



ANGEL CAPITAL ASSOCIATION

For Immediate Release

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New Federal Law Accelerates Angel Investments and Job Creation

Tax Exemption for Gains in Qualified Small Business Stock has Immediate Impact

Kansas City, MO, October 19, 2010 –Angel investors and entrepreneurs are reacting rapidly to the provision of the **Small Business Jobs Act of 2010** that provides a 100 percent exemption for gains made in [Qualified Small Business Stock](#) (www.irs.gov/publications/p550/ch04.html#en_US_publink100010688).

This benefit is for investments made between September 27 and December 31, 2010. The Angel Capital Association ([ACA](#)) (www.angelcapitalassociation.org) alerted members to this important development and the organization is seeing accelerated activity.

“This provision encourages angels and entrepreneurs to speed up investments that are already in the pipeline,” said Marianne Hudson, ACA’s executive director. “The significance is that entrepreneurs will receive the funds they need to grow their businesses sooner. That means they can hire people which adds new jobs to the economy.”

Entrepreneurs hold the keys to job creation. From 1980 to 2005, firms less than five years old accounted for all net job growth in the United States according to data from the Census Bureau and analysis by the Ewing Marion Kauffman Foundation.¹ Without these young companies, job growth would have been negative in many years.

Angel investors provide the majority of outside equity funding for startup and early stage firms. In 2009, one study estimates that angels funded more than 97 percent of the 45,000 companies that received seed and early stage equity investment.² Angels typically invest in innovative companies that have the potential to grow exponentially. These young companies need angel funding because it takes time, often five years or more, for a new business to develop a product, reach a market, and begin generating enough revenue to cover its costs.

“The companies we invest in are not yet generating profits and cash,” said John Huston, manager of the Ohio TechAngel Funds (www.ohiotechangels.com) in Columbus, Ohio and ACA chair emeritus. “Entrepreneurs have to find cash investors to give them the money to pay salaries and fill jobs. Angel investment is used directly to hire people into newly created jobs. That’s exactly what we do.”

The average salary of jobs in angel group portfolio companies is relatively high. “In Ohio TechAngels’ case,” Huston said, “it is more than \$83,000. Such job holders pay taxes so policy makers should heed the

impact of this beneficial change in light of the criticality today of creating more jobs, and especially taxpaying ones.”

Already Ohio TechAngels is using the tax benefit to accelerate a final close on its investment in [TheraVasc](http://www.theravasc.com), (www.theravasc.com) a privately-held biotechnology venture that relocated from Louisiana to Cleveland, Ohio. TheraVasc is a repurposed drug company that seeks to reduce the risk, cost, and time associated with drug development.

“TheraVasc just completed its first close of \$1.8 million and, due to the year-end expiration of this tax incentive, will now be closing out the remaining portion of the \$2.25 million as swiftly as possible,” Huston said. “TheraVasc is the first of three investment opportunities in our pipeline we’re pushing to close by year-end. Imagine the impact if all 150 member groups of ACA react this way to a very small window of opportunity. Then imagine if the window were to stay open beyond the end of the year and be publicized. That might really accelerate hiring.”

The [Band of Angels](http://www.bandangels.com) (www.bandangels.com), Silicon Valley’s oldest seed funding organization, is also seeing the effect of the tax credit. Ian Sobieski, founder and managing director of Band of Angels Fund, L.P. and ACA board member, spoke about entrepreneurial venture, [Cabulous](http://www.Cabulous.com) (www.Cabulous.com) in San Francisco.

“Cabulous is a twenty-first century way of hailing taxi cabs,” Sobieski said. “Cabs that download the application show up on a map of the city accessed by consumers on a website or on their smart phones. Then by simply tapping a cab on the map, that specific cab is hailed to the consumer’s location.”

