

Due Diligence Playbook

The purpose of the Due Diligence Playbook is to enable Lead Investors, and members of a Deal Team to gain a clear understanding of the Deal Diligence Process.

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Documents
located in
appendices



Next Steps



Syndication items



Best Practices

Post Pitch Meeting



Guidelines for the Post Pitch meeting - see Appendix p2.

The purpose of the 2 hour meeting after the company initially pitches to the membership is to determine whether we like the investment opportunity enough to commence due diligence. We should focus our evaluation on three areas:

Management Team
Business Model
Potential Deal Breakers

Things to bring to the meeting

- PowerPoint from company & application - received at Forum and available on Angelsoft
- Any business plan or executive summary that the company might have submitted with the application

Things to evaluate at the deep dive meeting:

1. Management Team: Leadership skills of entrepreneur (team building, problem solving, decision making); relevant experience of team members; Commitment, compensation, accountability, coachable. *Can we build a long term partnership with this team?*

2. Business Model: Who is the client? How will the company earn revenues/generate cash? What is the competition? Why is this better? *Is there a market for this product?*

3. Financial Deal: Make sure we obtain clarity about this round of financing: expectations on valuation, size of round, amount already committed etc.

Leading the meeting

- Take Attendance
- Make notes, write them up, post to Angelsoft
- Entrepreneur attends first 1.5 hours
- Investors meet alone for the last half hour

Before leaving the meeting

Make sure that there is enough interest in the company to move it into due diligence. Ask each investor present if they are still interested in investing in the company.

It is necessary to have a lead investor before we can move the company into due diligence. If no-one is willing to step forward and lead the deal, the deal cannot move into due diligence.

Identify any potential deal breakers - things that would prevent us moving forward with the deal if they cannot be resolved. Ask all those present to Rate & Review the deal on Angelsoft once they return to their desks.



Next Steps: Before moving into DD, we need to call for “soft circled” (*Considering Investing*) interest from all those *Observing* the deal. The Lead Investor will post the 2 hour meeting notes and give Observers a few days to read them and upgrade their interest level to *Considering Investing* in Angelsoft. We are looking for a critical mass of members to indicate interest before we can move into DD. If we do not have critical mass for a full group led DD process, some members may wish to invest anyway, in which case they should contact the company direct.

Kick Off : People



Guidelines for
Lead Investors -
see Appendix p5.

The purpose of the kick off is to identify people to work on the deal, create a process to provide efficiency, and to set expectations with the entrepreneur. First we need to ensure there is sufficient interest in *Considering Investing* (at least \$250k) in the deal. Kick off with a conference call with all investors interested in the deal.

Form a Due Diligence Team

Besides those who volunteer, it is important to draw in other members whose expertise, advice and/or contacts are needed in order to appropriately evaluate this particular deal:

- Financial
- Sector expertise
- Marketing
- Other, deal specific

Delegate tasks to members of the deal team. The more people involved and engaged the more likely it is that we will have a successful deal.

Role of the Lead Investor

The Lead Investor is the coordinator of the team, and the main communicator with the company. The Lead Investor is not meant to do all the work!

Role of the Deal Director

The Deal Director supports the Lead Investor in all aspects of managing the deal. She/he will be particularly involved in drafting the Term Sheet, and working closely with the Lead Investor and our lawyers to negotiate the Closing Documents.

Lead Investor role description - see Appendix p10.
Deal Director role description - see Appendix p11.



If the deal has been referred in by another Angel Group

We may be doing joint due diligence with a group that is a member of the Treaty (see page 14). This is the time to determine whether you are doing joint due diligence, and who from the other group might be a member of the DD team.

Meet with the Entrepreneur

It is extremely important for the Lead Investor and the Deal Director to meet with the entrepreneur at the beginning of the process to set expectations about the process and time line.

Kick Off: Process

The purpose of the kick off is to identify people to work on the deal, and a process to provide efficiency. First we need to ensure there is sufficient soft circled interest in the deal. The kick off starts with a conference call with all investors interested in the deal.

Set up a weekly conference call & calendar for the deal

The deal team might want to obtain a call in number from www.freeconferencecall.com that they can use for the duration of the due diligence process. Items to discuss:

- Which other groups should we be syndicating the deal with?
- When should we send the DD checklist to the company? See slide 5. You can see a copy of the check list in the Appendix on page 12 and page 14 for a target Calendar.



- When should we schedule a site visit? The Lead Investor should definitely do a site visit and others may wish to join. It is advisable to send the entrepreneur an agenda in advance to make sure it is productive. Note that each person pays their own travel expenses.
- When should we send a term sheet to the company? You need to weigh the benefits of sending it early in the process v. sending it late in the process - this will be deal specific.

Best Practice for recording progress



Towards the end of the due diligence you will need to write a deal memo. Keep this in mind as you make notes on the due diligence calls - make sure that you are collecting one or two paragraphs from team members on the due diligence they are responsible for (especially their ASSESSMENTS), so it can be easily cut and pasted into a deal memo.

If we are referring the deal OUT to other angel groups:

As you syndicate the deal with other angel groups it is important to determine whether you open your due diligence process up to those groups and include members of their DD team onto your team, or whether you are going to go through your process before referring the deal to that group. Including angels from other groups on your DD team helps to streamline the process, reduce the time frame, and potentially improve the quality of the due diligence. A judgment call needs to be made: how far into DD to we go before being sure enough we like the deal to refer it to other groups.

Research: DD Check List



A copy of a check list that can be sent to the company is found in the Appendix on p12.

The purpose of the check list is to make a request for information from the company. The check list will include several different types of information:

- information that the company needs to send to you
- things you will want to discuss on the phone with the company
- disclosures that the company will have to put into the closing documents (it's better to learn what they might be now, than at the end of the process).

When should we send the DD Check list?

Note that a DD check list should not be sent until any large potential deal breakers have initially been identified and resolved. Responding to the checklist will require preparation and disclosure on the part of the company - it could be viewed as annoying if not unethical to call in this information before you are sure you will move ahead with the deal. Entrepreneurs are sharing information that they consider to be highly confidential and proprietary.

Non Disclosure Agreements (NDAs)

Most angel groups and VCs do not sign NDAs. This is because we see so many deals, all the information melds into our DNA, and it would be impossible to segregate our collective knowledge by what we have learned from 1,000 different companies. Secondly, there is no way we can bind all our members, except through our membership agreement. Therefore, we advise companies that all our members have signed a confidentiality clause in the membership agreement. So, it is important that we respect the information we receive, and the confidentiality that is entrusted to us. We should always keep specific information to ourselves, and NEVER send even an executive summary to someone outside our group without first obtaining clearance from the entrepreneur.

Exceptions: During our DD process, we will sometimes want to have an expert (either inside or outside our group) help us evaluate a company's technology. We can advise the entrepreneur that we will ask that individual to sign an NDA in order for them to be able to complete their assessment.

Evaluating the Entrepreneur

Through the due diligence process we are continually assessing the entrepreneur: how organized is she? How easy was it for him to pull together the information? Is she responsive and candid? Does he have integrity? Is this someone you would like to work with for the next 5 - 7 years?

Research: Market Opportunity

The purpose of researching the market opportunity is to ensure that we have an independent view of the size of the market. Here's why it's important: potential acquirers are Fortune 1000 companies: if they buy a company with, say, \$20million in revenues, they need to know that they can grow that into a \$350 - \$500m business, without needing to own more than, say, 40% of market share. This is why venture investments typically require a market opportunity of \$1bn.

Market Opportunity

This might be the most important piece of research to get right. Ultimately we need to determine whether there is a significant market opportunity for this product.

1. **What** is the need? What problem is being solved?
2. **Who** has the need? How compelling is their need? Who is the target buyer?
3. **How** does the product meet the need? How is this product better and different from its competitors?

Validation of Market Opportunity

We need to do our own research to answer the following questions:

1. **The What:** Does the need really exist? Does the company have data to prove this? How good is their data?
2. **The Who:** Are there enough of them? Is there at least \$1billion being spent today in this sector? How has the company sized the market? Do we agree? Can we size it ourselves? How difficult are the buyers to find and sell to?
3. **The How:** What competition is out there - either real today or potential competition? Does the company know their competitors? Have they made an evaluation of, and can they articulate, their competitive advantage?

