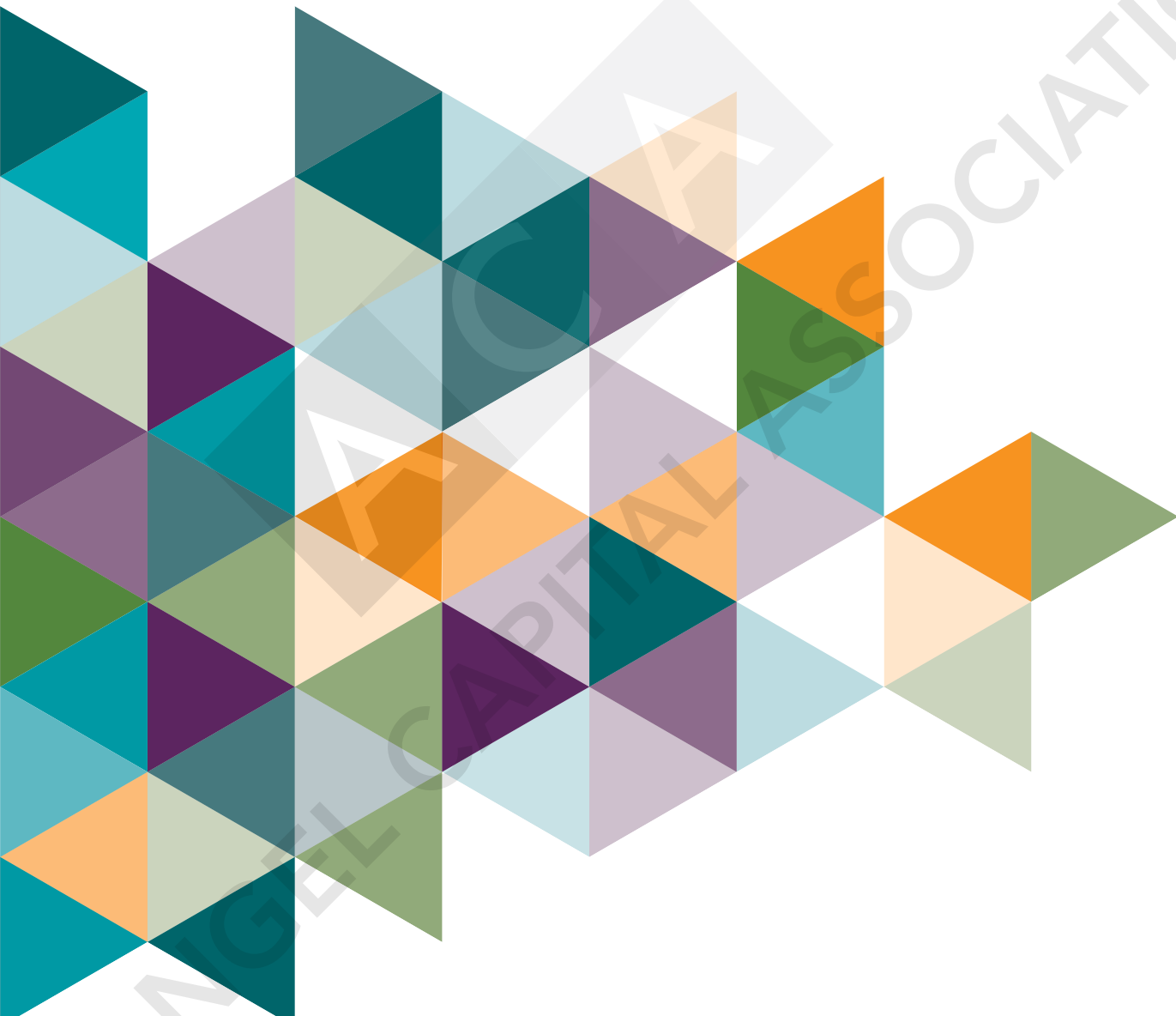




ANGEL CAPITAL ASSOCIATION

ANGEL BOX BASICS



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VENTUREWELLTM
idea to impact

**A Guide Toward Forming an
Active, Vibrant and Successful
Angel Organization**



ANGEL CAPITAL ASSOCIATION

The Angel Capital Association would like to thank Venture Well for their generous support of the Angel Box Basics initiative. This toolkit was created for general educational purposes only to provide background information on angel group and/or fund formation and should not be considered a binding legal document. Prior to organizing either an angel network or angel fund, you should consult with a qualified legal professional. Information in this document is subject to change and the Angel Capital Association does not assume any liability for reliance on the information provided herein.

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100 ABOUT ANGEL BOX

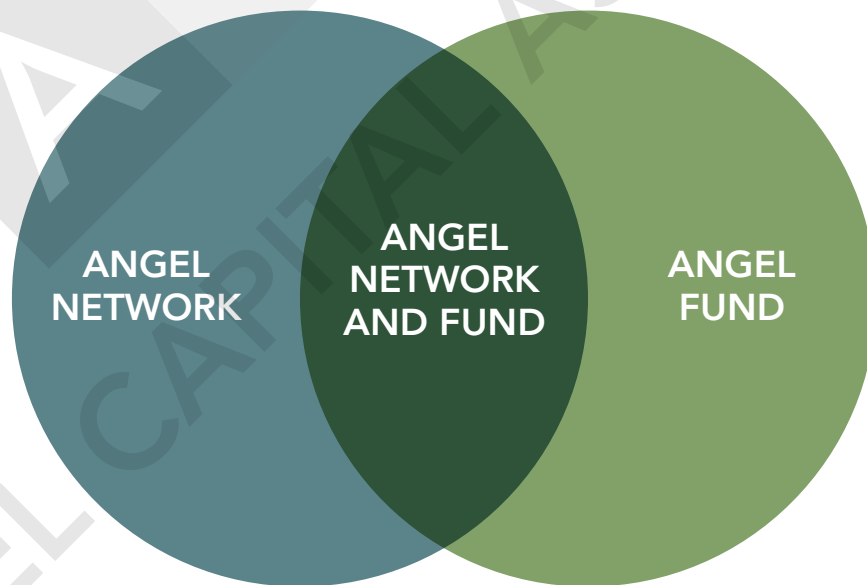
Angel Box is a resource provided by the Angel Capital Association (ACA) to:

- ✓ Help members create more angel organizations by reducing barriers to entry
- ✓ Leverage ACA expertise and resources
- ✓ Reduce the time and expense it takes to form new angel organizations
- ✓ Answer the top questions faced by new angel organizations in the right way

The primary audience for Angel Box includes:

- ✓ New and prospective angel network leaders
- ✓ New and prospective angel fund leaders
- ✓ Community ecosystem builders and others building new angel investing options
- ✓ NOT intended for those interested in angel platforms and/or crowdfunding

AN ANGEL ORGANIZATION CAN BE



THROUGHOUT THIS ANGEL BOX BASICS TOOLKIT, THE ANGEL CAPITAL ASSOCIATION WILL USE THE FOLLOWING TERMINOLOGY:

ANGEL ORGANIZATION: The most general term that refers to an intentional group of active angel investors who cooperate in some part of the investment process. Angel organizations are managed by member angels or by a hired professional manager who “works for” the members. Such organizations are also commonly referred to as “angel groups,” however, this term can often be confusing. Therefore throughout Angel Box you will mostly see the terms: Angel Organization, Angel Network, and Angel Fund.

ANGEL NETWORK: An Angel Network refers to a type of Angel Organization where members make individual investment decisions. Each angel member decides for themselves what to invest in and how much to invest.

ANGEL FUND: An Angel Fund is a pooled source of capital that angel group members can invest in, whereby the Fund itself makes the investment in a company and determines the investment amount. In most cases, members of an Angel Organization that are an Angel Fund have some level of involvement in deal screening, deal diligence and the final investment decision, however, each individual member does not have ultimate control over the Angel Fund’s investments.

