NGA Center for BEST PRACTICES

Issue Brief

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State Strategies to Promote Angel Investment for Economic Growth

Executive Summary

Governors are increasingly interested in entrepreneurship because of its key role in driving business innovation. While entrepreneurs face several common challenges, including developing business acumen and making connections with experts and mentors, often their greatest challenge is raising capital. Entrepreneurs' emerging technologies are frequently viewed as too risky for banks, private equity firms and venture capitalists, yet many fledgling companies require more investment to grow than can be raised from friends and family. Angel investors are increasingly stepping in to fill this gap.

Angel investors are wealthy individuals with business or technology backgrounds who provide entrepreneurs with capital, connections, and guidance. They provide early-stage financing in a space once occupied by venture capitalists, who now invest primarily in larger deals and more mature companies. Individual angels invest between $5,000 and $100,000 in local and regional ventures, primarily in high-technology sectors, giving their investments local impact. In the past decade, many angel investors have formed and joined groups because investing through groups offers several advantages, most notably a large and more diverse portfolio, access to expertise, and higher deal flow.

States increasingly recognize the value of angel investments and are adopting policies to promote them. Some have created statewide networks to assist the formation of angel groups, link angel groups to share best practices, and help groups invest together in companies that need more funding than a single group can offer. Governors have several options to encourage the formation of angel groups to expand early-stage investment:

- Promote seminars on private equity investment for current and potential angel investors;
- Assist entrepreneurs by connecting them with existing entrepreneurship education and services;
- Facilitate the formation of statewide angel group networks to organize and empower local leadership and build investor knowledge;

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- Ensure that angel investors are well-represented on state economic development advisory boards, along with entrepreneurs, universities, and other industry representatives; and

- Identify and collect metrics to monitor the impact on policies to encourage angel investment.

Many states have also implemented financial incentives such as tax credits, conditional loans, or matching grants for angel investment. These policies can be controversial and their impact has not been rigorously evaluated; even angels are in disagreement as to the economic growth benefits of tax credits. However, if tax credits are to be implemented, there are several principles that states can incorporate from other states' experiences. Additional monitoring and evaluation will be needed in the field of angel investment to better determine the effectiveness of financial tools.

Angels Propel Jobs and Growth

Development and commercialization of innovation are central to the United States' competitiveness, and entrepreneurs who engage in these activities are major contributors to growth in the country's productivity, wealth and jobs.[1] Angel investors can provide critical capital and guidance in turning entrepreneurs' innovations into successful products.

Angel investors are predominantly *accredited investors* (defined in Appendix B) who make equity investments in companies with high growth potential. These are often in the same industries pursued by states' economic growth strategies. In 2006, 80 percent of angel groups sought investments in medical devices and software, 60 percent sought biotechnology and business services companies, and 55 percent sought investments in information technology, industry and energy companies.

> ***Google***
> The most famous angel investment in recent years was probably the $100,000 check that Sun Microsystems co-founder Andy Bechtolsheim made out to Google after watching Larry Page and Sergey Brin demonstrate their search-engine software.
>
> The check was uncashable at first—as a legal entity, Google didn't exist yet—but once the company's incorporation papers were completed and filed, the money enabled Page and Brin to move out of their dorm rooms and into the marketplace. Likewise, Amazon, Apple, the Body Shop, Kinko's, and Starbucks all got their starts with the help of angel investors.
>
> Source: Indiana Venture Center

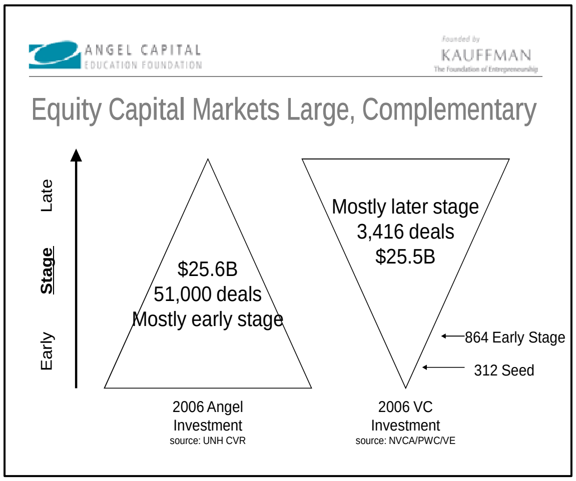
Angel investors are part of a larger continuum of capital sources during the life-cycle of a business (see figure 1). Angel capital is pursued by entrepreneurs typically after they have received funding from "friends and family" or government sources to fund research and prototype development, yet before the company reaches the point of maturity where it might attract venture capital. In fact, angels are responsible for up to 90 percent of early-stage equity not obtained from friends or family according to the Kauffman Foundation.[2, 3] In 2006, this investment was $25.6 billion across 51,000 ventures with an average of four to five investors per deal, according to the Center for Venture Research.

Figure 1. Sources of Capital in the Business Life-Cycle

	Stage of Development					
	Research and Development	**Prototype**	**Seed**	**Startup**	**Growth**	**Mature**
Sources of Capital	Government and Universities ($10,000 - $500,000)					
	Friends and Family ($2,000 - $300,000)					
			Angels and Angel Groups ($10,000 - $2,000,000)			
					Venture Capital ($2,000,000 - $12,000,000)	
						M&A / IPO ($91.5 million /$79.7 million, for venture deals)
						Commercial Banks

Estimated deal size interquartile range or average in parentheses. M&A: Mergers and Acquisitions; IPO: Initial Public Offering. Sources: Thomson Venture Economics, National Venture Capital Association, Center for Venture Research, PWC MoneyTree.