Use of MBA Interns to support research phase

Interns may be available to assist in this research. We can ask them to do the following:

- Size the market opportunity
- Create a competitive analysis

The work of an intern should always be overseen by the Lead Investor and Deal Team.



MBA Intern
role
description -
see Appendix
p15.

Research: Competition

The purpose of researching the competition is to ensure that we agree with the entrepreneur's assessment of the company's competitive advantage and barriers to entry. This is an important input into our assessment of the management team.

Competition

When assessing the competition, we need to look at current competitors as well as potential competitors. We should expect the company to know exactly who the competition is, and quite a lot about them. She should also know which large players are already in the space, and understand what would prevent them from throwing money at the problem and then being able to compete aggressively. Some of these might be potential acquirers.

Red flag: "we have no competition"

Value Proposition

The company ought to be able to articulate this in a couple of sentences. We need to determine whether it is compelling, and whether it does indeed represent something that the competition cannot and will not be able to offer.

Barriers to Entry

We need to understand what will prevent others from entering the space and preventing the company from growing, if not taking market share away. Intellectual property is an important and highly desirable barrier to entry, but there may be softer ones that are also relevant. Rarely are there any significant barriers to entry in the consumer goods sector, for software it is more applicable and desirable, and in other sectors such as life sciences we might not want to move forward without it.



Best Practice for Competitive Analysis

Using a grid or matrix, show each competitor in comparison to the company that is in due diligence - you might compare features of a product in a grid, or indicate how the company differentiates itself in the marketplace in a matrix. See example in Deal Memo Template - Appendix p20.

Research: Exit

The purpose of researching the exit is to ensure that the company's perspective on the potential exit is realistic, and to help evaluate the potential return on the deal.

IPO or M&A?

The reality is that most of our deals are likely to be exited through M&A, rather than through an IPO. In either case, at that time the company should consider hiring an investment banker as typically they can improve the price of an M&A transaction by ensuring there are competing bids for the company.

Potential Acquirers

The company should be able to identify a list of potential acquirers, and ought to start working on developing relationships with names on the list throughout the next several years. The more relationships, the more competition there will be when the time comes to sell the company. We recommend developing a "road to exit" in the board-approved strategy, as this will affect the long term strategic direction of the company, and can influence short term decisions.

Exit Multiples

These fluctuate with market forces. A database of multiples can be created and gleaned from many informal sources. You should consider adding new data to that database as you learn more about the market you are researching. An investment bank can provide accurate and up to date data by sector. Ideally we would have multiples of sales, and multiples of EBITDA, but sales multiples are easier to obtain, and are often disclosed in a press release. We would expect the entrepreneur to have a very good handle on this for her sector.

Software multiples tend to fluctuate between 2 - 4X sales, and between 5 - 8X EBITDA.

Consumer goods multiples tend to vary by category. Beverages were high during the years when Pepsi and Coke were competing to buy niche brands. Brands should trade on a multiple of sales, but a company that has failed to build a brand over several years will probably trade on EBITDA. Therefore, focus on net income growth is essential - sales alone might not create a happy exit. Sales multiples can be 1X or less in a poor economy.

The purpose of evaluating the return potential is to determine whether this investment provides an appropriate return for the use of our capital, including whether the risk we are taking by the investment is adequately balanced by the potential reward.

The return calculator

We use a return calculator to plug in assumptions about the deal and evaluate the potential return. Variable inputs include the company's financial projections, additional capital needed between the current round and the exit, the impact of liquidation preferences on our return (for example, and exit multiples. We do not include the return calculator in the Deal Memo, as it gets shared with syndicate investors outside our group, and we do not want to be representing to outsiders that this investment has any particular return expectation. But we should keep a copy in Angelsoft, together with some record of the assumptions that were used. A copy of the return calculator is in the Appendix p17.



Financial Projections

A key input to the return calculator is the company's financial projections. Initially we will just take the company's numbers to do a quick and dirty potential return calculation. As we move into financial diligence these numbers will get tightened up. If at first blush they look wildly optimistic you should haircut them before evaluating the potential return.

What is an acceptable return for an early stage investment?

Everyone has a different expectation, and we hear some people saying "I need a 50X potential return before I will invest". Perhaps more commonly we will hear 10X as the bar. Although this sounds like a lot (compared to stock and bond market returns) it is a valid expectation based on the risky nature of the investments we make. If the return potential is lower than this, you might still go ahead with the investment, but you might want to be able to see some factors that will mitigate the risk to counteract the lower potential return.

Research: Reference Checks



See Appendix p18 for guidelines for making reference calls.

Reference Checks are made on the following:

- Each member of the management team
- Members of the Board
- Advisory Board members
- Business partners
- Customers

Call notes should be written up and posted to Angelsoft. Make sure they include an assessment of what was learned from the call.

The purpose of reference checks is to evaluate:

1. the quality of the management team, and the people that the CEO has brought in to support the company. What we are looking for is an ASSESSMENT of the CEO/founders, and the team as a whole.
2. the quality of relationships the company has with its customers and partners, why they are buying, whether they will be a long term customer, competitive positioning etc.

Who makes the calls

Any member of the deal team can make the reference calls, but it is advisable for the prospective board member to do the interviews with the other board members. This will enable her/him to start to develop a relationship with those board members, as well as assess whether this is a board she would like be on!

Background Checks: We pay for background checks on the management team with an ACA approved firm.

Site Visits: It is important to visit the company in their offices during the DD process. The lead investor should attend.

Customer Reference Checks: Often the company will hold back on giving us customer contact information until she is sure we are going forward with a deal. If we are leading the deal we will definitely do them, or divide them amongst the syndicate. Whoever does the calls should be willing to pass on the findings to the rest of the investors in the syndicate. We do understand the company's reluctance to have multiple investors calling the same people (often it's a short list at this stage in the company's development).


Best Practice for Reference Checks

The company will provide referees that are sure to provide glowing reports of the management team. It is important to obtain some independent references, and you can often do this by asking referees from the list provided by the company if they can connect you with any other people who have worked closely with the individual. Look at the list provided and think hard about who is NOT on the list that should be - e.g.: the CEO of a start up that the person used to work in ... see if you can track him or her down.

Research: Review

The purpose of the Review phase is to go through all the information that has been sent in by the company, combine it with the independent research already done, and determine whether we expect to go forward with a deal or not. The main areas for review are listed below. What we need is an **ASSESSMENT** of each of these from the DD team.

- **Technology** - need to obtain opinions from experts in the field. Some experts will be provided by the entrepreneur. We also need to dig amongst our networks to find our own.
- **Business Model** - evaluate how the company will earn revenues and generate cash - does it make sense? Is it realistic? Does the financial strategy make sense? How will management react to potential changes in the market, the players, pricing etc?
- **Financial Model** - evaluate how robust and realistic the company's financial projections are. Digging into all the assumptions made will also help us to assess the entrepreneur's ability to execute on the plan.
- **Financials - P&L, Balance Sheet, Cash Flow** - look for debt and payables and determine impact of these on how our investment dollars will be used; receivables can tell you a lot about the client base. Aging summaries can tell you a lot about the company's financial controls. It's important that there is enough cash to get through to the next round of funding, which is usually at least 12 months away.
- **Sales & Marketing Strategy** - determine whether the company really knows who the target audience is for the product, and how to find them. An important question is: how difficult will it be to market the product? Key points of evaluation are (a) cost of obtaining customers and (b) how long it will take to ramp.
- **Sales Pipeline** - evaluate quality and extent of potential revenues, as well as quality of the process
- **People** - the management team, board and advisors: where are the gaps in the team? How will they be filled? What is the quality and experience level of the team? Is the entrepreneur capable of building a world class team?
- **Intellectual Property** - normally we do not use outside advisors to review patents etc. We do have some considerable expertise in the group so should leverage those.
- **Contracts** - one person should review every contract written by the company. The prospective board member might find this to be a valuable exercise as that person will become familiar with many of the day to day issues the entrepreneur will be facing post investment. Query anything you do not understand with the entrepreneur. From our experience all sorts of interesting things come up during this process! You do not have to be lawyer to do this.



Next Steps: As we move through the Review phase we need to determine when we want to present the company with a Term Sheet. You do not have to wait for all the DD to be completed before doing this. Sometimes presenting a Term Sheet pre-emptively can bring something to a head that you were starting to think of as a deal breaker, e.g.: management team compensation, or company valuation etc. However, it is important to make sure you have enough investor interest in the deal to present the Term Sheet. Therefore, before submitting it you should circle back to all investors interested in the deal and get an update on their interest in the deal.