ANGEL NETWORK W/ AN ANGEL FUND: Many angel organizations operate both as an angel network and an angel fund. The angel organization allows for members to make independent investment decisions, while also raising and operating a Fund where members’ capital is pooled and invested across a larger number of companies. These angel funds are sometimes referred to as “side-car” funds - inferring that the organization’s Fund only invests alongside individual member investments.

HOW TO USE THIS DOCUMENT

This document is designed to cover angel group formation topics in a sequential manner. You can read this toolkit in its entirety, or take one section at a time to review with your regional planning team. The best practice we recommend is to have each member of your planning team read a section prior to your planned meeting time/discussion. The accompanying worksheets can be completed individually or as part of a group strategic planning meeting.

101 PROSPECTIVE ANGEL ORGANIZATION FOUNDATIONAL QUESTIONS

SECTION
01

If you are reading this, you are most likely interested in starting an angel group. The Angel Capital Association is the leading national professional associations of angel investors, and have curated the Angel Box Basics toolkit to assist you! Starting an angel organization isn't dissimilar from starting the types of companies that you are looking to invest in. So set a good example for your future portfolio by putting the brainstorming, planning, time and effort into creating your angel organization. The following list of chapters are designed to provide you with the details you need to get your angel organization launched!

- ✓ [100 About Angel Box](#)
- ✓ [102 Angel Organization Mission & Vision](#)
- ✓ [103 Angel Organization Investment & Member Profiles](#)
- ✓ [104 Angel Organization Leadership](#)
- ✓ [105 Angel Organization Members](#)
- ✓ [106 Angel Organization Structures](#)
- ✓ [108 Angel Group Executive Summary](#)
- ✓ [109 The Angel Group Ecosystem](#)
- ✓ [201-209 Angel Network: Nuts & Bolts](#)

After reviewing the above chapters, you should be able to complete the interactive PDF worksheet, [101 Pre-formation Initial Questionnaire](#).

This questionnaire will help you answer some of the basic foundational questions for your new Angel Organization.

102 ANGEL ORGANIZATION MISSION AND VISION

SECTION
01

An angel organization is just like any new initiative. It is important to clearly articulate why the organization exists and who it serves. This document is aimed at helping you think about and formulate your organization's guiding principles.

Angel organizations exist to help entrepreneurs have access to capital by connecting startups with accredited investors. Most angel organizations also seek to support entrepreneurs with collective expertise and advice. Some organizations have specific objectives related to the types of businesses they intend to fund (green, female-led, etc.) Ideally, angel organizations incorporate a focus on investor returns to increase the odds of success and sustainability. Clarity around the organization's objectives will help drive the formation and structure and processes of the organization going forward.

WHAT ARE THE PRIMARY GOALS OF THE ANGEL ORGANIZATION?

Most organizations will have multiple goals, however, it can help to identify and prioritize what's most important. Some angel organizations have goals that are tightly aligned with the characteristics of the companies they seek to support, while others have broader goals that are independent of investment criteria.

Fundamental goals:

- ✓ Providing early-stage capital to startups
- ✓ Supporting and nurturing startup companies
- ✓ Return on investment
- ✓ Encouraging and creating more angel investors

Other potential goals:

- ✓ Encouraging economic development in your region
- ✓ Social network for investors
- ✓ Educating investors on startup investing
- ✓ Pool money and/or resources
- ✓ Increasing deal flow
- ✓ Funding companies in a specific industry
- ✓ Funding companies affiliated with a university or incubator
- ✓ Highlighting local businesses
- ✓ Increase diversity of investment opportunities
- ✓ Target specific stages, industries, and/or affiliations of companies

Spending some time brainstorming on the organization's Vision and Mission can really help prioritize the organization's activities and the path forward.

VISION

Big picture of what you want to achieve and/or what you want to be.

MISSION

General statement of how you will achieve the vision.

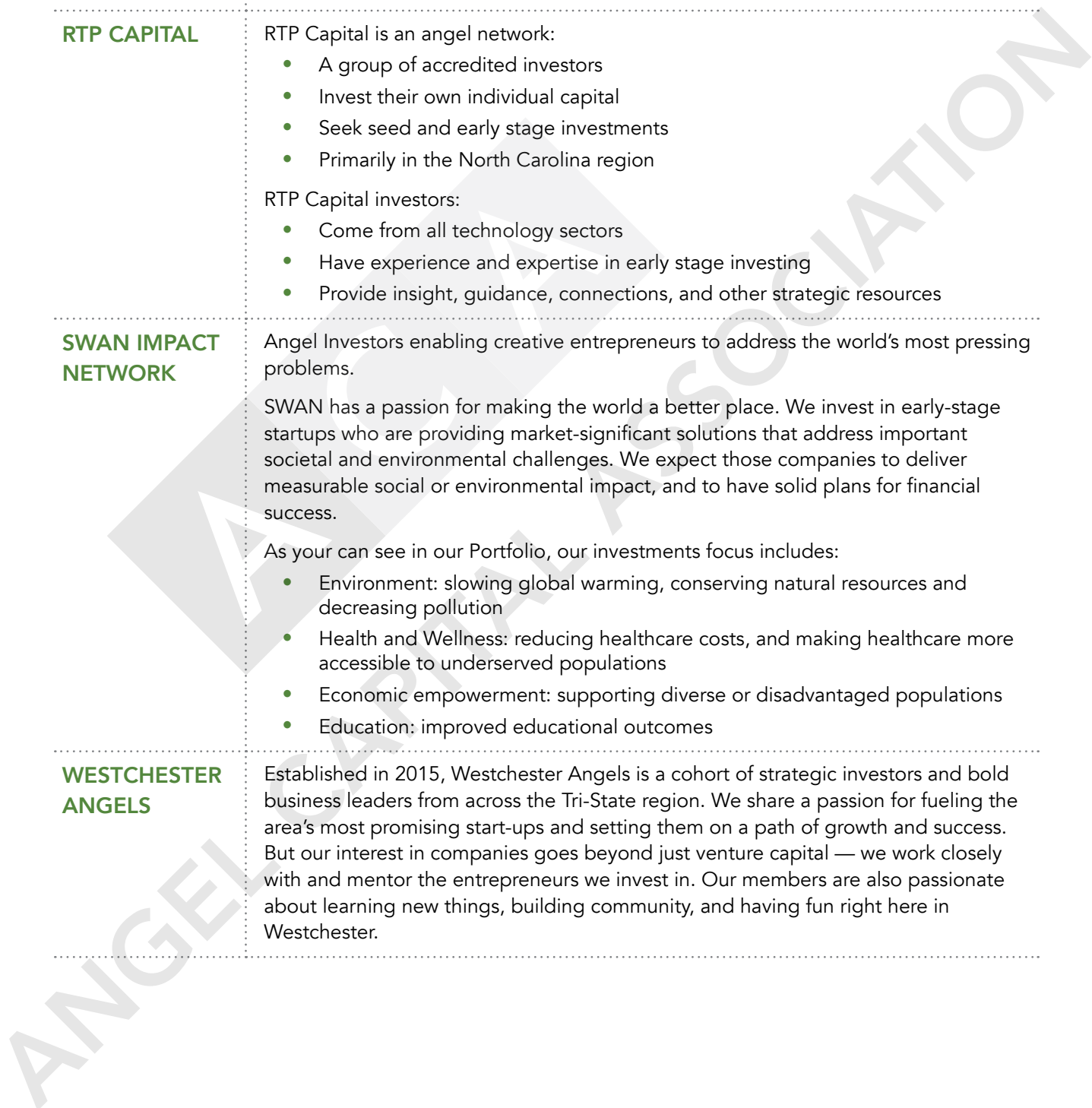
EXAMPLES FROM ACA MEMBER ANGEL ORGANIZATIONS:

Most organizations' mission / vision / about us statements provide at least a hint of their Investment and/or Member profiles. The following chapter, [103 Angel Organization Investment & Member Profiles](#), can help your organization get more specific. Below are some examples of the mission/vision statements of some ACA member groups.

