



Summer 2006 CAPITAL REVIEW

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

From the Chairman

Tom Wylly

Fiscal year 2005-2006 was a very busy year for Nashville Capital Network. In addition to funding a number of new investments, our investor group was active in follow on investments for their portfolio companies. Last year, NCN investors funded all six of the opportunities that were presented to the group. Since inception we have provided professional business plan feedback to 115 companies and held over 50 advisory meetings. Our education events continue to grow in popularity and attendance, evidenced by last February's standing room only panel discussion. NCN's impact on local entrepreneurship and the Nashville economy is evident.

Since our inception, NCN Angels have funded 12 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 deals in which NCN Angels have participated is \$17,840,000. NCN's average investment from its Angel Group is approximately \$410,000. This is well above the national median of \$235,000 per deal. As one of the leading Angel Groups in the southeast, NCN was selected to host the September 2006 regional meeting of the Angel Capital Association in Nashville.

Through the support of our sponsors, underwriters, patrons, angel participants, and board of directors we will continue to encourage entrepreneurial education and economic growth in Middle Tennessee. Please feel free to contact Sid Chambless at (615) 322-3154, regarding our activities, progress, or future.

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 six different funding rounds. As of June 30, 2006 NCN Angels participated in funding 12 investments in 9 companies.

In March, NCN Angels partnered with Southern Appalachian Fund, MB Ventures, and Vanderbilt to fund a second round of investment for **Protein Discovery, Inc.** PDI is a life sciences company developing solutions for molecular research, drug discovery and development, and medical diagnostics using high throughput mass spectrometry. This investment was the Angel Group's second in PDI having previously funded the company

in October 2005. This transaction represents NCN's second investment in Vanderbilt developed technology.

During February, NCN investors funded **The Documentary Channel**, a Nashville-based media company developing a documentary-only television channel for carriage on national direct broadcast satellite and cable networks. Launching in January of 2006 DOC* is now available in the DISH Network's approximately 11.5 million subscriber homes. NCN investors participated in a bridge financing alongside other individual investors. The Documentary Channel plans to raise an institutional round of funding later in 2006.

In September 2005, *continued on Page 2*



Eric Satz, CEO introduces Governor Phil Bredesen at a bill-signing at Plumgood Food's Cannery Row offices.

Sid Chambless, Executive Director • NCN • schambless@nashvillecapital.com

1207 17th Avenue South, Suite 303 • Nashville, TN 37212 • Phone: (615) 322-3154

continued from front page NCN Angels participated in the funding of the **Enliven Partnership, LLC**. The Enliven Partnership is dedicated to making the hospital experience more comfortable and accommodating for patients, visitors and staff and generating significant new revenue streams for hospitals. The company does this by developing product placement and marketing programs between leading consumer brands and healthcare providers. This deal represents NCN Angels largest combined investment in a single deal. Since funding, the Enliven Partnership has added several new hospital systems as clients.

NCN Angels also participated in a second round of funding for **Plumgood Food**, a Cannery Row-based company that delivers organic and natural produce, meats, seafood, dairy products and groceries to Nashville homes and offices. Since opening, Plumgood has exceeded projections and hopes to soon reach the 1,000- customer mark. NCN helped Plumgood secure a lead investor for Series B and several NCN Angels participated in the round. In April, Plumgood announced a series C round of \$1 million was raised from a single investor.

NCN investors also invested in a \$2 million bridge loan for **Smartvue Corporation**. This is the second investment in Smartvue, a technological innovator in the consumer and small business security and surveillance markets. Since the funding, Smartvue was recognized with a 2005 International Consumer Electronics Show Innovations and Design Award. Previously, NCN investors participated in a \$1.5 million Series A round of funding for Smartvue. Smartvue is currently in the process of trying to raise institutional capital.

