

Alameda Advisors Inc. 101 Questions

The Team

1. Is the team brilliant?
2. Does the team have energy and passion for their concept?
3. Will the team work hard? How do its members respond to frustration and setbacks?
4. Is the team expert in the relevant technology space?
5. Does the team demonstrate superior ethics and are there suitably independent sources to verify those ethics?
6. Can the team communicate their concept and enthusiasm effectively?
7. Can the team present their business model clearly and articulately?
8. Can this team (and not just one person) sell key customers?
9. Does the team work together very well?
10. Do they agree on their roles, both short and long term?
11. Does the team understand their weaknesses?
12. Are they willing to take advice when needed?
13. Is there a member of the technology team that is critical to this business and if so is there a backup plan to protect the company if this member is lost?
14. Is the team willing to bring in professional management if and when required?
15. Is the team flexible enough to change direction if the market shifts?
16. Does the team have experience with similar markets, customers and suppliers and if so can we verify those connections?
17. If the team lacks experience in one or more business or technological areas, will they accept additional team members from the outside?
18. Is the team able to answer questions about market issues, the company, and the deal?
19. Does the team have experience in start-ups in similar or related technology businesses?
20. Has the team started a successful company before?
21. Does the team understand the risks and have the skills and experience to manage them?
22. Does the team have realistic expectations in terms of future roles, financial compensation, ownership levels and timelines?
23. Does the team cover all the functional areas needed for the stage they are at?
24. What evidence of experience with corporate governance issues does the team possess?

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25. Are there sufficient and positive references on the founders, team, and board members including names of references not listed by the group?
26. Has the team met previous development milestones when working in prior companies? If not, why?
27. Are key members of the team sufficiently motivated by stock and/or options?
28. Does the team sufficiently value interests of investors in achieving a timely and profitable exit?
29. Is there a board of directors and is it sufficiently independent? Does it include experienced and expert outside participants knowledgeable in this business sector? How active will they be in this company over time?
30. Is the team willing to have a majority of board members that are completely independent of the team?

Concept / Product/Intellectual Property

31. Is the product complete (i.e. "whole solution")? If not does this company have suitable arrangements to provide a level of solution that customers agree is sufficient?
32. Is the product unique and substantially different from competitors' products?
33. Is the product sufficiently disruptive to create a new value paradigm?
34. Does this new product have the potential to lead its defensible business segment in both the short and long term?
35. Is the technology ready for commercialization, or is there still basic research to be done? Is there a demonstration that proves it is ready?
36. How many months are needed to achieve revenue from a production-ready product?
37. How significant are technology, product development risks and production ramp-up risks? Has the company make adequate plans to handle production risks via formal partnerships or other agreements?
38. Are there logical follow-on products or is this company a one-trick pony?
39. Will this simply be a technology treadmill, or are there other competitive advantages that can be established?
40. Is the intellectual property patented or patentable?
41. Has the team organized its patent plan to fit the global market in terms of filings in multiple countries?
42. Are the costs of global IP protection included in the business plan? Are these costs justifiable given the company timeline to profitability or exit?
43. Do other companies, universities or government institutions have related IP that may possibly be competitive?

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44. Do other companies, universities or government institutions have IP that could be complimentary that could be provide added value as a complete solution and if so have each of them been contacted?
45. Does the team posses IP in the form of “trade secrets” and has that been protected with documentation including a formal trade secret policy and trade secret agreements with all parties under the state laws of each state involved?
46. Does the team have special know-how that others in their field lack?
47. What are the risks to the IP?

Market, Competition, and Customer Issues

48. Is the defensible business segment large and growing rapidly?
49. Do customers really need the company’s offering, and not just like it? (i.e. a pain-killer vs. a vitamin?)
50. Is there a clear customer ROI?
51. Is there sufficient customer perceived value to yield attractive gross margins?
52. Have the target customers been identified and are lead customers signed up?
53. Are there one or two beta customers committed?
54. Has the company correctly assessed the customers’ buying criteria?
55. Are there one or more Tier 1 customers that are willing to verify a likely unit price and unit volume to fit each customer’s internal needs?
56. When will the market window for this company’s products open and how long will that market window remain open given the likely response from other startups and large company competitors?
57. What pre and post sales support and service will customers demand and can this startup meet that demand?
58. Are there customers or potential customers who can validate the market window, competitive factors and decision criteria?
59. Are major sales channels open to the company? Is the marketing plan compelling?
60. Are there any strategic partners signed up or are there some in discussions?
61. Are there entrenched competitors? Or can the company create a new price/performance paradigm that is significantly better than competitors 3 years in the future?

