APPENDICES

Appendix : A - Offering Circular

Appendix : B - Schedule Employed For Interviewing the Respondents

Appendix : C - List of Venture Capital Funds

Appendix : D - Typical Questions asked by Venture Capitalists to the Prospective Investee
I EXECUTIVE SUMMARY

The effective Summary should not be a mere listing of topics contained in the body of the business plan but should emphasize the key issues presented.

A critical point that must be communicated in the Executive Summary is company’s distinctive competence - the factors that will make business successful in a competitive market.

A. The Purpose of the Plan
   1. Attract investors
   2. Document an operational plan for controlling the business.

B. Market Analysis
   1. The characteristics of your target market
      (Demographic, geographic, etc.)

C. The Company
   1. The needs your company will satisfy
   2. The products or services will offer to satisfy those needs.

D. Marketing and Sales Activities
   1. Marketing Strategy
   2. Sales strategy
   3. Keys to success in your competitive environment

E. Product or Service Research and Development
   1. Major milestones
   2. Ongoing efforts
If the company is new, business plan can be sent to potential investors who review hundreds of them each year. The Executive Summary must therefore give the reader a useful understanding of the business and make the point of most interest to them; “What is in it for the investors.”

F. Organization and Personnel
   1. Key managers and owners
   2. Key operations and employees

G. Financial Data
   1. Funds required and their use
   2. Historical financial summary
      Prospective financial summary

II. MARKET ANALYSIS
The Market Analysis section should reflect the knowledge regarding the industry possessed by the entrepreneur and analysis of market research conducted by him.

A. Industry Description and Outlook
   1. Description of primary industry
   2. Size of the industry
      a. Historically
      b. Currently
      c. In five years
      d. In ten years

   3. Industry characteristics and trends (Where is the company in its life cycle?
      a. Historically
      b. Currently
      c. In the future
4. Major customer groups
   a. Business
   b. Governments
   c. Consumers

B. Target Markets
1. Distinguishing characteristics of your primary target markets and market segments. The
   target markets should be narrowed down to a manageable size. Efforts to penetrate target markets
   that are too broad are often ineffective.
   a. Critical needs
   b. Extent to which those needs are currently being met.
   c. Demographics
   d. Geographic location
   e. Purchasing decision - makers and influencers
   f. Seasonal/ cyclical trends

2. Primary / target market size
   a. Number of prospective customers
   b. Annual purchases of products or services meeting the same or similar needs as products or
      services offered by the entrepreneur.
   c. Geographic area
   d. Anticipated market growth

3. Market penetration - The extent to which market can be penetrated should be indicated
   supported with evidence based on market research.
   a. Market share
   b. Number of customers
   c. Geographic coverage
   d. Rationale for market penetration estimates

4. Pricing / gross margin targets
a. Price levels
b. Gross margin levels
c. Discount structure (volume, prompt payment, etc.)

5. Media through which one can communicate with specific members of the target market
   a. Publications
   b. Radio/television broadcasts
   c. Sources of influence / advice

6. Purchasing cycle of potential customers
   a. Needs identification
   b. Research for solutions to needs
   c. Solution evaluation process
   d. Final solution selection responsibility and authority (executives, purchasing Agents, engineers, etc.)

7. Key trends and anticipated changes within the primary target markets

8. Secondary target markets and key attributes
   a. Need
   b. Demographics
   c. Significant future trends

C. Market test Results
   1. Potential customers contracted
   2. Information / demonstrations given to potential customers.
   3. Reaction of potential customers
   4. Importance of satisfaction of targeted needs.
   5. Test group's willingness to purchase products / services at various price Levels.
As the market analysis provides the only basis for prospective sales and pricing estimates, it should be emphasized that there is a market need for the product or service, and that the person approaching the venture capitalist can understand it and make it commercially viable.

D. Lead Times (amount of time between customer order placement and product / Service delivery)
   1. Initial orders
   2. Recorders
   3. Volume purchases

E. Competitions
   1. Identification (by product line or service and market segment)
      a. Existing
      b. Market share
      c. Potential
      d. Direct
      e. Indirect
   2. Strengths (competitive advantages)
      a. Ability to satisfy customer needs
      b. Market penetration
      c. Track record and reputation
      d. Staying power (financial resources)
      e. Key personnel
   3. Weaknesses (competitive disadvantages)
      a. Ability to satisfy customer needs
      b. Market penetration
      c. Track record and reputation
      d. Staying power (financial resources)
      e. Key personnel
4. Importance of the target market to competition

5. Barriers to entry into the market
   a. Cost (investment)
   b. Time
   c. Technology
   d. Key personnel
   e. Customer inertia (brand loyalty, existing relationships, etc.)

