CER Focus Report

Verecloud, Inc.

Network Computing
VCLD: OTC/BB

October 28, 2010

PROFILE

At the forefront of networking trends, telecom operations expert Verecloud is emerging as a cloud computing broker. The Company is soon to debut its *NIMBUS Xchange* that will serve as a turnkey solution for Communication Service Providers (CSPs) and other consumer services groups.

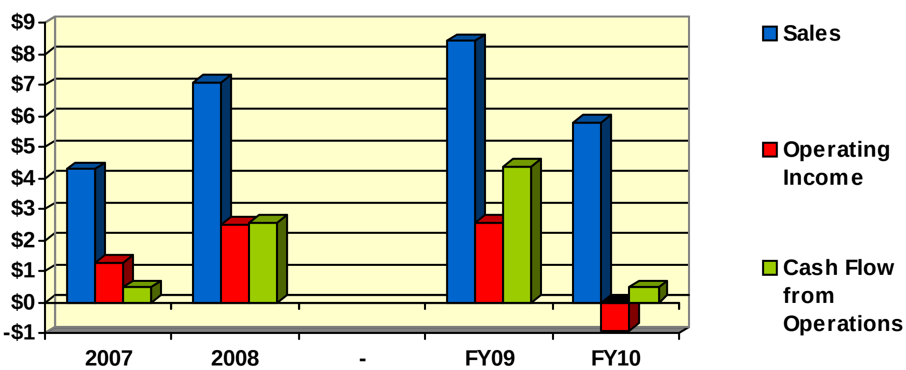
Verecloud management knows the space well. The Company has been making its living in professional services for telecommunications players like Qwest and LightSquared, providing architecture design and implementing technology upgrades. Verecloud's software architects are particularly good at operational support systems, which is where cloud computing services would reside if a CSP wants to jump on one of the most significant revenue bandwagons to cross the telecom arena in some time.

Forecasts vary widely for the size of the cloud computing market, but most point to high double digit growth rates through a rapid shift from the traditional software license to the one-to-many delivery model offered through cloud computing. Verecloud believes its *NIMBUS* platform for brokered cloud services is the right solution for CSPs to participate in the multi-billion dollar cloud computing market opportunity.

Verecloud is ready for the challenge of the *NIMBUS* launch in late 2010. The Company has a deep bench, including senior officers with experience in software development, communications engineering, wireless telecom, and software services. The Company's alumni logos include AT&T, Sprint, T-Mobile, Echostar, and Verizon among others.

Historically the Company has generated all its revenue from professional services. Sales totaled $5.8 million in the fiscal year ending June 2010. Sales were down in the year as a major customer transitioned to a new business model. Despite a net loss in FY10, operating cash flow was positive. Verecloud expects revenue and profits to ramp with the first sales of its high-margin *NIMBUS* platform possibly beginning in late 2010.

FINANCIAL PERFORMANCE



Dollars in millions; years 2007 and 2008 ended Dec; years 2009 and 2010 ended June.

Source: Company Reports

MARKET DATA

Price:	$1.25	(10/27/10)
52 Wk Hi-Lo:	$1.25	- $1.25
Ave. Volume:	na	
Short Interest:	na	
Beta:	na	

VALUATION

Price/Sales:	15.1 X
Price/CFO:	Neg
Price/EPS:	Neg
Price/Book Value:	Neg

Based on TTM ending 6/30/10

Consensus EPS FY11:	NA
Forward PE:	NA
Consensus EPS FY12:	NA
Forward PE:	NA

EQUITY SECURITIES

Common Shares Out:	70.1 M
Insiders:	62.5%
Float:	4.5 M
Institutional:	<1%
5% Holders:	31.1%
Common Dividend:	Nil
Warrants Outstanding:	1.3 M
Options Outstanding:	15.4 M
Preferred Shares Out:	-0-
Preferred Stock:	NA
Preferred Dividend:	NA

As of 6/30/10

Please read the important disclosures on page 7 of this report.

