model, in which both end units are PCs, equipped with microphone, speakers and multimedia card. This is the most inexpensive and simpler method for VOIP communicating. Still it suffers from bad voice quality, latency and sonic echo problems mainly due to the microphone+speakers appliances. In addition, this model is naturally depended on familiarity with using a PC. The leading company in this approach is Vocaltec.
- **Phone to Phone:** This method works the same as International call operators work. The only difference is that in this case the operators use the Internet as the network for communicating around the globe instead of using overseas traditional lines. The network used is in any case transparent to the end user. Such operators are known by the name ITSP (Internet Telephony Service Providers). In this case, both parties are using their usual phone connected to the PSTN. They connect through a local call to the POP (Point of Presence) of the ITSP (If no POP is located locally, then a long distance call might be needed). The ITSP locates the nearest POP to the destination phone, connects the two parties through the PSTN and transports the voice as digital packets over the Internet. The software used for bridging between the analog PSTN “world” and the digital Internet “world” is called a gateway. This method is the most convenient and transparent to the user who is almost unaware to the fact that it is not a regular analog international call, using his regular connected phone. The main drawback with this method is regulations that limit this service. Delta3 is a prominent example to such service provider.
- **PC to Phone (Network to Phone):** This is the most popular method nowadays. It can be viewed as some sort of compromise between the two previous methods solving the main drawbacks of each. In this case, the originating user device is the PC (as in the Phone to Phone method). The originating user connects directly using his PC through the Internet to the local ISTP of the destination user (eliminating a connection to a local ISTP of his own). The ISTP then connects the destination user’s regular phone through the regular PSTN network and enables the two parties to converse. This method bypasses the regulatory limitations and enables the destination party to communicate in a transparent way using his regular connected telephone. One drawback of this method is that the originating party is still limited by the PC+Microphone+Speaker drawbacks as illustrated in the PC to PC segment. A leading service provider of this method is Net2Phone, which went public in NASDAQ recently.



Another dimension for dissecting the whole IT/VOIP market is the type of users. Two segments exist in this dimension:

- **Consumer users**
- **Corporate** – using PBX systems to connect internally and externally switch to the PSTN network. Global corporates, having offices and affiliates all around the globe are also for a need to interconnect in an inexpensive manner among the branches and headquarter.

TheCompany main benefit and fit is in the market segment of PC 2 Phone for the consumer segment. As stated before, the PC 2 Phone segment turns to be the prominent segment of the IT market. Using Ezfone, the originating party can now use his standard telephone equipment by connecting it also to the Ezfone PC Card and thus have also a transparent mode of communication through the Internet. TheCompany is engaged in R&D of a gateway for PBX systems (Ezfone PBX) to serve for the corporate market.

e) Competition

TheCompany is not the only vendor to introduce Low Density Gateways and Personal Gateways. Moreover, we came to realize that the other vendors play a better business development and marketing effort and enjoy a better exposure and familiarity in the market. The most prominent competitors are:

- Aplio
- Innomedia
- Quicknet Technologies
- Shelcad

It is also worthwhile to mention Selsius and Symbol that also play in this segment.

In the large market scale, exist a lot of potential competitors to TheCompany solution. Many of them are of greater capital, scale and abilities than TheCompany and therefor should be considered as a major threat. We feel that the most prominent potential competitors are the current gateway vendors. The following lists the major ones according to the main line of activity:

Line of Business	Vendors	
Gateway Component Suppliers	Telogy Networks RADVision DataBeam elemedia	Voxware AudioCodes DSG Group



Gateway Providers - Hardware	Analogic Computer Protocol IBM Dialogic Corp. Lucent Cosmobridge Motorola Natural Microsystems Brooktrout Linkon RADVision Rockwell NKO Digi International	Vienna Systems e-Net Digitcom Nuera Netrix Franklin Telecommunications Telecom Multimedia Systems, Inc. ACT Networks Siemens Arelnet Ericsson Hypercom IPVoice
Gateway Providers - Software	Arelnet Designer Labs Ericsson Inter-Tel Computer Protocol eFusion MG2 Technologies Telogy Networks Clarent Corporation	Ridgeway NetSpeak Science Dynamics Vienna Systems VocalTec Voxware Array Telecom NeTrue
Data Networking Vendors	Cisco Ascend Ericsson	3Com Nortel Networks
IP Based PBXs	Selsius Lucent NetPhone	Shoreline Teleworks NBX TouchWave
IP Telephony Gatekeepers	Clarent Ericsson	Vocaltec

