Houston Angel Network

Appendix A: Angel Group Fund Profiles

This document was created to compare the various side car fund-related choices that angel groups have made. This information was gathered through interviews with the Organizations profiled, and through their Funds' PPMs.

Name	**Alliance of Angels**	**Band of Angels**	**Bluegrass Angels**	**Common Angels**	**Jefferson Corner Univ. of VA**	**Nashville Capital Network**	**New York Angels**
Fund size	$3-5 M	$50 M	$2 M	$10 M	$1 M	$5 M	$700K
Year established	still forming	1999	2005	2005	2007	2007	2007
Fund structure	Hybrid	Full discretion	Full discretion	Hybrid	Hybrid	Full discretion	Trigger
Management Fee	1.5 - 2.5%	2.50%	None	2.5%	3%	2%	None
Carried Interest	10%	20%	None	10% Series A 20% Series B	20%	20%	10%
Unit Size	Member: $50K Non-member: $150K Institutions : $100K	Member: $250K Non-member: $250K Institutions : $250K	Member: $50K Non-member: N/A Institutions : $750K	Series A: $100K Series B: $250K	Member: $50K Non-member: N/A Institutions : N/A	Member: $50K Non-member: $50K Institutions: $50K	Member: $50K Non-member: N/A Institutions: N/A
Start Up Cost	$100K	$300K	$15K	$100K	$15K	$60K	$20K
Life of fund	4- 10 years	10 years	Not Defined	10 years	Perpetual	10 years	7-10 years

Alliance of Angels
1301 5th Avenue, Suite 2500
Seattle, WA 98101

The Alliance of Angels ("Alliance") is a regionally-focused group of over 100 individual and institutional investors focusing on early-stage high tech, biotech, consumer products, and e-commerce companies in the Pacific Northwest. The Alliance of Angels is a program of the Technology Alliance - a statewide network of businesses, research institutions, and industry trade associations dedicated to expanding the Washington state economy.

The Alliance is still in the process of forming its side car fund. The Organization expects to complete its PPM by fall of 2008 and complete raising \$3-\$5M by spring of 2009. The Fund will be open to both members and non-members (institutional investors included) and has \$2M in commitments (50% members and 50% non-members) to date. The Alliance proposes to invest in 10 companies per year using a Hybrid investment model with the following trigger formula:

- Investments will be made when at least 3 Alliance members invest at least \$100K in a company and one of the members is lead investor
- The Fund will invest \$150K per deal and, with the discretion of the Investment Committee, can invest up to 10% of the Fund's capital into one company

The Fund will be administered by a part-time Fund Director. The Director will be overseen by an Investment Committee comprised of two experienced venture capitalists (who will be required to invest a minimum of \$150K each), and one active Alliance member. The Investment Committee is selected and approved by the Alliance of Angels' Executive Director and the Membership. These positions are voluntary and uncompensated. Members are free to leave the Committee, but must recommend a suitable replacement.

The Fund's start up cost is estimated to be \$100K. The Alliance considered offering a sidecar fund off and on over the past five years. From the time the members agreed to create the Fund, it is estimated that it will have taken about 6 - 9 months to formalize the PPM and 6 – 9 months to complete the \$3-5M total raise. A management fee of 2.5% of committed capital will be charged for the first year, 2% the second year and 1.5% the third year. After the third year, administrative costs will be reviewed and further lowered if possible. Carried interest will be addressed on an investment by investment basis and is set at 10% (This issue is still being discussed—we will gain clarity on the approach once the PPM is completed).

Investors will be required to provide 50% of committed capital upon signing, with the remaining amount paid within a specified period (to be determined) of a capital call. Alliance members will invest \$50K, institutional investors \$100K, and non-members \$150K. To promote the Fund, the Alliance has met with its members, as well as investors from other regional angel groups. The Alliance did not provide financial data from previous deals, and does not intend to do so in the promotion of the Fund.

The Alliance is concerned that the Fund will replace the current organizational structure and focus in the eyes of the members, so the Executive Director has been very careful to not let the "fund hype" get out of hand. They seek to reinforce the message that the Fund is just one of the many benefits the Organization has to offer its members.

Band of Angels
535 Middlefield Road, Suite 190
Menlo Park, CA 94025

The Band of Angels ("the Band") is the nation's oldest and most established angel group. They have more than 120 former and current high tech executives as members. Started in 1994; the Band of Angels has seeded 240 companies since , 40+ profitable M&A exits, and 9 Nasdaq IPOs. Band members have founded companies such as Symantec, Logitech, and National Semiconductor and been senior executives at the likes of Sun Microsystems, Hewlett Packard, and Intuit.

The Band of Angels is one of the innovators of the sidecar fund concept; their $50M fund (Fund I) was launched in 1999. Fund I is open to non-members, who represent 95% of the Fund's capital. Although institutional investors are involved, government funds (i.e. pension funds, economic development funds) are not.