Financial and Operational Issues

62. What are the projected revenues / profits / market share and are they realistic?
63. Is market seasonality or cyclicity an issue?

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64. Are there governmental or political factors that may delay or block sales (i.e. FCC spectrum allocations, EPA waivers required, FDA approvals, etc.)?
65. Has the cost structure been established and does it compare with public companies in similar business areas in terms of percent of sales for R&D, G&A, and selling & marketing expenses?
66. Can the business achieve gross margins well above average in their sector and sustain those margins when competitors respond?
67. Is there a clear path to achieving high growth rates?
68. Does the company have agreements with top tier legal, banking and accounting firms?
69. Does the financial plan show the levels of investment needed to cover production ramp up delays, inventory costs and accounts receivable delays and costs?
70. Has the company established arrangements with leading suppliers?
71. Are the cost estimates and cycle times realistic for production according to price quotes from suppliers?
72. Are there one or more global distributors that have expressed a willingness to carry the products and if so what margin percentages do they require?
73. What length of time is required to achieve profits and then how long after that before positive cash flow?
74. Will the company have sufficient cash after funding to make it to the next milestone and financing round?
75. Is the capitalization table reasonable and does the team vest their stock over time?
76. Is there any ownership, special term or other financial issue with prior rounds of participants?
77. Is there sufficient equity remaining in the options pool for 2-3 years of added employees, service providers and suppliers based on similar startups?
78. What are the terms and conditions of prior investors? Are they acceptable to new investors?
79. If prior investor's rights must be modified (removal of anti-dilution terms, etc.), will they agree?
80. Is the company open to a range of exits (acquisition, mergers, or IPO)?
81. Are there a sufficient number of likely acquirers?
82. Can the company exit valuation be estimated based on public companies in similar industries?
83. Is the exit potential within a reasonable time frame (e.g. 3-6 years)?

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84. Is the pre-money valuation for this round close to the value our internal models indicate it should be?
85. Can we reach a reasonable consensus on valuation that works for investors, founders, future employees, and other stakeholders in this company?
86. What IRR is projected for this round of investor using our models?
87. Who else has invested in this deal in any prior financing rounds and have they added value in helping the company grow?
88. Who is interested in co-investing in this round if we lead?
89. Does the investment syndication group have sufficient capital available and willingness for follow-on funding rounds if there are no new investors willing to participate in future rounds?
90. What IRR (based on realistic valuation step-up) is forecast for the next round of investors and how does that impact this round of investors, founders and other employees?

Risks (if not previously covered)

91. Are the technical risks identified and are there sufficient resources budgeted to overcome them?
92. Can all the technical risks be overcome within 10 months of funded work with the budget?
93. Is the schedule realistic with minimal risks and are there alternatives or backup activities included that enable results if some risks are not overcome in a timely manner?
94. Can marketing and distribution risks be overcome by the company, or are there potential marketing partners who are interested in sharing the risks?
95. What is the next round funding risk if there is at least one schedule slip?

Miscellaneous

96. Does the Executive Summary differentiate this opportunity from others succinctly?
97. Is the Business Plan comprehensive and understandable to non-technical readers?
98. Has the company done the legal work necessary (board authorization, stock option plan, 409A valuation review, state filings, etc.) to enable investments under generally accepted terms?
99. Are the corporate documents acceptable (stock option plan, stock purchase agreement, etc.)?

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100. What downside risks can be ameliorated by company assets such as intellectual property or business agreements? Do corporate legal documents prevent investors from realizing value from company assets in case of an undesirable outcome?
101. What further due-diligence is necessary for us to reach a unanimous affirmative decision?