f) Regulation of Internet Telephony

The use of the Internet to provide telephone service is a recent market development. Currently, the Federal Communications Commission is considering whether to impose surcharges or additional regulations upon certain providers of Internet telephony. On April 10, 1998, the FCC issued its report to Congress concerning the implementation of the universal service provisions of the Telecommunications Act. In the report, the FCC indicated that it would examine the question of whether certain forms of phone-to-phone Internet telephony are information services or telecommunications services. The FCC noted that it did not have, as of the date of the report, an adequate record on which to make a definitive pronouncement, but that the record suggested that certain forms of phone-to-phone Internet telephony appear to have the same functionality as non- Internet telecommunications services and lack the characteristics that would render them information services. If the FCC were to determine that certain services are subject to FCC regulation as telecommunications services, the FCC may require providers of Internet telephony services to make universal service contributions, pay access charges or be subject to traditional common carrier regulation. It is also possible that PC2Phone and Phone2Phone services may be regulated by the FCC differently. In addition, the FCC sets the access charges on traditional telephony traffic and if it reduces these access



charges, the cost of traditional long distance telephone calls will probably be lowered, thereby decreasing our competitive pricing advantage.

In September 1998, two regional Bell operating companies, U S WEST and BellSouth, advised Internet telephony providers that the regional companies would impose access charges on Internet telephony traffic. In addition, U S WEST has petitioned the FCC for a declaratory ruling that providers of interstate Internet telephony must pay federal access charges, and has petitioned the public utilities commissions of Nebraska and Colorado for similar rulings concerning payment of access charges for intrastate Internet telephone calls.

At this time, it is not known whether these companies, U S WEST and BellSouth, will actually impose access charges or when such charges will become effective. If these companies succeed in imposing access charges that may reduce the cost savings of using Internet telephony as compared to traditional telephone service. The existence of these access charges would materially adversely affect the development of our Internet telephony business. In February 1999, the FCC adopted an order concerning payment of reciprocal compensation that provides support for a possible finding by the FCC that providers of Internet telephony must pay access charges for at least some subset of Internet telephony services. If the FCC were to make such a finding, the payment of access charges could materially adversely effect our business, results of operations and financial condition. Many of our competitors are lobbying the FCC for the imposition of access charges on Internet telephony traffic.

To our knowledge, there are currently no US domestic and few foreign laws or regulations that prohibit voice communications over the Internet. State public utility commissions may retain jurisdiction to regulate the provision of intrastate Internet telephony services. A number of countries that currently prohibit competition in the provision of voice telephony have also prohibited Internet telephony. Other countries permit but regulate Internet telephony. If Congress, the FCC, state regulatory agencies or foreign governments begin to regulate Internet telephony, such regulation may materially adversely affect our business, financial condition or results of operations.

g) Summary of Major Opportunities and Threats

Opportunities	Threats
<ul style="list-style-type: none"> • VOIP and IT are emerging markets • Great Value added to PC to Phone/PC existing services and solutions • Continuous Fast growth of Internet popularity • Prominence of the PC to Phone segment over the Phone to Phone segment • Fit to both Consumer and Corporate user markets 	<ul style="list-style-type: none"> • Existing competition • Great threat from entry of potential large competitors • Low barrier of entrance. • High risk as to the success of the IT & VOIP. • Uncertainty as to the Internet Telephony regulations.



4. M₄ - Marketing

a) Marketing activity of TheCompany

Marketing activity of TheCompany is merely outsourced to COMPANY2 Innovations. COMPANY2 is a Singaporean company that holds 43% in TheCompany. COMPANY2 is assumed to specialize in two distinct areas: development on one hand and marketing on the other hand, all of multimedia devices. The tight cooperation between the two companies was established several years ago. Although COMPANY2 does not hold exclusiveness in sales and marketing of TheCompany products it is practically the sole company currently to distribute and market TheCompany's products.

COMPANY2 has several offices worldwide including facilities at Santa Clara and Los Angeles. The Ezfone product line is, for reason we couldn't figure out, marketed under the joint brand name "Compro".

In place of allying with existing ITSPs, COMPANY2 decided to establish an independent ITSP venture to spread around the globe. This venture is known by the name 1World.

No substantial alliances exist with Telco companies, Internet consumer giants, ISPs, ITSPs, OEMs or other market players.

