



Winter 2007 CAPITAL REVIEW

A special report on Nashville Capital Network's Entrepreneurship, Education, and Angel Investing Programs serving middle Tennessee

From the Chairman

Tom Wylly

2006 was a very exciting time for Nashville Capital Network. In addition, to funding a number of new investments, our investor group was very active in follow on investments for their portfolio companies. NCN investors funded four of six opportunities that were presented to the group. One is still pending. Since our inception we have provided professional business plan feedback to 151 companies and held 60 advisory meetings. Our education events continue to grow in popularity and attendance, evidenced by February's and October's standing room only panel discussions. NCN's impact on local entrepreneurship and the Nashville economy is evident.

Since our inception, NCN Angels have funded 14 investments in 9 companies. These companies have been in a number of different industries including traditional Nashville sectors such as health care and business services. Additionally, our investors helped seed companies in such emerging industries as medical devices, technology, and software. The total capital invested in transactions in which NCN Angels have participated is \$24,840,000. NCN's average investment from its Angel Group is \$479,529. This is well above the national median of \$235,000 per group. As one of the leading Angel Groups in the southeast, NCN hosted the September 2006 regional meeting of the Angel Capital Association in Nashville. Nearly 20 groups descended on Nashville to discuss deal flow, best practices, and angel group organization.

With your interest, support, and participation we look forward to another productive year.

Tom Wylly

Chairman, Nashville Capital Network

CAPITAL REVIEW

NCN Operational Highlights

NCN ANGELS CONTINUED to participate in funding early stage ventures through fiscal year 2005-06. During the last twelve months, NCN investors participated in four different funding rounds. Additionally, NCN has successfully developed several new investment opportunities, with three companies currently finalizing terms and readying for presentation to the Angel Group. As of January 1, 2007 NCN Angels participated in funding 14 investments in 9 companies.

In December, **Capital Confirmation Inc.** fully subscribed a \$5M round of financing. Many of the investors in the round were participants in NCN's Angel Group. This investment is the largest from NCN's Angels in a single round. CCI offers public accountants a unique online service for accurately and efficiently confirming a client's asset and debt balances. This issue has grown in salience as a result of several highly publicized cases of fraud. CCI continues to make progress with the big four accounting firms and landed eight banks with asset size over \$100 billion. Additionally, CCI recently completed a deal with Auditwatch to resell the CCI solution.

In November, NCN investors, SAF, MB Ventures, Pittco Investments, and Vanderbilt participated in a bridge financing for **Protein Discovery, Inc.** This is the NCN investors' third investment round for PDI. Previously, NCN investors participated in the Series B prime round in March 2006.

PDI is a life sciences company developing proprietary solutions for clinical research, pharmaceutical drug discovery and development, and medical diagnostics using high throughput mass spectrometry. Beta testing is currently underway at Vanderbilt. Funding should carry PDI through initial sales of the MALDIplex system.

During February, NCN investors funded **The Documentary Channel, Inc. (DOC*)**, a Nashville based media company developing a documentary-only television channel for carriage on national direct broadcast satellite and cable networks. The company agreed to a carriage agreement with Echostar, the operator of the DISH satellite TV network, launching DOC* in January 2006. The channel is now available *continued on Page 2*



Jonathan Bragdon,
President of Tricycle, accepts
the CTC Innovation Award

continued from front page in the DISH network's approximately 11.5 million subscriber homes. NCN investors participated in a bridge financing alongside other individual investors. DOC* is generating revenue with sponsorship sales to national advertisers like Acura and Samuel Adams. Currently the company is in the process of seeking a larger equity round to finance increased distribution efforts.

In September 2005, NCN Angels participated in the funding of the **Enliven Partnership** a Nashville based company dedicated to making hospital campuses more comfortable and accommodating for patients, visitors and staff and generating new revenue streams for hospitals by developing product placement and marketing programs between leading consumer brands and healthcare providers. Recently Enliven added a 1,900 bed system in Michigan. In addition to signing up health care facilities to beverage contracts, Enliven is focusing more attention on developing retail solutions for health care campuses.

NCN Angels participated in funding **Plumgood Food**, a Cannery Row-based company that delivers organic and natural produce, meats, seafood, dairy products and groceries to Nashville homes and offices. Plumgood is poised to be a regional leader in the organic home-delivery market. Plumgood recently celebrated its second anniversary. Over 2,300 customers utilize the service. In early 2006, Plumgood raised an additional \$1 million from a single investor. The company has launched a shipping business and through a courier relationship will be able to break into many surrounding markets. In order to fund this new growth, Plumgood has launched efforts for a Series D round.

Smartvue's mission is to make the world a safer place by providing the smartest, simplest, and most secure visual management technologies and services to business, residential, and government markets worldwide. In late 2004, NCN investors participated in a \$1.5 million funding round. Proceeds expanded sales efforts and funded manufacturing. NCN investors also participated in a \$2 million loan to Smartvue. With the completion of Smartvue Version S6, the company has recast itself as a business analytics service provider. Although Smartvue will continue to sell cameras to the security industry, the company's focus will be on business analytics.