Drafting: Term Sheet

The purpose of the Term Sheet is to advise the company that you intend to invest, pending successful completion of due diligence. The Term Sheet outlines the key business and legal terms that you expect to be included in the Closing Documents.

Process

- Hold a conference call with all investors in the deal to ensure engagement and agreement on key terms, especially valuation and basic structure of the deal. Use this call as a go/no go decision on the deal (see previous page).
- Draft Term Sheet using a Pro Forma (see below).
- Lead Investor advises the entrepreneur verbally what we are thinking in terms of valuation and structure, to ensure there is general agreement and to flush out any issues from her side.
- Send draft to entrepreneur and post on Angelsoft.
- Entrepreneur to discuss with her lawyer and discuss any issues with us.
- Once it has been agreed, it is advisable to have all parties sign, but sometimes it remains in draft - depending on how quickly the deal will get to closing.

Key items to negotiate:

- Fully diluted pre-money valuation and size of round
- Minimum close
- Liquidation preference
- Anti-dilution
- Board representation
- Need to see a capitalization table in order to determine appropriate voting by class of stock (can be adjusted during closing document negotiation)

Type of deal

We are typically doing a Series A participating preferred stock. Sometime we do convertible notes. A convertible note is easier to complete, with fewer legal fees, but as an investor you have far fewer rights than an equity owner.

Do we use a lawyer at this stage?

Not usually, but exceptions are made in unusual situations. Note that few of the terms in the Term Sheet are legally binding. If we do use a lawyer at this stage, and the deal does not close, we will need to find a way to pay that bill (might be those investors who were interested in the deal). A good term sheet can make the closing documentation review easier.

National Venture Capital Association Documents (available to download at www.nvca.org)

The NVCA has created pro forma term sheets and closing documents that represent a consensus from the venture capital community. Not all of the terms are definitive, so although our pro forma is based on the NVCA documents, there are some variations. In negotiations, we would err on the side of agreeing to the NVCA standards. It is helpful to recommend the use of these documents to the entrepreneur.

Drafting: Deal Memo



See Appendix
p20 for the Deal
Memo Template

The purpose of the Deal Memo is to summarize the pros and cons of the deal, to inform all members of the group that we are ready to close a deal, and to give others in the group the ability to invest in the deal.

Who writes the Deal Memo

The Lead Investor is also the Lead Editor of the Deal Memo! If he/she has given good guidance to team members, asking them to write up short and succinct descriptions of their areas of review, together with a short and succinct ASSESSMENT of it, all he/she has to do is a bit of cutting and pasting. Note that the Deal Memo is not a MARKETING document for the deal. We want investors to know all about the investment, warts and all, and to make their own decision about whether to invest or not. Note that the Deal Memo may be shared with potential syndicate partners outside of the group.



Best Practices for Deal Memos


- Short paragraphs
- Enable it to become the single source of information on the deal (i.e., get the data right)
- Assessments of each section
- Disclaimers
- Tell all the news, good & bad
- Protect individuals who provided expert opinion or assessment by explaining who they are via their credentials rather than identifying them by name (especially experts from outside the group)
- Summarize reference calls into key points learned from all sources - do not reproduce call notes.
- Do not include return expectations
- Use attachments for larger spreadsheets



Next Steps: Once the Deal Memo has been sent to all members, ask them to “hard circle” their investment commitment. This means upgrading their interest on Angelsoft to *Funds Committed*.


The purpose of syndicating the deal is to work with other angel groups and early stage venture capital funds to build strong partnerships and to help complete this and subsequent rounds.

Syndication Partners

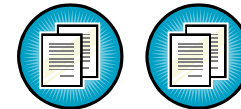


Most groups rarely have enough capital to do a whole round ourselves. Even if we have a “hot” deal that is over subscribed, we might want to bring in some partners. A syndicate will help with later rounds, and if we do not show our strong deals to partners, they might become suspicious if we only show them deals that we were not able to get done ourselves. As we approach the closing it is important to remain close to potential syndication partners to ensure they will be able to close alongside us. Note that we mention considering who potential syndication might be for the deal in slide 4 - at the time of the Kick Off. Start early!

Sharing a Deal Memo outside of the group



When syndicating a deal with another angel group, VC or individual investor, we will share our Deal Memo. We only share the detailed due diligence with groups who are members of the Treaty, and those have access to our deal room in AngelSoft. Prior to sending a Deal Memo to a potential investor we need to obtain a waiver letter, unless it is an angel group that is a member of the angel group’s Treaty.



See Appendix p26 for a copy of the Treaty and a list of angel groups that we know are party to the Treaty. An updated list of treaty members can be obtained from Bill Swiggart in Boston: wfs@swiggartagin.com . A copy of the waiver letter is shown on p28



Getting the Waiver Letter signed

The Lead Investor should work directly with syndication partners and send them the waiver letter.


Closing Documents

The purpose of the Closing Documents is to ensure that once we make the investment, we have a legal contract that will ensure all our rights and responsibilities are memorialized.

The Close

Once we are sure we know exactly how much capital we will be investing in the deal, we can prepare for the closing. The Lead Investor should determine a closing date together with the entrepreneur.

- Typically it takes 2 - 3 weeks to negotiate the closing documents
- We want to ensure that our members have at least 5 business days or a weekend to review the final documents
- Members should be reminded NOT to sign documents or send money until they are given the go ahead by the Lead Investor.
- The Investor Liaison will provide names and addresses of investors indicating *Funds Committed* to the company in preparation for the closing.



Syndication issues: We do not want the company to pay legal fees for multiple angel groups. Therefore, one group should be leading the deal, and their lawyers should be reviewing the documents for all groups. If a Lead Investor from another group has an issue, it might be possible for that person to speak directly to the legal firm working for the Lead Group.

Working with the group's lawyers

Usually the group's lawyers know they cannot start to work on a deal until they have the go ahead from one of the leaders of the group. We discuss a cap on their fees for their work. A typical cap for a convertible note can be \$5k - \$7k, and for a Series A Preferred \$15 - \$20k. If the company has done more than one round of equity prior to this, the cap might closer to \$25 - \$30k.

The entrepreneur's lawyer

We want to make sure the entrepreneur is well represented by a lawyer with experience in equity investments. We can refer her to a good lawyer if there is any doubt about the experience or quality of her lawyer.



Best Practice - a "fax back package" for investors

Let the entrepreneur know that she should ask her lawyer to create a fax back package for the investors. Components of the package: (1) signature pages *only* so that the investors can easily locate their signature requirements; (2) a fax header sheet so they can ensure the signature pages are faxed to the right person; (3) instructions for wiring funds and/or for sending checks.

Follow on Round: Kick Off

For Follow on rounds, the process is similar, with some differences.

Three important things to determine up front:

1. Are the current investors going to take up their pro rata share?
2. Is the round open for new investors? If yes, do we have new investors Considering Investing (“soft circled”) in the deal?
3. Who is leading the new round?

Scenario 1: We lead the deal

Prior investors take up their pro rata.
New investors join the round.
We lead the deal.
Our Fund is participating.
Proceed to Follow On DD Process



Scenario 2: We are not leading, but are very involved in the deal

Prior investors take up their pro rata.
New investors join the round.
We are not leading the deal.
Proceed to Follow On DD Process



Scenario 3: We are not leading nor are we very involved in the deal

We have some prior investors in the round, but no new investors and we are not leading the deal.



Follow on DD Process: Similarities with a first round process

- Hold a 2 hour post pitch meeting to determine whether we have sufficient interest from new investors to commence DD.
- Determine up front the most important items to evaluate in a due diligence process
- Form a due diligence team
- Set up weekly calls and a time line/calendar

Follow on DD process: Differences from a first round process

- The round will be co-led by the Board member who already represents us, and a new Lead Investor who will work with new investors on any new due diligence items.
- When it comes to the Term Sheet and Closing Documents: For Scenario 1 we will draft and negotiate, but for scenario 2, we will need to understanding the deal and influence the terms if possible.