Figure 2. Relationship of Angel and VC investment



Angel capital fills an important funding "space" once occupied by venture capital. [4] Venture capitalists used to invest in early-stage ventures but have shifted their investments toward more mature – and therefore less risky – businesses. In 1995, 38 percent venture capital investment was in seed and early-stage companies. But by 2005, companies at these stages received only 19 percent.[5] The most recent figures are depicted in Figure 2. Officials from the U.S. Department of Commerce and the European Commission have declared this a "fundamental market failure in early stage financing."[6]

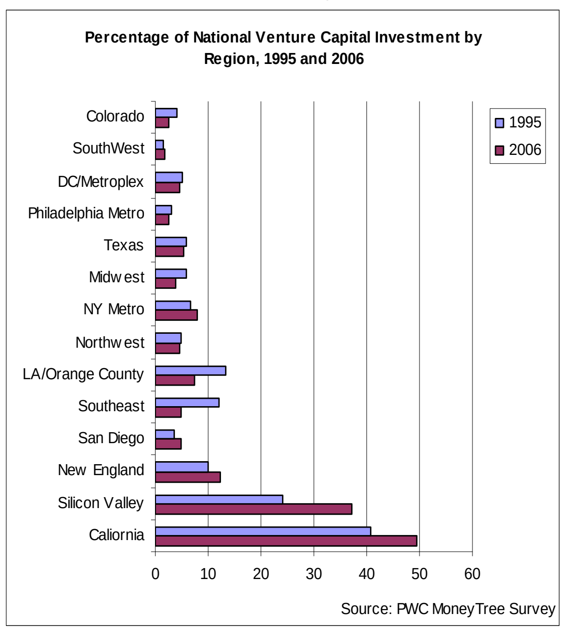
One venture capitalist replied to a survey by the Council on Entrepreneurial Tech Transfer and Commercialization, "In general, we need more [angel investing]. The venture capital community is moving more toward only wanting to invest in companies that have some customer traction and developed product. We need angel money to get companies to that point." And though venture capitalists are investing in later stage companies, many rely on angel investors to provide support for companies in which they will eventually invest: In a recent survey, 94 percent of venture capitalists responded that angels are beneficial to the venture capital industry.[7]

Investments by Region

Angel investors provide an important source of local investment capital for states and regions, just as venture capital is becoming more concentrated in but a few areas of the country. As shown in Figure 3, **California** and New England together account for 58 percent of venture capital, and entrepreneurs must often relocate to receive that capital. Alternatively, most angel investors invest locally and regionally, serving as a critical element in regional entrepreneurship and economic development strategies.[8]

A healthy angel community can be a great resource for entrepreneurs and help sustain a region's innovative companies. By supporting early-stage ventures, angels provide investment opportunities for venture capitalists and improve the prospects of developing a regional venture capital industry. Through these connections, angels support a vital link in the business cycle that may reduce the need for growing companies to relocate for venture funding.

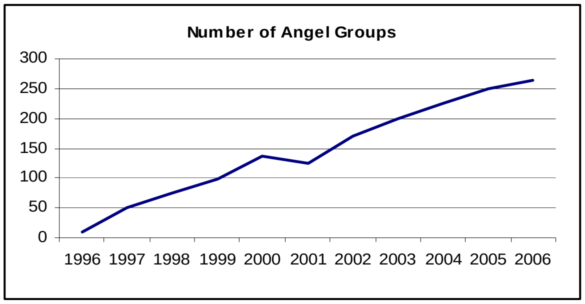
Figure 3. VC Investment by Region



Benefits of Angel Groups

Angels have begun forming structured angel groups to increase their economic impact and improve the success rate of their investments. The number of groups has grown to over 200 (see Figure 4; see also Appendix E for a list) from only 10 in 1996.[9] The main reason for such growth is that groups afford angel investors several advantages over investing individually or in informal partnerships:[10]

Figure 4. Growth in Angel Investor Groups



Benefits for Angel Investors	Benefits for Regional Economic Growth
• Increased deal flow • Social networking • Organized public presence • Shared expertise • Collaboration on due diligence • Ability to invest in larger deals • Improved diversification • Corroborated investment decisions	• More entrepreneurs receive funding • Larger early-stage financing rounds can be completed to reduce the financing gap • Entrepreneurs will be more successful as they benefit from a greater range of business expertise • Improved prospects of developing a regional VC industry

What Governors Can Do

Focus groups suggest that angel activity is correlated with four initial conditions: seasoned entrepreneurs, new wealth, a strong university base, and a relevant industry base.[11] By creating linkages between these factors, governors can improve the climate for early-stage investment in coordination with other initiatives for the innovation economy.

The strategies in this brief are the most promising practices for mobilizing local investment in innovative entrepreneurs. Together, these policies form a comprehensive strategy for the early-stage capital component of governors' economic growth initiatives.

In short, governors can:

- Expand investor education through seminars for accredited investors;
- Invest in resources for entrepreneurs and ensure angel investors are included in an overall portfolio of services to support entrepreneurship;
- Help establish and support statewide angel networks;
- Ensure that angel investors are represented on state economic development advisory boards
- Provide financial incentives to encourage angel investment; and
- Identify and collect metrics to monitor the impact on policies to encourage angel investment.

