Lake Las Vegas is an upscale community of a few thousand households located between Las Vegas and Lake Mead in Southern Nevada. Lake Las Vegas does not have a stand-alone angel organization.

Another community in North America developed this Executive Summary, Budget and Implementation Plan. The names and locations in these documents are fictitious and were adopted solely to disguise the plan, so it could be shared with others interested in starting an angel organization. We appreciate the willingness of the authors to allow this plan to be modified for our use.

Bill Payne
Entrepreneur-in-Residence
Kauffman Foundation
December 15, 2003

LAKE LAS VEGAS ANGELS

EXECUTIVE SUMMARY

December 15, 2003
The Lake Las Vegas Angels
Executive Summary

Overview

Lake Las Vegas Angels is a select network of successful entrepreneurs and other business leaders in the Lake Las Vegas area, who provide investment capital, strategic advice and mentoring to early-stage technology companies to help them achieve market leadership. LLVA will seek deal flow in verticals unique to Southern Nevada, specifically security and gaming software and specialized electronic equipment and devices (gaming and radiation detection).

The mission of the Lake Las Vegas Angels network is two-fold: to help grow the economic base of the region through the rapid growth of technology companies and to provide members an outstanding financial return on their time commitment and invested capital.

The Need

Business start-up and expansion is one of the primary keys to economic development at the local level. In fact, many of Las Vegas's most successful companies were start-ups in their own right. Most entrepreneurs agree that raising capital is the primary obstacle hindering their growth. And while venture capital firms receive a great deal of attention, the fact is that VC's currently invest about 2% of all venture funds in seed and early stage deals.

In the Southern Nevada region, few venture or angel sources are making investments in early stage technology companies today. In addition, those venture firms outside the Las Vegas region are of little help. Since venture capital funds have increased in size in the past decade, their minimum investment has correspondingly increased to the point where few VC's today consider financings of less than $5-7 million. The goal of the Lake Las Vegas Angels is to fill the gap between “friends and family” and traditional VC financing for companies in the Las Vegas area. Funding and assistance from Lake Las Vegas Angels will allow a start-up to accomplish critical milestones that will make it attractive for a larger follow-on venture capital financing.

The Organization

Lake Las Vegas Angels members are founders, CEO's, and business and community leaders who have built world-class organizations. Members mentor and coach the entrepreneurs they invest in, serve as board and advisory board members, provide contacts, and assist the entrepreneur with team building, strategic planning and follow-on fundraising.

Lake Las Vegas Angels is not a traditional venture fund and does not invest as a group. While members collaborate on screening potential investment opportunities and due diligence, each member makes an individual investment decision. Lake Las Vegas Angels is a Nevada nonprofit Mutual Benefit Corporation governed by a Board of Directors and a manager contracted by the Lake Las Vegas Angels to provide administrative, meeting and deal flow management functions.

Governance

The Board of Directors of the Lake Las Vegas Angels will consist of five members of the organization plus the manager, as an ex officio, non-voting member. The Directors shall be elected by an annual vote of the membership from a list of candidates proposed by a nominating committee appointed by the Chairman.

The Chairman of Lake Las Vegas Angels shall be the CEO of the organization and shall serve as chair of the Board of Directors. The manager shall report directly to the Chairman.
Members/officers and other board members will not be compensated for participation on the Board of Directors.

The Chairman shall be responsible for managing the member activities of the Lake Las Vegas Angels. The manager shall be responsible for managing the staff of the organization. The Chairman shall be responsible for defining the division of duties between the members and the staff of the organization. Each of the five directors shall assume the duties of one or more of the following offices:

- **Treasurer** – responsible for the accounting and finances of the organization plus tracking the investment history of the members of the organization.
- **Membership** – responsible for recruiting members into the organization and communication with the membership.
- **Marketing and Promotions** – responsible for making the community aware of the organization and for improving deal flow to the organization.
- **Investments** – responsible, working with the manager, for recruiting members for due diligence, mentoring and Board service for portfolio companies. Responsible, with the manager, for teeing up companies for screening and investment meetings.

**Membership Criteria**

Membership in the Lake Las Vegas Angels is by invitation only and is extended to individuals who share the organization’s vision and are willing to actively contribute to the investment process. Lake Las Vegas Angels members:

- Are accredited investors as defined within SEC rules;
- Have track records managing and building successful companies either as entrepreneurs or operating executives;
- Form an extensive peer network of domain expertise and contacts for subsequent funding, talent and technology;
- Devote significant time and effort to Lake Las Vegas Angel activities, including screening, due diligence, and investment meetings, along with identifying new investment opportunities; and,
- Agree to participate in at least two Lake Las Vegas Angel investments per year.