Tricycle Inc. was the first deal NCN Angels partnered with the Southern Appalachian Fund. In their merger with Cr8tiv, Tricycle

solidified their intellectual property position and created a global company with a focus on regional service. Tricycle already sells to the largest carpet manufacturers in the world, including Interface, Mohawk, and Shaw. Recently, Tricycle signed a 3 year deal with Interface (largest carpet and tile manufacturer in the world). In October, NCN facilitated a series of meetings in Nashville for Tricycle to meet local venture capitalists. Tricycle is currently raising \$4-5 million to develop their service for other verticals such as furniture, fabric, and flooring.

In January 2005, NCN-linked Angel investors joined Discovery Life Science Fund and Vanderbilt Office of Enterprise Development in funding **Pathfinder Therapeutics Inc.**, which is developing image-guided systems for use in open liver surgery. Pathfinder developed a working prototype that is being demonstrated in procedures. They are targeting FDA approval in February 2007. NCN has been working with Pathfinder to help prepare them for a follow on round of financing. To complement Pathfinder's equity financing, the company has been awarded \$1.7 million in grants.

NCN investors partnered with River Cities Capital Funds in capitalizing **Horizon Resource Group** with \$3 million. Horizon Resource Group is a group purchasing organization serving the higher education community. The group purchasing model was first validated in the healthcare arena. HRG has seen significant expansion of the contract portfolio offered to member educational institutions. Horizon also just partnered with CDW to be their exclusive channel to the education industry. HRG is now partnered with over 700 institutions. The company projects cash flow break even in 2007.

ADDITIONAL FUNDINGS RESULTING FROM NCN EFFORTS

Since launching in September 2003, NCN has made introductions and provided guidance that led to term sheets for investments in twelve local early stage companies. NCN participated in the funding of five (with one pending) of the opportunities we helped find term sheets.

COMPANIES PRESENTING TO NCN ANGEL GROUP

In 2006, NCN presented six investment opportunities to the NCN Angel Group. NCN investors participated in four of the investment rounds with one pending. Since its inception, NCN has shown 18 investment opportunities to the Angel Group *continued on Page 3*



continued from Page 2 and is directly responsible for bringing investment into 14 of these deals.

ADVISORY MEETINGS AND ADVISOR INVOLVEMENT

Since NCN's launch, we have organized advisory meetings assisting 60 companies. These meetings have included local venture capitalists, entrepreneurs, investment bankers, and other industry experts. The aim of the advisory meetings is to provide valuable feedback from experienced entrepreneurs and financial professionals and guidance to companies that are considering raising equity capital. As a result, the advisory process develops quality investment opportunities for the Angel Group.

FEEDBACK DOCUMENTS

Through its partnership with Vanderbilt's Owen Graduate School of Management, NCN has provided over 151 companies with valuable feedback on their business plans and executive summaries. In 2006, 46 new companies received feedback. NCN has leveraged its partnership with Vanderbilt's Owen Graduate School of Management to provide professional feedback and improve the quality of the deal flow presented to advisors and investors. NCN has made it a policy to provide at least basic structural feedback in response to virtually every executive summary or business plan submitted.

DEVELOPING THE ANGEL GROUP

Including Sponsor participants, NCN currently has more than 50 Angels in the Angel Group. Individual investors commit \$1,000 a year to support NCN activity and consider investing in NCN deals. Increasing the size and deal-flow activity of the Angel Group remains an NCN priority.

NCN EDUCATIONAL EVENTS

In October 2006, NCN sponsored a seminar on "Organizing Your Company." Approximately 80 business people and students

attended a panel discussion at Vanderbilt's Owen Graduate School of Management. In February 2006, about 160 people attended a NCN sponsored seminar on "Raising Outside Capital." This was NCN's most well attended education event to date.

DEAL FLOW AND SYNIDICATION OPPORTUNITIES

In 2006, NCN was in contact with 122 new companies. Currently, our proprietary database houses over 360 companies, most of which are from middle Tennessee. Referrals and leads come from numerous sources including sponsors, local universities, board members, civic organizations, venture capital firms, and entrepreneurs. Newspaper articles and public appearances also drove entrepreneurs to NCN's website. By bringing individual investors together as an influential network, NCN creates opportunities to partner with established institutional investors. Some of the groups that have partnered with NCN to fund companies include Vanderbilt University Office of Enterprise Development, Discovery Life Sciences Fund, Southern Appalachian Fund, River Cities Capital Funds, MB Ventures, Pittco Investments, and numerous local individuals.

NCN INTERNSHIP PROGRAM

During both the fall and spring semesters, NCN employed two Owen Graduate School of Management students as part-time interns. These students were exposed to local investors and entrepreneurs and were able to participate in the deal-making process. One of the interns accepted a highly coveted investment banking position with Wachovia Securities. Another intern is pursuing a JD/MBA while working on his own start up company. A third intern received offers from Black & Decker, Procter and Gamble, and Nissan. Previous interns are employed with Stern Stewart, Midwest Research, Plum Creek Company, Corporate Advisory Board, Vanderbilt Enterprise Development, Petra Capital Partners, Deloitte and Touché, Harpeth Capital, Merrill Lynch, and LCG Associates.