F. Regulatory Restrictions
1. Customer of governmental regulatory requirements.
   a. Methods for meeting the requirements
   b. Timing involved
   c. Cost
2. Anticipated changes in regulatory requirements.

III. COMPANY DESCRIPTION

This section is the first real attempt to communicate the essence of the proposed business. The lack of a clear description of the key concepts of the company will indicate to the reader that it has not been clearly perceived. Therefore, one must be certain that this section concisely and accurately describes the substance of the new business proposed.

A. Nature of the Business
1. Market place needs to be satisfied.
2. Method(s) of need satisfaction (products and services)
3. Individuals/organizations with the needs.

B. Distinctive Competencies (primary factors that will lead to your success)
1. Superior customer needs satisfaction
2. Production / service delivery efficiencies
3. Personnel
4. Geographic location

IV. MARKETING AND SALES ACTIVITIES

Both general and specific information must be included in this part of the plan. The objective here is to describe the activities that will allow the entrepreneur to meet the sales and margin levels indicated in prospective financial statements.

A. Overall Marketing Strategy
1. Marketing penetration strategy
2. Growth strategy
   a. Internal
   b. Acquisition
   c. Franchise
   d. Horizontal (providing similar products to different users).
   e. Vertical (providing the products at different levels of the distribution chain)

3. Distribution channels (include discount / profitability levels at each stage)
   a. Original equipment manufacturers
   b. Internal sales force
   c. Distributors
   d. Retailers

4. Communication
   a. Promotion
   b. Advertising
   c. Public relations
   d. Personal selling
   e. Printed materials (catalogues, brochures, etc.)
B. Sales Strategies

1. Sales force
   a. Internal vs. independent representatives
   b. Size
   c. Recruitment and training
   d. Compensation

2. Sales activities
   a. Identifying prospects
   b. Prioritizing prospects
   c. Number of sales calls made per period
   d. Average number of sales calls per sale
   e. Average dollar size per sale
   f. Average dollar size per recorder

V. PRODUCTS AND SERVICES

A. Detailed Product / Service Description (from the user’s perspective)
   1. Specific benefits of product / service
   2. Ability to meet needs
   3. Competitive advantages
   4. Present stage (Idea, prototype, small production runs, etc.)

B. Product Life Cycle
   1. Description of the product / service’s current position within its life cycle.
   2. Factors that might change the anticipated life cycle
      a. Lengthen it
      b. Shorten it
C. Copyrights, Patents, and Trade Secrets
1. Existing or pending copyrights or patents
2. Anticipated copyright and patent filings
3. Key aspects of products or services that cannot be patented or copyrighted
4. Key aspects of products or services that qualify as trade secrets
5. Existing legal agreements with owners and employees
   a. Non disclosure agreements
   b. Non compete agreements

The emphasis in this section should be on company’s unique ability to satisfy the needs of the marketplace. Efforts should be made to concentrate on the positive aspects of product’s ability to meet existing market needs and allow. Adequate room should be provided to the readers to draw their conclusions about competition based on the objective information presented here and in the Market Analysis sections.

D. Research and Development Activities
1. Activities in process
2. Future activities (include milestones)
3. Anticipated results of future research and development activities
   a. New products or services
   b. New generations of existing products or services
   c. Complementary products or services
   d. Replacement products or services
4. Research and development activities of others in the industry
   a. Direct competitors
   b. Indirect competitors
   c. Suppliers
   d. Customers
VI. **OPERATIONS**
It covers the following areas:

A. Production and Service Delivery Procedures
   1. Internal
   2. External (subcontractors)

B. Production and Service Delivery Capability
   1. Internal
   2. External (subcontractors)
   3. Anticipated increases in capacity
      a) Investment
      b) New cost factors (direct and indirect)
      c) Timing

C. Operating Competitive Advantages
   1. Techniques
   2. Experience
   3. Economies of scale
   4. Lower direct cost

D. Suppliers
   1. Identification of the suppliers of critical elements of production
      a. Primary
      b. Secondary
   2. Lead-time requirements
   3. Evaluation of the risks of critical element shortages
   4. Description of the existing and anticipated contractual relationships with suppliers.
VII. MANAGEME NT AND OWNERSHIP
Since the management team’s talents and skills are some of the few truly unique aspects of any company, these must be highlighted to attract investors. This section must emphasize management’s talents and skills, and indicate that they are a part of the company’s distinctive competence that cannot easily be replicated by competitors.

