

HOW TO BECOME TOUCHED BY AN ANGEL

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Most funding transactions for early stage ventures do not emanate from venture funding or broker-dealer led private placements. Instead, they come from private individuals commonly referred to as “Angels.” Principals of early stage growth companies often learn about the Angels and are frequently eager to access this source of funding. We will briefly describe who Angels are, why ventures seek Angels, what Angels seek in investments so that more entrepreneurs can become touched by an Angel.

Who are these Angels?

Simply stated, an Angel is any individual who is motivated to invest in private companies. While founders with industry recognition or a track record may have the experience to generate that motivation, the inexperienced entrepreneur has a far more difficult angelic quest. Founders should first consider what type of person might naturally be motivated to invest in their business.

The first category of angels is commonly known as “friends and family.” The motivation behind funding from successful friends and family is personal as well as financial. In addition to family and close friends, other Angels may have an interest that stems from a personal relationship, such as former employers, successful colleagues or others who have achieved success in their industry. All of these potential avenues, benefit from an understanding, or even a bias, of the founder's capabilities, that in some cases meshes with a sense of personal obligation. Some founders, although aware of the familial sense of obligation are often unwilling to take advantage of family relationships, finding it difficult to allow family members and good friends to risk their capital. We remind those with this feeling that family members not asked to participate may be particularly aggrieved if they were not able to get in on the ground floor of a venture that achieves the success that the founder projects! The answer here must lie in the founder's personal sensitivities.

The next Angel possibility is that of the fantasized wealthy stranger who is motivated to invest. These Angels do exist. They consider themselves professional private investors of seed and early stage capital. There may be a number of reasons for an Angel to invest in a particular venture. Certainly, the potential for high returns from an early-stage venture is a motivating factor; however, many Angels find it important to make an investment in a company with a meaningful vision that will make a positive impact.

The lawyers and accountants who specialize in emerging growth companies often come into contact with potential backers who have supported other such ventures or who have a particular appetite for a particular kind of business. A referral from these professionals can help establish credibility for a new venture. By staying alert and doing industry research, founders may also identify investors who have achieved success in the same industry or with the same kind of technology (someone who has retired after selling a business may be interested in backing similar businesses). An example is the trend of angelic physicians. Frequently, this type of Angel is represented by an investment advisor and becomes interested in growth companies in medical service, biomedical and biotechnology industries.

Groups of Angels often organize to “look at deals.” These groups form with the specific goal of looking for potential investments. We have found that a great number of our clients who are initially faced with a challenging search for funding, work very well with the Angel groups. Exhibit A highlights certain of the area Angel groups.

Finding an Angel will require resourceful research, networking, patience and boldness.

Why Seek Angels?

In the vast majority of cases, clients seek Angels for a very compelling reason. That is, it is often the only source of available money. Frequently, the amount sought is too low for the venture fund radar (generally \$250-750,000) or the entity is too early stage to attract even the early stage venture funds in the region. In such cases, remaining options include (1) a strategic alliance with a deep pocket corporation, which may or may not be suitable, or (2) the private Angel.

In some cases, an experienced entrepreneur with a following chooses to tap individual investors even when venture money is otherwise available. Some entrepreneurs believe that venture funds are more demanding and intrusive upon management, or that the venture will achieve a better valuation using an Angel. This may or may not be true depending on the identity of the venture fund or the Angel. Some of our very early stage clients, with a demonstrated track record of prior successful ventures, have had little difficulty raising money from scores of angelic followers without broker help.

An Angel may be more willing to take risks with an emerging venture without a proven record. For an Angel, a failed venture may only mean a loss of capital, whereas a failure for a venture fund may affect its ability to attract future investors. Angels may also push less in the negotiating phase since it might affect the future working relationship.

Given a choice, however, most founders still welcome the “value added” involvement of a venture fund, while others eschew it as unnecessary, preferring to avoid restrictions on the entrepreneurs’ control. The perception being that venture capitalists demand lower pre-money company valuations, or perhaps they have identified an Angel with contacts or industry expertise, that they believe to be even more valuable than an early stage venture capitalist.

What do Angels want?

