February 2015

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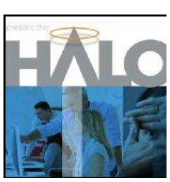

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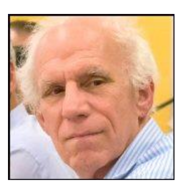

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TWENTY QUESTIONS YOU WILL BE ASKED BY VENTURE CAPITALISTS (If You Get That Far)

by Laurence K Hayward

From the Journal of the Heartland Angels **–** (2,400 Words)

Most likely you've played the game *20 questions*. As the contestant, you use your best combination of questions, which can be answered with a simple "yes" or "no," in order to discover a piece of information held secret by the other player. The objective is to discover the unknown information with the fewest questions (from the 20 you're allotted), as quickly as possible.

Television Quiz Show – "Twenty Questions"

This game shares some common traits with a venture capital interview. As the interviewee, you can expect a barrage of questions. You might also feel like the interviewers are trying to box you in as they narrow the choices, in order to hone in on the "answer" as quickly as possible. Recognizing that venture capitalists reject a far greater number of deals than they accept, the quickest way for this interviewer to finish the game is to find a fatal flaw, a deal-killer, a quick "no."

A key difference between the game “20 questions" and the venture capital interview is that you, the interviewee, don’t get to answer the questions with a simple "yes" or "no." So, in order to help you prepare, outlined below are 20 questions that venture capitalists most frequently ask entrepreneurs. Following each, I've included a brief explanation regarding what the venture capitalist (VC) might be trying to uncover. These questions aren't necessarily in the order you would receive them, though the winnowing process was taken into consideration when creating this list.

1. What is the market potential for your company's product or service? What is the revenue potential for the industry, and what is its growth rate?

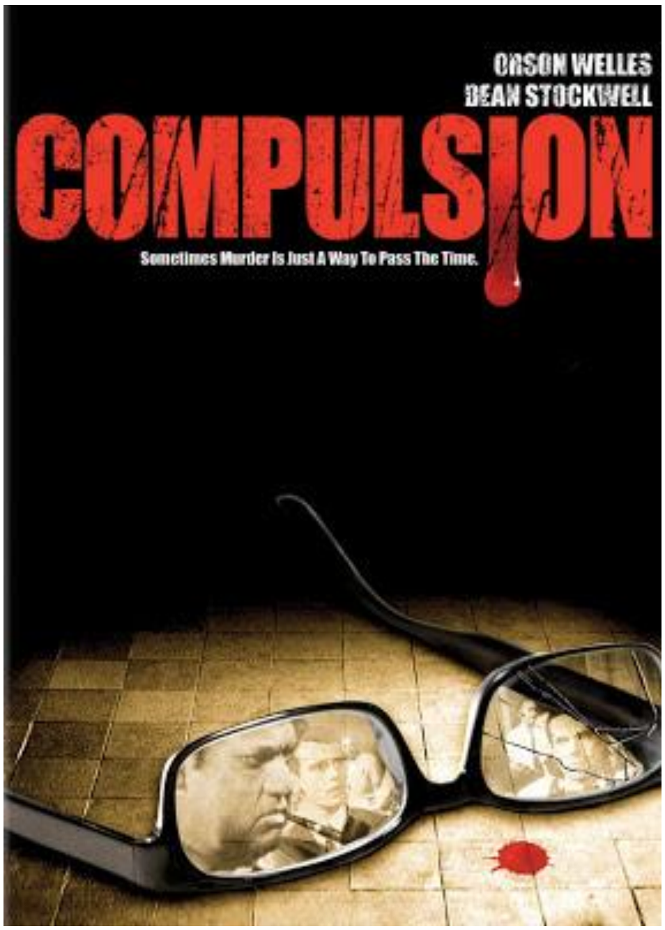
The VC wants to quickly ascertain whether the opportunity is large enough to pursue. What determines if the opportunity is large enough? Typically, it hinges on whether the VC will be able to achieve a target return within the designated timeframe (often three to five years). While all firms have different investment criteria, most VCs target a minimum internal rate of return (IRR) of 25 percent and many seek IRRs higher than 50 percent. To reach these thresholds, VCs look for companies with considerable market potential for their products or services (often $500 million, $1 billion or more). They prefer growing markets to retrenching ones. Also, most VCs focus on specific industries, so they'll be trying to ascertain whether this deal is within their bailiwick.

2. How did you calculate market potential? How do you determine industry sales and growth rate?

It is common for entrepreneurs to include very large market potential figures in their business plans and then indicate that they require only a miniscule fraction (e.g. one percent) of the market to achieve their projections. These figures are often suspect and lead to a rolling back of the eyes of the would-be investor. Further, VCs often prefer opportunities that capture a larger fraction of a target market segment otherwise its value may be questionable relative to the competition. Market potential should be verified by independent research as well as bottom-up and top-down calculations.

3. What makes your business different or unique?

This question can have two wrong answers. A business can be both too common and too unique for a particular investor. If it's too common, the VC will be concerned with the competition and the lifecycle of the business. If it's too unique, the VC might be concerned with the time required to achieve critical mass. Many truly revolutionary products require educating the marketplace, and that can be an uncertain and lengthy undertaking. There is a saying that VCs prefer evolutionary over revolutionary businesses.



4. Why would someone be "compelled" to purchase your product or service? What specific needs does it address?

Venture capitalists look for businesses with products or services that address a demonstrable market need or demand. Is your product something the buyer needs? Or is it just something that would be nice to have? If it falls in the latter category, then it is critical to demonstrate how your product will gain traction, that is, how people will come to demand it based on market trends.

5. How do you know that your business has high-growth potential?

Venture capitalists want to know how you "drew down" your revenue estimates from the market potential figures (which hopefully include estimates from external sources). Ultimately, they want to see a large growth opportunity that scales quickly, thereby allowing them to realize the payoff on their investment as soon as possible. Be prepared to explain in detail the process you used to estimate revenues and how/why they scale.

6. What is it about your management team that makes them uniquely capable of executing on this business plan?

You've probably heard that the three most important items in private equity investing are management, management and management. More specifically, VCs are typically looking for management with experience in building a business (or comparable), deep expertise with the technology or industry product, and strong character. What comprises the latter? VCs look for managers who demonstrate high energy or passion, resourcefulness, integrity, perseverance, risk-taking ability and pure mental horsepower. A frequently overlooked quality is that of humility – understanding one’s limitations, the need for teammates with complementary skills and the ability to listen.

7. What are the primary risks facing this opportunity?

Most people tend to think of "the competition" when people ask them about risks facing their business opportunity. However, competition is only one risk. Other risks include changes or shift in technology, governmental and regulatory policies, labor market conditions (availability to find qualified labor at a reasonable cost), business climate changes, product liability, computer crime, etc. And, don't forget financial risks. For example, what happens if your capitalization doesn't allow you to reach breakeven or your next financing event? A risk assessment of potential threats to your business can help you prepare for the scrutiny of investors.

8. Who are your competitors?

You've heard the warning "never say never." When answering the above question, the warning might well be "never say none." There is more to this question than may first be evident. Certainly, VCs are interested in learning about the competition your business will encounter and how you will distinguish your company. But, they also might be assessing your maturity as a businessperson. The answer "none" is typically incorrect because your business almost always has at least two competitors. Potential buyers could simply continue to function without your product (e.g. through the use of a substitute, however less effective) or buyers could "do nothing" (e.g. choose not to utilize the product or service). Furthermore, if the investor is aware of competitors that you have not considered (as many have researched particular segments independently), he or she will lose faith in your business assessment skills – so be prepared.

9. What gives your company a competitive advantage?

Venture capitalists want to know how you plan to outmaneuver the competition --and this doesn't just pertain to existing competitors. They want to see that you've given thought to future market entrants and how you will stave them off. "First-mover advantage" is rarely a sufficient response to this question. A more effective answer usually depicts intellectual property barriers or the ability to reach the target market in a way that is more effective than the competition. What is unique about your company that gives it an edge?

10. Does the company have proprietary intellectual property in the form of patent, trademarks, copyrights, etc.?

What do you own? What can you protect? These are two important questions on the mind of any VC. In some industries (e.g. biotech), patents play a critical role in protecting the research and development investments of the company and in helping to ensure that there is a window of opportunity (usually before competitor offerings arrive) for the company to realize a significant share of revenues for a particular category. Trademarks and copyrights are critical to protecting the company's intellectual assets and its "brand." Also, at some point, VCs will also want to ensure that you've taken the proper steps (through non-disclosure agreements, non-competes, and/or employment agreements) to ensure that the company is protecting its intellectual capital.

11. When will your company break even in terms of profitability and cash flow?

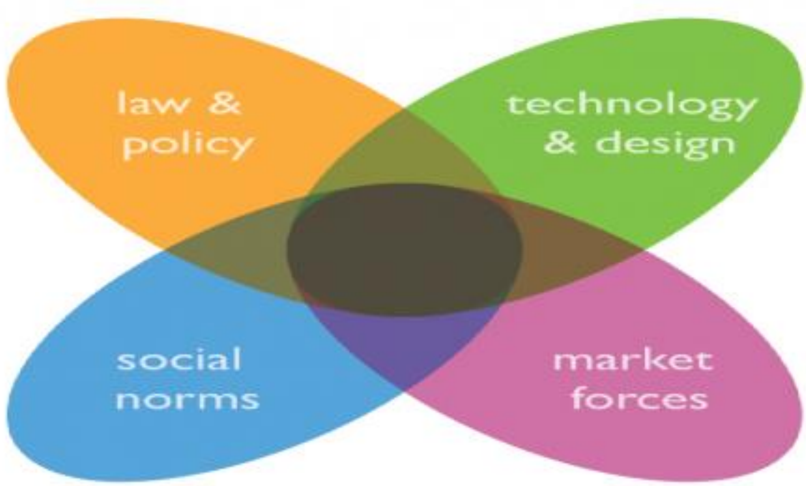
Remember when you first became financially independent of your parents? Hopefully, you were at a point where your income exceeded your expenses and you no longer required their support. The concept here is similar. Once you're financially independent, you're also less of a liability. Of course, the ultimate goal is to reach an exit scenario quickly. Profitable businesses are more attractive to potential buyers or public markets.

12. How do you plan to acquire customers?

A well-developed business plan includes marketing strategies that demonstrate an understanding of market realities and customer behavior. VCs are looking for much more than a list of your marketing initiatives. You can anticipate questions like: What are your company's customer acquisition costs? Have you calculated average and target revenue per customer? Do you know how many customers are required to break even? Do you know the product sales cycle?