ORGANIZATION	MISSION / VISION
BAND OF ANGELS	The first high-tech angel investing group in the USA, investing in and mentoring Silicon Valley's best seed stage startups. Band of Angels was the first high-tech angel investment group in the USA and continues today, with weekly member events, monthly deal pitch dinners, and millions of dollars of annual investment into 20+ startups each year. We are a formal group of 165+ angel investors, mostly former and current high tech executives, who invest their time and money into new, cutting edge, startup companies. Since the Band's inception in 1994 as the first organized high-tech angel investment group in the USA, we have funded 400+ companies with 92 profitable M&A exits and 17 IPOs. The entire Band meets monthly in Silicon Valley to formally consider 3 startups selected from among the 50+ that are screened each month by the Band deal selection process. Additionally, to facilitate deal flow and engagement from Southern California to Northern California, we hold a satellite meeting in Los Angeles for members and companies located there.
CENTRAL TEXAS ANGEL NETWORK	CTAN's mission is two-fold: <ol style="list-style-type: none"> 1. Provide quality early-stage investment opportunities for accredited angel investors 2. Assist entrepreneurs and early-stage growth companies by serving as a key source of funding, mentorship, strategic advice, and educational resources
COMMUNE ANGELS	Inclusivity is our differentiator. Our members include experienced angels, founders, subject-matter experts, and new investors. We enable members to pool capital while leveraging the expertise, skills, and experiences of our diverse network to drive better outcomes. Members of Commune value diversity and the exchange of ideas in support of extraordinary founders building promising companies. Investing allows our members to give back, build successful companies and reap the rewards from our contributions.
INVESTORS OF COLOR	We are closing the gap. The Investors of Color is building a thriving ecosystem of Black, Latinx, and Asian accredited investors to close the racial funding gap in startup capital.
THE LAUNCHPLACE	The Launch Place looks for investment opportunities and offers a full menu of services for entrepreneurs to be successful in its office locations in Danville, Virginia and the Research Triangle Park, North Carolina.



ORGANIZATION	MISSION / VISION
MAINE ANGELS	The Maine Angels are accredited private equity investors who invest in and mentor early stage companies. Our goal is to make investments in promising entrepreneurs in Maine and New England.
RTP CAPITAL	<p>RTP Capital is an angel network:</p> <ul style="list-style-type: none"> • A group of accredited investors • Invest their own individual capital • Seek seed and early stage investments • Primarily in the North Carolina region <p>RTP Capital investors:</p> <ul style="list-style-type: none"> • Come from all technology sectors • Have experience and expertise in early stage investing • Provide insight, guidance, connections, and other strategic resources
SWAN IMPACT NETWORK	<p>Angel Investors enabling creative entrepreneurs to address the world’s most pressing problems.</p> <p>SWAN has a passion for making the world a better place. We invest in early-stage startups who are providing market-significant solutions that address important societal and environmental challenges. We expect those companies to deliver measurable social or environmental impact, and to have solid plans for financial success.</p> <p>As your can see in our Portfolio, our investments focus includes:</p> <ul style="list-style-type: none"> • Environment: slowing global warming, conserving natural resources and decreasing pollution • Health and Wellness: reducing healthcare costs, and making healthcare more accessible to underserved populations • Economic empowerment: supporting diverse or disadvantaged populations • Education: improved educational outcomes
WESTCHESTER ANGELS	Established in 2015, Westchester Angels is a cohort of strategic investors and bold business leaders from across the Tri-State region. We share a passion for fueling the area’s most promising start-ups and setting them on a path of growth and success. But our interest in companies goes beyond just venture capital — we work closely with and mentor the entrepreneurs we invest in. Our members are also passionate about learning new things, building community, and having fun right here in Westchester.



103 ANGEL ORGANIZATION INVESTMENT & MEMBER PROFILES

At the core of any angel organization is the mission to provide capital to startups. What are the characteristics of the startups that the organization seeks to fund? What types of financing events will the organization be participating in?

Different aspects of an investment profile are often related. For example, if your fund is focused on student entrepreneurs - you're likely going to be investing at the very earliest stage. If you are focused exclusively on female-led businesses, you will likely be investing across a broad range of industries.

It's important to get specific without being overly restrictive. Entrepreneurs and prospective members need to know if they fit your profile. At the same time, you need to make sure there are enough companies that fit your criteria to invest in. When crafting a mission statement, you should avoid being either "Too Broad" or "Too Restrictive or Incongruous" and instead focus on creating a "Just Right" mission statement.

TOO BROAD

ABC Angels invest in great companies looking to do great things.

TOO RESTRICTIVE OR INCONGRUOUS

ABC Angels invest in post-revenue, Biotech companies located in Pittsburgh, PA with BIPOC (Black, Indigenous, People of color) founders.

ABC Angels invest in student entrepreneurs that have a proven track record of business success.

EXAMPLES OF JUST RIGHT

■ STAGE ■ INDUSTRY/BUSINESS MODEL ■ GEOGRAPHY ■ ENTREPRENEUR

SEED FUNDERS

Investing in **pre-revenue scalable technology** throughout **Florida**.

GOLDEN SEEDS

Golden Seeds accepts applications from **women-led companies** domiciled in the **U.S.**

REBEL VENTURE GROUP

We are a **student led** venture capital group backed by the **University of Nevada**, Las Vegas. We invest in students, **startups** and entrepreneurs in **Nevada and the greater Southwest region of the United States**.

Below is an example of a longer form mission/vision statement that incorporates all of the “Just Right” components.



Tech Coast Angels - www.techcoastangels.com/about-us/

Tech Coast Angels (TCA), a not-for-profit organization, has been consistently ranked as one the top five angel investment groups in the U.S., and has been fueling the growth of innovative companies and supporting entrepreneurs since 1997. **TCA identifies, mentors and funds early stage and startup companies to help get their ideas to market**, and where TCA members devote their time, expertise and capital to help companies successfully grow.

Since 1997, TCA members have invested more than \$250 million in more than 500 companies and have helped attract in excess of \$2.1 billion in additional capital/follow-on rounds, mostly from venture capital firms. **TCA consists of four regional networks (or chapters) in Southern California: Los Angeles, Orange County, Pasadena, and the Inland Empire.** Each network holds screening sessions, normally semi-monthly, where entrepreneurs present their companies and investment opportunity to the TCA membership. While a member joins a specific network, he/she is able to and encouraged to participate in any other network’s activity — including training sessions, seminars, special meetings between entrepreneurs and investors and other events.

Tech Coast Angels, one of the first angel groups in the country, is ever-mindful that some of the world’s greatest companies began with angel investments and we take our commitment to that tradition seriously. Our TCA members collaborate with each other on deal flow and due diligence and then make individual decisions regarding potential investments. TCA also has three funds in the LA, OC and SD networks which invest alongside individual sidecar investments. The funds help members achieve instant diversification and risk reduction. All investments are made under a common term sheet. **Not limited to a specific technology, industry, or geographic location, our members invest in exciting companies in a wide range of industries including biotech, pharma, medtech, consumer products, Internet, IT, media, software and environmental, among others.**

Tech Coast Angels is a major catalyst and hub in helping build not only Southern California’s economy into a thriving center of technology and entrepreneurship, but also helps the US economy through our investments across the country. **Our members are highly active in the entrepreneurial community, attending and participating in conferences, networking events, entrepreneurial competitions and other venture capital events.** TCA itself sponsors many events throughout the year. **Relationships with the major colleges and universities in Southern California, incubators, accelerators, and as part of the Angel Syndication Network, provide us both access to potential commercialization opportunities and expertise that is invaluable** as we analyze potential investments.