Once you have found a potential Angel, what will they be looking for? Remember that there are generally no second chances, you will only have one chance to make your best impression. Generally, a seed stage, pre-revenue company is worth between \$1 million (great idea) and \$3 million (proof of concept), with a working prototype halfway in between.

1. Concise Business Concept. An entrepreneur must capture the Angel's imagination with a good idea. However, Angels usually have a short attention span and little appetite for long meetings or long business plans. Once you get in front of one, the presentation must be crisp, carefully rehearsed and must provide explicit reasons why the Angel should be motivated to invest. Once you have gotten their attention, the Angel begins the due diligence phase, and at this point, you will provide the Angel more detailed information about the business.

2. It is People that Make Companies Successful. Most Angels will require you to sell yourself as a competent and credible entrepreneur. Angels do not ordinarily perform the kinds of independent technical and market due diligence performed by venture funds (although some do), therefore, it is important that you convince the Angel to believe in you. Often, it will be apparent that the founder is not the future CEO. A founder should admit this point and show that he or she is most interested in the Company's success other than his or her power or position.

3. Reasonable Valuation. There is nothing more frustrating than to see a good business model die because the founders positioned the company with a valuation that was too high and ultimately was not funded. Valuation of seed stage companies is at best an "art" and often "random," but it is certainly not a science, and general rules should not be the sole valuation criteria. Basically, the value of a company is what anyone would be willing to pay for it.

4. Reality Check. Angels are often troubled by the lack of realism and overinflated financial projections. Competition should be assessed realistically. We all know that virtually all products and or services exist in a world of competition. This fact should be acknowledged and appreciated. Marketing is also a necessity and must be considered. It is important for Angels to know how marketing will capture potential customers and generate revenue and, ultimately, scale to create profits.

5. A Pleasant Experience. Most Angel investors are seeking psychic as well as financial benefit from their investment. Most Angel investors are wealthy and could realize as good a return (on a risk/return basis) through other types of investments. Even the most professional private investor is seeking to at least stay informed and share in the "highs" of the growth of the Company. A good entrepreneur will be sensitive to this in both the courting process and after the investment has been made.

There are obvious opportunities and challenges, as well as securities and tax law implications in structuring and offering Angel fundings. All of these issues, although important, are beyond the scope of this article. We strongly recommend that you seek counsel's advice to ensure that you maximize your structural opportunities and minimize your legal pitfalls. Remember, an Angel investment is not an adversarial process, but a process to set a win-win situation for both the investor and the company.

Good Luck Being Touched By An Angel!

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AREA ANGEL NETWORKS

New Jersey Entrepreneurial Network (NJEN)

Princeton, New Jersey

The NJEN is a non-profit organization providing educational and informational services to entrepreneurs and investors. The meetings are held at noon on the first Wednesday of each month from September through June, at the Doral Forrestal Conference Center, 100 College Road East off Route 1 in Princeton, New Jersey (across from the Marriott).

This venue is a luncheon from 12:00 PM to 2:00 PM and the room remains available after the luncheon for informal networking. Attendees that pre-register are listed in a roster which is distributed at the meeting and posted on the NJEN website. The number of attendees ranges from 60 to 100. Before the first speaker, all attendees are given a 30-second opportunity to introduce themselves and their company. After the attendee introductions, one to two companies are invited to give a 5 minute presentation followed by the principal speaker who may be one or more companies or may be an industry expert speaking on relevant and timely topics affecting the emerging growth industry. Companies wishing to be selected for presentation can have the opportunity by contacting Dan Conley at (732) 873-1955. For more information, or to register for this event, visit the NJEN website at www.njen.com.

Dan Coney is also the program coordinator for the Silicon Garden Angels and Investors Network which is composed of accredited private investors, venture capitalists, solo angel investors, and venture developers who assist early-stage technology entrepreneurs in their quest for capital. The Silicon Garden Angels meet monthly for “Venture Plans for Breakfast” prior to NJEN at the Forrestal Hotel, by invitation only. Their deal-book is circulated to dozens of qualified investors for a success fee. For more information contact Dan Conley at (732) 873-1955, via e-mail at OnCallCFO@aol.com or visit his website at www.OnCallCFO.com.

Pennsylvania Private Investment Group (PPIG).

