

Exploring Your Angel I.Q. – Staying Clear of Pitfalls in Angel Investing

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1. Which of the following is most troubling with respect to an angel investor's existing portfolio investment?
 - (a) Litigation liabilities
 - (b) Unaudited financial statements
 - (c) Unfunded withholding obligations
 - (d) Environmental liabilities
2. When loaning money to a company, I think it is best to:
 - (a) Take a board seat, so I know exactly what is going on and have some say
 - (b) Take an observer role on the board, so I know exactly what is going on
 - (c) Neither
3. In the following situations, who owns the work product created?
 - (a) Software code developed by an employee for his employer – employee or employer?
 - (b) Product designs prepared by a consultant for a company – consultant or company?
 - (c) A new process for generating reusable batteries developed at Penn by a Penn grad student for an entrepreneur – Grad student or Penn?
4. What are the fiduciary duties applicable to managers of Delaware LLCs?
 - (a) Duty of loyalty
 - (b) Duty of care
 - (c) None
 - (d) It depends
5. Which do you prefer – narrow based or broad based anti-dilution protection?
 - (a) Narrow based
 - (b) Broad based
6. If a company needs \$500,000 in outside equity capital and the pre-money valuation is \$1 million, what percentage of the company will be retained by the current owners after the investment is made?
 - (a) 33 1-3%
 - (b) 50%
 - (c) 66 2-3%
 - (d) 80%

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7. What non-valuation term listed below does not negatively impact valuation?
 - (a) Participation feature
 - (b) Full ratchet anti-dilution
 - (c) Liquidation preference in excess of 1x
 - (d) Negative Covenants
8. With respect to your portfolio investments, which type of anti-dilution protection would you prefer to have your companies offer its new investors?
 - (a) Weighted Average
 - (b) Full Ratchet
9. What should your biggest concern be if you invest in a company that has hired a capital “finder”:
 - (a) Having your capital used to pay substantial commissions to the finder
 - (b) Lack of sophistication
 - (c) Lack of disclosure
 - (d) Rescission rights
10. What should your biggest concern be if you are invested in a company that proposes to sell equity to a non-accredited investor:
 - (a) Grandma can’t afford to lose her fixed income investments
 - (b) Friends and family are litigation risks
 - (c) Sale requires IPO like disclosure
11. If you are an angel investor and you negotiate negative covenants, would you prefer that the consents associated with the negative covenants be in your role as a board member or in your role as a shareholder?
 - (a) Board member
 - (b) Shareholder
 - (c) Both
 - (d) Neither