Not surprisingly an angel organization’s investment profile is closely linked to its member profile. Chapter [105 Angel Organization Members](#) can help your organization think about identifying and attracting members. There is no “one right way” to be an angel organization. However, successful organizations are clear about their mission, investment criteria, and member profile.

THE FOLLOWING ARE A FEW EXAMPLES OF THE DIVERSITY OF MODELS IN THE ANGEL ORGANIZATION COMMUNITY.

INDUSTRY/BUSINESS MODEL FOCUSED

THE JUMPFUND

WEBSITE: thejumpfund.com

GEOGRAPHY: National

MISSION: To invest women’s capital in female-led companies with growth potential in order to generate a strong financial return and elevate the role of women in business.

MEMBER PROFILE: When we started in 2013, we had two main goals: to activate women as angel investors and to provide access to capital for female founders in the Southeast.

INVESTMENT PROFILE: We invest in women-led companies headquartered in the Southeast U.S., specifically in the states of Arkansas, Louisiana, Tennessee, Mississippi, Alabama, Georgia, Florida, South Carolina, North Carolina, Kentucky, and Virginia. Our portfolio is made up of high-growth, scalable, women-led ventures in the Southeastern United States. While we have remained industry agnostic, we invested in areas where our team could add the most value and create the greatest impact.

REGION FOCUSED

QUEEN CITY ANGELS

WEBSITE: qca.com

GEOGRAPHY: National

MISSION: Queen City Angels’ investors are Greater Cincinnati business leaders including former CEOs and founders of successful companies. These men and women are eager to provide expertise, mentoring and coaching as well as funding to emerging companies. Their guidance includes assistance with business development, strategic planning, raising capital and building strong management teams.

MEMBER PROFILE: QCA currently has over 185 member investors.

INVESTMENT PROFILE: QCA primarily invests in the following industry sectors: Advanced Materials, Life Sciences, and Information Technology.

UNIVERSITY AFFILIATED

WHARTON ALUMNI ANGELS

WEBSITE: whartonalumniangels.com

GEOGRAPHY: Not specific to a particular region

MISSION: We are enthusiastic about entrepreneurs and passionate teams pursuing their dreams. We predominantly invest in early-stage technology start-ups. Wharton Alumni Angels seeks to add value and actively provide mentoring and assistance to young companies.

MEMBER PROFILE: Our members are entrepreneurs, senior business executives, and institutional investors with a global reach. Our members are located on every continent and invest in start-ups worldwide.

INVESTMENT PROFILE: We have a deep network and working relationships with venture capital funds, other angel networks, and innovation ecosystems globally to cultivate the growth of technology start-ups. Wharton Alumni Angels participates most often in seed and Series A investments, and occasionally later-stage rounds. We do not focus on specific verticals or industries.

ENTREPRENEUR FOCUSED

ROCKIES VENTURE CLUB

WEBSITE: rockiesventureclub.org

GEOGRAPHY: Colorado-based

MISSION: At Rockies Venture Club, our culture is based on three pillars:

Education: RVC holds over 140 events per year throughout Colorado and virtually via Zoom. These include monthly pitch events, Angel Accelerators, HyperAccelerators®, RVC Class Clusters, Angel investor forums, group mastermind meetings, and two major conferences that bring together over 300 community members each.

Events: At RVC we believe that the best investments get done when investors and entrepreneurs have a strong understanding of how angel investing and venture capital work best together.

Investment: RVC is one of the most active Angel groups in the country!

MEMBER PROFILE: Memberships profile consists of 200 plus angel investors. RVC funds 25-30 companies annually.

INVESTMENT PROFILE: We are typically agnostic when it comes to industry or sector. However, our most successful companies have been in Software, SaaS, Technology, Internet, Mobile, Consumer Goods, Life Science, Medical and Digital Healthcare

Now that you have reviewed this chapter, you are welcome to complete the interactive PDF worksheet, **103 Investment and Member Profiles Questionnaire**. The questionnaire will help you answer things like Who, Where, When, and How of your organization's investment criteria.

104 ANGEL ORGANIZATION LEADERSHIP

SECTION
01

Getting an angel organization up and running is no small task. Before getting started it is wise to make sure you have the appropriate amount of human resources to go the distance. Successfully launching an angel organization usually depends on the influence of a highly respected Champion or Champions.

ANGEL ORGANIZATION CHAMPIONS POSSESS MANY OF THE FOLLOWING CHARACTERISTICS

Must haves:

- ✓ Prior investment experience could be as an angel investor or a professional background in finance or investing
- ✓ Is knowledgeable about the mechanics of early stage investing, such as deal screening, due diligence, and deal structures
- ✓ Has significant time, energy, and motivation to dedicate to the formation of the angel organization
- ✓ Connections to local economic development organizations and/or incubators/accelerators

Nice to haves:

- ✓ Prior startup experience
- ✓ Has an extensive network of relationships with potential investors
- ✓ Has an extensive network of relationships with potential company founders and/or service providers in the start-up community
- ✓ Is willing to play a key role in the organization for the first few years

Tip: Be objective about the founding organization's members' backgrounds. Identify what is missing and network until you find the right founding team. Networking is also a great way to get to know your target entrepreneurial community.

COMMON MANAGEMENT STRUCTURES

SECTION
01

As of 2022, 40% of ACA member groups identify that they are professionally managed, while the remaining groups are managed only by volunteer members.

Managers range from part-time volunteers to full-time, compensated managers. Often interns from local universities provide additional support to the organization. Initially, much of the work is focused on arranging meetings, training new members, and processing deals. After the organization has been in existence a few years a higher percentage of the time can be spent on making follow-on investments, managing the portfolio, and deal harvesting activities.

Core operating tasks that need to be considered during the creation phase include:

- ✓ Organizational planning
- ✓ Legal formation
- ✓ Organizational document creation
- ✓ Website development & other marketing materials
- ✓ Member recruitment

Ongoing tasks

- ✓ Arranging meetings
- ✓ Training new members
- ✓ Screening deals
- ✓ Managing due diligence
- ✓ Representing the organization at ecosystem events
- ✓ Tracking member investment activity
- ✓ Tracking company financials and activity

Tip: See chapter 206 Roles, Responsibilities, and Tasks for information that can help angel organizations get a better grasp on the activities required to operate.

LEADERS NEED SUPPORT

Angel organization champions often rely on the support of entrepreneurial support organizations in the region to assist with launch efforts. The Angel Capital Association is ready and willing to help, however, we recommend that you create a list of potential resources in your local community as well. [The Angel Group Ecosystem](#) list can help you build out a list for your area.

Supporting organizations could include:

- ✓ **OTHER ANGEL ORGANIZATIONS** - angel organizations tend to be more collaborative than competitive. There really is no better resource to learn about your local community or target industry than other angel organizations! Talking to those that “can share lessons learned” can help your founding team avoid common early mistakes.
- ✓ **INCUBATORS AND STARTUP PROGRAMS AND EVENTS** - this could include co-working spaces, business plan competitions, boot camps, and networking events.
- ✓ **GOVERNMENT PROGRAMS** - many states have programs focused on supporting economic development and startups. It is essential that you get to know the resources available to your prospective portfolio companies and Government sponsored start-ups are also an excellent source of deal flow.
- ✓ **SERVICES PROVIDERS** - startups need professional service providers such as lawyers, accountants, technical assistance, training, and mentorship.
- ✓ **INVESTMENT FUNDS** - seek out professionally managed funds as they are a source of deal flow, knowledge, future follow-on funding, and future members.

Some Angel organizations have already created extensive resource guides for their local ecosystem - most are clearly focused on resources for Entrepreneurs. However, they are still a good starting point for understanding your ecosystem. A good example is [A Guide to Resources for Maine Entrepreneurs](#) produced by Maine Angels.