INVESTMENT HIGHLIGHTS

Positives

- Large, fast growing market opportunity in cloud computing in early stages of penetration
- Early-mover status as cloud computing broker for communications service providers and others consumer-oriented networks
- Highly proprietary, clearly differentiated product offering in new *NIMBUS Xchange*; large ticket product with potential for ample profit margin
- Telecom industry recognized leadership on board of directors
- Deep management team with varied experience in telecom and networking sectors; strong entrepreneurial track record, early stage success
- Legacy professional services business to support operations during early launch stage for new product *NIMBUS Xchange*
- Low-debt balance sheet with sufficient working capital to support operations

Negatives

- Untested product in *NIMBUS Xchange* with limited exposure to customers and no performance track record
- Lengthy sales cycle involving time-intensive solution approach and return on investment demonstration
- Target market negatively impacted by recent economic downturn, reducing investment budgets
- Extensive indirect competition from larger, better financed communications and networking players with recognized brands
- Recent losses following temporary loss of sales to key customers in legacy professional services business; recent negative cash flows
- Closely held by insiders with majority control by the founder and chief executive officer
- Unseasoned security with limited trading history; wide bid-ask spreads

OPERATING RESULTS

	FY2009	FY2010	*FY2011 Est*
Sales	$8,438	$5,841	*$7,000*
Gross Profit	$4,376	$3,219	*$3,500*
Margin	51.9%	55.2%	*50.0%*
Oper. Inc.	$2,600	($ 858)	*-0-*
Net Inc.	$2,603	($ 400)	*-0-*
CFO	$1,636	$ 545	*$ 560*
EPS	$0.06	($0.01)	*$0.00*
ROE	Neg	Neg	
ROA	124%	Neg	

Dollars in thousands except EPS/LPS; Fiscal year ends June.

Source: Company Reports and Crystal Equity Research Estimates

OUTLOOK

We view Verecloud as scrappy company that has come to the marketplace at the right time with a strong, differentiated cloud computing solution for telecoms. The product is unproven, but as an early mover Verecloud may have an opportunity to fine-tune its product if necessary. The telecom industry is economically motivated to enter the cloud computing space and the Company is experienced in the dynamics of delivering quality telecom solutions. Even the *NIMBUS* product name suggests an agile player.

Verecloud shares were just recently approved for trading on the OTC/Bulletin Board under the symbol VCLD. Accordingly, the stock has limited trading history.

In our view, VCLD is highly speculative and most interesting for those investors with long time horizons and high tolerance for risk. We expect some volatility in the share price and wide spreads between bid and ask prices as the stock seeks footing in its initial trading sessions.

COMPARABLES

- Accenture (ACN: NYSE)
- Amazon (AMZN: Nasdaq)
- Concur Technologies, Inc. (CNQR: Nasdaq)
- Google (GOOG: Nasdaq)
- International Business Machines (IBM: NYSE)
- MicroSoft (MSFT: Nasdaq)
- NetSuite, Inc. (N: NYSE)
- Rackspace Hosting (RAX:NYSE)
- SalesForce.com (CRM: NYSE)
- Taleo Corp. (TLEO: Nasdaq)

BUSINESS DESCRIPTION

Verecloud is an emerging Cloud Services Brokerage with launch of its new *NIMBUS Xchange* in late 2010. The Company is initially targeting Communications Service Providers (CSPs) of all stripes - wireless, wireline and cable multiple system operators - with its turnkey cloud computing infrastructure. The Company has been making its living through professional services to players in the same market, leveraging its expertise in software architecture design and technology implementation. Besides paying the bills while *NIMBUS* has been in development, the professional services have enabled cultivation of strong partner and customer relationships in the telecommunications field.

The Company has forged a relationship with Java expert GigaSpaces, which offers innovative, high-end application servers. Idea2 is the first of many expected partnerships with application providers. Idea2 provides customer relationship management applications for enterprise, among other solutions that centralize data and automate business processes. Verecloud management is pushing forward with introduction of *NIMBUS* and is accumulating a strong pipeline of prospects that could yield an initial customer agreement yet in 2010.