13. How do you plan to keep customers?

The most successful companies seem to have a plan for keeping customers --even before they acquire them. It is said that it costs five times as much to generate business from new customers as it does from existing customers. Customer retention is critical to long-term success.



14. What drives customer satisfaction for this industry and for the product? And, how do you know?

Have you conducted research in order to assess what is truly important to your customers? Do you know what product features are critical vs. those that are ancillary? Once you've acquired customers, you'll need processes to ensure their ongoing satisfaction and your understanding of their changing needs. Have you considered how you're going to support the product and the expenses associated with such support? Will existing customers purchase your product or service again? Will they recommend it to others? Regular and consistent customer feedback is essential in order to obtain the answers to these types of questions.

15. Who is the end user of the product or service offering?

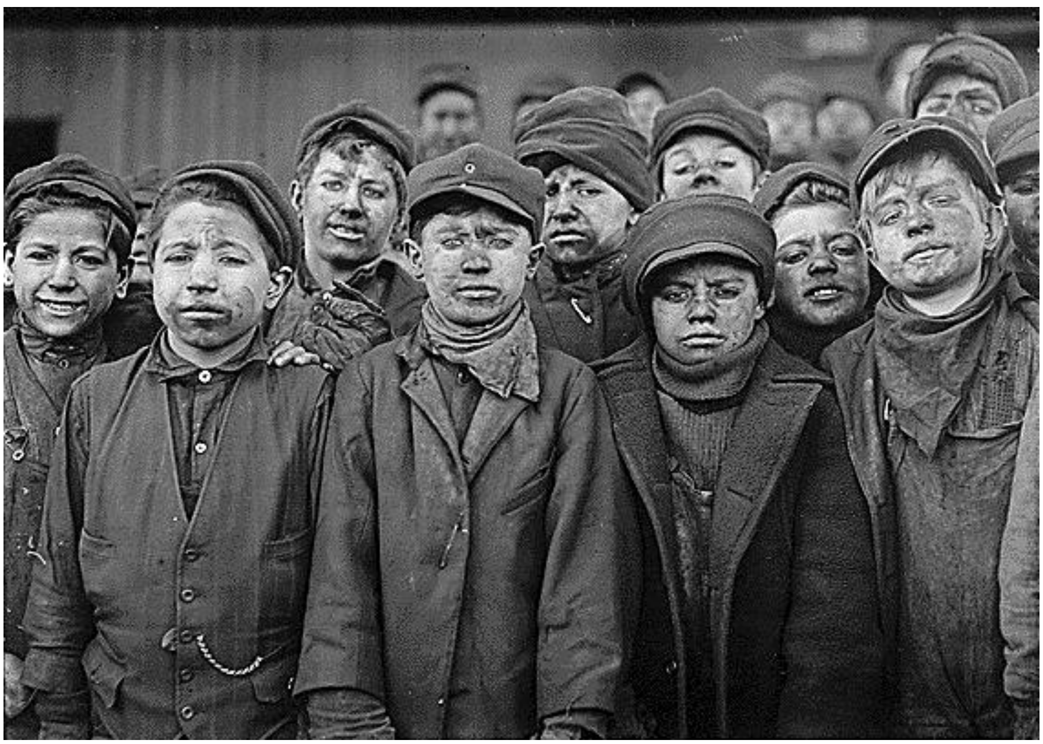
Is this a consumer-based business, or will you sell your product or service to other businesses? What do you know about the demand for your product or service in that target market? What do you know about the buying habits of your target market? Do you anticipate any roadblocks? For example, will you have to educate the buyer? Also, give thought to how you can leverage partners or re-sellers to reach your target markets. Knowing the answers to these questions will be critical when you speak to a VC about your opportunity.

16. What alliances or partnerships have you entered? (e.g. joint ventures, marketing alliances, licensing arrangements, selling/distribution agreements, channel partnerships, software agreements, etc.)

It is important to remember that alliances can be assets and liabilities. Venture capitalists will want to know if any of your alliance agreements have compromised your intellectual property claims and if the company has any outstanding obligations to third parties. On the positive side, you'll want to demonstrate how alliances may have helped your company lock -up certain distribution or sales channels for your products and services. Do any of your alliances give you a competitive advantage? Do they create barriers to entry? Do they help you reach customers more efficiently?

17. What is the anticipated lifecycle of your product or service offering? What are your current and future plans for R&D investment?

All great things come to an end. Products mature, competitors offer substitutes and customers demand change. Have you anticipated when the earnings power of your product will run its course --for first-time buyers as well as for follow-on sales to existing customers (e.g. upgrades)? What are your plans for R&D investment, and how will you continue to generate revenues when existing products run their course?



18. How do you plan to expand your labor force?

While the precise conditions of labor markets change, it is always a challenge to find the best people. Venture capitalists will not only be interested in the composition of your existing workforce, but also in how you plan to fill key positions now and in the future. Have you used an executive search firm? Do you have qualified candidates currently under review? How will you compensate people, so as to attract, motivate, and retain employees, while keeping labor costs under control? What does your option program look like?

19. What are the probable exit scenarios?

Venture capitalists need to know how they're going to monetize their investment, hopefully at an ROI of 50 percent or more. As an entrepreneur, you should spend some time thinking about who could acquire your business down the road. Be both realistic (particularly on timing and valuation) and creative regarding M&A possibilities.

20. What is the planned "Use of Proceeds"?

Venture capitalists want to know that their money is being put to good use in order to directly accelerate the business opportunity, so that they will receive their ROI in a timely fashion. One "no-no" is using VC investments to service existing debt obligations. Be prepared to present a timeline of milestones. Include a breakdown of how the money will be spent and what it will allow you to accomplish.

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This article is a summary of a larger article. The full 15-page article may be obtained by contacting VentureLab.
www.theventurelab.com

About the author: Laurence K. Hayward is a founding partner of Independence Equity, an early-stage venture fund launched in 2011. The fund is actively investing having recently completed its 8th investment. He is co-founder of Cornerstone Angels, a network of accredited investors that has invested in 40 companies since 2006. He is also founder/CEO of VentureLab, an organization that has been launching new ventures since 2002. Previously, he was President of Vcapital.com, an internet start-up that matched entrepreneurs with investors, acquired in 2002. Hayward has been forming, investing in and advising start-ups since 1999 following 8 years at Arthur Andersen in the Emerging Company Services practice. He is a graduate of the Joint MBA/BS program at the University of Illinois in Champaign Urbana and hold Series 7 and 63 licenses.

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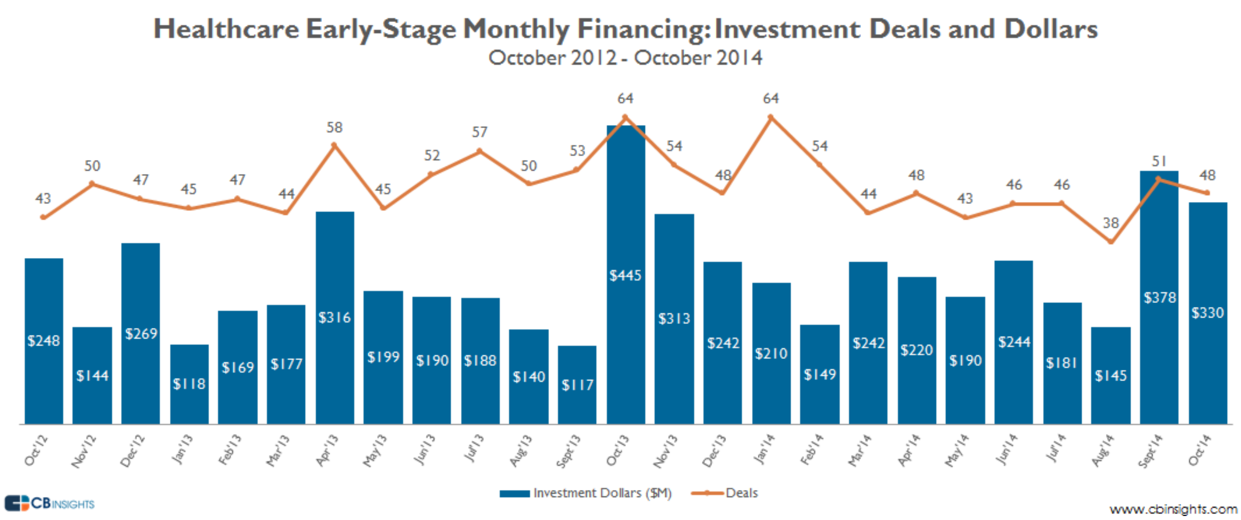
EARLY-STAGE HEALTHCARE DEAL SIZES REACH TWO-YEAR HIGHS

From CB Insights (500 Words)

Median early-stage deal sizes to life science companies hit a two-year high at $5.03M. We analyzed the key trends around early-stage healthcare companies funded in October 2014.

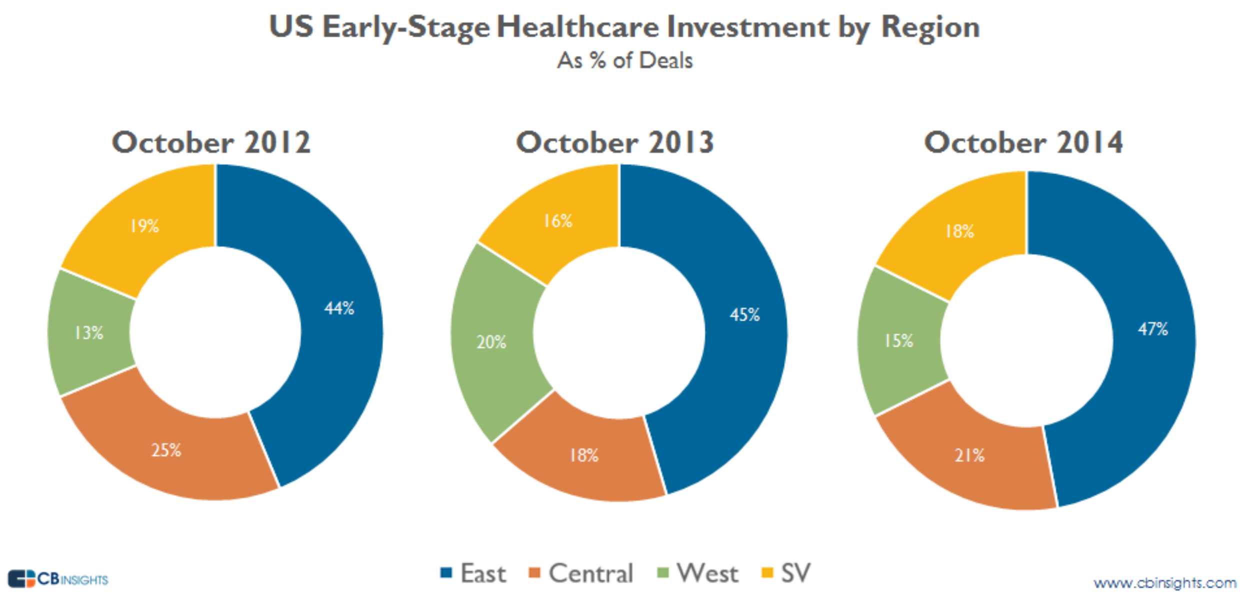
October Early-Stage Healthcare Funding Down YoY

Early-stage healthcare deals and dollars both fell slightly versus the previous month, while funding was down 26% versus the same month a year prior.