Paid leaders vs. volunteers

Most angel organizations start out as 100% volunteer-led, and at some point, the organization grows in complexity and activity to warrant hiring some amount of paid staff. This process usually happens over time as the organization evolves. A common progression could look like:

- ✓ **1ST** - The organization is led entirely by the [founder / founding group](#)
- ✓ **2ND** - The organization creates subcommittees and a formal executive board from its membership that handles the operating activities as unpaid volunteers
- ✓ **3RD**- Still led by member volunteers, but the organization hires its first paid (part-time) administrator to help with logistics
- ✓ **4TH**-The organization grows in complexity and membership numbers can now support a paid manager. It is still likely that members are significantly involved in deal screening and due diligence activities

105 ANGEL ORGANIZATION MEMBERS

SECTION
01

THIS CHAPTER DESCRIBES HOW TO IDENTIFY AND RECRUIT POTENTIAL NEW ANGEL ORGANIZATION MEMBERS

Who can be a member of an angel organization?

The SEC allows only accredited investors to participate in angel investor organizations.

Angels invest in privately held companies versus publicly traded ones (i.e., those whose shares trade on stock exchanges such as the New York Stock Exchange and NASDAQ). U.S. securities laws have lowered the reporting provisions for privately held firms so long as those purchasing their shares are deemed to be experienced investors. Entrepreneurs know that so long as they limit their investors to those who are “Accredited” they will not have to supply reporting similar to that of America’s publicly-traded behemoths.

According to the [Securities and Exchange Commission](#) individuals may qualify as accredited investors based on wealth and income thresholds, as well as other measures of financial sophistication. These definitions periodically change, therefore, it’s important to stay in tune with changing rules and regulations related to angel investing.

Current SEC Criteria (August 2020)

Financial Criteria

- ✓ Net worth over \$1 million, excluding primary residence (individually or with spouse or partner)
- ✓ Income over \$200,000 (individually) or \$300,000 (with spouse or partner) in each of the prior two years, and reasonably expects the same for the current year

Professional Criteria

- ✓ Investment professionals in good standing holding the general securities representative license (Series 7), the investment adviser representative license (Series 65), or the private securities offerings representative license (Series 82)
- ✓ Directors, executive officers, or general partners (GP) of the company selling the securities (or of a GP of that company)
- ✓ Any “family client” of a “family office” that qualifies as an accredited investor
- ✓ For investments in a private fund, “knowledgeable employees” of the fund

Prospective investor members of an Angel organization, therefore must:

- ✓ Be accredited investors per the SEC definition
- ✓ Be interested in investing in startups
- ✓ Be aligned with the organization's vision, mission, and investment philosophy
- ✓ Meet your organization's specific membership requirements

Does that mean I need to have prospective members submit proof that they meet the definition of accredited investors?

No, but....It is important that your angel organization does a certain degree of screening of members. For example:

- ✓ Membership is only by invitation or referral from a current member who has a pre-existing relationship with the applicant and is familiar with the professional and financial status of the applicant, and reasonably believes he or she is an accredited investor
- ✓ Each applicant completes a questionnaire that includes professional experience and sector expertise, and certifies at least annually that he or she is an accredited investor
- ✓ Members must self attest to their accredited investor status

Tip: More information can be found regarding Legal and Regulatory issues related to Angel organizations in [Chapter 204 Legal & Tax Structures](#).

WHAT IS THE ORGANIZATION'S MEMBER PROFILE?

In addition to identifying the types of companies the organization is going to invest in it's important to define the characteristics of your members - beyond just their accredited investor status.

- ✓ Are members limited to the organization's geographic area?
- ✓ Are members all former founders?
- ✓ Are members experts in a target industry?
- ✓ Do members need have a pre-defined affiliation?
- ✓ Do you want to have different membership levels?

WHY SHOULD AN ANGEL JOIN AN ORGANIZATION INSTEAD OF BEING A SOLO INVESTOR? BELOW ARE A LIST OF BENEFITS:

- ✓ Many angels who decided to form a network or fund did so because they realized the benefits of huddling with other angels to share due diligence and industry expertise
- ✓ By pooling capital investors have more clout in negotiating terms, conditions, and valuation. This can often be manifested in having a seat at the Boardroom table
- ✓ Importantly, angel organizations can leverage the experience and contacts of their members to see more opportunities and dive more deeply into the ones that look attractive
- ✓ Furthermore, there are arcane aspects of the federal tax code that few new private equity investors understand until they join with seasoned angel investors who focus on their after-tax returns
- ✓ Investors note that they have access to better, more diversified deals as a member of an angel organization
- ✓ As a member of an angel organization you'll be a part of a strong community and have access to an expansive network of like-minded investors and entrepreneurs

A VARIETY OF MEMBER BACKGROUNDS BUILDS A VIBRANT ORGANIZATION

As indicated in this chapter, there are many roles to play in an operating angel organization. Most, if not all angel organizations rely on members to volunteer their time and expertise. So when you are building out your membership ranks, make sure your leadership team is considering the following questions:

1. Do you have members that have experience with executing angel investments? Current and prior venture capital professionals are often angel investors as well and can really lend a hand when reviewing term sheets and deal structures.
2. Do you have members that have lived experiences in your target investment area? This is important for both deal sources, deal screening, and due diligence.
3. Do you have members who have the time and motivation to participate in deal screening and due diligence?

OTHER TYPES OF MEMBERS

Some angel groups have multiple member categories. It is fairly common for angel groups, for example, to have sponsorship or supporting organization membership. These members may for example only be able to participate in networking events. Or perhaps they are employees of economic development / startup programs in your region and offer a unique perspective to the meetings.

- ✓ **Affiliate Membership/ Affiliate Partner:** Typically, employees of organizations who also participate in the regional entrepreneurial ecosystem
- ✓ **Educational Membership:** open to students for educational purposes to learn about angel investing and often assist with deal screening and due diligence - but not allowed to make investments

WHERE AND HOW DO WE FIND MEMBERS FOR THE ANGEL GROUP?

The average number of members in U.S. angel groups is about 50, but new groups often start with as little as 5 to 25 members. Prior to recruiting new potential members, the group's structure should be decided and a new member recruitment document should be developed to enable a crisp and compelling "ask".

- ✓ The majority of recruitment is still being done through personal networks and word of mouth
- ✓ Encourage members to bring at least 2 guests per year to a meeting
- ✓ Technology like LinkedIn, websites, and twitter can expand the organization's reach
- ✓ Participate in local entrepreneurship events
- ✓ Network with local service providers: accountants, lawyers, wealth managers

Tip: Create a Pitch deck to launch a group covering all the basics of fees, meetings, investment focus, and the decision-making process.
See chapter [201 About our Angel Organization.](#)

106 ANGEL ORGANIZATION STRUCTURES

SECTION
01

Angels gather together in many ways, including forming networks, funds, and organizations that have both a network and a fund. Below are the brief definitions of what are both angel networks and angel funds.

ANGEL NETWORK → 70% OF ACA MEMBER ORGANIZATIONS

- ✓ In an angel network, investors typically gather to collectively source and evaluate investment opportunities
- ✓ In most networks, investors make individual investment decisions on a deal-by-deal basis
- ✓ Some networks choose to make investments through special-purpose entities that pool individual member dollars thereby having a greater collective voice and % ownership on the company's cap table
- ✓ In many cases each member of the network writes their own check and appears on the company's cap table as an individual

FUND → 20% OF ACA MEMBER ORGANIZATIONS

- ✓ In an angel fund, investors commit capital upfront to be invested in the fund over a period of time
- ✓ Most funds have a specified time period between raising the fund and returning capital to investors
- ✓ Investments are made based on defined criteria when the fund is created
- ✓ Investment decisions may be based on a collective vote or vested in an investment committee
- ✓ Funds can be structured to allow individuals to add-on additional capital to fund investments

Chapter [300 About Angel Funds](#), is tailored toward those seeking to start an Angel Fund.