Expand Investor Education

Governors can further encourage angel investment by promoting and subsidizing seminars on private equity investing for accredited investors. Seminars and workshops are effective because equity investors need to understand complicated financial and legal documents as well as the group investment process. Education builds investor confidence, increases investment activity and can result in more successful ventures. According to experienced angels, the cost of learning the business of private equity is about $250,000—or 10 investments gone sour. With the learning curve being risky and expensive in terms of money, time, and reputation, subsidizing angels' education is a promising strategy.

Programs such as the Power of Angel Investing (PAI), a seminar series about angel investing, are another way for governors to promote angel investment in their states. PAI includes guidebooks for starting angel groups and workshops on contracts and term-sheets to help angels make smart investments. **North Carolina** offers the PAI seminars through its Small Business and Technology Development Centers, and **Wisconsin** offers PAI modules in addition to tax credit and industry workshops through its technology council and angel network.[i] Many angel groups already promote and offer PAI seminars, as do several state technology organizations such as **Maryland's** Technology Development Corporation (TEDCO), **Washington's** Technology Council, and **Pennsylvania's** Innovation Philadelphia.

> ***Benefits of PAI Programs***
>
> *"To sit down in a room with colleagues and discuss the real-time experiences of seasoned investment veterans is quite insightful."*
>
> Angel participants point to the following as primary benefits of PAI educational programs:
>
> - Tools and knowledge that encourage angels to become more active;
> - Best practices, models, checklists, and resources to increase efficiencies and success in angel investing;
> - Opportunities to meet angel colleagues and local experts;
> - Increased membership in angel groups; and
> - Encourage the formation of new groups.
>
> Source: Ewing Marion Kauffman Foundation

Connect Entrepreneurs to Existing Resources and Social Networks

Another way to strengthen angels' relationship with entrepreneurs is to improve entrepreneurs' understanding of markets, access to technology services, and opportunities to develop social connections. These resources help entrepreneurs prepare their ideas and nascent companies for prospective investment by creating realistic expectations, accelerating technological development, and increasing opportunities to learn from other entrepreneurs. Many angel investors believe that the best way to increase angel investing is to improve the quality of entrepreneurs' startups.

States can learn from several regional programs around the country when formulating their plans for entrepreneurship education. One promising educational program for women entrepreneurs is Jumpstart in San Francisco, **California**, which provides an intensive and highly selective 4- to 6-month seminar program. The seminars help companies develop funding strategies, go-to-market strategies, and prepare for expansion of the founding team.[12] In Cleveland, **Ohio**, the organization JumpStart, Inc. offers similar expertise to entrepreneurs. It has several groups that hold networking events, advise on funding strategies, and make available entrepreneurs/executives-in-residence to help companies prepare for investor presentations.

Through programs like NetWork Kansas, governors can also help entrepreneurs connect with existing business and entrepreneurship services throughout the state. NetWork Kansas is affiliated with the US SourceLink program, an online Web portal that connects entrepreneurs to existing entrepreneurship support services in a state or region. NetWork Kansas is unique in that it is the

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[i] In this paper, *angel group* refers to all angel organizations that regularly assemble for investment purposes. Angel investment terminology is still evolving, and it is important to note there are different investment structures for angel groups. There are two prominent investment structures for angel groups: *angel networks*, where investors each make individual investment decisions, and *angel funds*, where angels make collective investment decisions with a pooled fund. In this paper an *angel network* will refer to institutions that formalize interaction among *angel groups*.

first statewide US SourceLink program, connecting entrepreneurs from across **Kansas** to resources that can help them grow their businesses – and providing angel investors another way to connect to entrepreneurs.

States can also connect angel investors to efforts that help entrepreneurs obtain Small Business Innovation Research (SBIR) and other funding opportunities from federal agencies. SBIR Phase I grants award up to $100,000 for six months of feasibility studies while Phase II grants award up to $750,000 over two years to successful Phase I grantees for R&D and commercialization evaluation. Companies applying for SBIR grants, especially Phase II grants, often have promising technologies in development. An SBIR award provides a signal to angel investors that these technologies hold promise and an opportunity to leverage their investments with another source of early-stage funding.

Rural Angel Investor Networks

A promising model for organizing local capital in rural areas is the Rural Area Investor Network (RAIN). Pioneered in **Minnesota** by Steve Mercil, RAINs are angel groups in rural communities that provide funding for local entrepreneurs; taken together, these RAIN funds make up a network of these funds called RAIN Source Capital (RAINSC).

There are 16 RAIN funds across **Iowa**, **Minnesota, North Dakota**, and **Montana**, each with 7 to 61 members and $500,000 to $2 million in capital. The RAINSC network has over $20 million invested in 40 companies and expects the formation of 10 more groups in the next year.

RAINSC supports and advises its RAIN funds, which each make their own investment decisions, typically by majority with quorum, and seek to make a return of 25 to 50 percent. Local investors pledge an aggregate minimum of $500,000 to start a fund, at which point RAINSC invests an additional 10 percent, up to $100,000, and assists with legal formation.

RAINSC furnishes deal structure templates tailored for individual RAIN funds, performs initial screening of business plans, administers a business plan database, and shares best practices across the network.

Membership in RAIN funds is limited to accredited investors who are interested in investing locally and promoting the local economy. RAINSC's expansion proves that angel investors can be found and organized in small towns and rural states.

Specialized assistance in applying for SBIR grants is helpful to young technology firms and many states have begun to offer this service. The SBIR Assistance Program in **Georgia** helps companies apply for SBIR grants by reviewing proposals and budgets at no cost. **Minnesota's** SBIR/STTR[*] Assistance Program provides topic-specific workshops in addition to helping companies develop a proposal strategy and assemble a research team.