Jenkintown, PA

PPIG is a non-profit organization dedicated to providing a forum for early-stage companies to present their business plans to investors. Members include both individual and institutional investors interested in privately held early-stage companies. On the first Tuesday of each month (except August), PPIG holds its monthly breakfast membership meeting that includes presentations by two to three companies.

Business plans submitted for the breakfast meeting presentations are distributed to the screening committee one week before each meeting. The screening committee consists of staff of the Wharton School’s Snider Entrepreneurial Center and a joint committee of

PPIG members. Selected companies must be for-profit businesses with an experienced management team, located within the Mid-Atlantic region seeking between \$25,000 and \$2 million. Each company presenting has 15 minutes to present to the full PPIG membership, followed by a Q&A session of up to an additional 15 minutes. Presenters must pay a fee to cover administrative costs and membership is required. The monthly meeting also gives selected companies the opportunity to meet with PPIG members before and after scheduled presentations.

For information about presenting a business opportunity to PPIG, contact Richard Levin at (215) 884-9300 ext. 140 or by e-mail at richL7400@aol.com. You can also visit their website at www.ppig.com.

New York New Media Association (NYNMA)

New York, New York

NYNMA is a non-profit association with an overall focus on media (i.e., content) and information technology companies is defined very broadly. The NYNMA Angel Investor Program matches promising early-stage companies with Angel investors in New York and the Mid-Atlantic region. Participants in the Angel Investor Program meet once per month at the NYNMA offices in New York. The Angel Investor Program is a breakfast meeting and may include up to 30-40 Angel members at any one meeting.

Entrepreneurs who wish to be considered for a presentation should visit the website and submit an online application with the company business plan. Participation requires membership. Online applications should be directed to www.nynma.org/membership.com. Two to three companies are selected to present at each meeting and eight to ten companies are initially prescreened by a screening committee that meets once a month. Companies must be seeking less than \$2 million and typically they are companies seeking between \$100,000 to \$1 million in funding with a valuation under \$10 million. NYNMA asks that companies that receive funding as a result of participating in the program, consider donating to NYNMA 1% of the amount of funding in cash or warrants.

For more information visit the NYNMA website at www.nynma.org or contact Ben Goodman, Manager of the NYNMA Angel Investor Program at bgoodman@nynma.org or (212) 785-7898 ext. 300.

Diamond State Ventures (DSV)

Wilmington, Delaware

DSV is a high technology business cultivator in Wilmington, Delaware serving the entire Mid-Atlantic region. They assist entrepreneurs and early-stage technology companies by leveraging their strong relationships with the Delaware technical and college community. DSV is attempting to set up a complete support system for corporate spinouts and emerging technology companies. They provide assistance to companies, including office

space, consulting services, mentoring, graphic design, marketing, competitive research among others. DSV expects to cultivate 10 to 20 companies per year.

Every other month, DSV holds a Venture Panel where early-stage companies can showcase their technology. During the alternative months, they hold educational forums featuring industry experts in a variety of areas of interest to emerging companies. Companies are screened by the DSV Venture Consultants and accepted companies are then coached privately by a panel of industry experts. These events are open to the entire venture community within the Mid-Atlantic region and others are welcome by invitation. Participation in the panels requires membership.

For membership and other information, visit their website at www.dsventures.net or contact Ike Gadsden at (302) 479-5326 or igadsden@dsventures.net or Kelly Gates at kgates@dsventures.net.

Venture Fairs.

Venture fairs provide an opportunity for emerging growth companies to present their business to a wide range of attendees, who include private investors or angels.

The New Jersey Technology Council sponsors a venture fair each spring showcasing companies seeking their initial or subsequent rounds of equity investment. For information, call NJTC at (856) 787-9700 or visit their web site at www.njtc.org

Early Stage East is an opportunity for companies who have not yet received a round of venture capital financing to showcase their businesses in front of venture capitalists and other investors at its annual venture fair held in June. For information, call David Freschman at (302) 777-1616 or visit their web site at www.earlystageeast.org

The Greater Philadelphia Venture Group holds the Mid-Atlantic Venture Fair every October in Philadelphia focusing on companies seeking later stage venture investment. For more information about the Mid-Atlantic Venture Fair, call (215) 790-3689 or visit their web site at www.gpvg.com