NETWORK WITH FUND → 10% OF ACA MEMBER ORGANIZATIONS

- ✓ Many organizations begin as networks and then later add a fund, often in the form of a “Sidecar Fund”
- ✓ A Sidecar Fund typically “rides along” with a network, co-investing in deals that meet certain thresholds
- ✓ For example, a sidecar fund investment might be triggered if at least 10 network members invest \$100K or more
- ✓ Sometimes the fund is the initial investor and individual members follow on

Please note: There are other “angel adjacent” organizations, which are national online platforms for both traditional angel investing and equity crowdfunding, but these topics are not covered in Angel Box Basics.

Beyond the organizational/operating structure of the organization it is important to consider the legal structure. Chapter [204 Legal and Tax Structures](#) will provide a general overview of these important topics.

LEGAL STRUCTURE OF AN ANGEL ORGANIZATION

There are a variety of legal structures to use when setting up your angel organization.

Common examples include a Limited Liability Company (LLC), and not-for-profit LLC with non-profit status 501(c)3 or 501(c)6 from the IRS.

Using a legal structure, such as an LLC, allows the organization to “conduct business” including activities such as opening a bank account, hiring and paying employees or contractors, and accepting member dues. While it may be possible for a very small angel organization to operate on an informal basis - the Angel Capital Association definitely encourages those founding new angel organizations to seek early advice on Legal, Tax, and Regulatory matters. More information on these topics can be found by consulting practicing attorneys in your region.

Non-profit status must specifically be applied for through the IRS, with important conditions being met. It is important to discuss the goals and operating structure with a legal and tax professional before the entity is created. For example, an angel organization that has a non-for-profit status can conduct mentoring, education, and other non-financial activities within the organization, but the financial aspects such as investing must be done outside of the nonprofit entity. Therefore, if your organization wants to have an Angel Fund, then it would be necessary to set up a separate legal entity for raising and deploying capital.

According to the ACA’s Member Database, as of September 2022, 83% of ACA member angel organizations do not have a non-for-profit tax status, while 9% have the 501(c)3 and 8% have the 501(c)6.

107 ANGEL ORGANIZATION INVESTMENT VEHICLES

Members of Angel Organizations typically invest in startups one of three ways:

1. Directly as Individuals 2. Through a Special Purpose Vehicle 3. Through a Fund

The method in which members invest can have an impact on how the organization operates. Therefore, it is recommended that you consider the way members would most prefer to invest during the formation process. However, it is also not unusual for organizations to allow members to invest using all three of these methods.

DIRECT – Individuals execute and hold the investment security sold by the startup company

BENEFITS

- + Very clear that each member is individually responsible for all aspects of the investment
- + No additional costs to the organization
- + Each individual has more control of their investment

CHALLENGES

- Difficult to track member investments
- Less negotiating leverage
- More difficult to receive information from the company
- More difficult for companies with multiple points of contact and more names on the cap table

TIPS

- 💡 Deal flow platforms are available to help track individual member investments

SPV – A new legal entity is formed for each investment. Members “pool” money into the SPV. The SPV executes and holds the investment security

BENEFITS

- + Larger check size means additional leverage with deal terms
- + Easier for companies - single point of contact
- + Some angels prefer to invest jointly this way
- + Angels can still make individual investment decision

CHALLENGES

- Someone has to be “in charge” of the SPV
- Only “worth it” if several members want to invest
- Cost money to form and maintain
- Each new investment requires a new SPV

TIPS

- 💡 Investing through SPVs is becoming more common and there are more and more [services available to help create and managed SPVs.](#)

FUND – The Angel organization raises a pool of capital to invest in several different companies. The Fund purchases and holds the securities being offered by the startup.

BENEFITS

- + Larger check size means additional leverage with deal terms
- + Easier for companies - single point of contact
- + Easier to compensate professional manager through carried interest

CHALLENGES

- More work and expense to create and manage
- Individual members have less say over what the Fund invests in

TIPS

- 💡 Check out chapters [300 About Angel Funds](#) and [301 Angel Fund Structures.](#)



108 ANGEL GROUP EXECUTIVE SUMMARY

Now that you have reviewed chapters 101-106, and completed the Pre-formation and Investment and Member Profiles Questionnaire, you should be able to complete the **108 Angel Group Executive Summary document**.

When filling out the document, try to provide insight into your group's vision, investment focus, and wider connection to the early stage ecosystem. If you still have questions, review chapters 100-106. The summary should mirror [ACA's membership application](#).



109 THE ANGEL GROUP ECOSYSTEM

SECTION
01

Angel groups cannot exist in a vacuum. They thrive and succeed in a vibrant startup ecosystem that supports startup companies. An Ecosystem List is a working document to use while both planning towards forming an angel group, and also to keep up to date once the group is operational. The Angel Capital Association recommends that you get to know the organizations that already exist in your local area. The organizations you add to the list are all potential sources of deal flow and support for companies.

Here are some tips to help you get started:

1. Check your State Government's website - many states have economic development departments that list business support resources
2. Identify other angel groups and investors in your area first - they often have links to other resources
3. Current ACA members can search [ACA's Searchable Directory of Members](#)
4. Many angel groups also put out entrepreneurial resource guides - check with those in your area of interest

Keep the following list up to date and share it with your members. This list is also a great resource for startups in your area!

Now you're ready to begin compiling your list. Use the interactive PDF worksheet, [109 Angel Group Ecosystem List](#), to keep an ongoing operational list. Be sure to return to this document and update it.

110 INTERVIEWS OF ANGEL ORGANIZATION FOUNDERS

Congratulations! You have reached the final chapter of the Pre-Formation section of the Angel Box Basics toolkit! This chapter applies the concepts discussed in the earlier chapters and explores real world examples for you. Please enjoy reading the Angel Organization Founder interviews and incorporating these vital “lessons learned” into your own angel group formation process. After reading this chapter, make sure you complete all the worksheets related to the Section 100 Pre-Formation topics.

ORGANIZATION	Robin Hood Ventures: robinhoodventures.com		
STRUCTURE Network	YEAR FOUNDED 1999	NUMBER OF MEMBERS Ask	LEADERSHIP Ellen Weber: Paid, full-time, professional manager
FOUNDERS	Ellen Weber (and colleagues)		
PROFILE	We invest in early-stage, high-growth startups, en route to building great companies. Investments generally range from \$250,000 to \$1 million, and we syndicate with venture capitalists, institutions, and other angels in our network.		

Foundation Story

Robin Hood Ventures was one of the early Angel Groups in the United States. Ellen and her co-founders had been attending local angel forums where they could learn about deals, but then it was difficult to actually see the process through to an investment. Deals would often fall through from lack of any organized process. The founders of Robin Hood wanted to start a professionally run organization with a focus on getting deals done.

Ellen came at this challenge with an extensive background in organization design, experience organizing large meetings and events, and a passion for startups. Robin Hood’s founding team of 4 had an effective mix of angel investing, deal making, networking, and administration. The initial membership was only 13 people and was focused on primarily social events to better understand what the group wanted “to be.”

Top Tips from Ellen

- ✓ Create and document your processes - document from the very beginning - create your group’s “Play Book” - Administrators guide
- ✓ Think about what tools do we need to execute and invest in the right tools from the beginning - Pick a platform and use it
- ✓ Understand the DNA of YOUR group - Our group was founded by fiercely independent professionals who wanted full control of the screening, diligence and investment decision-making process
- ✓ Join the ACA Leaders Call once a month!
- ✓ Don’t forget about new member education - I recommend education options from the Angel Capital Association and Seraf’s blog

ORGANIZATION	Commune Angels: communeangels.com		
STRUCTURE	YEAR FOUNDED	NUMBER OF MEMBERS	LEADERSHIP
Network	2020-Check This	Ask	Volunteer Led
FOUNDERS	Dawn Batts, Ph.D. dawn@communeangels.com Marlo Rencher, Ph.D. Marlo@techtowndetroit.org Not interviewed: Terrence J.L. Reeves, Jeff Ponders II, Darren R. Riley		
PROFILE	We focus on pre-seed and seed-stage investments, nationally. We back founders from all backgrounds, identities, and walks of life who are building extraordinary companies. The group is hyper focused on inclusivity - in terms of both the types of companies and founders they investment in, and also the profile of the group's members.		