Facilitate a Statewide Angel Network

Depending on existing levels of angel activity, governors may wish to create or support a statewide angel network to serve as a resource for angel groups around the state. Network directors in states with a number angel groups may concentrate on deal syndication and sharing best practices whereas networks in states with fewer angel groups might focus operations on forming and advising groups.

As states support these networks, new groups benefit from the guidance of experienced angels and investors. RAIN Source Capital (see sidebar), a community development financial institution, provides its regional funds with standardized term-sheets and up to a 10 percent co-investment. Such alliances build confidence and reduce fear of failure for new angel investors and groups, thereby encouraging more investment.

[*] The Small Business Technology Transfer (SSTR) Program is very similar to the SBIR program but is smaller and requires partnership between small business and research institutions. To see a comparison of the SBIR and STTR programs, visit http://scsbdc.moore.sc.edu/sbir_introduction/differences.html.

Organizing and capitalizing investor groups builds local investment capacity, benefiting state economies by creating opportunities for entrepreneurs. The following statewide networks were seeded with state funds and hope to soon become self-sustaining as nonprofit public-private partnerships:

- **Wisconsin:** The Wisconsin Angel Network, part of the Wisconsin Technology Council, is funded for two years with $300,000 from the Wisconsin Departments of Commerce and Financial Institution and the Wisconsin Technology Council. These funds support an experienced director, investment seminars, and an online forum to assist the formation and development of angel groups throughout the state.

- **Washington:** The WTC Angel Network was formed with a $250,000 grant from the United States Economic Development Administration that was matched by the Washington Technology Center (WTC). Managed by the WTC, its objectives are to create and develop community angel groups, facilitate deal flow, and prepare companies to secure investment. Since 2006, WTC has helped two angel groups transition to a self-sustaining and self-managing model. Going forward, WTC's focus is to develop a statewide network with the capacity for co-investment.

- **Pennsylvania:** The Pennsylvania Angel Network, a nonprofit organization, was begun with $350,000 from the Pennsylvania Department of Commerce and Economic Development to fund its first two years of operations. Based in Harrisburg, it also enjoys support from the Ben Franklin Technology Partners and the state's Innovation Works program. Its mission is to assist existing angel groups, help form new groups, facilitate education, and encourage collaboration between groups.

- **North Carolina:** The North Carolina Small Business and Technology Development Center has released plans to expand the state's Inception Micro Angel Fund. The fund was originally launched in the Piedmont Triad area in 2003. The expansion will create a statewide network of six angel funds. The funds will be member-managed and raise investment from individual angels, angel groups and venture capital firms.[13]

Wisconsin, Washington, Utah, Pennsylvania, and **Louisiana** have online forums to match entrepreneurs and investors but benefits have been difficult to measure. While such matching forums may have potential, many angel leaders believe the Internet cannot replace a handshake—trust and relationships are critical to angel investments and there are no substitutes for in-person meetings.

At an annual cost of about $250,000, organizing angel investment networks is likely to yield substantial benefit by laying the foundation for regional risk capital. A governor's initiative can catalyze the formation of angel groups, especially in rural areas where they are less likely to form without assistance. The networks need not increase bureaucracy when focused and carried out in partnership with the private sector.

Angel Investor Representation on State Economic Development Advisory Boards

The governor can improve the state economic development policy by ensuring that angel investors are well-represented on economic development advisory boards. One of the most important aspects of creating change is getting the right people on board. The presence of angel investors on state economic development advisory boards can help identify if and how state government should engage the angel community to craft a state-specific plan.

In **Wisconsin,** for example, Governor Jim Doyle's Economic Growth Council included a prominent angel investor and the governor's *Grow Wisconsin* initiative included plans for a statewide angel network. Part of the initiative is a statewide strategic plan to help meet the needs of the angel community. Charged with developing the strategic plan, Wisconsin's angel advisory committee is representative of the state's economic drivers both in and out of business. Finally, Wisconsin Act 255 established investment tax credits and created the Wisconsin Angel Network, which helped form five angel groups across the state in 2005.[14]

Provide Financial Incentives

Governors may also consider matching federal grants and private investments through tax credits, conditional loans, and matching grants. The most common incentive, and most controversial, is the personal tax credit: Eighteen states have early-stage investment tax credits with rates of 10 to 100 percent (see Appendix G), several of which have been recently enacted. **Kentucky** is trying a different model with the Kentucky Investment Fund Act, where professionally managed funds with more than $500,000 invested in qualified companies are offered a 40 percent personal or corporate tax credit.[15] **Michigan** has implemented the Angel Investor Incentive, a personal income tax deduction on reinvestment in qualified companies.[16]

> ***Angels shy from RFPs***
> States should avoid using competitive Request for Proposal (RFP) processes for awarding grants to angel groups. The money and time invested in responding to an RFP can be substantial, and failure is a reputation risk of consequence to angel leaders. RFPs tend to reward mature groups at the exclusion of newer and smaller groups.

There are many differences of opinion among angels, policymakers, and the public about the impact of tax credits on angel investment and sustainable entrepreneurial start-ups. Many angel investors are enthusiastic about tax credits because credits increase angels' return on investment. However, the economic benefits of the investment tax credit to states are unknown because of the lack of data and the difficulty of measuring economic impacts. Some believe credits likely increase the size of completed deals but that they are unlikely to increase the number of ventures funded because they do not improve deal quality. Recent studies also show that the benefits of investor tax credits also depend on a number of factors, such as whether the credit is temporary or permanent.[17]

New investment tax credits reward not only new angels but also those already actively investing, lowering the benefit-cost ratio of tax credits. At the same time, tax credits can establish a political platform to spark interest in early-stage investment, create a mechanism by which to measure state angel investment, and attract new investors through marketing by attorneys and accountants.