Tricycle Inc. was the first company investment in which NCN Angels partnered with the Southern Appalachian Fund. NCN Angels benefited from SAF's professional due diligence and deal structuring. Tricycle develops products and services that reduce the cost of sampling in the flooring industry. Tricycle sells to the largest carpet manufacturers in the world, including Interface, Mohawk, and Shaw. The company is on target to exceed sales projections and is currently in the process of raising additional funds to target new verticals such as furniture and fabric.

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. This deal is the first partnership between Vanderbilt's Office of Enterprise Development and

NCN Angels. Since the funding, Pathfinder hired Paul MacDonald as its Chief Executive Officer and has developed a fully functional prototype in the lab. Additionally, Pathfinder was recently awarded a NIH grant to pursue FDA approval. Pathfinder is currently pitching to institutional investors for a next round of financing.

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. The addition of contracts will support the goal of further penetration into each department of the campus. HRG is now partnered with over 700 institutions.

In March 2005, NCN announced participation in the funding of **Capital Confirmation Inc.** The \$3 million all-Angel round represented the largest total investment by individual angels associated with NCN in a single offering at that time. Capital Confirmation Inc. offers public accountants a unique online service for reliably confirming a client's asset and debt balances. Currently CCI is engaged in pilots with the Big 4 accounting firms. CCI has formalized confirmation relationships with 3 of the top 10 banks in US.

ADDITIONAL FUNDINGS RESULTING FROM NCN EFFORTS

In fiscal year 05-06, NCN made introductions and provided guidance that led to term sheets and funding for four local early-stage companies. NCN Angels participated in funding three of these companies. The fourth company was acquired before any financing took place.

COMPANIES PRESENTING TO NCN ANGEL GROUP

In the last twelve months, NCN presented six new investment opportunities to the NCN Angel Group. NCN investors participated in all six of the deals. Since its inception, NCN has shown 14 investment opportunities to the Angel Group and is directly responsible for bringing investment into 12 of these deals.

ADVISORY MEETINGS AND ADVISOR INVOLVEMENT

Since NCN's launch, we have organized advisory meetings assisting 50 companies. These meetings have included local venture capitalists, entrepreneurs, investment bankers, and other *continued on Page 3*



T R I C Y C L E

continued from Page 2 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 115 companies with valuable feedback on their business plans and executive summaries. Since June of last year, approximately 80 companies have 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 almost 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 February 2006, NCN sponsored a seminar on "Raising Outside Capital." This was NCN's most well attended education event to date. Approximately 160 business people and students attended a panel discussion at Vanderbilt's Owen Graduate School of Management. In October 2005, over 85 people attending a NCN sponsored seminar on "Managing a Fast Growing Company." In

November, NCN co-sponsored a seminar on "Understanding Business Valuation." This event was extremely successful with over 100 people attending a half day session.

DEAL FLOW AND SYNDICATION OPPORTUNITIES

During the last twelve months, NCN was in contact with over 100 new companies. Currently, our proprietary database houses over 280 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, and numerous local individuals.

NCN INTERNSHIP PROGRAM

During both the fall and spring semesters, NCN employed 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 and Decker, Proctor 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 Touche, and Harpeth Capital.

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 three new sponsors, two new underwriters and twelve 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
Dr. Thomas Frist, Jr. • 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 • Kraft CPAs • LBMC Technologies
Marsh USA • Partnership 2010 • Petra Capital Partners • Passport Health Communications
Pharos Capital Group • Richland Ventures • Sherrard & Roe, PLC • SSM Partners



SID CHAMBLESS
Executive Director
Nashville Capital Network

Sid Chambless, 32, 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 finance 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**, Leadership Health Care; **Germain Boer**, Owen Entrepreneurship Center, Owen Graduate School of Management, Vanderbilt University; **Barbara Cannon**, Health Care Executive; **Ray Capp**, Conduit Corporation; **Tom Cigarran**, Nashville Health Care Council; **Chase Cole**, Waller Lansden Dortch & Davis; **Page Davidson**, Bass Berry & Sims; **Townes Duncan**, Solidus Company; **Marc Fortune**, Century II Staffing; **Dr. Thomas F. Frist, Jr.**, Founder, HCA; **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