



***“BUILDING SUCCESSFUL COMPANIES OF THE FUTURE.
PROVIDERS OF CAPITAL AND EXPERTISE”***

CORNERSTONE ANGELS seeks to provide financial capital and mentorship to early-stage companies nationwide, with a focus on the greater Midwest.



**CORNERSTONE
ANGELS**

BROCHURE

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Cornerstone Angels | Confidential

March 20, 2011

Dear Present and Former Members:

Thank you for involvement and participation in our Cornerstone Angels activities.

To date, through our angel investment activities since 2003, our members have invested in 19 companies:

- IMH, Inc.
- Lucky Litter
- Syrus Global
- Smart Cells
- VascAlert
- OrganicToGo
- OurStage
- Power.com
- 10x Technology
- Teladoc
- Amyris Biotechnologies
- Jiminy LLC
- Digital Acoustics
- Turin Networks
- RMI
- Neuros Technology
- Advanced Diamond Technologies
- Gearbox Express LLC
- Fisker Automotive

We look forward to your future participation.

Sincerely,

Michael C. Gruber
Founder & Managing Director

Laurence K. Hayward
Managing Director

Introduction

Cornerstone Angels (“Cornerstone”) seeks to bridge the growing funding gap between start-up and institutional capital, improving economic development and helping to seed the companies of tomorrow.

Cornerstone Angels is a membership-based private investment group composed of successful entrepreneurs and business executives. The group seeks to provide financial capital, mentorship, and advisory support to high growth organizations. The company will consider opportunities nationally, but is focused on the greater Midwest given its Northbrook, IL base.

Cornerstone Angels was founded by Michael Gruber and Laurence Hayward in October 2006, and was an out birth of previous angel investment activities that Michael was involved with and led since 2000. The group invests across sectors with particular interest within Software, Media & Entertainment, Mobile, Manufacturing & Industrial, Consumer/Retail & Food/Beverage, Business Services, Healthcare Services and CleanTech. We do not currently invest in Life Sciences, Biotech, or Real Estate.

The group looks to foster strong cooperation amongst its members, and allows for strong friendships and business relationships. In addition to investment opportunities, Cornerstone Angels also provides a strong mechanism to bring together seasoned executives with companies to help accelerate growth.

The Funding Gap

In 1995, approximately 24% of all “institutional” venture capital went to companies at the seed or start-up stages. Ten years later only 6% of venture capital went to those companies, with the balance going to increasingly later-stage opportunities. (Note: these statistics are on a “number of deals” basis; on a dollar basis the percentages would be 17% and 3%, respectively).

The economy has taken an additional toll on early stage investing. In the period 2008-2009, during the recession, we saw quarterly investments in venture capital go from about \$7.5B per quarter in Q1 2008 in ~1,000 deals to a low of ~\$3B in Q1 2009 in about 450 deals, and rebounding to ~\$4.5B in Q3 2009 in approximately 600 deals. There has been an improvement in the investor sentiment since then, with venture capitalists investing \$21.8 billion in 3,277 deals in 2010, an increase of 19 percent in dollars and a 12 percent rise in deals over 2009. However, we continue to observe that Midwest venture firms account for less than 10% of venture investments (going as low as less than 4% in Q1 2009 and 5.5% in FY 2010), and with those investments overwhelmingly focused on medical devices and biotech. (Source: 2010 PWC/NVCA MoneyTree Report)

As a result of the recent economic downturn, much of the Midwest venture capital money has been set aside for existing portfolio companies, leaving very little for investments in new companies. And there has been a considerable drop off on new fundraising such that there is not a new supply of fresh institutional capital available to make investments.

Entrepreneurs seeking capital for their start-up companies must adapt to this harsh reality. If they happen to be located in the Midwest, the challenge is even greater. In 2010 nearly 61% of all venture capital was invested in just three regions of the nation: Silicon Valley, New England and NY Metro. The states in the Midwest Region of the US received just 5.5% of US venture

capital investment in 2010. (Source: 2010 PWC/NVCA MoneyTree Report).

The Opportunity

Ironically, early stage venture capital has outperformed other asset classes over the last twenty years. The returns for the most recent periods are quite muted given the downward tailspin in the economy; however, VC investing continued to handily outperform both the private equity and public benchmarks.