The most important aspect of a tax credit is its credit rate. States with tax credit rates of 10percent did not appear to experience significant increases in investment: **Vermont's** 10 percent investment credit was enacted in 2004 and no credits were claimed. In **Hawaii**, only $162,000 was claimed by 23 taxpayers in its credit's first year. In 2002, over $26 million was claimed in Hawaii after the state increased the rate from 10 to 100 percent. Programs can also be designed to allocate the following year's credits if current credits are exhausted, as in **Wisconsin** where credits are capped at $3 million per year.

Boosting private and federal dollars with equity capital or matching grants is another promising strategy for governors to increase risk capital. Several states match or fund the pursuit of SBIR grants and other federal resources:

- **Oklahoma:** The Oklahoma Center for the Advancement of Science and Technology (OCAST) assists entrepreneurs through its SBIR Phase I Incentive Funding Program, which reimburses 50 percent (up to $3,000) of a firms' costs for submitting an SBIR proposal. Its SBIR Phase II Matching Grants Program matches 50 percent of a firm's Phase I grant after a proposal has been submitted for Phase II.

- **Ohio:** The Ohio Research and Commercialization Grant Program, a component of the Third Frontier initiative, provides firms that have won federal SBIR, STTR, or Advanced Technology Program grants up to $350,000 over two years to commercialize their technology.

- **Maryland:** The Maryland Technology Transfer Fund, run through the state's Technology Development Corporation (TEDCO), makes nonequity investments of up to $75,000 in companies that partner with federal laboratories or universities to develop early-stage technologies with potential for commercialization or government procurement. No repayment is required unless and until the company receives revenue from sales.

The Utah Centers of Excellence (COE) Program helps startup companies commercialize technologies developed in Utah universities. Applicants apply for $50,000 to- $100,000 COE grants, with the opportunity to apply for additional funding up to a maximum of $500k over a two-year period. Startups are required to match state funds dollar-for-dollar, but may use other sources of capital, such as angel investments, to meet the match requirement.

Identify and collect metrics

The direct impact of these policies is largely unknown because until recently there have not been sufficient data for analysis. It is important that performance metrics be identified before program implementation to determine policy impacts. Economic development advisory boards can contribute to identifying measures; a third party should be used to analyze the data. The data can then be aggregated to protect information about individuals but also organized and released by a nongovernmental entity in collaboration with relevant departments. **Wisconsin** has a thorough data collection system in which:

- A consulting firm surveys angel investment;
- The Department of Commerce collects information from tax credit claims;
- Attorneys voluntarily disclose equity investments that pass through their offices;
- Sources are cross-examined to confirm accuracy;
- Data is compiled to be representative of angel investing in the state;
- Consultants analyze and report economic impacts; and
- Feedback is reported to policymakers.

By ensuring confidentiality and neutrality through a system like that of **Wisconsin**, states can better assess the impact of policies and programs to encourage angel investing and entrepreneurship within their state.

Conclusion

The benefits of supporting and encouraging angel investment can be great. Angel investors typically have investment portfolios in excess of $250,000 in multiple companies. The local businesses in which they invest create high-skill, high-wage jobs and make important contributions to states and their communities. The presence of angel groups also reduces the relocation of successful entrepreneurs to the coasts for early-stage financing so that states realize greater economic impact from entrepreneurial startups. Angels have already started to organize in many states, and gubernatorial support will magnify the benefits of angel activity.

List of Appendices

Appendix A – Experts' Roundtable Participants

The NGA Center for Best Practices convened a roundtable on angel investments with the generous support of the Kauffman Foundation on March 15 and 16, 2006. The affiliations listed below are those of the participants at the time of the meeting.

Richard A. Bendis	President & CEO	Innovation Philadelphia	
Michael G. Cain	Founder & Managing Partner	Wilmington Investor Network	
Stephen Crawford	Director	Social, Economic and Workforce Programs Division	National Governors Association Center for Best Practices
James Geshwiler	Chairman	Angel Capital Education Foundation	Managing Director, CommonAngels
Lorrie Heinemann	Secretary	Department of Financial Institutions	State of Wisconsin
Marianne Hudson	Director	Entrepreneurship	Ewing Marion Kauffman Foundation
John Huston	Founder	Ohio TechAngel Fund	
Brian Krolicki	State Treasurer	State of Nevada	
H. Kel Landis III	Senior Advisor to the Governor	Business and Economic Affairs	State of North Carolina
Allan W. May	Co-Founder	Life Science Angels	
John May	Managing Partner	New Vantage Group	

Steve Mercil	President & CEO	RAIN Source Capital	
Robert J. Robinson	Weinman Professor of Entrepreneurship and E-Business	University of Hawaii	Founder, UH Angels
Scott Shane	A. Malalchi Mixon III Professor of Entrepreneurship	Weatherhead School of Business	Case Western Reserve University
John Sider	Director of Venture Investment	Department of Community and Economic Development	State of Pennsylvania
Phillip Singerman	Venture Partner	Toucan Capital	
Greg Steinhoff	Director	Department of Economic Development	State of Missouri
Susan P. Strommer	CEO	National Association of Seed and Venture Funds	
Tracy B. Taylor	President & CEO	Kansas Technology Enterprise Corporation	
Tom Walker	CEO & Executive Vice President	i2E	
Kelly Williams	Consultant	Community Development Venture Capital Alliance	

Appendix B – SEC Definition of an Accredited Investor

Under the Securities Act of 1933, a company that offers or sells its securities must register the securities with the Securities Exchange Commission (SEC) or find an exemption from the registration requirements. The act provides companies with a number of exemptions. For some of the exemptions, such as rules 505 and 506 of Regulation D, a company may sell its securities to what are known as "accredited investors."