Cabulous raised money from Sand Hill Angels, The Band, and other investors in the spring of 2010 and considered itself fully funded. The company was planning to recycling profits into growth in head-count over time. “However,” said Sobieski, “because of the new tax bill, Cabulous has decided to do a small raise of funds, (less than \$300,000) specifically to accelerate the hiring of two to three employees. In this way, the tax law is a win-win-win: investors may receive tax free gains, Cabulous gets to expand quicker, and new jobs are created in the US economy.”

[Sand Hill Angels](http://www.sandhillangels.com) (www.sandhillangels.com) of Menlo Park, CA led the prior investment round in Cabulous. “This tax credit is not really causing people to take deals that they wouldn’t take ordinarily,” says Ralph Eschenbach, treasurer and board member of Sand Hill Angels. “It made now a more opportune time. We could have waiting longer, but we thought, why not do it now, while there is more incentive for people to invest,” says Eschenbach.

John Wolpert, CEO of Upstart Mobile and Cabulous (an Upstart Mobile enterprise), agrees. “Excitement is one thing that gets an economy rolling, and this legislation has sparked excitement among investors. I’ve gotten emails from many of them. They are in action mode. They want to do something,” Wolpert said.

“I think the psychology of this legislation is right. I know that it has generated heat, excitement, and light, and that’s great. Of course it’s going to make jobs,” he said. “The one thing you are trying to do as a founder of a startup is get people to take action—invest in your company, come to work for you, buy your product. You have to get it all moving in a common direction. This tax credit generates energy that allows us to do that.”

Hudson notes that many potential investments that were not in the pipeline prior to the Small Business Jobs Act may not be able to take advantage of the tax benefits. “Angel investors want to ensure that they follow best practices in making investments in this risky asset class. Evaluating opportunities, conducting

due diligence, and finalizing terms for good investments takes time. An extension of the incentives could lead to many new investments and job creation.”

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The **Angel Capital Association (ACA)** is North America's professional alliance of angel groups, bringing together approximately 150 angel groups and 20 affiliated organizations throughout the United States and Canada to share best practices and collaboration opportunities. More than 6,500 accredited investors belong to ACA member groups. www.angelcapitalassociation.org

The **Band of Angels** is Silicon Valley's oldest seed funding organization. The Band is a formal group of more than 120 former and current high tech executives who are interested in investing their time and money into new, cutting edge, startup companies. We've seeded over 200 companies in our history with 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. www.bandangels.com

The **Ohio TechAngels** provide investment capital for commercialization of innovations in information technology, advanced materials, and medical technology. The goal of all of our Funds is to support early-stage Ohio-based entities by facilitating risk sharing on opportunities with high upside potential. www.ohiotechangels.com

Sand Hill Angels is a group of successful Silicon Valley executives and accredited investors that makes early stage investments in promising start-ups and seeks to provide expertise and assistance in these fledgling enterprises. Our experience spans all aspects of growing successful companies from the formative stage through management of multi-billion dollar enterprises. We focus on investments in the Internet, information technology, clean tech, consumer, and life sciences businesses. www.sandhillangels.com

Cabulous was conceived and developed in a Best Buy entrepreneurship program in 2008 and spun-out in 2009 to UpStart Mobile, a location-based mobile solutions company. UpStart Mobile's leadership team has direct experience in the commercial transportation industry, a history of working with governments in the US, Asia and Europe, and 20 years of experience leading startups and creative development teams. www.cabulous.com

TheraVasc, Inc., located in Cleveland, Ohio is dedicated to reducing the risk, cost and time associated with drug development by focusing on developing repurposed drugs for un-served vascular disease markets. The Company is focusing its efforts on targeting diseases for which no effective therapies currently exist and that result in a terrible quality of life or rapidly progress to death. www.theravasc.com

¹ Source: Business Dynamics Statistics Briefing: Jobs Created from Business Startups in the United States. Census Bureau and Kauffman Foundation, January 2009.

² Source: “Jeffrey E. Sohl, Center for Venture Research” and 2010 National Venture Capital Association Yearbook.