No formal due diligence process

- Board member ensures he/she understands the deal
- Conference calls with prior investors to ensure the deal is properly understood
- Consider engaging legal advice on the new deal

The new due diligence does not have to include all aspects of the DD process covered in a first round deal

New investors will need to get up to speed with the due diligence done in the initial round. They should read all the information on that first round on Angelsoft, especially the Deal Memo, and should discuss any issues with the Board Member. The Co-Leads should hold a conference call with new investors and come to a consensus on what items need to be investigated. The following is recommended:

- Determine what has CHANGED since the original due diligence was completed, and decide whether any of those changed items require additional research or not.
- Evaluate updated financials to understand what the new cash is to be spent on, how far it will last, and what the plan is when it runs out.
- Ensure deal terms are worked out that will balance the rights of prior investors with the need to bring in new money.
- There is no need to do a new Deal Memo. The Co-Lead Investors can determine whether they overlay their updated DD in the old Deal Memo, or whether they will do a separate write up of their work.

Venture Capital involvement

1. VCs may be involved in a follow on round. Ideally the company and our Board Member have been cultivating VC relationships. Some VCs will want to lead the deal, and some will look to us to lead. Similarly to a first round deal, we will share our Deal Memo after receiving a waiver letter (see slide 13, and Appendix p28).
2. Prior investors will need to consent to the new round, both in terms of size, structure and terms.

Follow on Round: Notes

Note 1

It is important to determine up front who is leading the round, as that party will draft the Term Sheet. If there is no clear lead, then the company will need to draft a Term Sheet. Our Board Member will want to work closely with the company to assist in this, but in this situation we need to be clear whether we are leading or just assisting.

Note 2

If a group's Fund is involved in the prior round, then the Managing Partners of the Fund will probably have significant involvement in the follow on round, owing to their fiduciary responsibility to the Limited Partners of the fund.

Note 3


If the company is out of cash, should we/our Board member support it while the deal is being worked out? First, we should be working in advance to prevent this scenario. But, it is possible that a company hits a wall. So, it's important to be clear about this. The answer to the question is: there is DEFINITELY no obligation. This is definitely not something a board member is expected to do. However, a board member might WANT to. If our board member wants to put money in, she should ensure that all members have a chance to participate. And, we should all negotiate together, as our negotiating power is stronger - supporting a company in the interim may be weakening our bargaining power. Also, we would prefer not to have debt from one member layered on top of equity of others unless it is well understood in advance. Good communication is key.



Appendix to the Golden Seeds Due Diligence Playbook

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The latest version of each item in this Appendix is available in Angel Soft in the Documents section. The Angel Soft logo advises where you can locate the specific document. 

Guidelines for two hour post forum (“Deep Dive”) Meeting

Things to bring to the meeting – Investors

- Powerpoint that the company presented at the Forum
- Golden Seeds application that you received at the Forum
- Any business plan or executive summary that the company might have submitted with the application – you will find these on Angel Soft. Not necessary to bring, but you might want to.

Things to bring to the meeting – Entrepreneur

(note that our Entrepreneur Liaison will advise the entrepreneur what to bring)

- Powerpoint that was presented to the Forum
- Golden Seeds application that was submitted through Angel Soft
- Any other documents submitted with the application eg executive summary, business plan etc
- Product demo on laptop (if there is time the investors might request to see it at the meeting)

Purpose: Go/No Go Decision on Due Diligence

The purpose of the Deep Dive meeting is to spend enough time with the company to determine whether we like the investment opportunity enough to commence due diligence. We should focus our evaluation on three areas:

1. Management Team
2. Business Model
3. Potential Deal Breakers

A note about providing advice and guidance during the meeting

Attendees at the meeting should be aware that during the first hour of the meeting we should be extracting information, not giving advice or opinions. If the leader of the meeting judges that this company is not investible, then it might be worth changing the tone for the second half of the meeting, so that we try to provide some advice to the company: what they would need to do in order to meet basic investment requirements. On the other hand, if the meeting is going well, but there are some critical strategic issues that we think the company will need to address in due diligence, then we can communicate those to her during or immediately after the meeting.

1. Management Team

- (a) We are trying to evaluate whether the CEO has the potential to grow this company to the next level. Questions we need to be able to answer for ourselves by the end of the session include:
- Does she behave like an entrepreneur?
 - Is she resourceful?
 - Does she take responsibility?
 - Is she a problem solver?
 - Can she hire good people?
 - Can she build a team?

- Can she make deals?
 - Can she make big decisions?
 - Will she be willing to be held accountable?
 - Can she sell?
 - Is she honest?
 - Is she someone we would enjoy working with for a long time?
 - Can we build a partnership?
 - Will she be a good steward of our cash?
 - How much is she going to draw out of the funding to pay herself?
- (b) Other members of the management team: We need to evaluate the caliber of the people that the CEO is gathering around her. Questions we should be able to answer include:
- How critical is this person to the success of the company?
 - Is this person appropriately compensated and incentivized?
 - How long will the person be committed to the company?
 - Are his/her skills complementary to the CEO?
 - How well does he/she know the job?

Ultimately we need to determine whether this team has the ability to build value in the company in the next 3 – 5 years.

2. Business Model

We need to make sure we really understand the business model as proposed by the entrepreneur:

- Who is going to pay for the product (target customers)
- What exactly they are willing to pay for it
- Is the pricing appropriate? Margins?
- How is the company going to attract paying customers?
- How long will it take to win over a client, from initial contact to contract, to dollars coming in the door?

Ultimately we need to evaluate whether the business model makes sense, whether there will be market adoption, and how realistic the company's plans are to get to break even.

Investor Deliberation

Twenty minutes before the end of the two hour meeting the leader of the meeting should ask the entrepreneur to leave, and should advise her that we will let her know within 24 hours whether we plan to move into due diligence or not. The attendees then need to determine whether:

- (a) they are sufficiently interested in the company to move into due diligence, and
- (b) there are any potential deal breakers that should be addressed up front before we kick in with our usual due diligence process, and
- (c) if the decision is to move into due diligence, who should lead the deal.

NOTE: If nobody steps forward to lead the deal, we will not be proceeding with the deal.

Summary

First hour + 40 minutes	<ul style="list-style-type: none">• Evaluate management team• Review business model
Last 20 minutes	Entrepreneur leaves Investor deliberation: <ul style="list-style-type: none">• Decide whether to commence due diligence or not• Identify any potential deal breakers that should be addressed up front• Identify Lead Investor



A copy of this item is available on Angel Soft in Documents/Deep Dive info

Guidelines for Lead Investors

The Lead Investor is appointed at the end of the two hour due diligence meeting. As seen in the Role Description, the role is one of co-ordination of due diligence amongst the investors interested in a deal, and communication with the company.

Getting Started - the Big Issues

At the two hour meeting, typically several important questions surface. If these are potential deal-breakers, it is best to get to the bottom of them before doing a lot of work. Therefore, a phone call with the entrepreneur highlighting those issues is a good first step. Together you can work out how to deal with these issues – is it research to be done on our side? Is it information the entrepreneur can provide you with? Is there someone in the industry we can talk to in order to get comfortable on a specific point?

Early communications with interested investors

It is a good idea to start the communications with interested investors soon, as this creates some momentum behind the deal. After the phone call with the entrepreneur (above), you might want to send an email to all interested investors advising them of the outcome of the call. Note that to send emails to investors interested in the deal, you should do this through Angel Soft as follows: Click on Deal Messages, New Message. You might want to consider clicking on the “email replies only to me” box – use your judgment about this, as it might vary depending on the content of the email. Alternatively, emails can be sent from your email systems by addressing them to: [companyname@goldenseeds.angelgroups.net] The actual address for your deal can be found when you click on Messages in the Deal Room.

Another thing to do very early on: use Angel Soft to ask the interested investors to rate the deal and provide feedback. You can do this by sending a *Deal Alert* or *Deal Message*

Making notes in the deal room without sending out an email

You can do this with a *Deal Message* (simply uncheck the box that says send to Interested Investors). We encourage you to put information in there that should become a part of the deal record, but that you might not be sending around in an email.

The Due Diligence Check List

A copy of the DD check list is in on Angel Soft in *Group Documents*. The entrepreneur will be asked to post all requested documents to Angel Soft direct. It is important that you do not ask them to send the documents to you, as otherwise you will end up in the unhappy position of having to upload them to Angel Soft. You can confirm with them that all they need to do to post the documents is to email them to the following address: [companyname@goldenseeds.angelgroups.net].