A. Management Staff Structure
   1. Management staff organization chart
   2. Narrative description of the chart

B. Key Managers
   1. Name
   2. Position
   3. Brief position description including primary duties
   4. Primary responsibilities and authority
   5. Unique skills and experiences that add to the company’s distinctive competencies
   6. Compensation basis and levels

C. Planned Additions to the Current Management Team
   1. Position
   2. Primary responsibilities and authority
   3. Requisite skills and experience
   4. Recruitment process
   5. Timing of employment
   6. Anticipated contribution to the company’s success
   7. Compensation basis and levels

D. Legal Structure of the Business
   1. Corporation
      a. C - corporation
      b. S - corporation
   2. Partnership
a. General
b. Limited

3. Proprietorship

E. Owners
1. Names
2. Percentage ownership
3. Extent of involvement with the company
4. Form of ownership
   a. Common stock
   b. Preferred stock
   c. Central partner
   d. Limited partner

5. Outstanding equity equivalents
   a. Options
   b. Warrants
   c. Convertible debt

6. Common stock
   a. Authorized
   b. Issued

F. Board of Directors
1. Names
2. Position on the board
3. Extent of involvement with the company
4. Background
5. Contribution to the company’s success
   a. Historically
   b. In the future
VIII. **FUNDS REQUIRED AND THEIR USES**

Any new or additional funding reflected in the prospective financial statements should be discussed in this section. Alternative funding scenarios can also be presented here.

**A. Current Funding Requirements**
1. Amount
2. Timing
3. Type
   a. Equity
   b. Debt
   c. Mezzanine
4. Terms

**B. Funding Requirements over the Next Five Years**
1. Amount
2. Timing
3. Type
   a. Equity
   b. Debt
   c. Mezzanine
4. Terms

**C. Use of Funds**
1. Capital expenditures
2. Working capital
3. Debt retirement
4. Acquisitions

**D. Long Range Financial Strategies (liquidating investors positions)**
1. Going Public
2. Leveraged buyout
3. Acquisition by another company
4. Debt service levels and timing
5. Liquidation of the venture

It should be noted that because the rate of return is their most important consideration and that the initial public offering market is sometimes not available, investor will be looking for alternative exit strategies. Recent trends as merger/acquisitions and strategic partnering should also be mentioned.

IX. **FINANCIAL DATA**

The Financial Data section contains the financial representation of all the information presented in the other sections.

A. Historical Financial Data (past three to five years, if applicable)

1. Annual statements
   a. Income
   b. Balance Sheet
   c. Cash flows

2. Level of CPA involvement (and name of firm)
   a. Audit
   b. Review
   c. Compilation

B. Prospective Financial Data (next five years)
1. Next year (by month or quarter)
   a. Income
   b. Balance sheet
   c. Cash flows
   d. Capital expenditure budget
2. Final four your (by quarter and/or year)
   a. Income
   b. Balance sheet
   c. Cash flows
   d. Capital expenditure budget

3. Summary of significant assumptions

4. Type of prospective financial data
   a. Forecast (management's best estimate)
   b. Projection (What-if scenarios)

5. Level of CPA involvement
   a. Assembly
   b. Agreed-upon procedures
   c. Review
   d. Examination

C. Analysis
1. Historical financial statements
   a. Ratio analysis
   b. Trend analysis with graphic presentation

2. Prospective financial statements
   a. Radio analysis
   b. Trend analysis with graphic presentation.

X. APPENDICES OR EXHIBITS
Any additional detailed or confidential information that could be useful to the readers of the business plan but is not appropriate for distribution to everyone receiving the body of the plan can be presented here. Accordingly, appendices and exhibits should be bound separately from the other sections of the plan and provided on an as needed basis to readers.
A. Resumes of Key Managers
B. Pictures of Products
C. Professional References
D. Market Studies
E. Pertinent Published Information
1. Magazine articles
2. References to books
F. Patents
G. Significant Contracts
1. Leases
2. Sales contracts
3. Purchase contracts
4. Partnership/ownership agreements
5. Stock option agreements
6. Employment / Compensation agreements
7. Non compete agreements
8. Insurance
9. Product liability
10. Officers' and directors' liability
11. General liability