Foundation Story

Dawn and Marlo first started Detroit Regional Angels to address the lack of funding for black, brown, and female entrepreneurs in the Detroit area. Dawn and Marlo both hold MBAs from the University of Michigan and PhDs from Wayne State. The co-founders leveraged their professional and entrepreneurial backgrounds to found the initial angel organization.

According to Dawn Batts, "We were great at creating the structure of an angel organization and the processes for how we would operate, but we did not have the network to grow the membership."

In order to meet this need, the two founders of Detroit Regional Angels joined forces with the original founders of Commune Angels. The Commune founding team were a networking and marketing force - but lacked the structure and organization that Dawn and Marlo had created for their organization. Together they were the perfect angel organization.

Commune Angel's focus is on intentional inclusion

- ✓ ALL are welcome
- ✓ Work hard to make everyone feel welcome
- ✓ There are no stupid questions
- ✓ Invest across the United States

Top Tips from Dawn & Marlo

- ✓ Forming an angel organization is an evolution, don't be afraid to get started
- ✓ What makes sense in the beginning probably won't work after 10 years
- ✓ It takes a lot of time and effort to put together the infrastructure - more than you think!
- ✓ Make sure you really understand the economics of your angel organization - what are the costs of operation? How will your group generate enough income to meet the expenses.
- ✓ Think about how you will train and educate volunteers and new members.
- ✓ We've been successful at using local business students as interns
- ✓ As your group evolves so will your processes and procedures. At first most of our members were not experienced angel investors - they weren't "ready" to perform due diligence, structure deals, make investment decisions - therefore, the core investing activities were done by a committee. Now we have more active and experienced members and they volunteer to be part of deal-making process.

ORGANIZATION	Thrive Investment Partners: tiphouston.com		
STRUCTURE Network, likely to invest together through SPVs	YEAR FOUNDED	NUMBER OF MEMBERS Goal of growing to 25	LEADERSHIP Volunteer Led
FOUNDERS	Amanda Johnson amanda@blakeseed.com		
PROFILE	Thrive Investment Partners (TIP) is female-led investment group. We collaborate to enhance our financial wisdom and co-invest to build strong returns through various asset classes. Our primary goal is to increase women’s financial confidence. We are committed to leveraging our female perspective and talent through shared financial learning and active participation in investing.		

Foundation Story

Amanda Johnson created the concept for Thrive Investment Partners right before the COVID19 pandemic and the organization is looking to make their first investments in 2023. Amanda is an experienced, independent investor, and has dabbled as an angel group member, but never found the “right fit” when it came to existing angel groups in her geographic region of Houston, Texas. With Thrive Investment, she has taken a deliberate path to building an angel network that is aligned with her values and goals.

According to Amanda, “Doing diligence by myself was time consuming and overwhelming, but the angel groups that I was finding were very conservative and not a good fit. So in the end I decided to start my own group.”

Thrive Investment Partners is unique because we are female led with a diverse table of women in age, background and expertise and we serve as our own investment committee to build wisdom and returns. .

Top Tips from Amanda

- ✓ ACA was my best resource during the last few years - read everything on their website, and join the monthly operators call
- ✓ The arena of angel investing is rapidly changing, it’s hard to keep up-it’s important to keep networking to stay on top of the changes
- ✓ Technology platforms can really help with administration of angel organizations, do your research and pick the ones/one that meets your needs best
- ✓ I should really delegate more it’s been much harder and way more work than I had anticipated
- ✓ Take baby steps - you cannot do it all at once.

201 ABOUT OUR ANGEL ORGANIZATION

Welcome to Section 200 of the Angel Box Basics toolkit: Organization Nuts and Bolts. This section will expand upon the topics presented in Section 100 and will provide you with even more details on how to establish your own angel group organization. The majority of Section 200 consists of outlining the tips and tricks you need by referencing the relevant documents sorted by topic. So the best way to approach this section is to begin to gather the information you need topic-by-topic, so you have the correct building blocks in place for your own toolkit.

This template presentation is an easy guide to help you capture the main components of the new angel organization. It is similar to an entrepreneur's Pitch Deck, or overview business plan.

OVERVIEW: MY ANGEL ORGANIZATION

Include:

- ✓ **MISSION / VISION STATEMENT:** A few sentences that describe the purpose of your organization. Take a look at some angel websites - many display a simple and clear mission statement.
- ✓ **MEMBERSHIP PROFILE:** Describe the type of members the organization is looking to attract.
- ✓ **INVESTMENT PROFILE:** Brief statement about what types of companies the group invests in

Resources:

- ✓ [102 Angel Organization Mission & Vision](#)
- ✓ [105 Angel Organization Members](#)
- ✓ [103 Angel Organization Investment Profile](#)

Tip: Visit the [Angel Capital Association Member Directory](#) to find Angel Organizations as examples.

ORGANIZATIONAL STRUCTURE

Include:

- ✓ Basic organizational structure: network, fund, hybrid
- ✓ Leadership structure: profile of the organization's leadership: volunteer-led or paid manager
- ✓ Legal & tax structure: LLC, Corporation, 501c(3), non-profit, tax-exempt, for profit

Resources:

- ✓ [104 Angel Organization Leadership](#)
- ✓ [106 Angel Organization Structures](#)
- ✓ [204 Legal / Tax Structure Overview](#)

INVESTMENT CRITERIA & STRUCTURE

Include:

- ✓ Description of the organization's investment profile: what types of companies, what stage, does the organization lead deals or require lead investors
- ✓ Describe the ways your members will invest in the deals: as individuals, through Special Purpose Vehicles, or through a Fund

Resources:

- ✓ [103 Angel Organization Investment Profile](#)
- ✓ [107 Angel Organization Investment Vehicles](#)

MEMBERSHIP

Include:

- ✓ Requirements of membership: location, experience, affiliation
- ✓ Types of membership levels: Only accredited investors, or also organizations, or students?
- ✓ Benefits of membership: Why should someone join THIS angel organization?

Resources:

- ✓ [105 Angel Organization Members](#)

NEW MEMBER PROCESS

Include:

- ✓ How to apply - what is the process?
- ✓ Membership expectations: fees, volunteer commitments, \$ invested per year

Resources:

- ✓ [202 New Member Application Process](#)
- ✓ [203S_SampleMembershipApplication.pdf](#) provided by Maine Angels
- ✓ [208 Revenue Model - Fees](#)
- ✓ [203 Membership Agreement](#)

INVESTMENT PROCESS

Include:

- ✓ Describe the organization's process for attracting, screening, conducting due diligence, and executing investment deals
- ✓ How can members learn more about companies that are seeking capital? Will you use a deal flow platform? If so, which one?
- ✓ Determine the when, where, and timing of the group's meetings

Resources:

- ✓ [206 Roles, Responsibilities & Tasks](#)
- ✓ [207 The Angel Organization Meeting](#)
- ✓ [209 Angel Organization Tools](#)

202 NEW MEMBER APPLICATION

New Angel Organizations, particularly Angel Networks, need to think about their process for screening and admitting new members. No one process is right for all angel networks. It's important to match your membership application process with the organization's mission and goals.

BASIC STAGES OF ADMITTING NEW MEMBERS:



Most Angel Networks have the above basic new member process flow, however, how each step is executed can vary greatly depending on the size and complexity of the organization.