The Time Line/Calendar

At the same time, you should create a Timeline for the due diligence process, to ensure we keep everything on track. One of the first things on the timeline is a phone call (the “Kick Off”) with all interested investors so you can get input on items to be covered in due diligence, and so you can parcel out the work that needs to be done with the information submitted by the company. There is a calendar template on Angel Soft that you can use.

Regular Weekly Phone calls

It is a good idea to establish at the Kick Off a regularly scheduled weekly phone call so that all investors (but especially the Deal Team) can put this on their calendar. Our Entrepreneur Liaison will assign a call in number to the deal that can be used each week.

The Deal Team

Typically, those investors who attended the first phone call become the core of the Deal Team. However, don’t rely solely on this group – you can also ask others interested in the deal to do some work even if they did not attend that call.

Note that there are some guidelines for making reference calls on Angel Soft. Because these calls will be included in the deal memo, it is important that good notes are taken that include the people involved in the call and the date. The notes can be published to Angel Soft by sending an email to [companyname@goldenseeds.angelgroups.net]. You should make sure that anyone who is making calls provides a written assessment that you can use to cut and paste into the deal memo. This will save you a lot of work later. Please encourage callers to use good judgment before posting anything of a sensitive nature that has been revealed in a call. If they have concerns, they should consult with you before posting. We want honest feedback, but we need to be sensitive to confidentiality issues and respect for the entrepreneurs in how we communicate personal information.

In addition, we will be assigning an MBA intern to the Deal Team. Normally we will be asking her to do the research on the Competition and the Market, but you can ask her to do other research as well. Note that reference calls should only be done by investors.

Research:

- The Company’s Financials, including Financial Statements, Financial Model, Pricing Model, Accounts Payable etc.
- The Competition
- The Market
- The Company’s Material Contracts
- The Company’s Intellectual Property portfolio

Things you should become familiar with yourself, and get comfortable with in terms of the company’s approach:

- Business Model
- Financials (Historical and Projected)
- Funding Strategy
- Cap table
- Deal Terms if there is an existing term sheet
- Reps and Warranties

Things you should go over on the phone with the company: all items in Section 2 & 3 of the DD checklist.

In person meeting with interested investors and/or the Deal Team

We encourage you to put together a face to face meeting about 3 weeks into due diligence. This should be included in the Time Line, and it might be worth scheduling it at the Kick Off. This will help you to maintain momentum around your deal, and will enable everyone to regroup and get to up to speed on the issues, or identify new ones.

Soft circling investment interest

Right after the Deep Dive meeting you need to get all interested investors to signal to you whether they really are interested in investing in the deal or not. We need to get at least 6 – 10 people indicating a “soft circle” interest in the deal, which in Angel Soft means Considering Investing. This will give you an idea about whether we have enough interest to be able to negotiate a lead investor role for the round, obtain a board seat etc. If we discover that we have less than 6 people interested in the deal at this point we should consider not going any further. If at any time someone downgrades their interest, you should follow up with them and get their reasons why, and post this on Angel Soft. It might be an item that you will need to do additional DD on.

The Deal Memo

Once you are pretty sure you are going forward with the deal, then you need to start working on the Deal Memo. There is a template on Angel Soft.

The Term Sheet

At about this time you will need to draft a Term Sheet. One of the Forum Leaders can help you with this. Once you have it drafted, you should email it to the Company. The Company will typically discuss it with their Board and lawyer, and will then come back with a lot of questions – the negotiation has started! Keep your Forum Leader supporter very close by at this time as there are lots of questions and answers! Sometimes you will hold calls with the entrepreneur, other times all the back and forth happens on email.

Board Seat

By the time we get to the Term Sheet negotiation we need to decide whether we want a board seat (we do) and who should go on it. Sometimes the Lead Investor goes on the board, but it is a good idea to always think about who might be the best person from our group that should go on before making that

a done decision. It will be in everyone's best interests to put the person we think is in the best position to support the company for the next several years on the Board.

Hard Circling investment interest

Before we start working on the documents, we need to make sure that we know exactly how much. This is because once we pass the term sheet to our lawyers and start working on the closing documents, we start to incur legal fees. It is very important NOT to incur legal fees until we are certain we are going ahead with a deal, as otherwise it will be up to us as investors to pay the fees. Therefore, either Peggy or Stephanie will assist in negotiating a cap on the fees with the lawyers, and ensure that we have IN WRITING the agreement of the company to pay our legal fees. This might be covered by the term sheet, but if not, we need to at least get it on email. You can send out another message through Angel Soft asking people to hard circle their interest by upgrading their commitment to Funds Committed. As the lead investor, you may also find it necessary to follow up individually with people who are "on the fence" to answer any questions they have about the Company or the transaction. Since only a portion of our members will actively participate in the due diligence process, the entrepreneur will be dependent on you to help communicate the merits and risks of the deal to other members of Golden Seeds.

Marketing the deal

It is certainly true that a good Lead Investor will become an advocate for the deal she is leading, and you should not be afraid to try to drum up interest in your deal. However, we ALWAYS present the investment risks and merits so that each individual can make her or his own decision. We definitely don't want advocacy to become arm twisting.

Closing

Once the Term Sheet is negotiated, you should get a signed copy back from the Company. We then pass it to our lawyers as they will use it to negotiate the final documentation. Sometimes if there are odd things happening in the Term Sheet negotiation we will draw them in earlier. It is a good idea to stay close to the legal discussions that are happening between ours and the company's lawyers, in case they are wrangling over something that we do not much care about! The Company's lawyers draft the documents. We advise them to use the National Venture Capital Association documents that can be downloaded from www.nvca.org.

The things to look out for at this time are who will have the largest voting blocks by classes of shares once the new investment is made, so as to determine whether we as a group can control our own destiny in the protective provisions. The lawyers will be looking at this and will want to discuss it with us.

A closing date should be set for a week or so after the documents have been finalized. We think it is important to give investors a weekend over which they can review the documents before signing and wiring funds. As many of our members travel internationally, be sure to provide advance notice of the estimated closing date. It is very important to clearly outline the date, even if the round may remain open, in order to expedite the decision making process once all our work has been completed.

Relationship with Entrepreneurs

Whether we go forward with a deal or not, it is important for our reputation (which ultimately affects quality of deal flow) that we keep up a regular communication with the entrepreneur and treat her with respect - overall the experience needs to be a positive one for them. Once we get the feeling a deal is not going to go ahead, we should bust it ASAP. One of the biggest grievances that entrepreneurs have is that angels string the dialogue along for months and then no deal comes through. When we do bust a deal, we should do so in a constructive way, providing the entrepreneur with the feedback that will enable her to fully understand the investor's perspective.

Syndicating the Deal

Once a deal memo is written we can begin a syndication process for the deal. Throughout the process you should keep current on where the entrepreneur stands in terms of funding progress and how much is left to be done. The forum leaders can advise you and the entrepreneur on where she should apply. We are developing broad contacts with angel groups around the country. Most angel groups are party to a treaty agreement that permits us to share our deal memo with them. As lead investor you should expect to be contacted by staff or the lead investors of other groups.



A copy of this item is available on Angel Soft in Documents/Due Diligence/Lead Investors

Role of the Lead Investor

The Lead Investor role is one of coordination and communication, in two directions...

...with the Due Diligence Team/Investor Group

Once a Due Diligence Team is formed a Lead Investor is appointed and that person takes responsibility for ensuring the Due Diligence is completed in a timely manner. He/she does this by:

1. Allocating due diligence responsibilities amongst team members.
2. Communicating issues or concerns that arise as part of the due diligence to the company.
3. Obtaining additional information from the company when required.
4. Deciding when to set up conference calls amongst the investors either with or without the company at important decision points.
5. Staying current with which investors are interested in investing, and if anyone drops out, making sure the reason is understood.
6. Providing feedback to the company, especially if we decide not to go ahead with an investment, to ensure they understand why we are not proceeding.
7. Drafting the Term Sheet in conjunction with help from one of the Forum Leaders.
8. Negotiating terms with the company, again with help of one of the Forum Leaders.
9. Negotiating final documentation.

...with the Entrepreneur

The Lead Investor becomes the primary point of contact between Golden Seeds and all those interested in investing in the company. The purpose is to streamline communications so that the entrepreneur does not have to communicate with a myriad of people.

