

**The following document will
provide guidance on the PAN
process.**

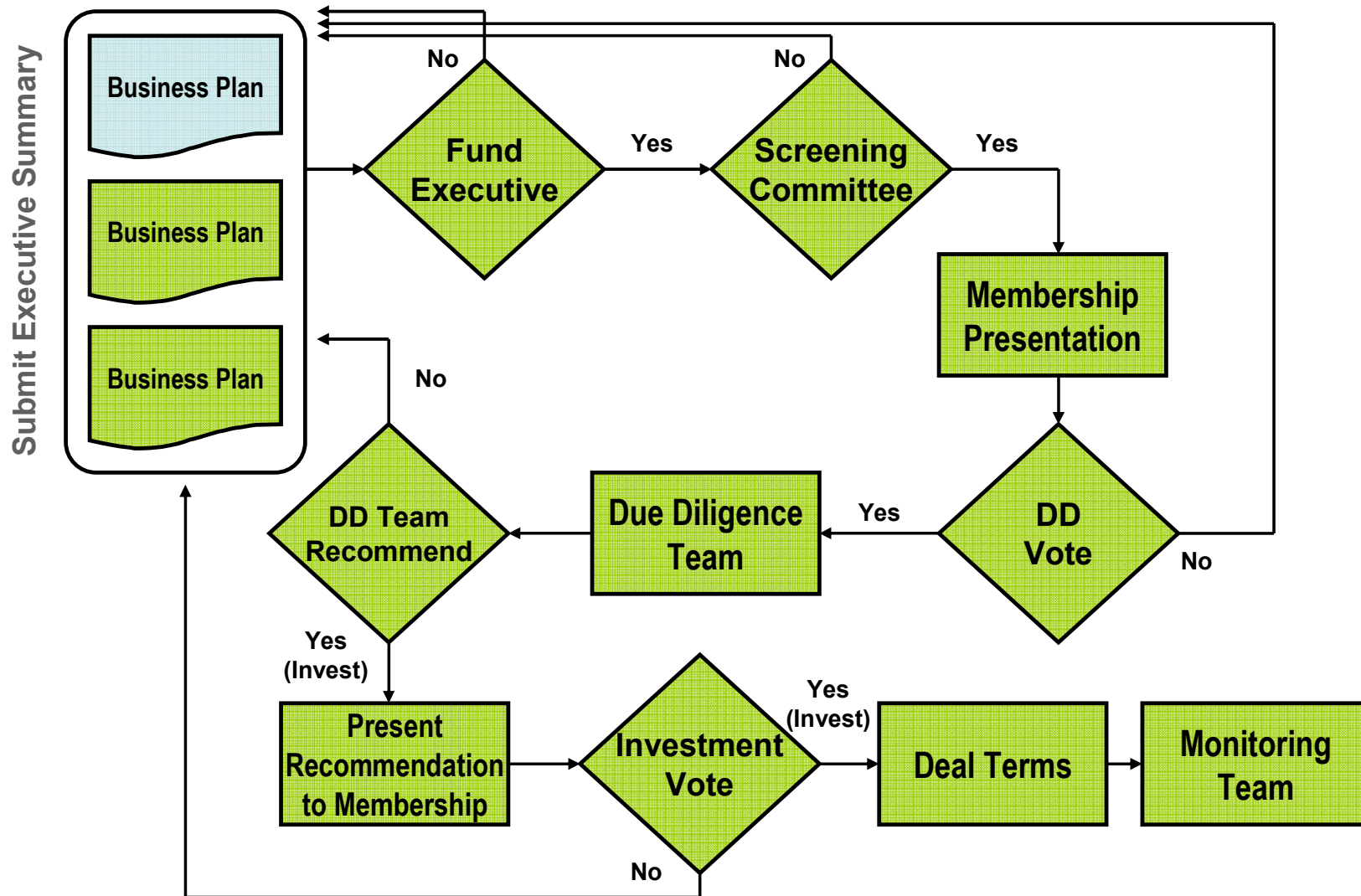
Piedmont Angel Network

Pre-Screening

Screening

Member Meeting

Due Diligence



Pre-Screening process and suggestions to improve your chance of getting to the next step with PAN.