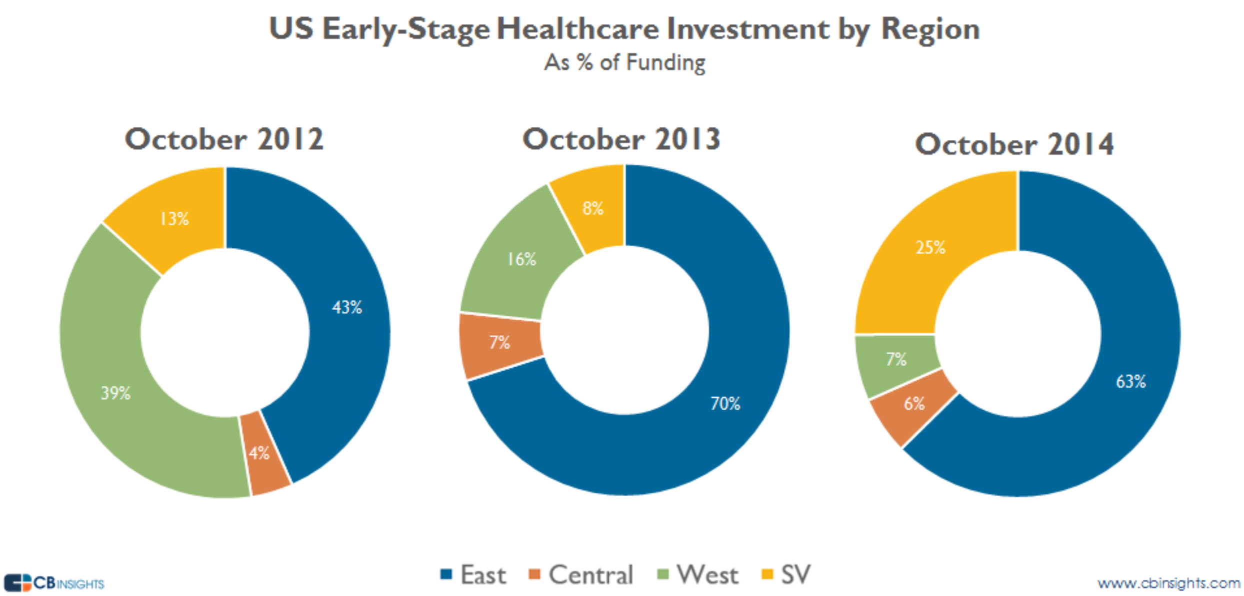
East Coast Remains Dominant

Eastern US healthcare companies garnered the bulk of early-stage deals, accounting for 47% in October, with healthcare hub Massachusetts leading the way.



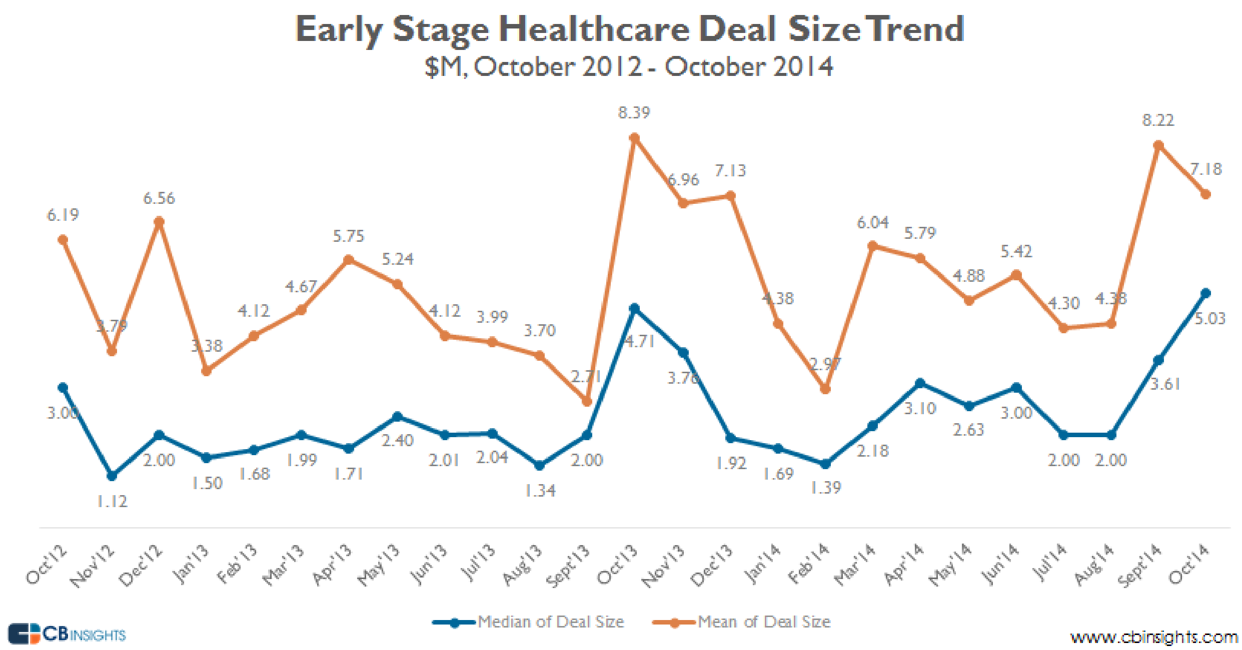
Silicon Valley Dollar Share Skyrockets

Early-stage tech funding share to Silicon Valley healthcare companies jumped drastically in October 2014 versus the same month a year prior, behind Imago Biosciences' $26.5M Series A.



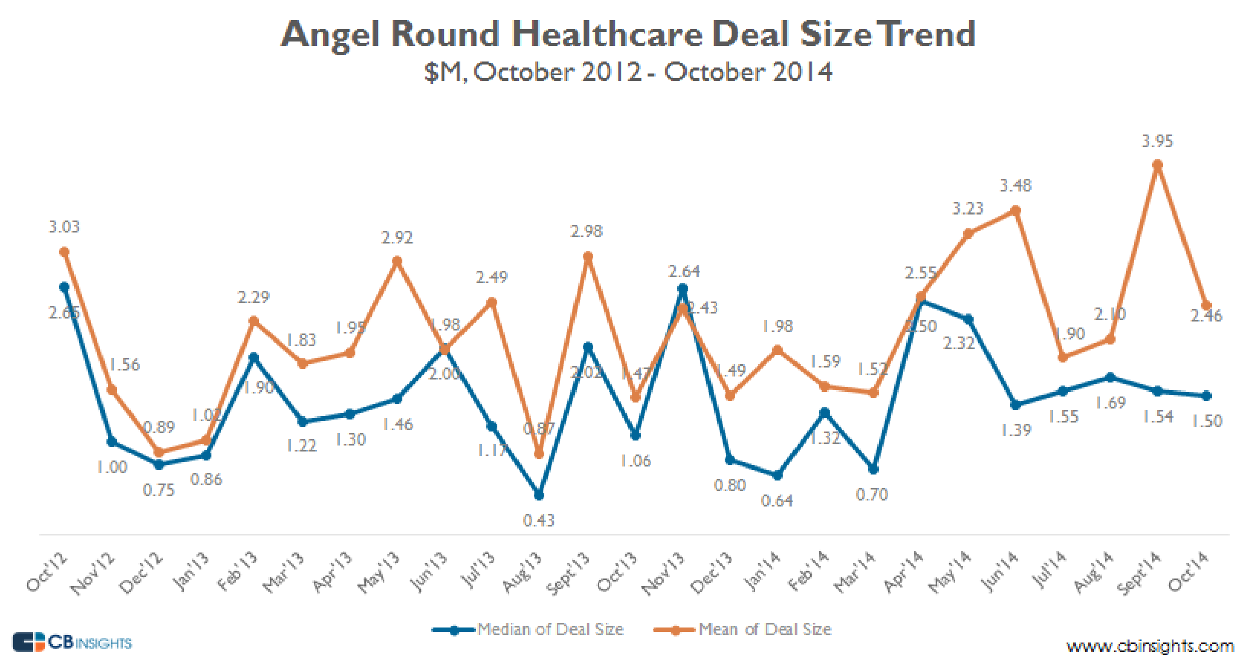
Early-Stage Healthcare Deal Size Reaches Two-Year High

October set a new two-year high for median deal size at $5.03M. This was the second straight month of growth as September's median total was 80% higher than the previous month's.



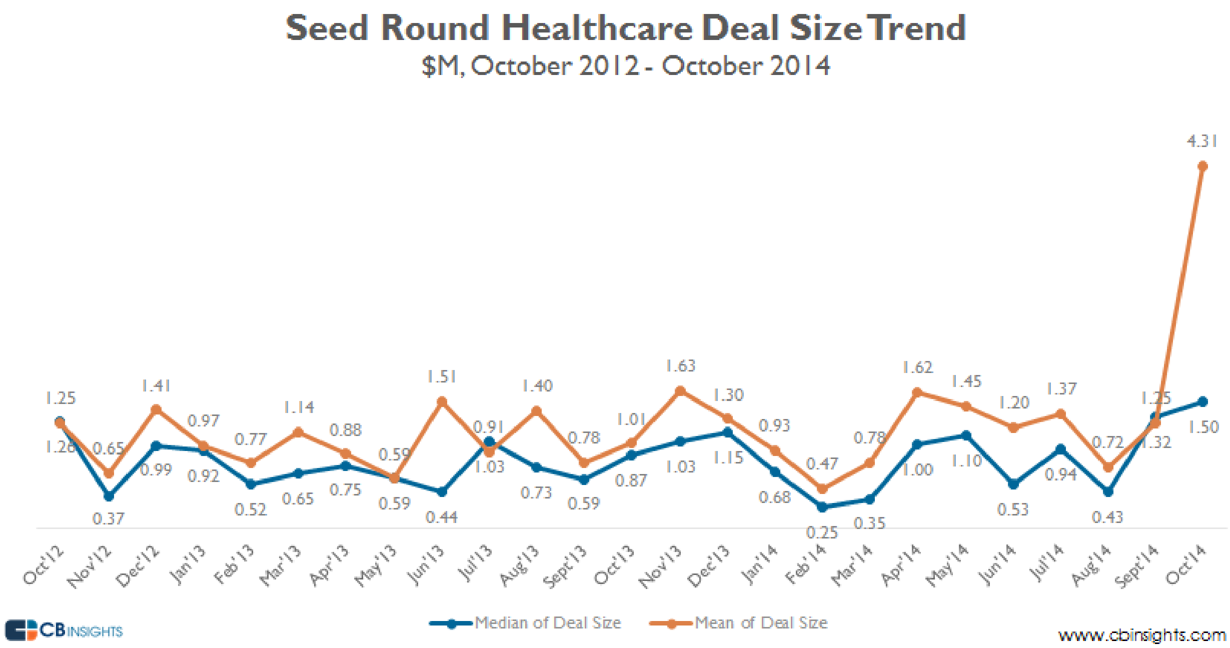
Healthcare Angel Deal Size Remains Range Bound

Angel deal sizes in healthcare have remained relatively range bound since June.