Fund I is managed by the Executive Director with full discretion over the management and investments; Fund I has no Board or Investment Committee. Fund I charges a 2.5% management fee, and a 20% carried interest is paid out to the Band at the end of the Fund's ten year lifetime.

It took two years of hard work marketing and promoting Fund I to outsiders. The Band had a close ratio of about 30 pitches to 1 closing. The close ratio was much higher with the members and other potential investors that had expressed interest during the decision and creation phases of the fund--about 80%. Not wanting to go through the difficult marketing campaign again, the Band created a much smaller Fund II ($5-7M). The Band is willing to offer units of Fund II to HAN members who want investment exposure to Silicon Valley.

It took one year to form Fund I and create the PPM, and 2 years to raise the full $50M. The Band did not use prior investment information in the promotion of the Fund. The "pitch" was strictly based on the reputation of the Director, the active members, and the Organization. Fund I had a high per unit investment commitment $250K minimum due to its large size; Fund II will have a unit size of $100K.

Fund I is audited yearly; at which time the Fund's value (marked to market) is determined. The Executive Director stated that auditing the Fund has turned out not to be worth the money or effort. They recommend changing the value only when the next round of financing is completed, the company goes out of business, or liquidity event occurs. Fund I provides quarterly and annual statements to the LPs. The portfolio companies must provide the Fund Administrator with full informational rights and, depending on complexity of the business, audited financials.

For more detailed information about the Band of Angel fund please refer to their PPM, which we have on file.

Bluegrass Angels

Lexington, Kentucky 40513

The Bluegrass Angels was founded in 2003 and invests in early stage, Kentucky-based companies. An important focus of the Blue Grass Angels is to develop start-up companies through the commercialization of the on-going research of the University of Kentucky. The Bluegrass Angels are affiliated with the University of Kentucky and the State of Kentucky through alliance partnerships. Both Institutions are major investors in the fund (25% University of Kentucky, 50% State of Kentucky). The $2M fund was created in 2005 without using a PPM, and employs a part time Fund Administrator that is compensated by State and Federal funds. No angel group money or sidecar money is used to compensate the Staff or Board of Directors.

The Fund is managed by the Fund Management Committee, which is made up of 4 volunteer members of the Bluegrass Angels, 1 member from the University of Kentucky and 1 non-voting member representing the State of Kentucky. Committee members voluntarily rotate and have no formal terms. There are no Management Fee or Carried Interest components in the Fund. The Executive Director of the Bluegrass Angels attends the Investment Committee meetings and administers the Fund, but has no management authority.

It took 6-8 months and $15K to form the Fund. Through marketing at regular Bluegrass Angels meetings, the Fund raised the $2M in the same 6-8 months. The unit size was $25K, with a $100K maximum per investor. Once the angel group members committed to the Fund, the University and the State decided to participate. It is important to note that this participation was facilitated by the availability of specific programs at both the University and State level that enabled investments in this type of fund.

Due to the lack of accountability and the ambiguity in this Fund, the Executive Director said that if they had to do it all over again, they would put more rules in place through the use of a PPM. The Fund has had one exit so far (a positive one); the amount above the initial investment was paid pro rata to the investors, while their original investment was placed back into the pool for future investments.

Common Angels
One Cranberry Hill
Lexington, MA 02421

The Common Angels is a group of 75 leading private investors and several dozen limited partners. They focus on regional early stage technology companies who are raising Series A rounds of $500K-$5M, with total capital needs of less than $20M.

The Common Angels helped pioneer the angel group fund concept and has two side car funds currently operating. In this document, we will focus on their $10M Fund II, which was launched in 2005. This Fund used a PPM and was open to both members and non-members. Instead of charging a higher management fee for non-members, the Organization charged a higher carried interest rate. Series A investors (members) were charged10% carried interest, and Series B investors (non-members) were charged 20% carried interest. The Fund's Management Fee is 2.5% for all investors.

The Fund is managed by the Executive Director of the Common Angels and an Investment Committee of 6 Common Angels members. They use a Hybrid investment model with the following trigger formula: Five or more members of the Investment Committee have to vote in favor of a deal and members of the Common Angels have to invest a minimum of $250K. Once these criteria are met, the Fund automatically invests 20% of the members' investment (i.e. $50K if the members invest $250K) in the first round. On subsequent rounds, the Investment Committee has the discretion (but not the requirement) to match up to 50% of members' investments. The Investment Committee also has the option not to participate in follow-on rounds.

We were unable to interview the Common Angels' Executive Director to get further insight into their experiences and lessons learned. However, we assume that the experiences and lessons learned from the operation of their Fund I was reflected in the PPM for Fund II.

For more detailed information about the Common Angels fund please refer to their PPM, which we have on file.

Jefferson Corner Group
250 W. Main Street
Suite 210
Charlottesville, VA 22902

Spinner Technologies, Inc. formed the Jefferson Corner Group I, LLC (“JCG”) and a $1M investment fund in 2006 to provide the University of Virginia community with the opportunity to invest in UVA faculty spin-off companies and other technology businesses in the region. The Fund utilizes Spinner Technologies Inc. (a for-profit subsidiary of the University of Virginia Patent Foundation) as the administrative entity that coordinates due diligence, business plan reviews, and Portfolio Company monitoring.