U.S. Private Equity Performance Index '94-2010

Fund Type	Geometric Mean 10yr Returns*	Arithmetic Mean 10yr Returns*
Early/Seed VC	37.8	31.8
Balanced VC	16.7	14.0
Later Stage VC	10.5	8.8
All Venture	20.3	17.1
NASDAQ	4.0	3.5
S & P 500	4.5	3.8

Source: Thomson Venture Economics/National Venture Capital Association

* Since period end date can influence returns, 10 year returns from years ending 2004-2010 were averaged

Still, having been burned by early-stage investments in the bubble years, many venture capitalists found it easier to attract pension fund money by investing in later stage opportunities, adjusting their investment criteria accordingly. Many large funds have become more like money managers, with the need to deploy large

amounts of capital, and can't invest the time and energy to nurture and mentor budding entrepreneurs.

Early-stage companies by the very nature of their stage take a longer time to reach a liquidity event, but at the same time, these longer duration investments have been shown to be able to better withstand many of the short-term vagaries and problems of the market.

Filling the Gap

According to Angel Capital Association, there are approximately 330 angel groups in the United States and Canada. According to both the UNH Center for Venture Research and PWC Money Tree, angels invested \$26 billion into 57,000 companies in 2007, most of which were early-stage. By comparison, institutional venture capital firms invested \$30 Billion in 3,918 deals, most of which were later-stage. It is estimated that there were 258,000 active angel investors in the U.S. in 2007.

As institutional venture capital firms have moved to later-stage deals, angel investors have filled the gap, providing financing to early-stage companies. But there are some challenges associated with moving from institutional to angel capital.

Most angel investors don't have the vast resources of institutional venture capital firms, which typically include a staff of analysts and a team of partners with years of experience evaluating opportunities, conducting due-diligence, negotiating terms and structuring deals. Venture capital firms often see hundreds of deals before selecting the best opportunity, giving them a better perspective and an opportunity to be highly selective. Further, their large pools of committed capital allow them to more easily diversify across many opportunities.

Fulfilling Critical Funding Needs

Our Cornerstone Angels group is focused on closing the funding gap between the 'friends and family' stage and the Venture Capital stage. This has always been a difficult stage to raise capital, and with this difficulty becoming even more acute in the last few years given the economic downturn.

Our goal is to provide our financial and mentor capital to help build a dynamic entrepreneurial and investor community in the Midwest, though we do consider opportunities across the country. To work towards this goal, we target opportunities which can grow quickly into large sustainable businesses, and which will fuel innovation and job creation within our region.

We target companies raising \$500K to \$3MM, with pre-money valuation up to \$5MM. Our sweet spot for initial investment is in the range of \$100K to \$500K. With these considerations, we are either involved as a single party in a small round or as part of a larger round. Based on the specific financing needs, our investments have ranged from as little as \$10k up to ~\$1MM, and through our network and alliances with multiple investment parties, we can be helpful in bringing together syndicates of several million dollars.

Deals that interest us typically satisfy the following minimum criteria:

- Provide a core market penetration opportunity
- A product or service which would satisfy needs/wants of the target market
- Valuation- entrepreneur valuation should be based on reasonable assumptions and market appropriate
- Management- key positions filled and with clear delineation of who the next hires would be combined with strong domain knowledge. The management should be

able to clearly identify the sales/marketing channels they will target as well as typical customer acquisition costs

- Some level of customer traction and market validation in the form of existing sales

Going Beyond Funding

Our role does not stop at just providing the funding as a one-time investor. We have both, our direct membership base as well as a network of hundreds of angel investors comprised of highly successful executives, entrepreneurs, and investors. We leverage this expertise to provide mentorship to entrepreneurs promoting healthy growth even beyond the current funding stage. Our members like to be involved as mentors with our portfolio companies introducing them to new customers/clients, suppliers/distributors or helping in strategic business development. These efforts have played a major role in our current crop of portfolio companies gaining solid credibility in their respective fields.

Cornerstone Angels is a member of the Angel Capital Association and is active in collaboration and syndication with groups both in the Midwest as well as across North America, including Boston, Silicon Valley, Dallas, Milwaukee, Madison, Los Angeles, Calgary, Edmonton, and NY Metro. We will actively support companies and entrepreneurs under funding consideration by making introductions to other parties as relevant and based on interest.

How We Help Our Investors?