The federal securities laws define the term accredited investor in Rule 501 of Regulation D as:

1. a bank, insurance company, registered investment company, business development company, or small business investment company;
2. an employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of $5 million;
3. a charitable organization, corporation, or partnership with assets exceeding $5 million;
4. a director, executive officer, or general partner of the company selling the securities;
5. a business in which all the equity owners are accredited investors;
6. a natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds $1 million at the time of the purchase;
7. a natural person with income exceeding $200,000 in each of the two most recent years or joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year; or
8. a trust with assets in excess of $5 million, not formed to acquire the securities offered, whose purchases a sophisticated person makes.

Appendix C – Angel Group Case Study: *Active Angel Investors*

Active Angel Investors (AAI) is an angel group in the Washington, D.C. metropolitan area that invests in the mid-Atlantic region. It was formed in 2003 to address the lack of early-stage investment groups. AAI is managed by John May of the New Vantage Group who has over 15 years experience in venture capital and angel investing and has established several other regional investing clubs.[18] The AAI management team provides professional staff to initially screen companies and assist with due diligence, deal negotiation, partnership formations, and portfolio management.

Investment
The group invests in companies at the earliest stage of growth and expects a large ratio of equity to investment. Two-and-a-half hour breakfast meetings are held every month for members to network and entertain presentations by entrepreneurs. It is at members' discretion to invest in particular deals: After the presentations, members make nonbinding expressions of interest and have the opportunity to establish a group. When members indicate enough interest to make an aggregate investment greater than $250,000 in a venture, New Vantage Group organizes those angels into a due diligence committee and if an investment is made, creates single purpose Limited Liability Companies (LLC's) for that investment with New Vantage as the managing member.

AAI anticipates making five to ten investments annually, each in the range of $250,000 to $750,000. The AAI partnerships will often be the lead investor in the financing round and may sometimes be the sole investor. Individual angels are permitted to engage companies that do not reach the $250,000 investment threshold or do not present at formal meetings, but the New Vantage Group neither promotes nor manages such investments.

Membership
Membership in AAI is limited to 99 members and ideally suited to accredited investors expecting to make $50,000 to $100,000 annually in high-risk equity investments. However, the network does not impose any minimum investment requirement. Members are responsible for attending meetings, asking questions of presenting entrepreneurs, indicating serious interest in deals, participating in due diligence on potential investments, and encouraged to submit deals with which they are familiar. If a friend of a member is interested in attending a meeting, the member may pay a one meeting only guest fee of $75.

Funding
AAI is funded through a combination of membership dues, management fees and sponsorships. The monthly breakfast meetings are financed by sponsorships and administrative costs are covered by a $2,500 initiation fee for new members and annual dues of $2,500 for all members. New Vantage Group manages all investment LLC's out of an annual fee of 2 percent of committed capital and receives 20 percent of investment profits from AAI investment partnerships.[19]

Appendix D – Case Studies: *Angel Investor Success Stories*

Evergreen Solar: In 1996, seven members of the *Investors' Circle* invested $3 million in *Evergreen Solar*, a developer and manufacturer of photovoltaic (PV) modules. The PV modules produced by Evergreen Solar incorporate proprietary crystalline silicon technology known as String Ribbon. In 2001, five years after investment, the company was worth $128 million and its angels made their exit. In 2004, Evergreen Solar, located in Marlboro, **Massachusetts**, had 250 employees and a market capitalization of $852 million.

Sonic Innovations: *Sonic Innovations* is a spinout from the Center for Signal Processing at Brigham Young University, a **Utah** Center of Excellence, funded from 1987 through 1990. In 1993, when eight *Investors' Circle* members invested $2 million in *Sonic Innovations*, the company had a pre-money valuation of $5 million. Through the development and use of the smallest single-chip digital signal processor platform ever installed in a hearing aid, they brought to the market small, comfortable and reliable hearing aids. Seven years later, at IPO, the company's market value was $127 million. Since then Sonic Innovations has become the fastest growing hearing aid company in the world. Located in Salt Lake City, **Utah**, the company now has 637 employees and a market capitalization of $96 million.

PortalPlayer: *PortalPlayer* was presented to the Band of Angels in Silicon Valley in April of 2002 and the angel group decided to seed the firm with equity financing. PortalPlayer is a fabless semiconductor company that designs, develops, and markets comprehensive platform solutions, including a system-on-chip, firmware, and software for manufacturers of feature-rich, harddisk-drive-based personal media players. The Band of Angels was able to make a profitable exit with the IPO of PortalPlayer in November of 2004. Today, PortalPlayer has 181 employees, a market capitalization of $564 million, and is located in Santa Clara, **California**.

Matrics, Inc.: Matrics, Inc. located in Rockville, **Maryland**, was one of many companies in the portfolio of the Washington Dinner Club, and in July of 2004, Symbol Technologies acquired Matrics for $230 million cash. Matrics focused its strategic radio-frequency identification (RFID) solutions efforts on electronic product code (EPC) standards. It provided EPC-compliant RFID systems for retail, defense, transportation and other vertical markets. Today, Matrics' RFID readers and tags are used by customers to help track inventory across the supply chain, ensure compliance in regulated industries, track the location of baggage throughout airports for security purposes, and facilitate a more effective logistics process within the defense sector.