After receiving your executive summary, the PAN Fund Executive and Screening Chair will review and may elect to contact you to discuss your plan in more detail. If you are selected, a 20-minute teleconference will be scheduled and information obtained in the meeting will be used to discuss your firm at the next pre-screening committee meeting. Pre-screening meetings are scheduled the first two weeks of every month... if selected at pre-screening, the Fund Executive will schedule your participation in a future screening meeting. All screening meetings are held on the fourth Tuesday of every month.

- Please review the remaining portion of this presentation to understand the types of items we require in order to make a positive recommendation.

Pre-Screening Checklist

The PAN pre-screening committee will judge a company on a number of areas including, but not limited to:

- The quality of the executive summary / opportunity. Note, the clarity of writing will always be a factor in convincing investors.
- The value proposition outlining specific customer needs.
- The size of the market opportunity and description of potential customers – has enough research been conducted?
- What are the current solutions/products/services in the market and how does this opportunity provide a competitive advantage over the competition? Brief explanation of IP or barriers to entry.
- How will the product be commercialized, sold and marketed? Provide financials.
- Funding needs and use of proceeds? Will another round of financing be required? Provide a capitalization chart of current investors. Are other groups looking at this investment opportunity?
- What is the exit potential? Can you provide historical or applicable comparables? What are the goals of the current management team?
- Provide a timeline of events completed to date and specific milestones over the next five years. Outline potential risks for each step moving forward.
- Provide an update on your team, including backgrounds that are applicable to this opportunity.
- What is the pre-money valuation on your company?

Quality of Executive Summary

The Executive Summary should be no longer than three pages and must address the following:

- Problem – describe the overwhelming point of pain that the business is addressing and what the company is doing to alleviate this pain?
- Market – how big is this market and how fast is it growing?
- Revenue Model – how will the company generate sales, cash flow and profits?
- Strategic Partners – description of larger players that have aligned with the company to promote and sell the product. If none, who is targeted.
- Current Customers – If none, who is targeted?
- Distribution Channels – how does the company bring its product to market and get customers?
- Competition – who is in this space and why does the company have a better answer?
- Exit Strategy – how will investors get their money back?
- Financing Sought – a simple statement of the capital requirement and how that capital will be spent. You don't need to say anything about the percentage of the company you are exchanging for capital or what the valuation of the company is.
- Management Team – who, what is their experience, and who is missing?
- Financial Projections – projected five-year P&L Statement.

Quality of Executive Summary

If you need assistance with your plan, please read the following:

Test marketing your plan and a 12-minute PowerPoint presentation increases your chances of success. FastCap, a program of the **Piedmont Triad Entrepreneurial Network** (PEN) at www.pten.org, and STREAK, a program of the Research Triangle Park based **Council for Entrepreneurial Development** (CED) at www.cednc.org, offer excellent opportunities to test the plan with a panel of experts before you present to venture capitalists or angels. Every time you present your plan, it is likely you will learn something that will cause you to make a change.

Other excellent regional resources are: 1) the **Small Business & Technology Development Center** (SBTDC), the business development service of the University of North Carolina System, at www.sbtcdc.org, and (2) the entrepreneur education programs and business plan competition offered by the **Triad Entrepreneurial Initiative** (TEI) at www.triadlaunchpad.org.

Value Proposition | Customer Needs

The following will be discussed:

- Briefly describe the value proposition of your company and how it solves a specific need of targeted customers (value to customer, value to investor).
- Is your product/service the full solution to the problem you are addressing or will you rely on other companies in the marketplace?

Market Size Opportunity | Research

The following will be discussed:

- What is the market size of the opportunity and who is the customer?
- How do you know your product will solve the needs of each target customer?
- What research has been conducted? Are you willing to share your research?
- Is your competition currently targeting this same group? Can they target this group?
- Financially, how do you know that a customer is willing to buy your product? What is the value to the customer?
- Do you have a prototype / beta? If so, have potential customers seen it or provided any feedback?