The network will initially target 15-20 members with a commitment of $2 million and who view ROI and economic development as complementary motivations for participation in the network. In addition, the following assumptions have gone into the development of the angel network:

<table>
<thead>
<tr>
<th>Deal Flow:</th>
<th>Ten applications per month are entered into “the system”</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Three deals per month are approved at a membership pre-screening meeting</td>
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<tr>
<td></td>
<td>Two deals per month pass screening and move into due diligence</td>
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<tr>
<td></td>
<td>One deal per month is passed due diligence and is presented at an investment meeting</td>
</tr>
<tr>
<td></td>
<td>One investment is closed every two months</td>
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<tr>
<td></td>
<td>30 deals are closed within five years</td>
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</tbody>
</table>
### Side Fund

It is anticipated that some prospective members will not be able to meet the time commitment requirements for membership yet would like to provide investment capital. To address this situation the Lake Las Vegas Angels will create a separate investment fund that will be made up of those interested in the concept but lacking the time to participate in meetings or assisting companies.

The side fund will not have separate management structure. Rather, investments will be made automatically when 5 or more full network members agree to invest a minimum of $250,000 in any one round. In this case the side fund would automatically invest an equal amount, up to 10% of the total fund size. Participants in the side fund would be assessed an administrative fee similar to full network members but they would have no vote regarding investment decisions or administration.

### Investment Criteria

Lake Las Vegas Angels invests in companies across the Southern Nevada region with the potential to rapidly scale into market and financial leadership. This usually implies potential for high growth, a strong market position, and a sustainable advantage. The network will seek investment opportunities having:

- A market opportunity sufficiently large to create a business with at least $50 to $100 million in annual revenues;
- A compelling, well articulated strategy for capturing a significant market share;
- Proprietary technology or other strong barriers to entry;
- Strong management with relevant experience, a successful track record, a desire for advice and coaching and a willingness to listen;
- An exit strategy for the investors; and,
- A company valuation that fits within a predetermined risk/reward calculation for the investment.

Specifically, Lake Las Vegas Angels will look for situations where the company is seeking approximately $1-2 million in total capital for the round and where the investment will take the company to the next level, thus materially increasing its valuation.

### Investment Process Overview

Applications are sent to the Lake Las Vegas Angels secure web site. Lake Las Vegas Angels will contract with Henderson Enterprise Institute to conduct application pre-screening based on the network’s investment criteria. Promising investment opportunities are then presented at a screening meeting where the entire LLV Angels network is invited to participate and evaluate the opportunity.

If one or more members express interest, a “guardian angel” is selected and a team of network members perform due diligence with administrative and other due diligence assistance provide by
Henderson Enterprise Institute. Assuming due diligence questions are answered satisfactorily, the “guardian angel” and due diligence team will negotiate a term sheet with the company.

Once the due diligence is complete, the term sheet is negotiated and two or more members have committed to invest, the company is invited to present at the next regularly scheduled Lake Las Vegas Angels investment meeting. These investment meetings are scheduled six times per year and are designed to evaluate investment opportunities, socialize and conduct other business.

**Investment Application Process**

Each application for funding is sent through the Lake Las Vegas Angels secure web site. Henderson Enterprise Institute will serve as the first screen for all applications, insuring that the application is complete and that the application meets the investment parameters defined by Lake Las Vegas Angels. Henderson Enterprise Institute staff will evaluate each electronic application and segment as follows:

1. **Application does not meet investment criteria** – Applications that do not meet the predefined investment criteria will be notified via email that their investment opportunity does not meet the core investment parameters of the network. The message will be polite and generic with no specific reason given except to say they do not meet the investment criteria of the group at this time. However, Henderson Enterprise Institute will refer, when appropriate, the entrepreneur to one or more of the entrepreneurial support entities across the region.

2. **Application meets criteria investment criteria** – Applications that meet the predefined investment criteria will undergo further analysis resulting in the development of two additional documents:
   - Market Analysis – a brief market analysis will be developed that will include information on the target market, geographical scope, specific market research on the core product or service and an analysis of the competition.
   - Summary Analysis – a summary will be developed that will include a review of the company’s business plan, financials, technology, intellectual property rights, a strengths and weaknesses assessment and a risk/return profile.

These two documents, along with the original application will be forwarded to the screening committee of the network for final sign off prior to being sent to all members at the next regularly scheduled screening meeting.