RELATIONSHIPS

- **Technology**
  GigaSpaces Technologies
  Belatrix Software Factory
  Rackspace
  Idea2
- **Systems**
  Elastic Path
  Motricity
  Comarch Information Technology

AFFILIATIONS

- **TM Forum**
- **ATIS SON** - Alliance for Telecommunications Industry Solutions
- **OASIS** - Open Accessible Space Information Systems

INDUSTRY CALENDAR

- Nov. 9-11, 2010 - **TM Forum Management World Americas 2010**, Orlando, FL
- Nov. 17-18, 2010 - **Cloud Computing World Forum Asia**, Hong Kong
- Nov. 30-Dec. 3, 2010 - **IEEE Internat'l Conference on Cloud Computing Technology & Science**, Indianapolis
- Nov. 30, 2010 - **Business Cloud Summit 2010**, London
- Dec. 1, 2010 - **Mobile Cloud**

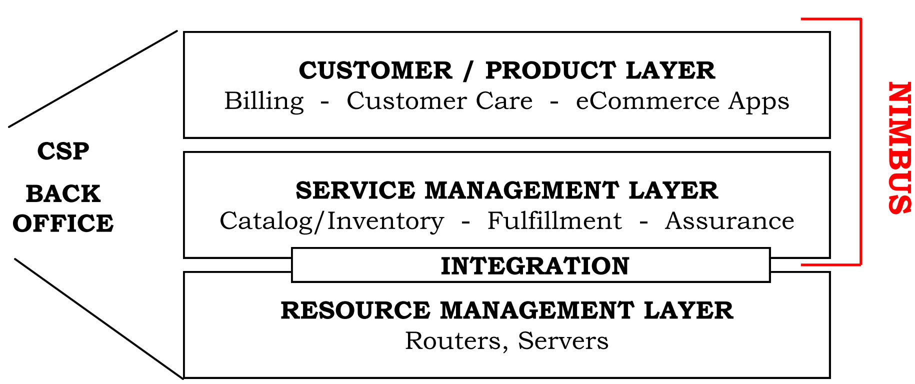
PRODUCTS / MARKETS

Verecloud's *NIMBUS Xchange* is a turnkey ecosystem for enterprise cloud computing that can be used by a CSP as an alternative to costly and time-consuming internal development. The software architecture is designed to fit neatly into the CSPs back office, complementing the existing customer, service and resource management layers. *Nimbus* development is complete, but Verecloud's software architects expect the product to evolve as licensees discover new potential in the so-called cloud. They are counting on feedback from CSPs to guide upgrades. Some customization is expected to always be a part of product deployment.

Verecloud management views telecoms as the lowest hanging fruit for enterprise cloud computing. Ever hungry for new services to offer customers, CSPs are expected to embrace cloud computing as a means to retain customers and generate new revenue streams. With large, loyal customer bases, CSPs can market cloud services to small- and medium-sized businesses with a comparatively lower acquisition cost than the direct sales efforts of a cloud platform providers such as Microsoft's Windows Azure or Google's E2C platform.

Once installed *NIMBUS* is designed to seamlessly deliver Internet-based computing services to enterprise users. Verecloud expects to participate in revenue streams from end-users in addition to charging fees for a *NIMBUS* license, integration and maintenance. Verecloud is circumspect about pricing, but we expect each deployment to exceed of $1 million.

Verecloud believes there will ultimately be other markets for *NIMBUS Xchange* among energy retailers and competitive utilities. Large customer bases and low cost of customer acquisition put these players in the right position to enter the field with a consumer-centric menu of cloud services.