Competition, Current Solutions & Barriers

The following will be discussed:

- Explain the current solutions in the market and how you expect competitors to react to your solution, product or innovation?
- Are there any barriers that would prevent the product from being adopted? Are there disruptive technologies in the marketplace?
- What barriers of entry do you have against competitors taking away your market?
- Explain your intellectual property (IP) and trade secrets. Can competitors get around the IP?

Commercializing and Financials

The following will be discussed:

- What is the plan to commercialize the product/service/innovation?
- Will you utilize a direct sales force or use sales and distribution partners? What are the channels?
- Explain the sales cycle. Is it seasonal? Have financials incorporated cash needs on a monthly or yearly basis?
- What are the ongoing service / support needs?
- What type of marketing programs are being considered to target customers?
- Provide financial projects over the next five-years. Pay particular attention to top-line sales, margins, EBITDA and cash needs. An example of the preferred format is shown on the next page.

Commercializing and Financials

Example of Financials:

Financial Projections (Thousands of Dollars)						
	Last Year	Current YTD	After Funding Round Complete			
			Year 1	Year 2	Year 3	Year 4
Revenue						
Gross Margins %						
Salaries						
Other SG&A						
EBITDA						
Funding Needs						

Funding Needs and Proceeds

The following will be discussed:

- How much are you looking to raise in this round?
- Who are the other angel / VC groups looking at this opportunity?
- Have deal terms been presented?
- Who are your current investors (previous rounds and current)? Provide a capitalization table.
- Use of proceeds? Do you have any restrictions from other investors?
- What is the current burn rate? What is the expected burn rate after funding?
- Do you expect the need for additional rounds of funding? If so, how much and when?
- Did the management team, Board of Directors or Advisory Board invest in the company? How much money did the founders contribute?

Exits, Comparables and Goals

The following will be discussed:

- What is the expected exit?
- Who is the expected acquirer? Please identify at least two. Why would they be interested?
- What relationships do you have with potential acquirers?
- Do you have comparables of companies that exited within the past five years in your industry?
- What is the ultimate goal of the founders, management team, Board of Directors and Advisory Board?

Timelines and Milestones

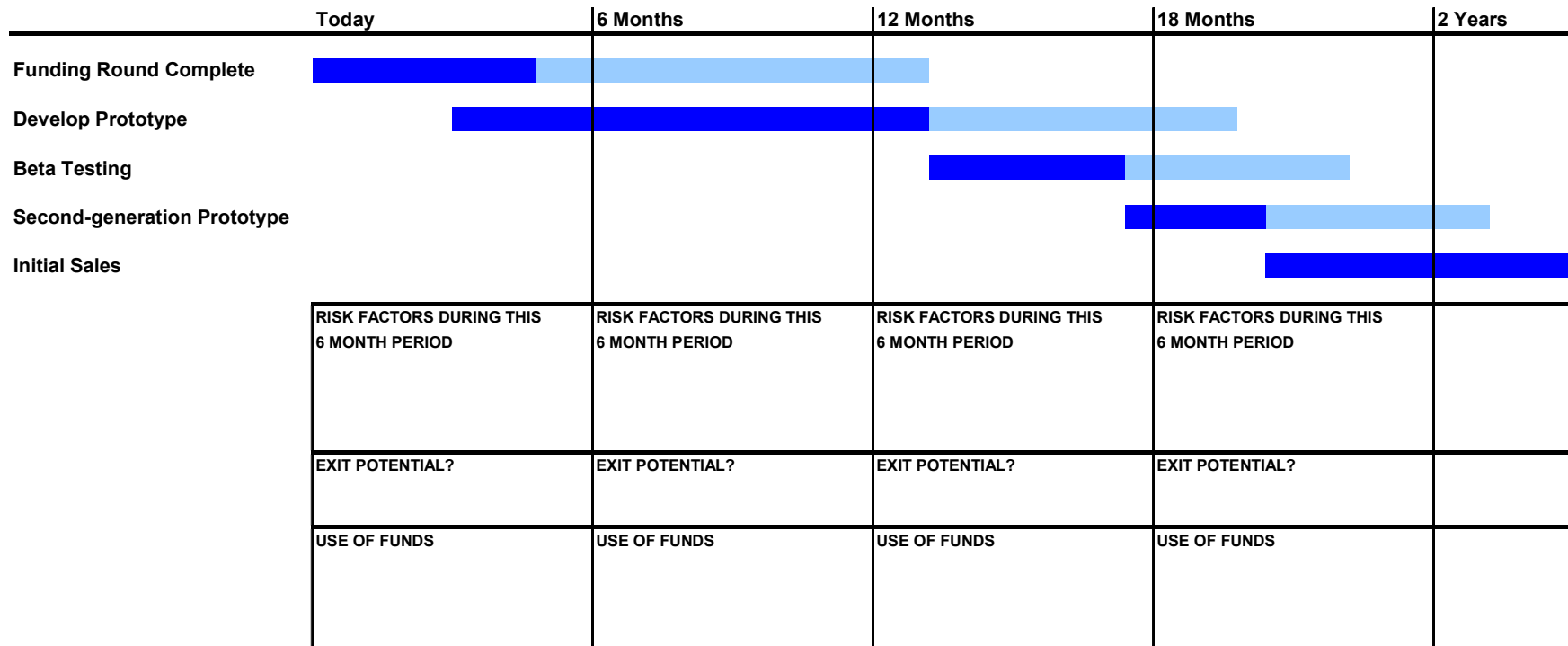
The following will be discussed:

- What are the risks associated with moving forward?
- Will you raise enough money in this round to reach a successful exit?
- Manufacturing issues, training issues, all aspects of costs, adoption rate, marketing conversion rates... what thoughts currently keep you up at night?

Please provide a 5-year timetable (Gantt chart) outlining specific milestones and risks. Include acquisition dates (potential exits after specific targets are reached), future funding rounds and critical steps to get to that point.

Timelines and Milestones

Example of Milestone Chart: Milestone Chart



Team

The following will be discussed:

- Provide a brief update on the current team.
- How will this team implement the plan?
- Does the management team have options and other incentives?
- Are there any key employees that will be hired when funds are available?
- What percentage of time does each employee currently contribute to business? After funding, will all employees be full-time?
- Copy of Organizational Chart

Pre-Money Valuation

The following will be discussed:

- After considering all of the previous information, please provide a basis for your pre-money valuation. If previous rounds were raised (information should be included in capitalization table), please outline each specific funding round and highlight friends and family investments.

Pre-Money Valuation:

\$ _____

Amount of Current Funding Round Sought:

\$ _____

Post-Money Valuation:

\$ _____

The **Screening** process and suggestions to improve your chance of getting to the next step with PAN.

If the pre-screening committee votes to move forward, you will be invited to a future screening meeting. All screening meetings are held on the fourth Tuesday of every month. Typically there are 15 committee members who vote at each meeting on whether or not to allow the company to present to our full-membership. Companies are allowed 15 – 18 minutes to present and each will receive an additional 20 minutes for Q&A.

- Please review the remaining portion of this presentation to understand the types of issues we require in order to make a positive recommendation.

Screening Checklist

The PAN screening committee will judge a company on a number of areas including, but not limited to:

- The quality of the presentation.
- Is the presenter / founder capable of taking direction? Do we think the current management team has the ability to drive the company forward?
- Does the company have a clear value proposition that potential customers will understand?
- Does it address a sizable market? If so, what research was conducted?
- Who/What is the competition? Are there significant barriers to protect the company's interest? Is the IP strong?
- Can the product/service/innovation be commercialized? How much will it cost and how long will it take?
- What is the marketing plan to target customers? Critical metrics?
- Timetable and milestones.
- Current funding needs versus future funding needs?
- Is the exit potential significant? What are the comparables?
- Are the financial projections realistic?
- Is the valuation realistic?