- Significant deal flow which has averaged 250-300 deals per year
- Provide access to over 30 pre-screened deals per year through our formal meetings, as well as access to a select number of additional opportunities
- Investors can diversify their investment portfolio through the opportunity to invest across different industry sectors and in numerous investment opportunities under the Cornerstone umbrella
- Investors benefit from the deep and broad expertise in the group, especially in areas typically outside an individual's comfort zone
- Ability to participate in investments with other angels so that a company is better capitalized to execute on its business objectives
- Interaction and networking with other successful people for the building of strong friendships and business partnerships. A calendar of investment, social and educational events is planned each year
- Investors get an opportunity to mentor and "give back" to the next generation of entrepreneurs
- Coordinate and facilitate the synergistic connection of individuals with appropriate companies with equity-related opportunities to assist the company in its growth

A Cornerstone Angels member is:

- A successful individual with strong interest and capability in making private equity investments.
- A trusted, honest and respected member of our business community.
- A contributor of time, wisdom and expertise to our funded companies and soon-to-be-funded companies.
- A person who enjoys building relationships with other members and companies we fund.

- A person who believes in building our entrepreneur community within the Midwest, and giving to our community through charitable and social activities.

How We Help Entrepreneurs?

- We provide a platform to present in front of a group of highly qualified and experienced accredited investors who are highly interested in providing funding and mentorship to deserving companies
- Provide access to a network of executives, through members as well as external, who have functional expertise in the areas the company needs assistance
- We provide detailed recommendations and feedback to entrepreneurs to assist them in pitching their investment opportunity to investors
- We introduce the company's investment opportunity to our nationwide network of affiliated (formal/informal) Angel groups to see interest in investment or for possible syndicated investments. Besides providing an increased probability of securing financing, this also reduces the time spent on the due diligence process at the other groups
- As the presentation and due diligence process is carried out as a group, it saves Entrepreneurs from the need to find, locate and coordinate meetings with Angels individually.
- Companies who don't secure financing become part of the "Cornerstone Network", and will be considered for investment in the future based on additional traction

Our Guiding Principles

Devotion – Cornerstone members are devoted to the cause of turning entrepreneurial acorns into corporate oaks, fostering innovation and economic development in our region and country.

Discipline – Cornerstone members exercise a disciplined approach to investing following a rigorous screening process and combining their resources to conduct due-diligence on prospective deals.

Mentorship – Cornerstone members are passionate about building businesses. They seek to get involved, situation permitting, by helping selected companies grow and develop. As a coordinating body, Cornerstone will help members find advisory board and related opportunities to become actively involved in companies if they are inclined to do so.

Charity – Cornerstone members seek to become actively involved in their communities, contributing to important social causes in addition to the cause of economic development. If you're going to call yourself an "angel", you must commit to a cause.

Investment Process

Cornerstone prides itself on helping its members bring rigor to the process of screening and evaluating investment opportunities.

Cornerstone generates deal flow through its extensive network, which includes management, members, sponsors, partners, past presenters, as well as the broader community of venture capital, banking, and professional services firms. Cornerstone also maintains ties with other angel investment groups and economic development groups across the country.

Cornerstone utilizes a number of online tools to allow its members to review deals as well as to keep informed of activities. Angelsoft is the primary deal pipeline management system that the group uses for reviewing deals, sharing and reviewing documents, and providing indications of interest. Upon becoming a member, each person will receive a username and password for access.

The investment process can be broken down into the following main categories:

Pre-Screening: Entrepreneurs apply for consideration by submitting an executive summary and standard company profile. Cornerstone members review these documents applying key criteria to determine the appropriateness of the opportunity. Key criteria include: the problem or opportunity, market size and characteristics, product or service value proposition, intellectual property or uniqueness, business model, management, competition, funding required, valuation, ROI potential, and exit opportunities.

Deal Screening: Opportunities that pass the pre-screening evaluation move to the interview stage, where a member of Cornerstone contacts the company to engage in a review of the company's operations and management team. If the company's application meets key criteria, a Cornerstone point person recommends them for invitation to a Deal Screening session. Companies invited to a Deal Screening Session deliver a 10 minute presentation followed by 10 minutes of Q&A in front of the Cornerstone Investment Committee and deal screening panel.

Company Investigation: The most promising companies from the Deal Screening Session enter into an early due diligence investigation process. A Cornerstone member is identified as a point-person of the selected company, and then leads further review of the company, with the net product being a report on the merits of the opportunity, and whether to invite the company to the Investment meeting. The Investment Committee will review each

Company Report, and decide on company selections to Investment Meeting.