BALANCES

	6/30/09	6/30/10
Cash	$0.5	$0.2
Current assets	$2.0	$0.9
PP&E, net	$0.0	$0.0
Total assets	$2.1	$0.9
Accts. Payable	$0.2	$0.2
Current Portion LT Debt	$1.1	$0.0
Current Liabilities	$1.4	$0.5
LT Debt	$1.7	$0.9
Equity (Deficit)	($1.0)	($0.4)
Shares Outstanding	42.3	70.1
Warrants and Options	NA	16.7

Dollars, shares and derivatives in millions

Source: Company Reports and Crystal Equity Research Estimates

RECENT CAPITALIZATION DEVELOPMENTS

In June 2010 Verecloud issued 21.8 million shares to a single private investor at $0.02 per share, raising a total of $436,000 in new capital. The same investor also entered into an agreement to provide the Company a revolving line-of-credit up to $1.6 million. At the end of September 2010, the Company had borrowed a total of $1.3 million against the line of credit.

Verecloud also entered into a consulting agreement wherein an affiliate of TMG will provide business and organizational consulting services to the Company. Verecloud will pay $744,000 between March 2011 through December 2013 for the services. At the end of June 2010, a total of $33,818 had been accrued as a liability on the balance sheet. Payments are due quarterly.

At the end of June 2010, Verecloud also retired a liability owed to former principals of the Company, Pat and Ann Burke. A total of $750,000 was paid using proceeds from the TMG financing. The Company also issued to the Burkes a total of 1,250,000 warrants to buy common stock at $0.01 per share. The warrant features cash less exercise so the Company many not receive a capital infusion through if the warrants are converted.

At the end of June 2010 the Company had $0.5 million in cash and equivalents on the balance sheet and working capital totaling $0.4 million. Shareholders' deficit was reduced to $0.4. million.

COMPARISONS

As Reported

	CY08	FY09	FY10
Sales	$7.1	$8.4	$5.8
Gross Profit	$3.8	$4.4	$3.2
Margin	*53.5%*	*52.4%*	*55.2%*
Oper. Inc.	$2.5	$2.5	($0.9)
Margin	*35.2%*	*29.7%*	*-15.5%*
Net Inc.	$2.6	$2.6	($0.4)
CFO	$2.7	$1.6	$0.5
EPS	$0.24	$0.06	($0.01)

As Adjusted for Non-cash Charges*

	CY08	FY09	FY10
Sales	$7.1	$8.4	$5.8
Gross Profit	$3.8	$4.4	$3.2
Margin	*53.5%*	*52.4%*	*55.2%*
Oper. Inc.	$2.6	$2.6	($0.6)
Margin	*35.2%*	*29.7%*	*-10.3%*
Net Inc.	$2.6	$2.6	($0.1)
EPS	$0.24	$0.06	($0.00)

Dollars in millions except EPS; Fiscal year changed to June for FY2009 an FY2010

**Crystal Equity Research Estimates.*

OPERATING PERFORMANCE

During the build-out of its cloud computing platform, Verecloud had leveraged its technology and engineering resources through the sale of professional services. Revenue peaked in the fiscal year ending June 2009, largely on work for a single customer now named LightSquared. The second half of fiscal year 2010 was negatively impacted when LightSquared cancelled further orders while it staged a going private transaction and reformulated its business model. LightSquared has since resumed as a Verecloud professional services customer.

Despite new customer relationships with Qwest Communications and GigaSpaces Technologies, the temporary loss of LightSquared business led to a decline in total revenue in FY10 to $5.8 million compared to $8.4 million in FY09. LightSquared accounted for 99% of revenue in fiscal year 2009 and 82% in fiscal year 2010.

The lower revenue level was no impediment to margin expansion. Gross margin was 55.2% in FY10 compared to 52.5% in FY09. The increase in profitability was largely due to the mix shift in professional services that provided revenue.

Operating expenses, most of which are salaries and benefits, increased in the most recent fiscal year as the Company accelerated development work on its new *NIMBUS* cloud computing platform. The management team was expanded and marketing outlay increased. These increases in spending were offset by a salary reduction among certain senior employees during 2HFY10.

The Company generated $0.5 million in cash in FY10 compared to $2.5 million in the previous fiscal year. Receivables collections were a significant contributor to FY10 operating cash flow.