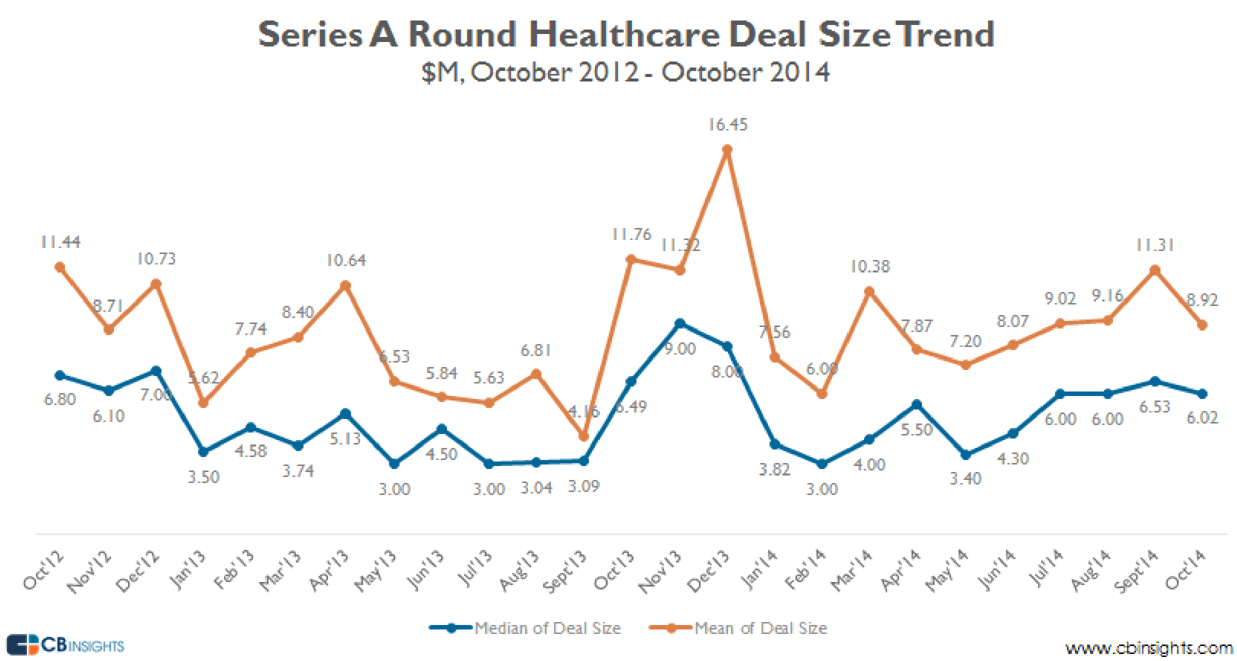
Seed Deal Sizes Reach Two-Year High

Both median and average healthcare seed rounds reached two-year highs in October, behind UK-based Magnus Life Science's $25M super-sized financing. No other seed deals in healthcare in October were greater than $10M.



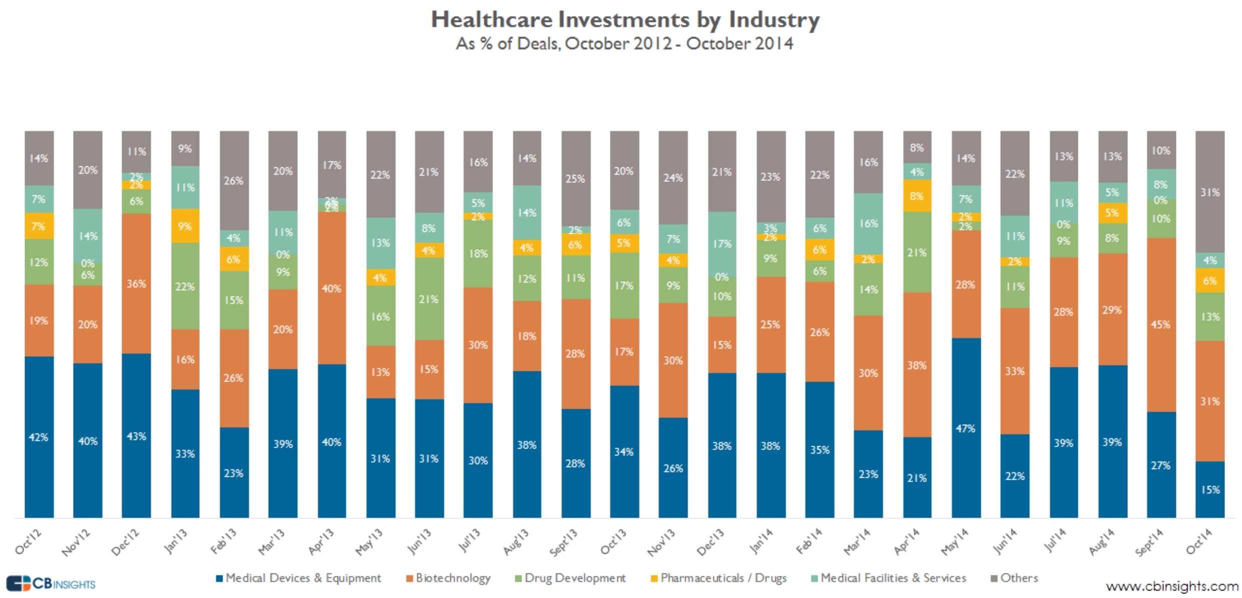
Series A Rounds Down YoY in October

After an average Series A peak in December 2013 due to Juno Therapeutics' $120M financing, average healthcare rounds are down 25% YoY in October, and 7% on a median basis.



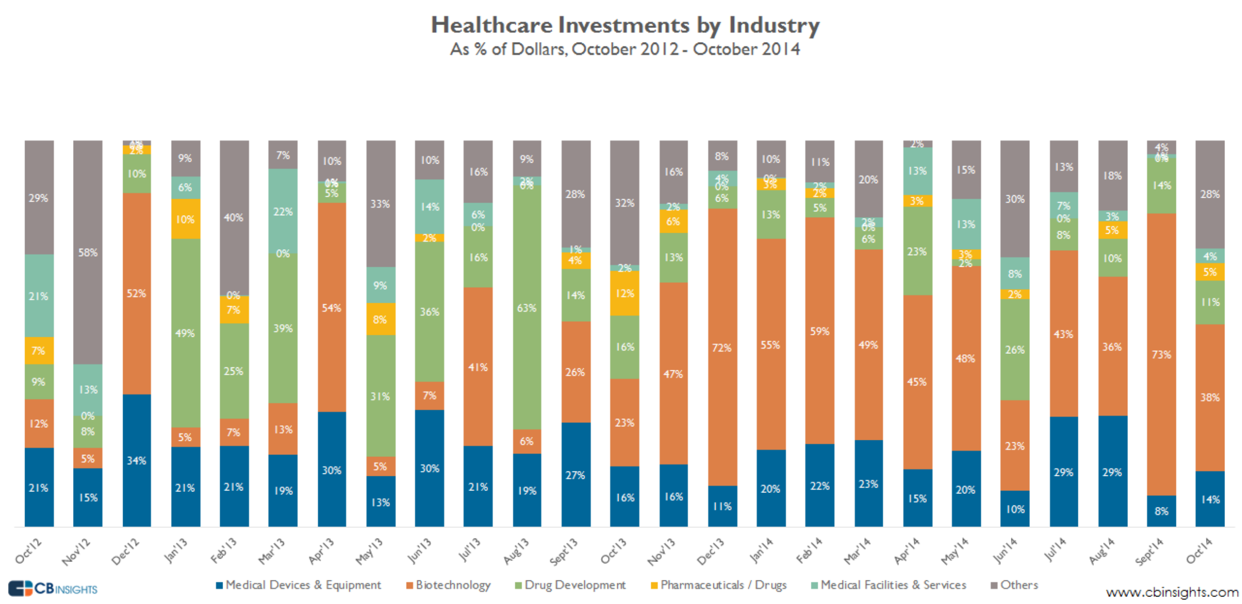
Medical Devices Fall to Lowest Deal Share in Two Years

Medical devices accounted for just 15% of all early-stage healthcare deals in October 2014, its lowest share of the past two years. The contribution of other life science categories (disease diagnosis, drug manufacturing, etc.) accounted for 31% of all early-stage healthcare deals, a two-year high, highlighting the diversity of companies being funded within the healthcare space.