3. **Application meets criteria investment criteria but company is outside the geographic region** – Promising opportunities will be forwarded to the screening committee of the network for approval to proceed with formal application process.

**Administrative Support**

As previously mentioned, Lake Las Vegas Angels will contract with Henderson Enterprise Institute (HEI) to provide administrative and operational management on a day-to-day basis. These functions include:

<table>
<thead>
<tr>
<th>Application Review</th>
<th>Initial application review by HEI staff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-screening</td>
<td>Coordination and staff support for additional review by selected network members and HEI staff.</td>
</tr>
<tr>
<td>Screening</td>
<td>Coordination and staff support for investment opportunities presented to &quot;all hands&quot; screening</td>
</tr>
</tbody>
</table>
meeting whose purpose is to find a champion for the deal.

**Due Diligence**
Coordination and staff support for extensive analysis by staff and membership to validate the investment opportunity and negotiate a term sheet.

**Investment Meeting**
Coordination and staff support for investment presentations of deals that pass the due diligence phase.

**Post-investment Meeting Follow-up**
Coordination and staff support for multiple small meetings that are scheduled for members who did not participate in the due diligence to allow them to become comfortable with the deal and make investment decisions.

**Logistics**
Coordination and staff support for arrangement and notices necessary for various network meetings.

**Marketing/Promotion**
Activities to increase awareness in the community of the angel network and the process for applying for funding. Primarily directed at increasing deal flow.

**Membership/Communication**
Coordination and staff support for member recruitment, communication with existing membership, meeting announcements, maintenance of membership files, and tracking of investments by individual members (who invested in what).

**Monitoring Deal Flow**
Coordination and staff support for measurement of deal flow and tracking of deals within the network process.

**Monitoring Portfolio**
Coordination and staff support for establishing the expected information flow and the frequency of reporting by portfolio companies into the network over the life of the investments. Gathering and disseminating reports to members.

Additional administrative and operational functions to ensure the network operates in a smooth and efficient manner are likely to materialize over time, however the above functions are those most pressing to the initial launch of the network. As the network is formed and begins to look at deal flow, it is expected that HEI will handle all administrative and operational functions with current staff on hand. As deal flow increases, it is expected that HEI will work with the UNLV business school to bring on MBA and Executive MBA interns to assist in screening and due diligence functions. The following assumptions went into the administrative cost calculations for the network:

<table>
<thead>
<tr>
<th>Function</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-screening by HEI Staff:</td>
<td>1 hour per application</td>
</tr>
<tr>
<td>Pre-screening by Membership Committee:</td>
<td>1 hour per application</td>
</tr>
<tr>
<td>Screening Meeting:</td>
<td>2 hours per application</td>
</tr>
<tr>
<td>Due Diligence:</td>
<td>100 hours per investment opportunity</td>
</tr>
<tr>
<td>Term Sheet and Closing:</td>
<td>40 hours per investment opportunity</td>
</tr>
<tr>
<td>Logistics:</td>
<td>2 hours per meeting</td>
</tr>
</tbody>
</table>
Based on the administrative tasks outlined above, the chart below summarizes the assumptions regarding the monthly steady-state administrative workload. Again, this information is based on a deal flow expectation that includes: processing ten applications per month, three deals per month are approved at a membership pre-screening meeting; two deals per month move into due diligence, one deal per month is presented at an investment meeting and one investment is closed every two months:

### Monthly Administrative Steady-State Workload (hours)

<table>
<thead>
<tr>
<th>Task</th>
<th>Executive Director</th>
<th>Interns</th>
<th>Administrative Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-screening</td>
<td>2</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Screening</td>
<td>4</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Due Diligence</td>
<td>40</td>
<td>60</td>
<td>6</td>
</tr>
<tr>
<td>Investment</td>
<td>20</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>Membership</td>
<td>8</td>
<td>0</td>
<td>30</td>
</tr>
<tr>
<td>Marketing/Promo</td>
<td>8</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Other Admin</td>
<td>10</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total Hours/Month</strong></td>
<td><strong>92</strong></td>
<td><strong>94</strong></td>
<td><strong>60</strong></td>
</tr>
</tbody>
</table>

**F/T Equivalent**

- Executive Director: 53%
- Interns: 54%
- Administrative Assistance: 34%

### Return on Investment

While both economic development and ROI are viewed as complementary motivations for participation in the network, the Lake Las Vegas Angels will evaluate opportunities where liquidation can be affected as expeditiously as possible. While Initial Public Offerings (IPO’s) are a possibility, the likely exit for Lake Las Vegas Angel investments is merger and acquisition. Therefore, Lake Las Vegas Angels will look first to public companies as the primary source to affect liquidation. Given the fact that members make individual investment decisions, there will be no roll over provision. When exits occur, proceeds will be distributed immediately and directly.
Angel investors are accredited investors who invest both time and money in early stage entrepreneurs and their companies. Angels provide the first outside equity capital in start-up companies (after “friends and family” investment, which is normally considered inside capital). In addition to purchasing equity, angels provide mentoring and advisory services to entrepreneurs and often serve on company boards.