Appendix E — Angel Groups in the United States by State

Name	Based	State
Huntsville Angel Network	Hunstville	AL
Fund for Arkansas' Future	Little Rock	AR
Arizona Angels	Phoenix	AZ
AZTE Angels	Tempe	AZ
Desert Angels	Tucson	AZ
12 Angels	Los Angeles	CA
Acorn Angels	Cupertino	CA
Angels Corner	Santa Clara	CA
Band of Angels	Menlo Park	CA
Bay Angels-California	Sausalito	CA
Central Coast Angel Network	Santa Cruz	CA
Golden Gate Angels	San Francisco	CA
Idealflow Angel Fund	Los Angeles	CA
Imporium Angels	San Diego	CA
Keiretsu Forum	Nationwide	CA
Life Science Angels	Palo Alto	CA
North Bay Angels	Healdsburg	CA
Pasadena Angels	Pasadena	CA
Sacramento Angels	Sacramento	CA
Sand Hill Angels	Los Altos	CA
Silicom Ventures	Los Altos	CA
TechCoast Angels	LA, OC, SD, SB	CA
TENEX Medical Investors	Burlingame	CA
The Angels' Forum	Los Altos	CA
CTEK Angels	Denver	CO
Transition Partners Ltd	Boulder	CO
Angel Investor Forum	Hartford	CT
Golden Seeds	Stamford	CT
Active Angel Investors	Washington	DC
Washington Dinner Club	Washington	DC
WomenAngels.net	Washington	DC
Emergent Growth Fund	Gainesville	FL
New World Angels Inc	Boca Raton	FL
South Florida Angel Fund	Miami	FL
Springboard Capital	Jacksonville	FL
Startup Florida Ventures Inc.	Sarasota	FL
Ariel Savannah Angel Partners	Savannah	GA
Atlanta Technology Angels	Atlanta	GA
UH Angels	Honolulu	HI
Boise Angel Alliance	Boise	ID
Northwest Angel Network Inc	Boise	ID
BioAngels	Chicago	IL
Bluestem Ventures	Springfield	IL
DePaul Blue Angel Network	Chicago	IL
EMME Angel Group	Springfield	IL
Heartland Angels	Skokie	IL
Northern Illinois Angels	Chicago	IL
Prairie Angels	Chicago	IL
Southern Illinois Angels	Carbondale	IL
Stateline Angels Inc.	Rockford	IL
Indiana Seed Fund	Indianapolis	IN
Irish Angels	Notre Dame	IN
Mid-America Angels	Lenexa	KS
Midwest Venture Alliance	Wichita	KS
Bluegrass Angels	Lexington	KY
Louisiana Angel Network	Baton Rouge	LA
Angel Healthcare Investors	Boston	MA
Bay Angels-Boston	Boston	MA
CommonAngels	Boston	MA
HubAngels Investment Group	Cambridge	MA
Investors Circle	Brookline	MA
Launchpad Venture Group	Boston	MA
River Valley Investors	Springfield	MA
Walnut Venture Associates	Boston	MA
Chesapeake Emerging Opportunities Club	Columbia	MD
Maryland Angels Council	Rockville	MD
Maine Angels		ME
Ann Arbor Angels	Ann Arbor	MI
Aurora Angels	Petoskey	MI
Grand Angels	Grand Rapids	MI
Great Lakes Angels	Detroit	MI
St. Louis Arch Angels	St. Louis	MO
ACME Angels of Montana	Kalispell	MT
Bridger Private Capital Network	Bozeman	MT
Atlantis Group	Raleigh	NC
Blue Angel Ventures	Morrisville	NC
Blue Ridge Angel Investor Network	Asheville	NC
Charlotte Angel Partners	Charlotte	NC
Inception Micro Angel Fund	Winston-Salem	NC
Piedmont Angel Network	Greensboro	NC
Triangle Accredited Capital Forum	Wake Forest	NC
Tri-State Investors Group	Chapel Hill	NC
Wilmington Investor Network	Wilmington	NC
1st Run Angels Group	Conway	NH
eCoast Angel Network	Portsmouth	NH
Granite State Angels	Hanover	NH
Jumpstart New Jersey Angel Network	Mt. Laurel	NJ
Silicon Garden Angels & Investors Network	Somerset	NJ
New Mexico Private Investors	Albuquerque	NM
Sierra Angels	Incline Village	NV
Vegas Valley Angels	Las Vegas	NV
Central New York Angels	Syracuse	NY
New York Angels	New York	NY
Orange County Angel Network	Goshen	NY
Rochester Angel Network	Rochester	NY
Tech Valley Angel Network	Troy	NY
Tri-State Private Investors Network	New York	NY
TriState Ventures	New York	NY
C-Cap / Queen City Angels	Cincinnati	OH
CoreNetwork	Toledo	OH
NCIC Capital Fund	Dayton	OH
Ohio TechAngels Fund	Columbus	OH
Enterprise Oklahoma Venture Fund	Tulsa	OK
Portland Angel Network	Portland	OR
Women's Investment Network	Portland	OR
BlueTree Allied Angels	Pittsburgh	PA
Central Pennsylvania Angel Network	Harrisburg	PA
Lancaster Angel Network	Lancaster	PA
LORE Associates	Philadelphia	PA
Mid-Atlantic Angel Group Fund	Philadelphia	PA
Minority Angel Investor Network	Philadelphia	PA
Private Investors Forum	Jenkintown	PA
Robin Hood Ventures	Wayne	PA
Southwest Pennsylvania Angel Network	Pittsburgh	PA
Women's Investment Network	Pottstown	PA
Cherrystone Angel Group	Providence	RI
Charleston Angel Partners	Charleston	SC
Columbia Angel Partners	Columbia	SC
Hilton Head Angel Partners	Hilton Head	SC
SCP Capital	Spartanburg	SC
Nashville Capital Network	Nashville	TN
The Guardians of Innovation Valley	Oak Ridge	TN
Tri-Cities Regional Angel Investor Network	Johnson City	TN
Camino Real Angels	El Paso	TX
Houston Angel Network	Houston	TX
North Dallas Investment Group	Dallas	TX
San Antonio Angels	San Antonio	TX
Technology Tree Group	Houston	TX
Texas Women Ventures Fund	Dallas	TX
Top of Utah Angels	Salt Lake City	UT
Utah Angels	Salt Lake City	UT
Virginia Active Angel Network	Charlottesville	VA
North Country Angels	Vermont	VT
Alliance of Angels	Seattle	WA
Bellingham Angel Group	Bellingham	WA
Delta Angel Group	Spokane	WA
Seraph Capital Forum	Seattle	WA
Chippewa Valley Angel Investors Network	Chippewa Valley	WI
Marquette University Golden Angels Network	Milwaukee	WI
NEW Capital Fund	Appleton	WI
Origin Investment Group	La Crosse	WI
Phenomenelle Angels	Madison	WI
Silicon Pastures	Milwaukee	WI
Wisconsin Investment Partners	Madison	WI