We couldn't obtain any indication as to a solid marketing strategy or sales results.

b) Analysis

We believe that the main weakness of TheCompany is the marketing. By marketing, we refer to sales, promotions, advertising and mainly business development for establishing strategic alliances. The only strategic alliance TheCompany currently possesses is with COMPANY2 but as COMPANY2 holds a substantial equity in TheCompany (43%) and since COMPANY2 merely executes TheCompany's marketing activity, we regard it as a part of the venture rather than as a separate alliance partner.

Ezfone was debuted in Q1Y99. Bearing in mind the rapid dynamics of the IT industry nowadays with its quick time constants, there should have been already substantial marketing and partnership results to be gained by now.

We came to realize that the familiarity with TheCompany solution is very low in the market and as a matter of fact no substantial brand recognition exists yet. As for example:

- It took Vocaltec key personnel a considerable time to identify TheCompany's offerings and only later to remember some vague phone contacts that took place with TheCompany in the past.
- TheCompany is not even mentioned in the major VOIP and IT industry analysis sources that we checked. For example: Pulver.com, which is one of the information centers for the VOIP industry does not enlist TheCompany in any of their vendor lists.
- We failed to encounter any news release relating to TheCompany in the major IT news resources (news.com, redherring.com, etc.).

Without an aggressive marketing effort, no venture can succeed nowadays, no matter how superior is its technology.

We find it worthwhile to quote from Net2Phone IPO prospectus some lines referring to this successful company's marketing effort:



“ WE PROMOTE OUR SERVICES THROUGH RELATIONSHIPS WITH INTERNATIONAL RESELLERS AND LEADING INTERNET COMPANIES. FOR EXAMPLE, OUR PC2PHONE SOFTWARE WILL BE EMBEDDED ON AN EXCLUSIVE BASIS INTO FUTURE VERSIONS OF NETSCAPE’S INTERNET BROWSER, INCLUDING NETSCAPE NAVIGATOR AND NETSCAPE COMMUNICATOR, FOR THE TERM OF OUR AGREEMENT. NETSCAPE WILL ALSO INCLUDE A NET2PHONE ICON ON THE NETSCAPE NAVIGATOR PERSONAL TOOLBAR AND INTEGRATE OUR SERVICES INTO NETSCAPE NETCENTER, ALLOWING NETSCAPE USERS TO ACCESS OUR SERVICES FROM ANYWHERE ON THE WEB. IN ADDITION, WE HAVE ENTERED INTO AN AGREEMENT WITH ICQ, A SUBSIDIARY OF AMERICA ONLINE, TO PROVIDE INTERNET TELEPHONY SERVICES TO USERS OF ICQ’S INSTANT MESSAGING SERVICE. ICQ WILL EMBED OUR INTERNET TELEPHONY SOFTWARE INTO ICQ’S INSTANT MESSENGER SOFTWARE ON AN EXCLUSIVE BASIS, ALLOWING ICQ USERS TO MAKE PC-TO-PHONE AND PC-TO-PC CALLS AND TO RECEIVE PHONE-TO-PC CALLS. WE WILL ALSO CO-BRAND A PRE-PAID PHONE2PHONE CALLING CARD WITH ICQ, ALLOWING USERS TO PLACE CALLS FROM THE UNITED STATES AND 19 OTHER COUNTRIES TO VIRTUALLY ANYWHERE IN THE WORLD.

OUR STRATEGY FOR BUILDING ON OUR LEADERSHIP POSITION IN OUR MARKET AND MAKING LIVE VOICE COMMUNICATION A COMMON FEATURE ON THE INTERNET INCLUDES THE FOLLOWING KEY ELEMENTS: MARKETING OUR SERVICES WIDELY; PURSUING MULTIPLE SOURCES OF REVENUE; ENHANCING BRAND RECOGNITION; MAKING OUR SOFTWARE READILY AVAILABLE WORLDWIDE; AND EXPANDING AND ENHANCING OUR PRODUCTS AND SERVICES.”