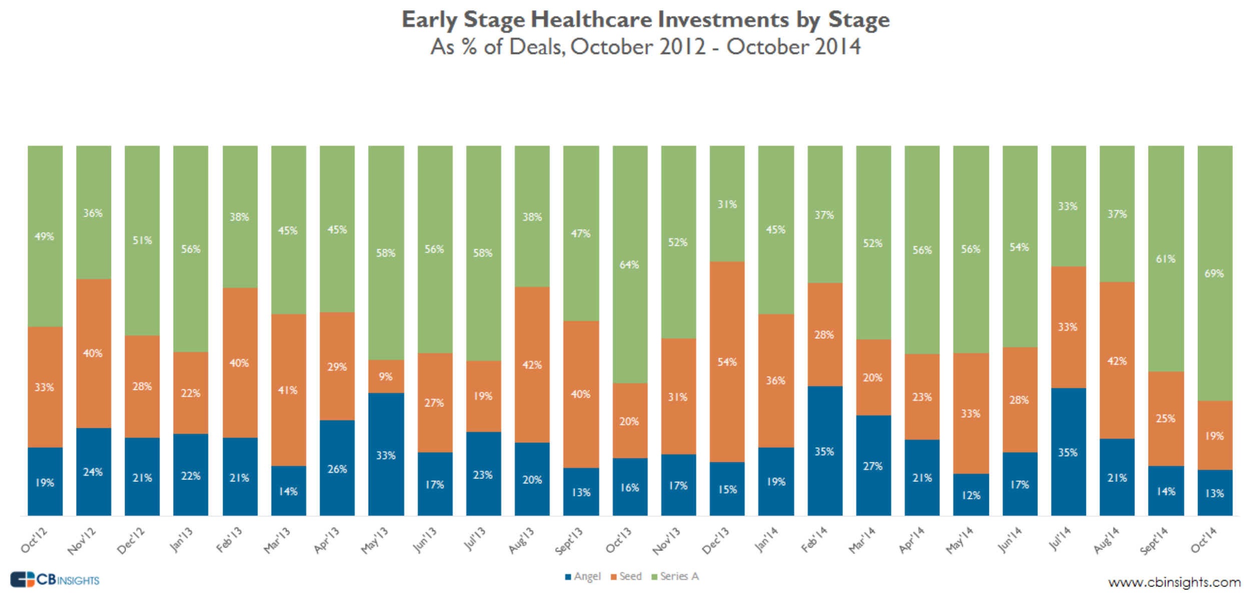
Biotech Funding Share Returns to Normal

After September saw Adaptimmune raise $104M and push biotech to a 73% funding share, October fell back down to 38% as biotech and medical devices accounted for over 50% of early-stage healthcare dollars for the 4th straight month.



Series A Dominates Deal Share

Series A rounds accounted for 69% of all early-stage healthcare investments in October, higher than any month in the past two years. Angel investment share fell for the third straight month, and was down from 16% in October 2013.



Top 10 Deals Cumulatively Raise $188M

Four early-stage companies raised rounds of $20M+ in October including Imago Biosciences who raised a $26.5M led by Clarus Ventures. Also of note, four of the top ten deals were in international companies including Magnus Life Science, Highland Therapeutics, Levicept, and Forendo Pharma.

Rank	Company	Industry	Amount ($M)
1	Imago BioSciences	Biotechnology	26.5
2	Magnus Life Science	Medical Devices & Equipment	25.0
2	Highland Therapeutics	Drug Delivery	25.0
4	Raze Therapeutics	Drug Discovery	24.0
5	Quartet Medicine	Biotechnology	17.0
6	Levicept	Biotechnology	16.1
7	Forendo Pharma	Drug Development	15.2
8	Paragon Bioservices	Medical Facilities & Services	13.0
8	Zynerba	Pharmaceuticals Drug Development	13.0
10	Unum Therapeutics	Biotechnology	12.0

Novartis Venture Funds & Atlas are Most Active

Few VCs made multiple early-stage healthcare investments in October, but Novartis Venture Funds and Atlas Venture both were among the most active, with 3+ investments each.

Most Active Early-Stage Healthcare VCs, October 2014

Rank	Investor
1	Novartis Venture Funds
1	Atlas Venture
2	Wellington Partners
2	Dolby Family Ventures
2	MS Ventures

CB INSIGHTS

For more information around early-stage healthcare financings, login to CB Insights' venture capital database.

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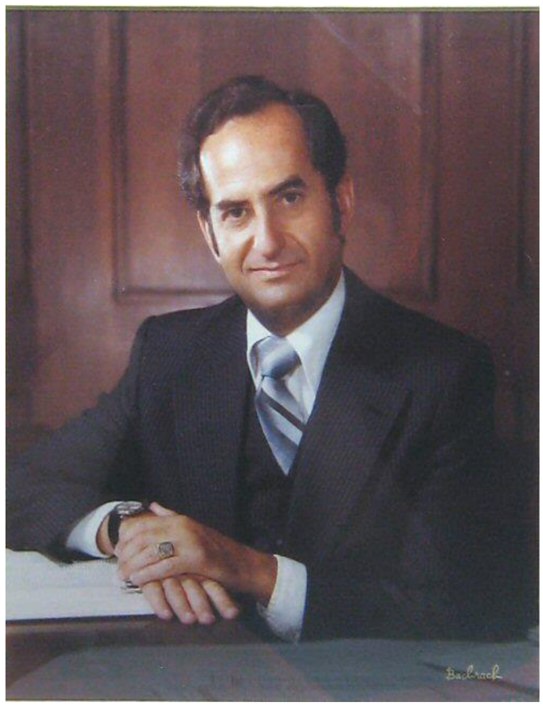
A DREAM COME TRUE

The Story of Ray Markman – Part 5
by John Jonelis
From the Journal of the Heartland Angels – (700 words)

Across my desk sit both Alexander Harbinger PhD and Loop Lonagan. So far they haven't come to outright blows but their big duel is set for 5:00 pm. That leaves two hours to pick their brains.

I realize both men are waiting for my part of the story on Ray Markman, so I report.



Ray Markman

"I've got the story on the job Ray was gunning for—the one at Leo Burnett, the big-time ad agency. First let me get you into his mindset. Ray has a theory that all great companies are two men, not one. There's Mr. Outside and Mr. Inside. The idea man and the guy who runs the factory. Look at it this way—when Apple loses Steve Jobs—Mr. Outside—the company doesn't just dry up. There's a Mr. Inside who's already running the shop in the background."

I slap my palm on the scarred desktop. ***"Same thing at this ad agency. And at that time Leo Burnett himself is Mr. Outside."***

"So Ray makes good his escape from that cosmetics firm. He's on the loose. Brand manager experience under his belt. He shows up at Leo Burnett and talks to the executive that fills the role of Mr. Inside. And the guy puts Ray through their regular jury system." I pause and look each man in the eye. ***"That's a set of grueling two-hour interviews with ten people."***

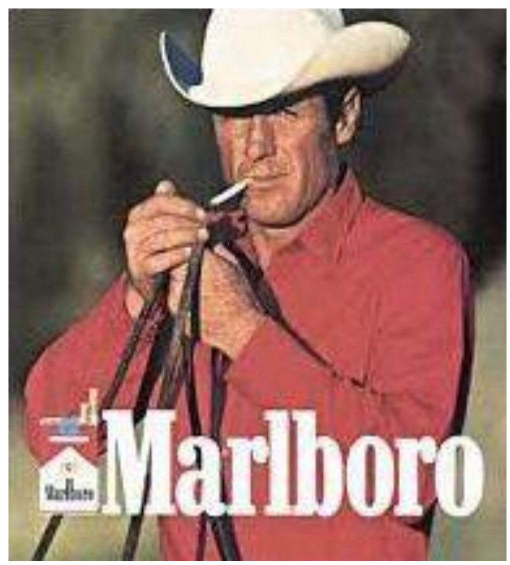
I sip my scotch*. "Here's where it gets good. Eventually, the personnel department sends Ray to interview with their biggest brand manager—the guy that runs the Philip Morris account. At that time, cigarette manufacturers spend hundreds of millions of dollars on advertising. Doesn't matter how much. The more they advertise the more they sell. It's a direct correlation."***

"Yeah." Lonagan is grinning. ***"I remember them times. Kinda like the way they sell cheap beer, nowadays."***

Harbinger merely nods and looks particularly aloof. Probably a smug belief that German beer is better than Budweiser or Miller. I don't want to take sides in their duel, which is based chiefly on nationalistic pride, so I agree:

"You got that right." I say as I take off my glasses and rub them clean with my shirttail. ***"So here's how this interview comes off. Ray and this guy are both standing the entire time—standing at opposite sides of a huge desk, talking over the din of a lot of background noise. Some kind of construction in the next office. A lot of hammering. Then he hands Ray a pack of cigarettes.***

"Now, Ray doesn't smoke but his father did, so he tears off the cellophane just the way he watched his old man do. But then he tears a hole in the top and reaches in to get a cigarette. Of course, he's doing it all wrong and makes a mess. His cigarette's coming apart. The Philip Morris guy puts a lighter to it and suddenly Ray's got a torch in his hand."



Philip Morris Tobacco

Harbinger is leaning toward me while Lonagan is leering and I go on: ***"Picture this: There's all this noise. They're standing there talking at each other. Paper all over the desk and ashes are falling from that ruined cigarette. Little fires are burning everywhere on the desk. Meanwhile the guy peppers Ray with questions like a machine gun. Doesn't pay any attention to the chaos. And Ray's praying,*** **'God, how can you punish me this way? I wanted this job.'** ***Remember, he took that spot at Helene Curtis just get brand manager experience and land this position."***

I'm having a good time telling this story and these guys are still with me. I wind it up. ***"Afterwards, Ray goes home to his wife and says,*** **'Honey forget it. They'll never hire me after this.'** ***But a couple days later, he gets a call. Come in. Tell us when you want to start."***

Lonagan and Harbinger are both grinning as I go on. ***"Let me give you an idea of the culture of this organization. Leo's absolutely huge on creativity. He puts together the most august group of ad people in the industry. Then he gets four creative groups competing to win each campaign. Everybody works their asses off. Competitors say Leo Burnett's throwaways are better than everybody else's finished ideas.***

"Anyway, Ray goes to work for them. And he submits ideas to the top man himself. And Leo says, **'Let's do this.'** ***That really shocks Ray. He sees himself as just an account guy—the low man on the totem pole and Leo Burnett himself is listening to him. Turns out Burnett will listen to anybody with creative ideas. Doesn't matter who you are. And he gets to like Ray."***

I lean back and lift my feet to the desk. ***"Nowadays, they're under a conglomerate like all the agencies. But back then this job is Ray's dream come true."***

~~Look for Part 6 in the Next Issue~~

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THE HIDDEN DANGER IN YOUR DATA

by Howard Tullman

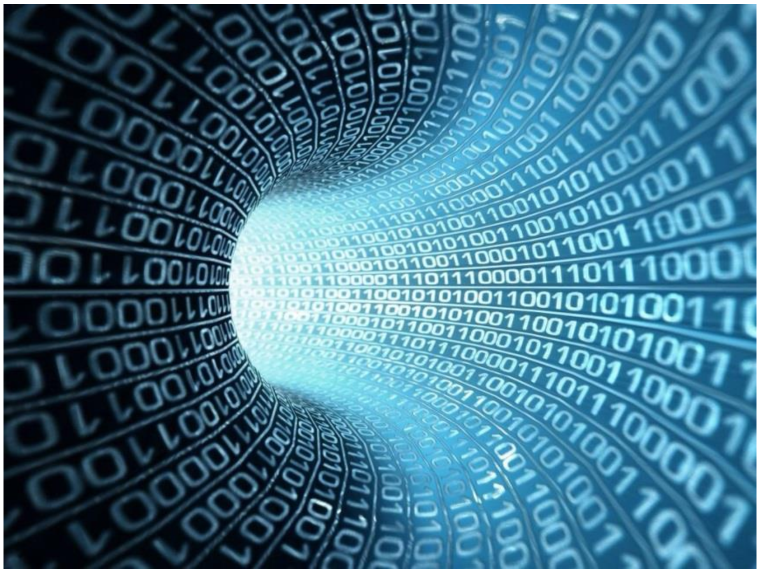
From the Journal of the Heartland Angels – (900 Words)

Today, entrepreneurs have tools and technologies to collect, monitor, and document more data than ever before. You're likely swimming in data, since customers leave a trail of it everywhere to be captured and analyzed in real time. As I've often said, in business, what gets measured (and acknowledged and rewarded) is what gets done. I haven't changed my belief about that, but I have come to see that we are putting too much emphasis strictly on the numbers. Numbers don't lie, but they never tell the whole story. They can only take you so far before they top out and you need something qualitative and experiential to get to the right conclusions.