Notes

1. Lead Investors will be strongly supported by the Golden Seeds team throughout the process (especially during the first couple of times he/she might play that role) and are encouraged to review their analyses of the company with the Golden Seeds team.
2. A Lead Investor might decide during or at the end of the due diligence process that she does not want to invest in the deal after all. That's OK. We will appoint an alternative Lead Investor if and when that happens.

Post Funding

During the due diligence process we need to determine who in our network would be the best person to represent us on the Board of the company. Usually the Lead Investor does take this role, but we should not automatically assume it.



A copy of this item is available on Angel Soft in Documents/Job Descriptions

Role of the Deal Director

The role of the Deal Director “Deal Director” is to provide senior oversight and consistent support to our Lead Investors across groups. Typically, a member volunteers to lead a deal because she/he is very interested in the deal itself, and is usually (but not always) an expert in the sector that the company is in. Most of our members will probably only lead one or two deals in any five year period, and will usually go on to sit on the board of that company once the deal has been funded. Lead Investors are rarely experienced in running and negotiating a deal.

Here’s what is needed: several senior people in our organization who can work with the Lead Investors, to ensure that all aspects of due diligence are completed, to provide guidance about what issues are deal breakers and what can be resolved or negotiated, to assist in the writing of the Deal Memo, and to help negotiate the Term Sheet and Closing Documents.

Here is how we would expect the role to evolve around any given deal:


1. The Deal Director will be assigned to a deal once we know we are doing a Deep Dive meeting. The Deal Director will attend that meeting.
2. The Deal Director will write up the notes from the Deep Dive meeting (regardless whether the decision at the Deep Dive meeting was “Go” or “No Go”) and forward to all investors interested in the deal via Angel Soft.
3. If a “Go” decision is made, the Deal Director will then work with the Lead Investor as follows:
 - Go through the Guidelines for Lead Investors with the Lead Investor
 - Help the Lead Investor complete a calendar/timeline to get through all the due diligence
 - Attend all meetings and conference calls related to that deal
 - Assist the Lead Investor with all key decisions made during the due diligence process
 - Lead in the creation and analysis required for the return calculator
 - Support the Lead Investor in the drafting of the Deal Memo
 - Determine the appropriate time to negotiate the Term Sheet and lead those negotiations with the company (unless the Lead Investor is confident leading, in which case the Deal Director would be present in a supporting role)
 - Assist in the creation and/or evaluation of the cap table
 - Assist in the process of syndicating the deal with other angel groups and/or VCs
 - Managing the delegation of key areas of research to MBA Analysts when appropriate (eg: market sizing, competitive analysis)
 - Contribute to Deal Updates and monthly newsletter to provide updates on the deal.

It is envisaged that we will continue to use MBA Analysts, but on a project basis, not on retainer. The MBA Analyst would report to the Deal Director for their work on any given company.



A copy of this item is available on Angel Soft in Documents/Job Descriptions

Due Diligence Check List

Golden Seeds Due Diligence Check List		 Angel Soft see Documents/Due Diligence
Section 1 - Information you will need to send to us		
1	Management Reference Checks	Contact info of 2 superiors, 2 peers and 2 subordinates for us to call
2	Management Employment Contract	Management/founders employment contract
3	Customer Reference Checks	Contact info of at least 3 clients we can call
4	Client List and Pipeline Report	List of current clients as well as pipeline report
5	Business Partners	Contact info of at least 3 business partners we can call
6	Intellectual Property	List all IP. Provide copies of patents or applications where applicable
7	Material Contracts	Copies of material contracts you have with business partners or others
8	Board of Directors	List, background and contact info
9	Financial Statements	Historial financials as well as current year YTD actual and plan through year end. Should include income statement, balance sheet and cash flow (audited if available)
10	Financial Model	Please provide a copy
11	Cap Table/Cap Chart	Please provide a copy that includes everything, including stock options, warrants etc. Capital contributed and dates as well as # of shares, valuations should be included.
12	Trade Payables	include aging report if available
13	Competition	List the top five competitors you fear most
14	Reps & Warranties	Please list any non-standard or business-related reps and warranties that you expect to be making in the final documentation

See next page for sections 2, 3 & 4

Section 2 - Check Yes or No		Yes	No
1	Do you have any past, pending or foreseeable legal action?		
2	Have any of your principals been involved in a bankruptcy, either personally or through business ownership?		
3	Do you have hostile relationships with any shareholder?		
4	Do you have professional liability insurance?		
5	Have any employees been involuntarily terminated?		
6	Have any employees left the company on any basis other than amicably?		

Section 3 - Information we can go over on the phone		
1	Employees	Any disgruntled employees - current or former? Why have people left? Potential lawsuits?
2	Employee Contracts	Nature of contract? Can we have a copy? Any employees earning more than \$100,000 in compensation?
3	What items do you expect to include in your representations and disclosures that have not already been addressed above?	
4	Stock Option Plan	Discuss the plan and provide list of employees currently in the plan

Section 4 - Info we should have gleaned from your business plan and due diligence meeting, but might have some outstanding questions. To be discussed on the phone.		
1	Market	Market Research - Do you have any? Please provide.
2	Market Opportunity	Discuss if necessary
3	Competitive Advantage	Discuss if necessary
4	Pricing Model	Discuss if necessary



Latest version is in Angel Soft/Due Diligence/Lead Investors

Calendar for target process

Phases:

Kick off

Research

Drafting

Closing

	Angel Soft Interest	Phase	Key Decisions	To Do
Week 1	Observing	Deep Dive	Ensure we have adequate interest in the deal to start due diligence.	Identify any deal breakers; Identify Lead Investor; Determine whether we have interest to lead the deal: 6 - 10 investors and \$250k in interest.
Week 2	Considering Investing (soft circle)	Kick Off	Ensure we are focusing on the right issues and have the right resources on the Deal Team.	Send DD checklist to company; Form DD team; Delegate DD tasks to team; Ask members to Rate and Review the deal; Set up weekly call; Commence independent research; Create time line for deal through to close; Consider syndication partners; Get company scheduled to present to other Golden Seeds Forums.
Week 3	Considering Investing (soft circle)	Research	As issues surface, determine whether they are deal breakers or not.	Continue Research; Follow up on company responses to check list; Calls with company to review financial model, marketing plans etc; Complete reference checks.
Week 4	Considering Investing (soft circle)	Drafting	Valuation; Size of round; Minimum close; Mgt Compensation issues; Option Pool; Closing Date.	Surface any new issues; Review DRAFT Term Sheet with all interested investors; Obtain legal fee cap for closing dox to include in Term Sheet; Determine voting percentages;
Week 5	Considering Investing (soft circle)	Drafting	Who will represent Golden Seeds on the Board; Syndication partners; likelihood of closing.	Put Deal Memo together; continue to gather interest from other Forums; Hold conference call for investors from other Forums if necessary. Distribute Deal memo. Ask for hard circled commitments.
Week 6	Funds Committed (hard circle)	Closing	Ensure we have enough hard circle commitments to ensure the deal will close.	Conference call to discuss queries from members. Confirm cap from legal firm for closing dox. Confirm hard circle commitment before sending Term Sheet to lawyers.
Week 7	Funds Committed (hard circle)	Closing	Ensure voting percentages are set at level that will enable our vote to count.	Set additional conference calls for members of other Forums and/or syndicate partners. Work closely with lawyers and the company to finalize document negotiation. Confirm closing date.
Week 8	Funds Transferred	Closing		Complete document negotiation. Send final dox to members (allow them 5 business days for review). Close Deal.

Job Description – Due Diligence Analyst/MBA Intern

The role of the DD analyst is to provide research on two aspects of due diligence:

1. The market opportunity

This might be the most important piece of research to get right. Ultimately we need to determine whether there is a significant market opportunity for this product.

What is the need? What problem is being solved?

Who has the need? How compelling is their need? Who is the target buyer?

How does the product meet the need? How is this product better and different from its competitors?

Validation of Market Opportunity

We need to do our own research to answer the following questions:

- *The What:* Does the need really exist? Does the company have data to prove this? How good is their data?
- *The Who:* Are there enough of them? Is there at least \$1billion being spent today in this sector? How has the company sized the market? Do we agree? Can we size it ourselves? How difficult are the buyers to find and sell to?
- *The How:* What competition is out there - either real today or potential competition? Does the company know their competitors? Have they made an evaluation of, and can they articulate, their competitive advantage?