Source: Angel Capital Association

Appendix F – State Angel Investment Tax Credits

State	Tax Credit	Rate (%)	Requirements	Span (years)	Cap	Max	Carry (years)	Claims
Arizona	Angel Investment Tax Credit	30	Not available to those who already hold > 30% equity	3	$20M over 5 years	$250k aggregate investment per investor per year; $2M credit per business	3	Effective July 1, 2006
Hawaii	High Technology Investment Tax Credit	100	Research must be at least 50% of company activity	5	None	$2M credit per business per year	0	1999 to 2002, $36M in 887 claims with $114.4M outstanding
Indiana	Venture Capital Investment Tax Credit	20	Qualified business	1	$12.5M per year	$500k per year per company	5	Not yet recorded
Iowa	Qualified Business Investment and Seed Capital Tax Credit	20	Credit cannot be claimed until 3 years after investment	1	$10M over 3 years	$50k credit per investment; 5 investments per year	5	$1.8M claimed thru June 2005 since inception in 2002
Kansas	Angel Investor Tax Credit	50	Company < $5M gross revenue and <5 years of operations	1	$2M per year and $20M over 12 years	$50k investment; 5 investments per year	0 - Transferable	Began January 1, 2006
Louisiana	Angel Investor Tax Credit	50	More than 50% of company sales are outside the state	5	$5M per year	$1M investment per year per business; and $2M aggregate per business	11	Began January 1, 2005
Maine	Seed Capital Tax Credit	40	Investment at risk for 5 years	4	$20M aggregate	50% total liability; $200k credit per investment; aggregate $5M per business	15	1992-02 $6.7M claimed at 30 percent; 2003-05 $5.4M claimed at 40 percent
New Jersey	High-Technology Investment Tax Credit	10	Company has <225 jobs, 75% of which are in the state	1	None	$1M credit per company; $500k credit per investor	15	Not available

State	Program	Rate (%)	Requirements	Span (years)	Cap	Max	Carry (years)	Claims
New Mexico	Angel Investment Credit	25	High-tech or manufacturing; <100 employees; <$5M gross revenue	1	$750,000	25 percent up to $25,000 per company and 2 companies per year	3	Passed 2007
North Carolina	Qualified Business Investment Tax Credit	25	Company gross revenues < $5M in previous fiscal year	1	$6M per year; increased to $7M per year in 2004	$50k credit per year	5	$6M per year claimed in 2002 and 2003
North Dakota	Seed Capital Investment Tax Credit	45	Qualified company is principally in state and engaged in innovation or R&D	3	$2.5M per year	$250k investment per year per investor; $500k investment per business	4	2002 to 2005, $34M invested in 1088 companies by 768 claimants, $9M in credits
Ohio	Technology Investment Tax Credit	25	Business has < $2.5M in revenue	1	$20M aggregate	investment </= $250k per year; $1.5M investment per company	15	Estimated $1.3M per year
Oklahoma	Small Business Capital Credit	20	Company spends 50% of investment within 18 months	1	None	$500k investment per year	10	Claims: 2002 $2M; 2003 $3M; 2004 $1M
Oregon	University Venture Capital Funds	60		3	$14M aggregate	$50k credit per year	None	Begins in 2006
Vermont	Seed Capital Fund	10	50% firm revenue from out of state	1	$2M aggregate	50% of total liability	4	Began 2005
Virginia	Qualified Business Investment Credit	50	Must hold equity for 3 years	1	$3M per year prorated	$50k per investor annually	15	Over 5 years, $7.3M credited to 863 claims
West Virginia	High Growth Business Investment Tax Credit	50	Maintain investment for 5 years	1	$2M per year for 5 years	$50k per investor; $1M investment per company	4	Began July 1, 2005
Wisconsin	Angel Investor Tax Credit	25	Up to $500k in equity purchases	2	$3M per year; $30M aggregate	$125k credit per investment	0	$3M in 2005; 290 investors

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