Peter Drucker's dictum "if you can't measure it, you can't manage it" has created a whole generation of leaders so focused on perfecting their company's processes that they lose sight of the company's purpose. I hear managers all the time talking about the need to get more work out of their people when they should be trying to get the best work out of them. Optimizing (not maximizing) the team's output is what matters most to the ultimate success of a business. Working smarter and more effectively—not necessarily longer or harder—is how you ultimately move ahead of the competition.

You need to be exceedingly careful these days that you don't let the ease of access and the ubiquity of massive amounts of quantitative performance data cause you to over-emphasize the math and measurements—and thereby lose sight of the far more important qualitative attributes of what's going on. Not everything is easy to measure or quantify, but that doesn't make these things less important; it just makes your job as manager tougher. But when you get so wrapped up in the measurement process that it becomes the goal itself, it loses its effectiveness. It's easy to confuse movement with progress, but not all motion is forward. And lots of activities that run up the numbers aren't remotely productive. Measuring is easy; measuring better is tough.

When you let the numbers drive the train, you give up two important advantages that are critical to your success. First, the goal isn't to be the thermometer; it's to be the thermostat. It's not about measuring the heat; it's about generating and controlling the heat. You don't want the analytics to lead you; they're a useful benchmark and a guide for course corrections, but it's your job to set the direction and move the business forward. Second, when you get so focused on specific and concrete financial results (sales targets, growth rates, etc.) and you direct all your team's energies toward getting as close to achieving those numbers as possible, you actually limit your ultimate upside because you lose the ability to think and see beyond those immediate goals. When a game-changing opportunity arises or a quantum shift occurs in your sales prospects, your team will likely be so heads-down chasing those numbers that someone else will come along and grab the new brass ring.



Here are three principles that have helped me resist the temptation to get too caught up in the numbers—and focus on what truly matters at my company:

1. **Elaboration is a form of pollution**.
   Tell your team to keep it simple. No one gets paid by the page, and shorter is almost always better. I've found that when people expand and extend their plans, proposals, and presentations, there's a high degree of likelihood that they're concerned about the value of their pitch, so they try to bury it in a boatload of facts, figures, charts, citations, and everything else that just hides the hard truth. It's better for everyone when your people put things right out there—front and center—and take their medicine if that's what's called for. If you torture the numbers long enough, they'll say whatever you like, but that's not any way to get to the truth or the right result.

2. Not everything is worth doing well.

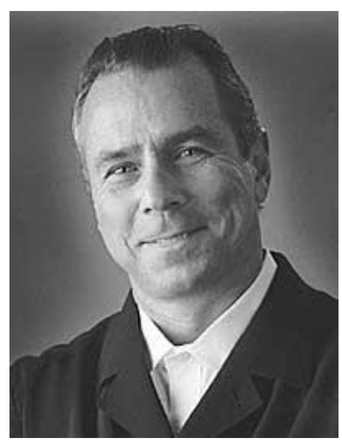
Tell your team that everyone's always on the clock. There's an opportunity cost associated with everything you do, so choosing what not to do (and how extensively to do the things you need to do) is critical in any startup which has scarce resources and time. Some things just don't warrant the full-court press, and it's important to make sure that everyone knows that that's okay with you. Other things shouldn't be done at all, and you should never try to do things cheaply that just aren't worth doing. It's never easy to turn people down or say, "No," to marginal choices, but it's part of the job.

3. No one's ever measured how much the heart can hold.

Ultimately, the value of the critical connections your people make every day with your clients and customers can only be roughly approximated by even the best math. But it's those daily personal and emotional interactions with your empowered employees that build crucial engagement as well as the lifetime value of those buyers for your business. You need to give your team permission to do what's best for the customer in the moment that the opportunity arises. If they need to consult a rule book or have a calculator handy to do the math, they'll lose the value of the moment every time. The best businesses don't worry about the number or sheer volume of moments--they work to make each moment matter.

■

Howard Tullman is a philosopher, investor, and Chicago entrepreneur.



For more go to **http://tullman.blogspot.com**
www.1871.com/

Read Bio: **http://tullman.com/resume.asp**

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OIL FROM WATER

Featured Company – Nano Gas Technologies

By John Jonelis

From the Journal of the Heartland Angels **–** (800 Words)

What if you can make oil out of water? What if you also end up with more water? A discovery like that will benefit our country and the world. The technology now exists. Commercialization is beginning.

The story starts here in Chicago. Len Bland, mild-mannered local businessman, creates Business Network Chicago — a forum for presenting early stage ventures to the entrepreneurial community. Over the years, he sees hundreds of startup companies and occasionally grapples with some very good ideas.

Once in a while, a surprise technology comes along that's practical, profitable, and good for society. When that happens, it's time to get involved personally and help them along. That's just what Len does. This is a story about that company.

Social Entrepreneurship

Nano Gas Technologies is a company that grows out of the discovery that very small gas bubbles remain in liquid a very long time—much longer than had previously been thought in scientific circles. If you saturate a substance with oxygen or some other gas and it remains in situ for a very long time, a whole range of possibilities opens up. One ramification of this discovery is to solve the fresh water dilemma. That's huge.

Next to the air we breathe, there is nothing more important to life than water. And our fresh water is drying up. There are two ways to provide more water to the world:

- Find more
- Waste less

Nano Gas starts along the first path and ends up solving the second.

Find More

Clean drinking water is the first market the company tests—until the real blockbuster application turns up. Let's briefly explore this first path because it's an important one that will benefit humanity. The company can return to it at any time, and given its importance to society, they probably will.

Fresh water is processed in municipal wastewater treatment facilities. These facilities are incredibly inefficient. Turns out, by injecting nano-bubbles into the sludge, a whole lot more pure water can be reclaimed. Simple. The best discoveries are simple.

This is hugely exciting news because the benefits extend far beyond relieving the stench in and around the neighborhood of these plants. We are looking at the potential solution to water shortage in the industrialized world. Beyond that, the process can provide drinking water to third world nations by extracting purified water from swamps and polluted rivers. This is social entrepreneurship at its best!

Politics has a funny way of throwing roadblocks in front of good causes. It turns out that cracking the municipal market is a slow and painstaking undertaking because there are so many cities and towns and each of them takes a long time to make a decision. Wastewater treatment is a good and important application for the technology, but it's not a market suited for a new company raising significant capital for rapid growth. In other words, the time horizon for the *served market* and the time horizon for the *capital market* don't match.

Again, I believe the company will return to this market once it achieves maturity. Meanwhile a much more profitable opportunity has come to light—one that can propel the company to significant growth on a timetable attractive to venture capital.

Waste Less

Let me tell you about the change that captured my interest in the company:

Domestic oil wells use a lot of water. Not just fracking operations, but ordinary wells too. Many of these run out of water before the lunch whistle blows and operations cease for the day. That means more tankers of oil get shipped from unfriendly places in the world.

At these domestic wells, once the water is used, it comes back as a contaminated slurry. The standard method to gain value from the slurry is gravity–settling ponds. Given time, valuable minerals sink to the bottom or rise to the top. This is slow, messy, and doesn't do a complete job of cleaning the water. The reclaimed water is not fit to drink. It's not even fit for recovering oil because it clogs up the machinery. The industry doesn't know how to deal with the water that remains.

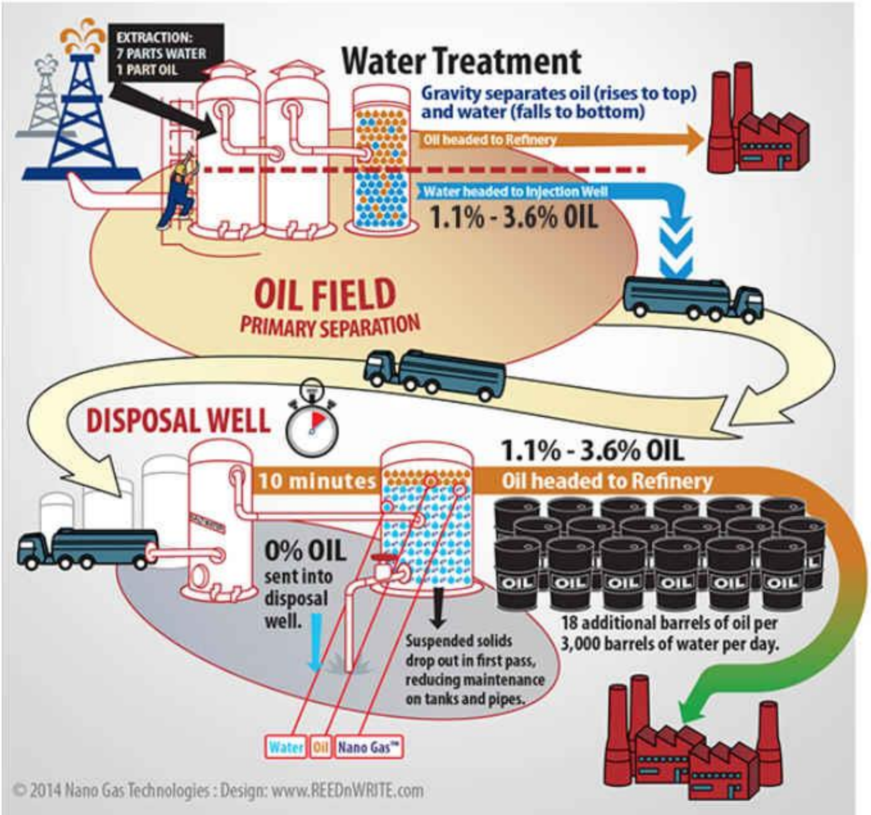
Believe it or not, this water gets entirely wasted. Drillers truck it to special facilities called disposal wells that pump it back into the ground just to get rid of it. This reduces the amount of water available for drinking and for industry.