As Administrator of the Fund, Spinner technologies, Inc. charges a 3% Management Fee and 20% carried interest. The General Manager for the Fund specifically noted that Spinner Technologies subsidizes the Fund and is reimbursed only a portion of the true administrative cost.

The Jefferson Corner Group’s fund is a member-managed fund—a fund where all decisions are voted on by the 15 Members/Limited Partners. It is not a side car fund. In order for the Fund to proceed with due diligence on a targeted company, 51% of JGC members must vote to do so. If the company receives 51% of the member vote, it is sent to the 5 - 7 member Due Diligence Committee. The Due Diligence Committee is elected by the JCG members, and holds regular weekly meetings to conduct business.

If the Committee votes to proceed, a Deal Team is selected by a majority of member/limited partners (51%) to negotiate the terms. Once the terms are negotiated, a 2/3rds supermajority vote by the limited partners of the Fund is required for before any investment in a company is made. The average investment amount to date is $100K per deal. There is no provision for follow on investments in future rounds.

The Fund’s unit size is $50K, with a maximum per investor of $300K. 20% of the funds are due upon signing, with the remainder due upon capital calls. It took the JCG 3 years to form the Fund, create the PPM, and raise $1M. The Group promoted the Fund by cold calling University of Virginia alumni and others in the UVA community. Forming and promoting the Fund took a lot of effort and we were told that the amount of sweat equity that went into starting this fund was in the neighborhood of $400K. JCG also used very strict criteria for the selection of lawyer to prepare the PPM (UVA Alum, must have written and formed a member managed fund, and personally an angel investor).

For more detailed information about the Jefferson Corner Group’s fund please see refer to their PPM, which we have on file.

Nashville Capital Network
40 Burton Hills Boulevard, Suite 320
Nashville, TN 37215

The Nashville Capital Network ("NCN") was formed through a collaboration of Vanderbilt University, Nashville Technology Council, and Nashville Health Care Council. To date, NCN Angels have invested over $10M in 13 early stage companies. The NCN Angel Fund invests in various industries including health care, business services, technology, medical devices, software and media.

NCN launched its $5.2M side car fund in January 2008. Although the Fund is open to members, non-members, and institutions, NCN member investments comprise 80% of the Fund's capital. It took the Group about 4 months and $60K to create the PPM and start the Fund. The raise took an additional 4 months. The Executive Director of the NCN serves as Managing General Partner of the Fund and, with the oversight of the Investment Committee, has full discretion over the investments in the Fund. The Fund has a management fee of 2% of committed capital and a carried interest of 20%. Fund rules state that no more than 10% of the Fund's capital can be invested in one company.

NCN initially promoted the Fund by approaching individual high profile member investors. Once a few of these investors committed to the Fund, it was much easier to get the other members to invest. Most of the non-members were recruited or recommended by existing members. There are two institutional investors in this fund: a venture capital group and a university. No financial information from previous angel group investments was shared to promote the Fund due to potential liability concerns. The Fund's unit size is $50K and one third is due upon signing.

The Fund has had a positive impact on the NCN by increasing member involvement (both time and money). It has also helped to increase and diversify the member base by bringing in a younger group of investors. In general, the NCN's experience with their Fund has turned out better than anticipated. However, the Executive Director stated that if they had it to do all over again they would not allow an institutional investor to "buy their way on the board-- it has been a nightmare". It seems that the institutional investors have continued to try and wield undue influence over deals that favor their organizations. All in all though, the Group is very happy with the way the Fund has come together.

For more detailed information about the Nashville Capital Network fund please see the copy of their PPM that we have on file.

New York Angels
599 Lexington Avenue
New York, NY 10022

The New York Angels launched their $700K Fund in 2007 to leverage the Group's investment activity in New York City-based in early-stage technology and new media companies. The typical New York Angels investment is $250K - $750K. The New York Angels, now totaling more than 65 members, have invested over $28 million in more than 65 ventures companies since 1997.

The Fund is comprised of group members only; a PPM was not used for the raise. It took the New York Angels 1 month to create the Fund and 2 months to raise the $700K. Start up costs approximated $20K.

The Fund is managed by the New York Angels' Executive Director using a Trigger model with the following formula: If at least 5 group members invest at least $250K in the deal, the Fund will invest $75K. There is no management fee, and the carried interest component is 10% (taken by the angel group at the end of the 7 – 10 year life of the Fund). As it was a member-only fund, the New York Angels felt comfortable sharing financial information from previous investments as part of the Fund marketing material.

The Executive Director mentioned that if the Organization were to go through this process again, they would do two things differently: 1) they would use a PPM to eliminate some of the ambiguity and, 2) use a Hybrid model instead of a strict Trigger model to allow for follow on investments.