NCN Sponsors, Underwriters and Patrons

NCN SPONSORS play a key role in NCN's efforts to foster entrepreneurial growth. In the last year NCN was very pleased to add one new sponsor, one new underwriter, and eight new patrons. NCN has a strong and diverse sponsor base with supporters from local banks, law firms, accounting firms, private equity firms, and other professional organizations.

NCN Sponsors: Bass, Berry & Sims PLC • Boulton, Cummings, Conners & Berry PLC • First Tennessee HealthSpring • Healthways • KPMG • Miller & Martin PLLC • Owen Graduate School of Management Solidus Company • Waller Lansden Dortch & Davis

NCN Underwriters: Bank of America • Century II • Harbert Management Corporation
Nashville Health Care Council • Psychiatric Solutions • Voyent Partners

NCN Patrons: Bowne of Nashville • Buffkin & Associates • CET Life Sciences Center • Clayton Associates
Chrysalis Ventures • DillonBrooks Financial Services • e+ Healthcare • First Bank • Kraft CPAs •
LBMC Technologies • Nashville Area Chamber of Commerce • Partnership 2010 • Petra Capital Partners
Passport Health Communications • Pharos Capital Group • Richland Ventures • Sherrard & Roe, PLC
SSM Partners • Spheris



SID CHAMBLESS
Executive Director
Nashville Capital Network

Sid Chambless, 33 has served since September 2003 as the first Executive Director of Nashville Capital Network, the collaborative nonprofit initiative of Vanderbilt University, Nashville Technology Council, Nashville Health Care Council, investors, and professional and business leaders. NCN helps entrepreneurs with business ventures that have the potential to attract institutional equity refine their business concepts, prepare for the fundraising process and raise equity capital. NCN has cultivated a complementary network of qualified and committed Angel investors. NCN deals on Chambless' watch include The Documentary Channel, Protein Discovery, Enliven Partnership, Capital Confirmation, Pathfinder Therapeutics, Horizon Resource Group, Plumgood Food, Smartvue Corporation, and Tricycle. Chambless is a 2003 graduate of Vanderbilt's Owen Graduate School of Management, where his concentration was financing and accounting with an emphasis in entrepreneurship. Prior to his MBA education, he was Executive Vice President of Surfari, Inc., responsible for mergers and acquisitions, capital-raising, business development, and sales and marketing activities. In November 2000, he co-directed the sale of Surfari to Chicago-based Coolsavings.com (NASDAQ: CSAV). Earlier, as part of the Nashville Predators' original sales staff, Chambless helped the Predators reach the NHL-mandated 12,000 season-ticket mark. Chambless is a member of The Tomorrow Fund, a Nashville group of young professionals dedicated to building community awareness, leadership and responsibility. A native of Albany, Georgia, Chambless is a 1996 graduate of Vanderbilt University.

Mission:

Nashville Capital Network

The Nashville Capital Network ("NCN") is a collaborative initiative of Vanderbilt University, the Nashville Technology Council, Nashville Health Care Council, local investors, as well as local business and professional leaders. The NCN strives to promote entrepreneurial education and economic growth by becoming the hub for early stage capital formation in middle Tennessee. The NCN mission centers around the simultaneous development of two distinct initiatives:

Educational and Entrepreneurial focused initiative: NCN helps entrepreneurs with business ventures that have the potential to attract institutional equity refine their business concepts and prepare for the fundraising process. As an extension of its educational initiative, the NCN serves as an advocate for entrepreneurs and will assist in the fundraising process by matching promising ventures with experienced and knowledgeable Nashville-based investors.

Investor initiative: To continue building a source of early stage capital by delivering value to investors via deal flow, investment analysis, and due diligence. NCN employs these resources to help develop investment opportunities often not available to individuals or informal investor groups.

NCN Board of Directors:

Tom Wylly (NCN Chairman), Brentwood Capital Advisors; **Hal Andrews**, Cogent Healthcare; **Germain Boer**, Owen Entrepreneurship Center, Owen School of Management, Vanderbilt University; **Barbara Cannon**, Health Care Executive; **Ray Capp**, Conduit Corporation; **Tom Cigarran**, Healthways; **Chase Cole**, Waller Lansden Dortch & Davis; **Page Davidson**, Bass Berry & Sims; **Townes Duncan**, Solidus Company; **Marc Fortune**, Century II Staffing; **Katie H. Gambill**, Council Ventures; **Alston Hamilton**, Miller & Martin; **John Harrison**, Harbert Management Corporation; **Bob Hensley**, Consultant; **Jim Keever**, Voyent Partners; **Bruce Lynskey**, Entrepreneur & Technology Investor; **Janet Miller**, Partnership 2010; **Kevin P. McDermott**, KPMG; **Kevin McNamara**, HealthSpring; **Corey Napier**, First Tennessee Bank; **Tom Noland**, Vanderbilt Office of Enterprise Development; **John Titus**, Boulton Cummings Connors & Berry; **Paul Wallace**, Healthways