According to Professor Jeffrey Sohl, angel investors have cumulatively invested about twice as much annually as the sum of annual venture capital (VC) investments. Angels tend to invest in seed and early stage companies while VC’s tend to invest later in the business lifecycle. In 2001, VC’s invested less than 2% of their total funds in seed and early stage deals. It is estimated that angel investors provide nearly 90% of the outside equity capital necessary to launch start-up companies in the U.S. Entrepreneurs also benefit immensely from the business acumen of their angel mentors in starting their businesses.

Why isn’t the economic contribution made by angel investors more widely known? For decades, angel investors have not promoted their status as early stage investors. Doing so would result in individual angels being inundated with business plans and entrepreneurial inquiries. Angels prefer to see referenced deals from knowledgeable service providers and other angel investors. Consequently, until recently, angel investing has been beneath the public’s radar.

In the mid-90s, however, angel investors began forming angel organizations, to share the work and leverage their experiences in screening and the due diligence required to make these investments. Most angel organizations make it easy to apply for funding, by providing simple, web-based applications on their websites. Deal flow increased significantly, as service providers, economic developers and angels all referred deals to these new angel organizations. The increased visibility of angels through their organizations has improved the awareness of these investors and created demand for more angel organizations around the country. Since 1996, the number of angel organizations has grown from 10 to 170 (in 2001), clearly demonstrating the advantages of these organizations to angels and the community of entrepreneurs.

The processes involved in making angel investments have become somewhat standardized. Upon receiving an application for funding, the organization determines if the deal is within the scope of interest of the organization (geographic proximity, industry segment, size of opportunity, etc.). Once a deal is accepted for consideration, the organization attempts to find a member to serve as champion or sponsor for the entrepreneur. This champion leads a due diligence team who spends 1-3 months validating the business plan and the qualifications of the entrepreneur. Once validation is complete and a term sheet (defining the investment parameters) has been negotiated, the entrepreneur is introduced to the entire membership of the angel organization at an investment meeting. Interested individual members then spend additional time with entrepreneur until they have enough information to make individual investments. (In the case of angel pooled funds, a vote of the membership determines the investment in the company.) Once the investment is made, a few angels stay engaged with the company, assisting the entrepreneur.

Equity investments are always made with the objective of eventual liquidation and recognition of return on investment. Angels are rather patient investors and generally expect liquidation their investment in 5-7 years. Initial public offerings (IPO’s) of young, exciting companies receive substantial public press. However, IPO’s are the exception. The likelihood of an exit by an acquisition by a larger company is a much more likely scenario, outnumbering IPO’s by at least 10:1.
In addition to patience, angel investors need substantial risk tolerance. A majority of angel investments return less than 100% of the invested capital to the investor. Portfolio returns can exceed 30% per annum, however, when individual companies return 30X or more to investors. Because of the inherent risk in start-up companies, angels generally only invest a fraction (5 to 10%) of their net worth in their angel portfolio. Furthermore, risk is reduced by investing in several (8 to 10) companies over several years rather than investing larger sums of money in a smaller set of companies.

Angel investors are often exited entrepreneurs, who enjoy the process of helping entrepreneurs grow companies. Return on investment is important, but not the only factor involved. Angel investing is hard work and not for the faint-of-heart. Angel organizations now provide a blueprint for making these investments; colleagues to share the work and a funnel to provide optimum deal flow.

* The Securities and Exchange Commission has ruled that knowledgeable, wealthy investors (term: accredited investors) may purchase equity of small, privately-held companies without the satisfying any of the normal obligations of the SEC for regulated securities. Accredited investors declare that they have a net worth of at least $1,000,000, individual annual income of $200,000 or family annual income of $300,000. Accredited investors are assumed to have the business acumen necessary to make such investments and it is assumed they can afford to lose all or part of this investment without seriously impacting their net worth.

** Center for Venture Research, University of New Hampshire

*** From the National Association of Seed and Venture Funds, Oklahoma City, OK