And also:

“ IN JANUARY 1999, NETSCAPE AGREED TO EMBED OUR PC2PHONE SOFTWARE ON AN EXCLUSIVE BASIS INTO ALL VERSIONS OF NETSCAPE’S INTERNET BROWSER RELEASED DURING THE TERM OF OUR AGREEMENT, INCLUDING NETSCAPE NAVIGATOR AND NETSCAPE COMMUNICATOR. NETSCAPE ALSO AGREED TO INCLUDE A NET2PHONE ICON ON THE NETSCAPE NAVIGATOR PERSONAL TOOLBAR. IN ADDITION, WE HAVE ENTERED INTO AN AGREEMENT WITH ICQ, A SUBSIDIARY OF AMERICA ONLINE, TO PROVIDE INTERNET TELEPHONY SERVICES TO USERS OF ICQ’S INSTANT MESSAGING SERVICE. ICQ WILL EMBED OUR INTERNET TELEPHONY SOFTWARE INTO ICQ’S INSTANT MESSENGER SOFTWARE ON AN EXCLUSIVE BASIS, ALLOWING ICQ USERS TO MAKE PC-TO-PHONE AND PC-TO-PC CALLS AND TO RECEIVE PHONE-TO-PC CALLS. WE WILL ALSO CO-BRAND A PRE-PAID PHONE2PHONE CALLING CARD WITH ICQ, ALLOWING USERS TO PLACE CALLS FROM THE UNITED STATES AND 19 OTHER COUNTRIES TO VIRTUALLY ANYWHERE IN THE WORLD.

WE ALSO HAVE ENTERED INTO STRATEGIC MARKETING AND DISTRIBUTION RELATIONSHIPS WITH LEADING INTERNET COMPANIES, INCLUDING EXCITE, INFOSPACE.COM, SNAP.COM, YAHOO! AND ZDNET. WE HAVE ALSO ENTERED INTO ARRANGEMENTS WITH LEADING COMPUTER EQUIPMENT AND SOFTWARE COMPANIES, SUCH AS IBM, COMPAQ, PACKARD BELL-NEC EUROPE AND CREATIVE LABS TO INCLUDE OUR SOFTWARE WITH THEIR PRODUCTS. WE PROMOTE OUR SERVICES THROUGH DIRECT SALES AND MARKETING AND THROUGH INTERNATIONAL RESELLERS WHO BUY MINUTES OF USE FROM US IN BULK, AND RESELL THEM TO CUSTOMERS IN THEIR RESPECTIVE COUNTRIES. OUR SOFTWARE IS CURRENTLY AVAILABLE IN EIGHT LANGUAGES (ENGLISH, SPANISH, JAPANESE, FRENCH, DUTCH, PORTUGUESE, ITALIAN AND GERMAN). WE INTEND TO MAKE OUR SOFTWARE AVAILABLE IN ADDITIONAL LANGUAGES AS WE EXPAND OUR INTERNATIONAL CUSTOMER BASE AND DISTRIBUTION CHANNELS.”

b) Summary of Major Strengths and Weaknesses

Strengths	Weaknesses
<ul style="list-style-type: none"> • Coupling with COMPANY2. • COMPANY2 offices around the globe. • COMPANY2’s potential marketing benefits. 	<ul style="list-style-type: none"> • No aggressive marketing and business development. • No strategic alliances and no partnerships. • No indication for a solid marketing strategy. • No indication for substantial sales results. • Very low familiarity in the market. • No brand recognition. • No teaming with existing ITSP (other than 1world).



Sample Report



5. M₅ - Money

The financial aspects of TheCompany were not deeply analyzed due to the fact that the main scope of this due diligence is technology and marketing and since no substantial financial statements were available. Consequently, it is our strong recommendation to conduct a separate financial analysis with regard to TheCompany's financial condition.

a) Company pre-money Valuation

TheCompany is offering a \$10-12.5M pre-money valuation. We believe that this is a low, and therefore attractive for an investor, pre-money value for a company in the business and status of TheCompany taking into account the company's focus and deliverables and the VOIP market trends.

b) Present Stockholder portfolio

Present stockholder portfolio might be problematic. Control is divided between two parties: COMPANY2 (43%) and the Gabsow brothers (total 43%) (we suspect that in reality the stocks of Rami Gabsow are also represented by Person1). The scarcity of major stockholders (merely only 2) will position a new joining investor in a relatively low control in the board. Also, we suspect that board meetings are not held periodically and that currently the board has no substantial active involvement.

c) Summary of Major Strengths and Weaknesses

Strengths	Weaknesses
<ul style="list-style-type: none">Relatively low pre-money valuation offer	<ul style="list-style-type: none">Scarcity of major stockholdersNo strong active boardUncertainty as to the cash flow and other financial parameters of the company.



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Sample Report