Ideally we will end up with a spreadsheet that enables us to size revenues spent in the target market segment at \$1bn.

2. The competition

When assessing the competition, we need to look at current competitors as well as potential competitors. We should expect the company to know exactly who the competition is, and quite a lot about them. She should also know which large players are already in the space, and understand what would prevent them from throwing money at the problem and then being able to compete aggressively. Some of these might be potential acquirers.

Value Proposition

The company ought to be able to articulate this in a couple of sentences. We need to determine whether it is compelling, and whether it does indeed represent something that the competition cannot and will not be able to offer.

Barriers to Entry

We need to understand what will prevent others from entering the space and preventing the company from growing, if not taking market share away. Intellectual property is an important and highly desirable barrier to entry, but there may be softer ones that are also relevant. Rarely are there any significant barriers to entry in the consumer goods sector, for software it is more applicable and desirable, and in other sectors such as life sciences we might not want to move forward without it.

Ideally we will end up with a table that compares features of a product in a grid, and/or a matrix indicating how the company differentiates itself from others in the market.

Additional jobs might also be assigned on a project by project basis, depending on the needs of the group.

Skills Required

- Advanced ability to work with spreadsheets
- Capability of completing quantitative mathematical analyses
- Evaluating business plans
- Strong internet research skills
- Understanding of sector classifications of industries
- Ability to extrapolate key points in any conversation and articulate these in concise written language
- Good communications skills

The job is estimated at approximately 5 – 10 hours for each piece of work. The applicant can work from his/her own home office, and will report to the Golden Seeds Deal Director.



A copy of this item is available on Angel Soft in Documents/Job Descriptions

Return Calculator

Complete the yellow boxes

Golden Seeds Return Calculator	Company Name	Round	Date		
Ownership before and after the current round					
Pre-money Valuation		New money being raised		Post Money Valuation	\$0
New money percentage ownership of company	#DIV/0!	New options pool		Fully diluted ownership	#DIV/0!
Anticipated Future Financing before Exit					
Expected amount of new financing		Revenues of the company at that time		Projected pre- money valuation at time of future financing	
Post money valuation after new financing	\$0	Value of original investment	#DIV/0!	Ownership after new money	#DIV/0!
Estimated Valuation of company at Exit					
		Annual revenues at exit		Annual EBITDA at exit	
		Multiple of Sales	2	Multiple of EBITDA	6
Number of years to exit	5	Valuation based on Sales	\$0	Valuation based on EBITDA	\$0
Estimated Value of Original Investment					
		Using Sales multiple	#DIV/0!	Using EBITDA multiple	#DIV/0!
		Return X	#DIV/0!	Return X	#DIV/0!
		IRR	#DIV/0!	IRR	#DIV/0!



A copy of the Return Calculator is available on Angel Soft in Documents/Due Diligence

Guidelines for Reference Checks – Due Diligence Calls

1. Management Reference Checks

We ask the entrepreneurs to provide 6 names altogether: 2 superiors, 2 peers and 2 subordinates. When doing the calls, make sure you ask “open” questions (open questions cannot be answered by either a yes or a no, and they usually begin with who, what, where, why, or how).

First you want to establish some rapport with the person you are interviewing, so explain who you are and why you are calling. Then ask the person to explain the length and nature of their relationship with the person concerned.

You can ask about their strengths and weaknesses. If you don’t get much on weaknesses you can try “what are their blind spots” or “what could she do better.” From a superior you can ask if they would hire the person again, and follow with a why. You could also ask if the person you are talking to (the boss) had promoted the person you are inquiring about, and follow up with a why. From a peer you can ask how they managed their peer relationships. From a subordinate, besides the obvious questions about what they were like to work for, you can ask if you would want to work for her again.

There might be situation specific questions too: Examples –

- For someone who had corporate experience and is now out on her own as an entrepreneur for the first time:
 - What makes you think she will be successful in making this transition?
 - What potential obstacles do you envisage for her and how would you advise her to overcome these?
- For someone who has, for example, strong marketing experience, but is a first time CEO:
 - What skills will she need in this new role that she lacks and how would you advise her to obtain them?
- For someone with entrepreneurial experience in one industry, who is now operating in another industry:

- What experience, contacts, and connections will she need in the new sector?
How do you suggest she obtain them?

Keep your ear open for anything that sounds a bit odd and don't be afraid to hone in when you think the person is glossing over and being apologetic about something – it might be important.

2. Board of Directors Reference Checks

Questions you might want to ask include the following:

- Do you agree with the strategy of the company? Are all board members in agreement with it?
- Are there any areas where members of the Board are in disagreement? What and why?
- How well do you think the CEO is doing her job? Why?
- How well does the CEO manage her investors?
- How well does the CEO manage her relationships with Board members?
- What can she do better?
- Can she take this company through the growth phase of the company to exit? If not, what plans does the Board have to ensure the company has the right leadership?
- What do you think of each member of the management team?
- What is the board process?
- How regular are the meetings?
- What information is presented at Board meetings? Are you getting the information you need?
- Does the CEO have milestones? Does she report on them regularly? Does she meet them?



A copy of this item is available on Angel Soft in Documents/Due Diligence

Deal Memo Template

*Note: This Deal Memorandum is only a summary of due diligence performed by members of Golden Seeds. You should use it as a tool in forming your own view of Carnegie Speech in combination with a thorough review of all due diligence material available. **It is not an endorsement by Golden Seeds of an investment into Carnegie Speech.***



A copy of this item is available on Angel Soft in Documents/Due Diligence/Lead Investors

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Notes to individual completing this template

Some formatting will be required once you have completed this template. Page breaks have not been inserted as they should be inserted at the end. Note that you should use Heading 1 for section headings so that they appear in the Table of Contents. To update the Table Contents, right click and select Edit Field/Update Entire Table. This template needs to be completed in conjunction with the excel file: Deal Data File.

Company Summary

[Paragraph 1 – 50 word summary of the company – obtain from Deal Data file – Text Box 1]

[Insert Table of Company Data from Deal Data File – Table A]

Date Company Founded: (month & year)	Location:	Sector:
CEO:	website:	Source of investment:

Golden Seeds Deal Team

Lead Investor: [Name]

Names	Email and phone number

Deal Summary - Series []

[Insert Deal Summary - Table B from Deal Data File]

Type of Security:	Warrants included? If yes, state coverage		
Closing Date of this round:	Date of last financing		
Pre-money valuation:	Post Money Valuation	Fully Diluted Post Money	
Golden Seeds % of the round fully diluted (including Fund)	Full round as a % of the company fully diluted		Golden Seeds percentage of the company fully diluted
Golden Seeds Fund % of the round fully diluted (including Fund)	Golden Seeds Fund % of the company fully diluted		

Average cost basis per share	Implied price per share of last financing Bold cap refers to reverse splits and penny warrants Is this the same as 15?
Stage of Investment: see sheet X for menu of options	Equity Raised Since Inception: \$xxx,000

[Paragraph – if this is a follow on round, add text on Golden Seeds prior investment from Deal Data File Text Box 2]

Other Investors

Name	Type (Fund, Angel Group, Major Individuals)	Amount	Board Seat? Yes/No

Investment Rationale

Positives

- To be obtained from the Lead Investor

Negatives

- To be obtained from the Lead Investor

Potential Investor Returns

Brief description of results of return calculator but disclaimers should be included.

Management Team

Founders

- *List names and titles*
-

Other key management team members

- *List names and titles*

Total headcount as of [today's date] [obtain data from Deal Data File, Table G]

Hiring plan for next 12 months is to add [] full time employees

[Paragraph or two about management team – OK to put a paragraph about each of the founders and/or key management team members]

Assessment of management team

CEO [] paragraph

Others

Technology/IP Assessment

Diligence performed on IP

[Describe what DD has been done either by us or another group]

Product Offerings

[describe current products]

New Products

[describe new product development plans that will be created with the capital from this round of financing]

Product Roadmap

[Insert the company's product roadmap]

Addressable Market

[Describe the size of the market, and the segment that the company is targeting.
Sources of data must be credible research institutions and should be credited.]

Diligence performed on market acceptance

[describe]

Business Model

[Describe the operational structure of the company, in particular:

- target customer base
- how the company plans to make money, specifically where the revenues are coming from
- overview of margins and major expense items
- partnerships that are in place or will be put in place to either reach customers or to deliver the goods/services.

