



January 2006  
CAPITAL REVIEW

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

# CAPITAL REVIEW

## NCN Operational Highlights 2005

NCN ANGELS announced investments in four new companies and two follow-on rounds in 2005. This brings the total number of investments for NCN's Angel Group to 10 investments in 8 companies in just over two years.

In October, NCN Angels partnered with Southern Appalachian Fund, MB Ventures, and Vanderbilt to fund **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. The company's imaging mass spectrometry (IMS) service allows pharmaceutical and biotech customers to gain important insights into disease progression and metabolic response. The company is also developing a powerful suite of sample preparation products specifically designed to meet the data quality and throughput demands of customers using mass spectrometry in the life sciences industry. NCN Angels were an important part of the \$2.2 million round. This deal represents NCN's second investment in Vanderbilt-developed technology.

In September, 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 place-

ment 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.

Earlier this year, NCN 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. The company also secured distribution agreements with Home Director and ADI (world's largest distributor of security products). Previously, NCN investors participated in a \$1.5 million Series A round of funding for Smartvue.

NCN Angels also participated in the following on financing for **Plumgood Food, Inc.** The funds raised in the Series B will allow Plumgood to expand its marketing efforts and increase the customer base. Plumgood Food is a Cannery Row-based company that provides organic and natural produce, meats, seafood, dairy products and groceries to Nashville homes and offices. Plumgood recently began offering prepared foods, a move that has helped increase the customer base and average order price.

In March 2005, NCN announced participation in the funding *continued on page 2*

From the Chairman

## Tom Wylly

NCN remained very active in 2005. Results to date make clear that NCN has established a solid foundation as an organization that will support Nashville area entrepreneurs and Angel investors for years to come. Since its inception, NCN has shown twelve opportunities to the Angel group and is directly responsible for bringing investment into 10 of these companies. We have provided professional business plan feedback to 90 companies and held over 38 advisory meetings. The total capital invested in deals in which NCN's Angel Group is a participant is in excess of \$15,000,000.



2005 was highlighted by NCN Angel Group participation in providing funding for 4 new companies, as well as an array of educational activities. NCN's average deal participation has grown to \$415,000 compared to the national median of \$300,000 per deal. In only its second year, NCN is on par with other groups in terms of size of deal and number of angels participating according to the Angel Capital Association, of which NCN is a charter member. 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

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

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*continued from front page* 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 to that time. Capital Confirmation Inc. offers public accountants a unique online service for reliably confirming a client's asset and debt balances. In 2005, Capital Confirmation was recognized with an honorable mention at the Tax & Accounting Technology Innovation Awards, Music City Future 50 designation, and by the AICPA as a best practice for the industry.

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. Paul brings to Pathfinder extensive sales and marketing experience in the image-guided surgery industry.

In September 2004, 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. HRG recently signed its 500th member institution, up from 350 in 2004.

**Tricycle Inc.** was the first deal in which NCN Angels partnered with the Southern Appalachian Fund. Tricycle offers proprietary products and services that significantly reduce the costs of sampling in the carpet industry. NCN Angels benefited from SAF's professional due diligence and deal structuring. Tricycle 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.

#### ADDITIONAL FUNDINGS RESULTING FROM NCN EFFORTS

In 2005, NCN made introductions and provided guidance that led to term sheets and funding for five local early-stage companies. NCN Angels participated in funding four of these companies. The fifth company was acquired before any financing took place.

#### COMPANIES PRESENTING TO NCN ANGEL GROUP

In 2005, NCN presented five new investment opportunities to the NCN Angel Group. NCN investors participated in all five of the deals. Since its inception, NCN has shown 12 deals to the Angel Group and

is directly responsible for bringing investment into 10 of these companies.

#### ADVISORY MEETINGS AND ADVISOR INVOLVEMENT

Since NCN's launch, we have organized advisory meetings assisting 38 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 90 companies with valuable feedback on their business plans and executive summaries. Since June of last year, 42 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 more than 40 Angels in the Angel Group. Individual investors commit \$1,000 a year to support NCN activity and consider investing in NCN deals. Increasing the number of Angel members and deal-flow activity within the Angel Group remain NCN priorities.

#### NCN EDUCATIONAL EVENTS

In October 2005, NCN sponsored a seminar on "Managing a Fast-Growing Company." Over 85 business people and students attended a panel discussion at Vanderbilt's Owen Graduate School of Management. In November, NCN co-sponsored a seminar on "Understanding Business Valuation." This event was extremely successful, with more than 100 executives registered for the half day session. Earlier, NCN hosted a panel discussion on "Organizing Your Company" which offered a distinguished panel *continued on page 3*



*continued from page 2* of entrepreneurs, investors and consultants discussing business-critical topics, including legal structure, capitalization and employment arrangements.

#### **DEAL FLOW AND SYNDICATION OPPORTUNITIES**

In 2005, NCN was in contact with over 70 new companies. Currently, our proprietary database houses over 220 companies, most of which reside in 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 within 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 the fall semester, 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 has already been offered a full time position with an investment bank and the other is pursuing a JD/MBA. Last year's interns graduated to positions with Stern Stewart, Midwest Research, Plum Creek Company (PCL), and the Corporate Advisory Board.

## **NCN Sponsors, Underwriters and Patrons**

NCN SPONSORS play a key role in NCN's efforts to foster entrepreneurial growth, thereby helping to build a strong business environment in middle Tennessee. In 2005 NCN was very pleased to add new sponsors Boulton, Cummings, Conners & Berry PLC and First Tennessee, new underwriter Bank of America, as well as new patrons Bowne of Nashville, DillonBrooks Financial, Kraft CPAs, Marsh USA, SSM Partners, Passport Health Communications, Richland Ventures and Sherrard & Roe.

### **NCN Sponsors**

American Healthways • Bass, Berry & Sims PLC • Boulton, Cummings, Conners & Berry PLC • First Tennessee • Dr. Thomas Frist, Jr. • Ingram Industries Inc. • 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  
Voyent Partners • Nashville Health Care Council

### **NCN Patrons**

Bowne of Nashville • Buffkin & Associates • Clayton Associates  
Chrysalis Ventures • DillonBrooks Financial Services • Kraft CPAs  
Marsh USA • Passport Health Communications • Richland Ventures  
Sherrard & Roe, PLC • SSM Partners



## SID CHAMBLESS

Executive Director  
Nashville Capital Network

Sid Chambless, 31, 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 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**, Nashville Technology Council; **Tom Cigarran**, Nashville Health Care Council; **Chase Cole**, Waller Lansden Dortch & Davis; **John Danner**, Technology Angel Investor; **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**, American Healthways