GROWTH DRIVERS

- Improved network security and technology
- Users energy savings requirements; emissions reporting
- Potential human and capital resources savings

CLOUD PEERS

- **Cloud Software Applications**
  Concur Technologies
  Cordys
  Google
  NetSuite
  SalesForce.com
  Taleo

- **Cloud Platform Layer**
  Amazon E2C
  Cordys Process Factory
  Google Apps Engine
  Metrisoft SAAS Platform
  Microsoft Windows Azure
  NetSuite SuiteFlex
  Rackspace Cloud
  SAVVIS Symphony VPDC
  SalesForce.com Force.com
  SunOracle Direct Link
  Terremark Worldwide Cloud

- **Cloud Infrastructure**
  Amazon
  Google
  IBM
  Rackspace Hosting
  SAVVIS
  Terremark Worldwide

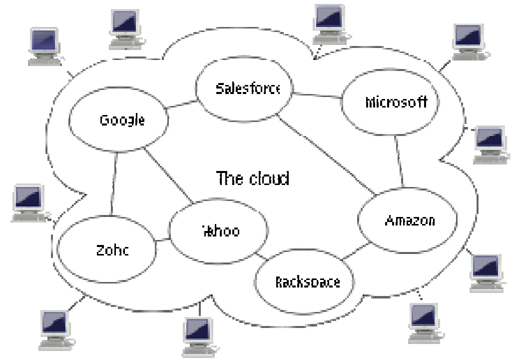
COMPETITION

- **Systems Integrators**
  Accenture IBM

- **Full-Suite Solutions**
  Oracle SAP
  Microsoft IBM

- **CSP Agents**
  JamCracker
  Amdocs
  e-Telos
  Parallels

MARKET OPPORTUNITY



Many invertors might yawn at the first mention of cloud computing. We define it as "Internet-based computing." At the simplest level, the e-mail services of Yahoo and Google are cloud computing applications where individuals can access and send e-mail without ever having a personal computer or software application of their own. They may simply use the hardware and web browser of a third-party provider and access their messages on the Yahoo or Google servers.

If the investor is still confused about cloud computing, they are not alone. In a June 2009 survey, the consultants at Version One found that 41% of senior IT professionals did not entirely understand cloud computing. At least two-thirds of senior finance professionals were even more confused. Nonetheless, finance professionals do understand money and the return on investment case for accessing business applications in shared servers is compelling. An Aberdeen Group study in 2009 found that there was an 18% average reduction in the IT budgets from the use of cloud computing and a 16% average reduction in data center power costs.

The dramatic savings potential in cloud computing is propelling adoption rates past the early adopters to mainstream users. Confusing or not, the Gartner Group estimates a 24% growth rate in enterprise cloud computing, reaching a market size of $118 billion by 2013. Gartner analyst estimate that 20% of businesses will own no IT assets by 2012, as they migrate to cloud computing platforms. Usually the last to make a change, the federal government laid out broad plans in early August 2010 to adopt cloud computing over the next five years. Both Gartner and Market Research Media estimate growth in the government sector could top 40% and reach $7 billion by 2015.

COMPETITIVE POSITION

In our view, Verecloud is entering the cloud computing space with impeccable timing and a highly differentiated product. There are systems integrators such as Accenture and IBM that are attempting to patch-in solutions for the largest, Tier One telecoms. Software providers with a full-suite of applications such as Oracle and Microsoft are also crafting cloud computing platforms for major telecoms around the world. At the other end of the spectrum are smaller players with cloud computing offerings.

With extensive experience in operational support systems, the Verecloud team believes it has an edge even over the larger system integrators and solution providers. *NIMBUS Xchange* is a service delivery platform (SDP) designed to integrate into the CSP's infrastructure without the need to redesign or work-around legacy processes. This capability means lower implementation costs and faster deployment time. Verecloud management also believes that *NIMBUS Xchange* with its standard features is highly cost competitive compared to a fully proprietary solution.

Other cloud computing agents and brokers such as JamCracker and Parallels, offer solutions that are limited in scope. Neither integrate with the Service Management Layer at the heart of a CSP's back office.

NIMBUS is not yet considered carrier grade, a key hurdle with CSPs. For now Verecloud plans to leverage the carrier-grade status of its partners.