Sometimes a company has a diagram that makes it easy to understand.]

Assessment of Business Model

[Provide an evaluation of the business model and whether our views of the current or future strategy coincide with the views of management or not.]

Sales and Marketing

Value proposition

[describe]

Marketing Strategy

[describe]

Diligence performed on sales and marketing

[describe]

Customer and Sales Pipeline

[provide a list of current customers as well as the pipeline – OK to add as Appendices if necessary]

Diligence performed on customers and sales pipeline

[describe]

Competition

Describe current competitors and also those who have the potential to enter the space. Provide a summary of their strategies and evaluate how they differ from the company.

A table similar to the one below (example provided from Carnegie Speech) is a best practice

	Trainers	Can8	Neurolanguage	Carnegie Speech
Pronunciation	X	X	X	X
Phonemic Pinpointing	X			X
Real-time remediation	X			X
Personalized Curriculum	X			X
Scalable/Cost effective				X
Push Reporting				X

Assessment of competition

[Describe the deal team's views on whether any of the competitors pose a serious competitive threat, and if so, how the company plans to beat the competitor in question.]

Financials

[Insert from Deal Data Sheet the following Tables:

- Table C – Prior year Financials
- Table D – Current year Forecast
- Table E – Five Year Forecast
- Table F – Board Approved Budget for Year 1]

Diligence performed on Financials and Financial Model

[describe]

Assessment of Financials and Financial Model

[describe deal teams' assessment]

Exit Strategy

[List potential acquirers and describe why they might be interested in purchasing the company, including recent acquisitions made by the company.

List any prior deals done in the space, including price, annual revenues of the company acquired, and multiples.]

Assessment of Exit Strategy

[Describe the deal team's views on the potential exit.]

Angel Group Treaty

AGREEMENT OF COOPERATION FOR DUE DILIGENCE SHARING

Preamble

The angel group Parties to this agreement ("Treaty"), Having in mind the purpose of fostering cooperation in investments by each other in privately held companies ("Companies"); Considering the sharing of due diligence documents which report upon Parties' investigations of Companies ("Materials") to be necessary to enable the coinvestment by two or more Parties in Companies (a "Syndication");

Believing that it is in the best interests of the Parties to establish arrangements where each Party may freely share its Materials with other potential Parties to a Syndication;

Wishing to establish a model for other angel groups to follow, so as to increase Syndication opportunities amongst all angel groups;

Treaty

Hereby agree as follows:

Article 1. Due Diligence Materials. Unless otherwise represented in writing by a Party providing a particular set of Materials, it shall be understood by any Party receiving Materials from another for the purposes of a Syndication that such Materials are provided "as is," without warranty, implied or otherwise, of accuracy, consistency or thoroughness about a given Company or its investment prospects. It shall be further understood that each Party shall be responsible to conduct its own due diligence independently, and that any reliance by one Party upon the Materials of another shall be at such Party's own risk.

Article 2. Promulgation within Groups. The designated leader, or managing group, of each Party shall communicate this Treaty and its terms to each respective member of such Party, and shall use his or her best efforts to endeavor to obtain the agreement of each member, and new member, to adhere to the provisions hereof.

Article 3. Disputes. Any dispute between two or more Parties concerning the subject matter herein or its application, shall first be subjected to informal negotiation and mediation between the leaders of the Parties involved. Any such dispute that is not settled thereby, shall be submitted to binding arbitration by a single arbitrator acting under the rules of the American Arbitration Association in Boston, Massachusetts. The arbitrator shall first be picked from a pool consisting of the leaders of angel groups that are not involved in the syndication. The parties may agree upon the arbitrator or, if not so agreed, the arbitrator shall be jointly chosen

by the parties' respective choices.

Agreement of Cooperation for Due Diligence Sharing Page 2 of 4

Article 4. Notices. Any notice to a Party hereunder shall be effective three days after its mailing, postage prepaid, certified mail, return receipt request via the U.S. Postal Service or overnight if by overnight traceable delivery service if sent to the address listed on such party's Web site or, if none, through contact information provided by such party to the Angel Capital Association.

Article 5. Amendments.

Section 5.01 Any amendments hereto shall be made in the form of a Protocol, which shall be set forth a preamble explaining the intentions thereof, and stating each proposed amendment in full within an article. The effectiveness of any Protocol with respect to a given Party shall occur immediately upon the signature of such Party, and notice thereof to the other Parties hereto. Those Parties that do not sign the Protocol shall remain bound by the original articles of this Treaty and any Protocols which they have signed.

Section 5.02 Suggestions for Protocols should be directed to Beacon Angels, LLC, *Attn* Manager.

Article 6. Effectiveness. This Treaty shall be effective on a given Party upon its signature hereon.

Angel Groups that we are aware are party to this Treaty:

Golden Seeds

Winter Park Angels

Common Angels

Beacon Angels

Boston Harbor Angels

Launchpad

New York Angels

Active Angel Investors

River Valley Investors

Maine Angels

Blue Tree Capital

Ohio – seven angel groups in Ohio have signed



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Agreement to Share due diligence – Waiver Letter

To: [Name of Person with whom we are sharing Due Diligence], “the Recipient”
Re: Agreement to Share Due Diligence summary for [Company Name], “the Company”
Date: []

This letter will serve as an Agreement between Golden Seeds and their members and staff and the Recipient to share resources in the evaluation of “the Company”. Golden Seeds and the Recipient agree to share information that each has accumulated and will accumulate on the Company to the extent that each, in its sole discretion, deems to be desirable.

Neither Golden Seeds nor the Recipient shall make any representation or warranty regarding the accuracy or completeness of the information being provided to the other. Neither Golden Seeds (nor any of there members, board of directors, or staff) nor the Recipient shall bear any obligation or liability to the other with respect to the information provided to the other, and each acknowledges that it is not relying on the other in making any decision regarding an investment in the Company. Each of the members of Golden Seeds and the Recipient shall make their own independent analysis of the information provided and the desirability or appropriateness of an investment in the Company. Neither Golden Seeds nor the Recipient are acting as agents or brokers for the company or for each other and the sharing of information is not intended as and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

Both Golden Seeds and the Recipient agree that the information being shared is highly confidential and is being made available solely for review in connection with each party’s evaluation of the Company. The information shall not be disclosed to any third party not affiliated with the parties to this Agreement and may not be used or reproduced for any other purpose without the prior written consent of both the disclosing party and the Company.

Please sign this letter and fax a copy to Golden Seeds at 1-888-629-6774.

We look forward to working with you to evaluate the Company and hopefully to make a profitable investment in this company!

Sincerely Yours,

Golden Seeds signature

Name of Golden Seeds signatory

Title:

Date:

acknowledges and consents to the arrangement set forth in this letter.

Recipient signature

Name of Recipient signatory

Title:

Date:



A copy of this item is available on Angel Soft in Documents/Due Diligence

Role Description - Golden Seeds Portfolio Manager

The Portfolio Manager will be responsible for working with all of our portfolio companies to ensure that we maximize our ability to support them on their road to success. In order to fulfill this responsibility, it is expected that the Portfolio Manager will work together with all of the Golden Seeds team, and to be specifically responsible as follows:

- Support our Lead Investors after the deal has been closed in their work with the individual companies, and ensure they are operating according to corporate governance best practices.
- Encourage our portfolio companies to create a Road to Exit, and to cultivate relationships with potential acquirers.
- Ensure that Golden Seeds resources (in particular those inherent in our investors) are brought to bear for the good of our portfolio companies
- Create relationships with the VC industry so as to assist our companies in follow on funding when they are ready
- When appropriate, and working through our Board representative when applicable, work directly (or bring in other Golden Seeds resources) with the companies on their strategy
- When possible, help to facilitate links between our portfolio companies and potential partnerships in their industry
- Arrange for the companies to come in and provide updates to our investors from time to time
- Ensure that we receive regular updates (including financial) from the companies on a quarterly basis
- Communicate with our investors on progress with the companies, including creating and distributing the quarterly portfolio update.
- Support our Board representative on the company's funding strategy, and anticipate and prepare for future funding needs.
- Work with our Board representative on terms of any subsequent funding.
- Support our Board representative during an exit, as appropriate.
- Work to create opportunities for CEO development
- Represent the Fund on follow on rounds, and communicate fund decisions to members.



A copy of this item is available on Angel Soft in Documents/Job Descriptions