So we're wasting too much water and pumping too little oil. Enter Nano Gas Technologies. They use their profoundly simple nano-bubble discovery to clean wastewater for oil wells. This is huge because, once purified, oil wells can re-use their water. That's right, instead of wasting more and more water and pumping the contaminated residue into the ground, ***the same water can now be cleaned and used over and over***.

That means oil wells no longer cease operations early in the day. America gets a whole lot more domestic oil and wastes a whole lot less water. And the company is dealing with the free market rather than multiple bureaucracies. Everybody wins.

Big Money

This is a social benefit with $35B market in a very short span of time. It's profitable for oil wells, disposal wells, and of course, for the company. An additional 18 barrels of oil can be reclaimed from 3000 barrels of wastewater. Dirty water is no longer a nuisance—it's so valuable that ***Nano Gas Technologies proposes to pay the well owners for the water and sell the oil they reclaim from it!*** Now, there's a revolutionary idea! Rapid industry-wide adoption is anticipated once the technology is demonstrated. Here's a diagram of the process logistics:



Residual oil reclamation plan – Nano Gas Technologies

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Len Bland – Founder and CEO – Email – **lbland@nanogastechnologies.com**

BNC – **Business Network Chicago**

Photo Credits – Nano Gas Technologies

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Persuading a Group

Part 4 – Nervousness & Adrenaline
by Paul LeRoux
***From the Journal of the Heartland Angels* –** (600 Words)

"There are only two types of speakers in the world. 1. The nervous and 2. Liars."
Mark Twain

It's Tough

It's tough to stand and sell your idea to a group.

As you rise to start your pitch, your stress level jumps. The pressure to "sell the big one" usually creates an adrenaline surge. Your body shouts, "Go for it! Here's an energy shot."

Unfortunately, this adrenaline boost leads to visual hyperactivity that hurts rather than helps you promote your idea. You step backward and forward or shift from one foot to the other. Your hands also want something to do. You rotate your wedding ring, wring your hands or jungle coins or keys in your pocket.

Holding Hands

All these movements send an undesirable visual message, suggesting you are anxious or uncertain about the idea you're pitching. The higher the stakes, the more your body probably feels like a shaken soda can. You're ready to explode. Unfortunately, the adrenaline often pops the lid, resulting in negative movements or gestures.

Sometimes it goes terribly wrong. A senior vice president for marketing of a major public company stood before some 700 stockholders to explain why last year's sales tanked. Naturally, he was nervous. His reputation was riding on his ability to offer a credible explanation for the bad year.

Groin Waving

He stood rigidly with his arms in front, crossed and his palms covering his groin. One hand tightly gripped his other wrist. This fig leaf, protective stance would have been bad enough. However, his nervousness quickly shoved him over the edge. As the senior vice president spoke, the free hand, at his groin level, kept waving up and down. Obviously, he didn't realize what he was doing or what message this fig leaf, groin-waving gesture was sending to the audience.

Professors tell us that adrenaline shooting throughout the body dates back to our evolutionary roots. When our ancestors first walked upright and began facing threats like saber tooth tigers, our body needed extra help, which evolved into adrenaline. It was just what we needed—the energy boost to run frantically or fight ferociously. That's how the term "fight or flight came about. "F & F" works well in facing tigers or enemy soldiers. However, in presentations that sudden energy backfires.

There we stand with a surge of adrenaline roaring through our bloodstream, preparing us to fight or flee. Of course, neither leaving nor fighting is an option. But the energy must exit.

To present persuasively, you must learn and master physical skills and techniques. Without skills in tennis or golf, one madly swats or clubs at the ball. Same for presentations. Nervousness usually uses us negatively rather than our channeling it into positive use.

For presenters to convince listeners, they must master body movements, gestures, eye contact, pauses, and voice projection. These are all learned skills. Very few presenters execute them naturally. Doing them poorly, handicaps your ability to convince listeners.

Next topic

In the next issue, I will cover how to channel nervousness into positive energy through gestures, voice projection, etc. With these techniques, the presenter can appear confident, sincere and credible. Channeling nervous energy with positive physical techniques dramatically increases the presenter's chance to persuade the group

■

For 30 years the author has helped senior executives prepare for important or competitive presentations and coached entrepreneurs on how to make their funding pitches more persuasive and graphic. Paul is also a member and investor with Heartland Angels.
Paul LeRoux can be reached at **leroux@twainassociates.com**

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GIMME WHAT YOU GOT

by Adrienne Naumann
***From the Journal of the Heartland Angels* –** (500 Words)

There are currently court rules and statutes for awarding attorney fees and/or costs in patent infringement cases to the accused infringer thereafter exonerated. For example there are potential financial sanctions for (i) bringing a frivolous lawsuit (ii) vexatious conduct during the litigation (iii) willful infringement and (iv) fraud in obtaining the patent.

In Kilopass Technology Inc. v. Sidense Corporation [hereinafter Kilopass and Sidense] the federal appeals court broadened the circumstances under which a judge may award attorney fees for an 'exceptional case' involving patent infringement.

Kilopass and Sidense are competitors in the memory markets, i.e., a market in which devices retain information after power to the device is removed. After Kilopass observed a Sidense patent application on-line, it retained a law firm to determine whether Sidense's disclosed invention infringed Kilopass' patented memory device. The first law firm required additional time for a final determination, as did the second firm Kilopass subsequently contacted. Kilopass then retained a third firm which determined that Sidense may infringe but it had not yet completed the investigation. Nevertheless, Kilopass immediately filed the patent infringement lawsuit against Sidense prior to this final determination. Sidense was subsequently exonerated and thereby became the prevailing party. However, the trial court did not award fees to Sidense, apparently because there was no evidence that Kilopass actually knew that its infringement claims were baseless.

Under the law in Sidense, there must be both subjective bad faith and objective non -merit of the lawsuit. The significance of Sidense was that the appellate court ordered the lower court to determine attorney fees after allowing objective evidence of non-merit to "double" as evidence of subjective bad faith.

As it turns out, Sidense provided an accurate forecast for attorney fee awards in federal courts. In Octane Fitness, LLC v. Icon Health & Fitness, Inc. 572 U.S. ____ 134 S. Ct. 1749, 188 L.Ed. 2d 816, 2014 U.S. Lexis 3107, 110 U.S .P.Q.2d 1337 (2014), Octane appealed denial of its request for attorney's fees as the prevailing party. Octane asserted in particular that Icon's unreasonable contentions and correspondence established Icon's bad faith and entitled them to attorney fees.

Ultimately the U.S. Supreme Court reviewed Octane's request for attorney fees and significantly modified criteria for attorney fee awards in patent infringement litigation. Now either subjective bad faith or objective non-merit of the lawsuit justifies attorney fees, and proving both is no longer necessary. The court also held that the lower standard of preponderance of the evidence for either subjective bad faith or objective lack of merit would suffice.

In addition, appellate courts have limited authority to modify a lower court's attorney fee awards under these circumstances. In Highmark, Inc. v. Allcare Health Management System, Inc., 572 U.S. ___ 134 S. Ct. 1744, 188 LEd.2d 829, 2014 U.S. Lexis 3106, 110 U.S .P.Q.2d 1343(2014) Highmark filed a declaratory judgment suit against Allcare for patent non-infringement. The district court found Highmark was entitled to attorney fees as the prevailing party, but Allcare appealed.

The Federal Circuit disregarded the district court's determination and substantially reduced the attorney fee award to Highmark. Ultimately, however, the Supreme Court concluded that an appellate court could not disregard a lower court's attorney fee award unless there was an abuse of discretion (by the lower court).

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Read more by Ms. Naumann at her **blog**.
Image from Sidense patent **US 8,654,598 B2**

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MEMBER OF THE MONTH

***From the Journal of the Heartland Angels* –** (300 Words)

From time to time, the Heartland Angel's Special Committee selects a Member of the Month. This award goes to Jill Hebert. Like the Stanley Cup, the honor is held until the next is selected.

Honoring Jill Hebert

Jill co-chairs the DePaul University Coleman Center for Entrepreneurs and is founding member of The Peninsula Group, a small angel investors group. She says, ***"I love building things; organizations, businesses, a sales team, a house, anything as long as I am creating with purpose."***

Jill Hebert

Jill is founder and CEO of Matrex Exhibits, Inc., **www.matrexexhibits.com**, a company that designs, builds, installs, dismantles, and warehouses trade show exhibits. They collect data about trade show attendees and provide them with education to create interactive, memorable events that drive brand awareness. The company began 28 years ago in the spare bedroom and now fills the 100,000 sq. ft. building in Addison.

Jill boasts two entrepreneurial sons, Mark and Adam, who also live in Chicago. Mark is Assistant VP for Citizens Financial managing institutional real estate and plans to launch a company combining RFID and golf. Adam is founding partner of DAS Radler, a German themed restaurant in Logan Square.

FAST FACTS

FIRST CAR *–: '67 Heavy Chevy. John Jonelis's first car got 50 miles to the quart of oil…. Mine used so much gas you had to turn off the engine to fill the tank!*
SPORTS *– I love snow skiing—downhill and cross country, water skiing, hiking, kayaking, and sailing.*
FAVORITE MUSIC *– Anything that requires talent.*
FAVORITE MOVIES *– The classics like Young Frankenstein, Mixed Nuts (best Christmas movie ever!), Fried Green Tomatoes, Shawshank Redemption, Forest Gump, Raiders of the Lost Ark, the first Star Wars…*
FAVORITE WRITERS *– I do not have a favorite. I tend to read a variety of business periodicals, self-help books and the occasional fiction based on historical fact. I am fascinated with the lives of others.*
FAVORITE ARTISTS *– Georgia O'Keeffe, Ansell Adams, DaVinci, Monet, Seurat, and Hendrick Goltzius*

■

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HALO REPORT – Q3 2014

by the Angel Resource Institute, Silicon Valley Bank, and CB Insights
From the Journal of the Heartland Angels **–** (300 Words)