CORPORATE HISTORY

2006 - Founded as Cadence II, dba Network Cadence as telecommunications consulting source

Aug. 2009 - Share exchange with an existing public company; accounted for as reverse acquisition

Jan. 2010 - Four-for-one forward stock split resulting in 47.4 million shares outstanding

Jan. 2010 - Name change to Verecloud, Inc.

May 2010 - Strategic partnerships with Idea2, Gigaspaces Technologies, and Comarch Information Technology

June 2010 - Completion of financing through $1.6 million equity line of credit and private sale of common stock value at $436,000 top single institutional investor; settlement of outstanding debt

Sept. 2010 - Depository Trust Company (DTC) availability; listing on Over-the-Counter Bulletin Board with the symbol VCLD

LEADERSHIP

One of Verecloud most important assets is its leadership team, which brings to the table technical expertise for the product development effort as well as relationships with potential customers.

The Company is led by its founder **John McCawley, who is now CEO and board member**. McCawley has several entrepreneurial successes behind him, including a national voice-over-IP provider and an IT consulting company. McCawley owns 60.3% of Verecloud's outstanding common stock, representing a controlling interest in the Verecloud operation.

In preparation for the launch of *NIMBUS*, in the last few years the Company has added to its bench. As **chief technology officer, William Perkins** plays a vital part in developing the *NIMBUS* platform. Prior to joining Verecloud four years ago, Perkins was president of HomeFlyers, Inc., a technology driven advertising company. Perkins was also a senior consultant for Wisdomation at Hewlett Packard. **Michael Cookson came on board as COO** in 2007, bringing extensive software-as-a-service expertise. Cookson has over 25 years experience in the IT industry, including work with Ariba, Hewlett Packard and Agilent. **James Buckley joined Verecloud as CFO** in 2009. Buckley has over two decades financial experience in the cable and telecommunications industry, including as VP of Strategy for Qwest Communications. Buckley holds a CPA and has accounting and audit experience with Coopers & Lybrand. **William Wood, President** brings expertise in software services to Verecloud. He has extensive experience with early stage operations and sits on the board of directors of OfferClick, Inc. and American Medical ID. Verecloud's most recent new hire is **Brad Hoffman**, who joins **George Moore** in business development.

The board of directors is led by **Mark Faris, Chairman**. Faris has held several senior executive positions in the telecommunications and networking industries. The board has been recently expanded by two seats. **Philip Tonge, Director**, has held senior executive positions with electric utility DirectEnergy and telecom AT&T. Widely recognized telecommunications expert **Dr. Hossein Eslambolchi** is the most recent director appointment. Eslambolchi is an alumni of AT&T and has a background in electrical engineering.

CAPITALIZATION

Recent Price:	$1.25
Shares Out:	70.1 M
Market Capital:	$87.6 M
+ Preferred Stock	-0-
+ Debt	$ 0.9 M
- Cash	$ 0.2 M
Enterprise Val:	$88.3 M
Book Value (Deficit):	($0.4) M
Working Capital:	$0.4 M

As of 6/30/10

Source: Company Reports and Crystal Equity Research Estimates

OWNERSHIP

	Shares of Common Stock
Insiders:	
McCawley, CEO, Dir	42.3 M
Wood, President	-0-
Buckley, CFO	0.4 M
Cookson, COO (1)	-0-
Perkins, CTO (2)	-0-
Faris, Chairman (3)	-0-
Tong, Director	-0-
Eslambolchi, Director	-0-
Total Insiders (4)	42.7 M
Percent Outstanding Common Shares	60.9%
5% Holders	21.8 M
Percent Outstanding Common Shares	31.1%

As of 6/30/10

Shares in millions

1) *Cookson holds 843,333 vested options*
2) *Perkins holds 1,150,000 vested options*
3) *Faris holds 710,000 vested options*
4) *Fully diluted insider ownership would be 44.95 M or 61.8% of then outstanding shares*

Source: Company Reports and Crystal Equity Research Estimates

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