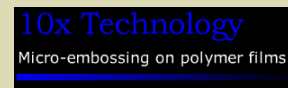
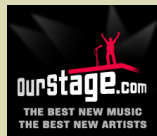
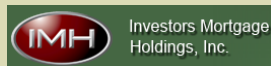
Investment Meeting: Companies selected by the Investment Committee are invited to present to Cornerstone members and other investment partners at the Investment Meeting. Typically, only two or three companies from the many applicants make it to this stage. The selected companies present for 15 minutes, with up to 20 minutes allocated to Q&A. After all presentations are completed, the presenting companies leave the room, and members evaluate each company in an open and lively discussion regarding the merits or concerns of each opportunity. Cornerstone documents and aggregates the feedback on each company. It provides this information to the company's management team in aggregate form only, keeping investor input anonymous. This information is kept confidential and is shared only with a specific company's management team, Cornerstone members, and other interested investors.

Following the investment meeting, interested members share their information with Cornerstone.. Attendees who can offer complimentary resources such as referrals are also encouraged to provide their contact information. Cornerstone works with the interested parties (investors) to coordinate follow-up with the company including helping to organize conference calls and meetings. Typically, one interested investor is identified as the "lead" or "champion" and will function as the primary contact person between the company and the interested investors. That champion will help aggregate and share information amongst the interested parties.

Our Portfolio

Our efforts have always been to follow a disciplined approach to reviewing opportunities, and assembling a select group of investor members and partners that provide meaningful contributions to companies in the form of both direct investment as well as advisory support.

Through our efforts since our launch we have built a portfolio of 19 companies. With approximately, \$5 million invested in these companies, they have raised a combined amount exceeding \$650MM from all sources. Four have been acquired/merged; two have gone public, and another company has an outstanding S-1 filing to go public since March 2010.



Participating in Cornerstone

There are several ways to become actively involved in Cornerstone Angels:

Members: In accordance with our guiding principles, Cornerstone selects its members carefully. To become a new member, applications will require both nominations from existing members and references. Additional information is available by requesting a membership application

Companies: Companies seeking financing from Cornerstone Angels should submit an application to Cornerstone from the Entrepreneur tab at the website or to following link:
www.angelsoft.net/apply/cornerstone.

Sponsors: There will be limited opportunities to a select group of organizations in order to maintain a safe, non-solicitation and exclusive networking environment for members. Seyfarth & Shaw is currently a charter sponsor and provides meeting locations and catered services. Cornerstone will have only 1-2 additional charter sponsors and select event sponsors (golf outing, holiday party). Other sponsor categories include: Auditing/Accounting, Wealth Management, PR, and HR & Search.

Partners: Cornerstone actively collaborates with organizations who share synergistic objectives. Cornerstone seeks partnerships related to our investment, education, and charitable activities.

Volunteers: Cornerstone actively seeks individuals who share our passion for assisting early stage companies and providing mentoring to their management teams.

Contact Us:

For Membership, and Sponsorship/Partnership Information:

Michael C. Gruber: 847-739-0100 x1,
michael@cornerstoneangels.com

Laurence K. Hayward: 847-739-0100 x2,
larry@cornerstoneangels.com

For Investment Consideration:

All investment opportunities must be submitted through a web application.

To submit company information for review: [Submit Company Application](#)

Physical Address:

Cornerstone Angels
2100 Sanders Road, Suite 170
Northbrook, IL 60062

Web Address: www.cornerstoneangels.com

You can find us on **Facebook** at: [Facebook/Cornerstone Angels](https://www.facebook.com/CornerstoneAngels)

And on **YouTube** at: www.youtube.com/user/cornerstoneangels

On **LinkedIn** at: <http://www.linkedin.com/companies/854043/>

The Schedule

The calendar for each year is set in advance, with dates all set and available online. Any changes will typically be listed at the Cornerstone Angels website as well as through Angelsoft, the online system that we utilize for deal screening, due diligence, and communication amongst members.

2011 Schedule of Events

January 20	Screening
February 16	Investment
March 16	Screening
April 21	Investment
May 19	Screening
June 16	Investment
July	Social Event
August 18	Screening
Sept 15	Investment
October 20	Screening
November 16	Investment
December	Member Event