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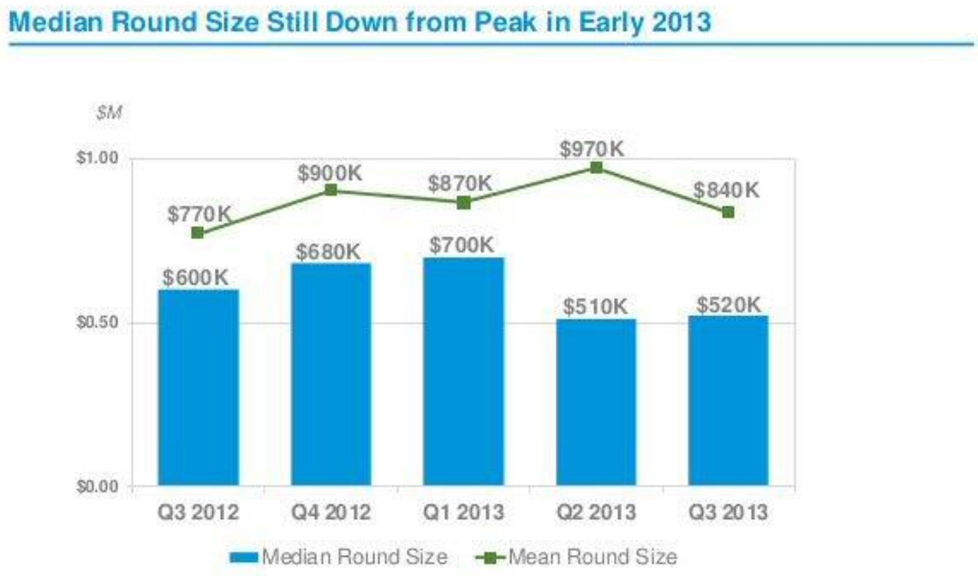
10 Most Active Angel Groups

Total Deals Q3

- Alliance of Angels
- Golden Seeds
- Houston Angel Network
- Hyde Park Angels
- Investors' Circle
- Launchpad Venture Group
- Life Science Angels
- Sand Hill Angels
- Tech Coast Angels
- Wisconsin Investment Partners

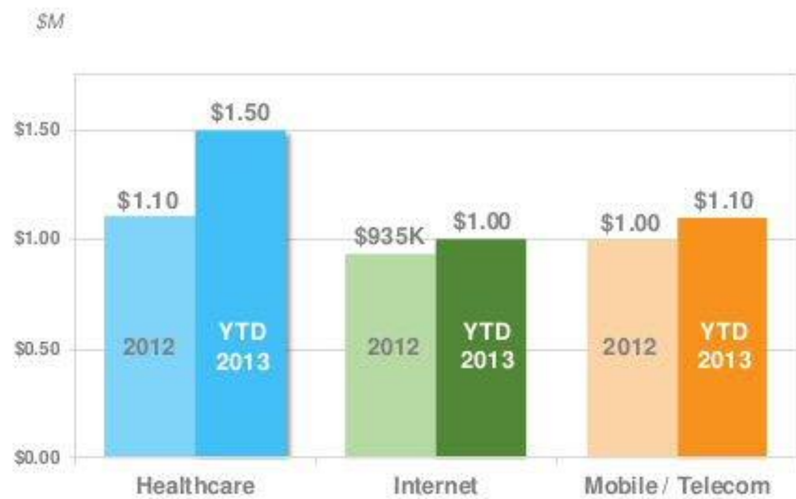
*Groups new to the top ten are denoted by

National Trends



*Angel rounds include angels & angel groups only

Healthcare Round Size Jumps Over 2012
Median Round Sizes for Angel Groups in Top Sectors



*For all deals involving angel groups, includes co-investors

Median Early Stage Pre-Money Valuation Steady at $2.5M
Rolling Year Q3 2013

*Including all rounds with angel groups before Series A

Angel Groups Invest Close to Home

74% of Deals Completed in Home State of Investor Group & Company

10 Most Active Angel Groups

Total Deals (Alpha Order)

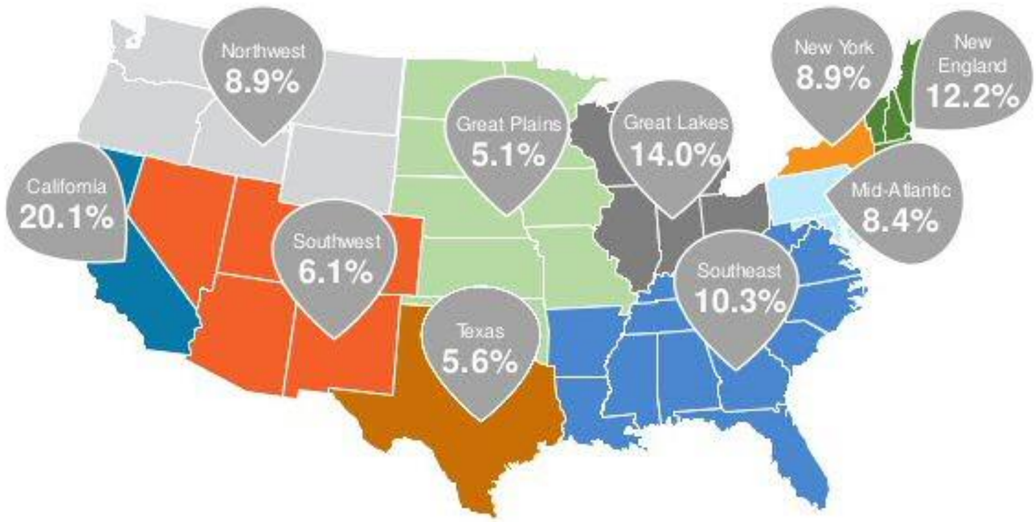
- Alliance of Angels – Seattle, WA
- Golden Seeds – NY, MA, CA
- Houston Angel Network – Houston, TX
- Hyde Park Angels – Chicago, IL
- Investors' Circle – National Group
- Launchpad Venture Group – Boston, MA
- Life Science Angels – Sunnyvale, CA
- Sand Hill Angels – Sunnyvale, CA
- Tech Coast Angels – Southern CA
- Wisconsin Investment Partners – Madison, WI

*Groups new to the top ten are denoted by

Regional Trends

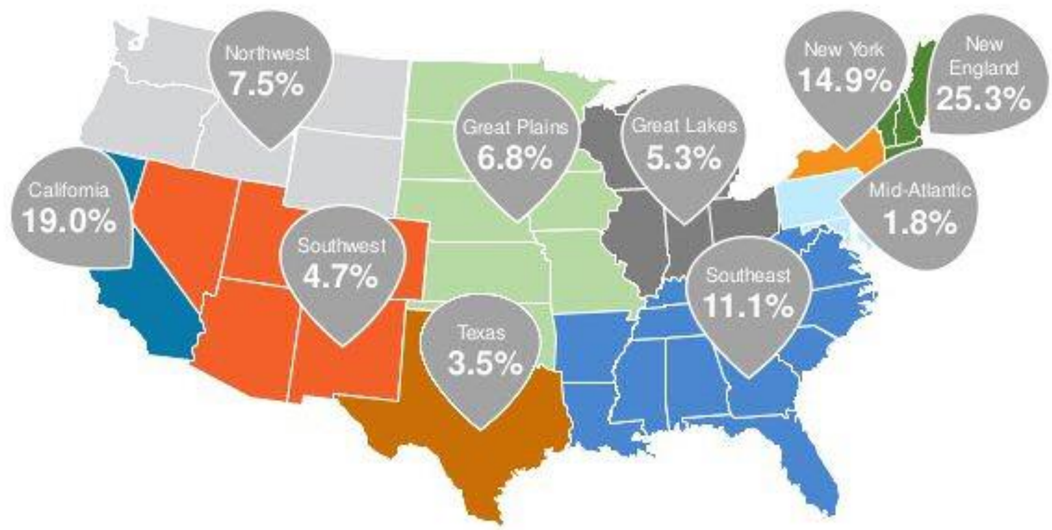
Great Lakes Shows Largest Marketshare Increase

Share of Angel Group Deals by Region Q3 2013



Share of Angel Group Deals by Region

New England Retains Lead, New York Bounces Bank, Great Lakes Drops
Share of Angel Group Dollars by Region Q3 2013



Share of Angel Group Dollars by Region

Sector Trends

Internet, Healthcare, Mobile Continue to Grab Lion's Share of Deals
Q3 2013 Share of Angel Group Deals by Sector

Mobile Captures Biggest Increase in Share of Dollars
Q3 2013 Share of Angel Group Dollars by Sector

About the Halo Report™

What is the Halo Report™?

Angel Group Investment Trends: The Angel Resource Institute, Silicon Valley Bank and CB Insights set out to raise awareness of early stage investment activities by angel investment groups. The Halo Report is the result. The research series highlights angel investment activity and trends in North America and provides much sought after data that has not been previously available to entrepreneurs or early stage investors.

The Halo Report includes aggregate analysis of investment activity by angels and angel groups and highlights trends in round sizes, location and industry preferences. The data is collected via survey and aggregation of public data using CB Insights innovative data analyses.

Get Involved: Angel groups and individual angel investors interested in including their data in the Halo Report should contact JJ Knight, Halo Report Coordinator: 910-452-7444 and jjknight@angelresource.org.

Understanding the Data:
Special Round Types and Industry Sectors

The Halo Report™ provides analysis and trends on US angel and angel group activity.

Angels and angel groups invest alone, together, and with many other types of investors. Unless otherwise noted the Halo Report data includes all rounds that have at least one angel group participating and may include other types of investors in those rounds.

This report discusses angel group investment trends for Q3 2013, which represents a total of 278 deals and $445M in total rounds including co-investors.

A few charts report on an "Angel Round," a special classification of investment when angel groups invest alone or just with other angels and angel groups.

Unless otherwise noted, values of less than <1% are included, but are not labeled or noted as a change in activity.

Halo Report Industry Sectors

Internet	Industrial	Financial Services
Mobile & Telecom	Automotive & Transportation	Food & Beverages
Software	Business Products & Services	Leisure
Energy & Utilities	Consumer Products & Services	Media
Computer Hardware & Services	Electronics	Metals & Mining
Healthcare	Environmental Services & Equipment	Retail
		Risk & Security

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Software	Business Products & Services	Leisure
Energy & Utilities	Consumer Products & Services	Media
Computer Hardware & Services	Electronics	Metals & Mining
Healthcare	Environmental Services & Equipment	Retail
		Risk & Security

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The **Angel Resource Institute** (ARI) is a charitable organization devoted to education, mentoring and research in the field of angel investing, a growing driver of our entrepreneurial economy. ARI was founded by the Ewing Marion Kauffman Foundation. The programs of ARI include educational workshops and seminars, research projects and reports, and information about angel investing for the general public. ARI is affiliated with the Angel Capital Association, the professional association of angel groups in North America. More information is available at www.angelresourceinstitute.org.

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CB Insights
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Silicon Valley Bank | Angel Resource Institute | Data Powered by CB Insights | HALO Report™

Source – **http://www.angelresourceinstitute.org/research/halo-report.aspx**

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