SMALL NETWORKS WITH FOCUSED MEMBERSHIP CRITERIA

Highly personal
Low formality
Low paperwork

1. New members are typically identified/recommended by current members based on an existing relationship
2. Organization's leader meets with and interviews all prospective members
3. Prospective member attends a meeting as a guest
4. Current members discuss and determine if there is a fit
5. Accepted new member signs a membership agreement

LARGE NETWORK

Less personal
Multiple Steps
Significant paperwork
Formal process

1. Prospective members can be recommended or can apply independently from the organization's website
2. Member fills out application
3. Membership committee screens applications
4. The prospective member is required to attend a meeting as a guest
5. All current members vote on admitting a prospective member
6. Accepted new member signs a membership agreement

New Member Identification (Examples)

- ✓ Referrals by current members are the most common way new members come to join angel groups. This process is obviously slow, time-consuming, and difficult to automate. This is an absolutely essential step in growing a new angel network - so it can be helpful to consider early members who have a strong network and enjoy recruiting.
- ✓ Online presence - it's no surprise that an Angel Network needs an online presence- this should include: Website and LinkedIn Profile
- ✓ Ecosystem event participation is a great way to build awareness for angel networks.
- ✓ Some groups require that new members must be "sponsored" by an existing member. This can help ensure new members are a good fit for the organization, however, it can also hamper growth and keep groups rather homogenous
- ✓ Word of Caution: Some Angel investors are very private about their "accredited investor status" and are not interested in recruiting, or being publicly identified as an angel investor or member of an angel organization. It's important to respect member privacy.

New Member Screening (Examples)

- ✓ 1:1 meeting with group leader
- ✓ Self-screening should be encouraged through early and clear communication about accredited investor status, member expectations, time commitment requirements, investment amount requirements, and participation requirements
- ✓ Review [203S_SampleMembershipApplication.pdf](#) provided by Maine Angels
- ✓ Sponsorship by current member
- ✓ Creation of a screening committee - a group of a few members who review new member applications and have meetings with prospective new members
- ✓ Prospective members are required to attend a meeting as a guest

Decision Process (Examples)

- ✓ Determination of the most appropriate type of new member for the organization - for example - supporting organization member, leading member, active investor member
- ✓ Organization leader(s) make final decision
- ✓ Membership Committee makes final decision
- ✓ All current members are informed of new applications and can veto new members
- ✓ All members vote to elect a new member

Paperwork & Welcome (Examples)

- ✓ Review [203S MembershipSummaryAndApplication.pdf](#) and [203S CodeOfConduct.pdf](#) provided by Queen City Angels
- ✓ The organization's expectations, norms and code of conduct are clearly communicated
- ✓ New members attend a new member orientation
- ✓ New members are introduced to a member "buddy" to help facilitate quicker learning and increase involvement
- ✓ New members are encouraged to attend training such as that provided by the Angel Capital Association



203 MEMBERSHIP AGREEMENT

SECTION
02

A Membership Agreement is a formal document that all new members sign to join the Angel organization.

Depending on the organization's new member process, the membership agreement could come in many different forms. However, throughout the screening process, it is important to capture a variety of importation and agreements from new members. This could be done in a series of documents throughout the new member process or with one comprehensive document.

[Document 203S Sample Membership Agreement](#) provided by Maine Angels, provides an example of a membership agreement from an active angel organization.

Below is an overview of the different components of a comprehensive membership agreement. The Angel Capital Association strongly recommends and encourages organizations to seek professional legal counsel when creating this foundational document.

Accredited Investor Status & Representations

- ✓ Clearly define current accredited investor definition
- ✓ Require that members self-affirm their accredited investor status
- ✓ All members represent that they have such knowledge and experience in financial and business matters to be capable of evaluating the relative merits and risks of any investment
- ✓ Acknowledge that the organization is not a venture fund, investment bank, broker-dealer, investment adviser or similar
- ✓ Members understand that the organization's meetings are not offers to sell or a solicitation to buy any security by the organization or any other entity

Member Expectations

- ✓ Expected level of participation, for example: attend at least 50% of meetings
- ✓ Specify an annual investment amount
- ✓ Pay annual membership fee
- ✓ Participating in group activities such as: ecosystem events, committees, due diligence activity, leading deals

Indemnification/Disclaimer

- ✓ The organization does not endorse or recommend any investment opportunity and makes no independent investigation to verify information provided by companies
- ✓ Angel Organization and its representatives are not responsible or liable for any investment decision made by a member
- ✓ The use of any information communicated or compiled by the organization is at the personal choice and risk of the member
- ✓ Agree not to initiate legal action against the organization for any losses, etc. associated with the member's participation in the organization

Member Code of Conduct

- ✓ Professional conduct at all times
- ✓ Non-solicitation of members for business
- ✓ Will not negotiate what are commonly referred to as "side deals" or "backroom deals" with any entrepreneur or company under consideration for investment.
- ✓ View the example of a Member Code of Conduct statement, [203S CodeOfConduct.pdf](#) provided by Queen City Angels

Confidentiality & Conflicts

- ✓ Notification of any potential conflicts of interest - such as personal, professional, and or financial relationships with presenting companies
- ✓ Keep confidential member information
- ✓ Keep confidential company information from due diligence, etc.
- ✓ Keep privacy of other members and not provide their name to any third party without their permission.

204 LEGAL & TAX STRUCTURES

SECTION
02

Multiple different types of legal structures can work for angel organizations. The preferred structure will depend on your group's desired complexity and level of member involvement, as well as appropriateness for your community. Some small angel organizations choose to operate in the beginning as an Affiliation without Formal Structure, especially those with less than 15 members. However, the information contained in this chapter is targeted at angel organizations looking to create more formal and lasting structures.

In addition, with the increased complexity and resources available for angel organizations it makes more sense to create a formal legal structure from the beginning. For example, it's much easier to open a bank account, create a website, receive member dues, and purchase necessary technology tools when the organization is a legal entity.

The first important concept to understand is that Legal Structure and Tax Structure are not the same thing, and that it is important to consider both when forming your angel organization.

For example: A common structure for an angel network is a non-profit corporation, that is not tax exempt.

[**The 2004 Angel Investment Groups, Networks, and Funds: A Guidebook to Developing the Right Angel Organization for Your Community, By Susan L. Preston & Published by Kaufmann Foundation**](#) provides a good overview of different legal and tax structures.

The term "nonprofit" generally refers to a corporation formed under a state nonprofit corporation statute. Typically, nonprofit organizations are either mutual benefit entities, such as private clubs, which exist for the benefit of their members, or public-benefit entities, such as community food banks, which exist for the public benefit. States generally have one statute that governs for-profit corporations and another that governs nonprofits. Thus, state law determines the nature of the entity to be formed and governs its day-to-day operations.

Therefore, determining the best Legal and Tax structure is a bit of a "mix-and-match" process that can be affected by many things including, State law, membership size and complexity, and the organization's goals.

According to the ACA's Member Database, as of September 2022, 83% of ACA member angel organizations do not have a not-for-profit tax status, while 9% have 501(c)3 and 8% have 501(c)6.

EXAMPLES OF LEGAL STRUCTURES CHOICES

- ✓ Non-profit Corporation
- ✓ Non-profit Mutual Benefit Corporation
- ✓ Non-profit Limited Liability Company
- ✓ Traditional Limited Liability Company
- ✓ State Law Corporation

EXAMPLES OF FEDERAL TAX STRUCTURES CHOICES

- ✓ Non-exempt
- ✓ 501(c)(3)
- ✓ 501(c)(6)
- ✓ C or S corporation for federal income tax purposes
- ✓ Partnership for federal income tax purposes

There are a number of different types of entities under state law you can form, such as a corporation or a limited liability company. There are also many types of corporations, including non-profit corporations, for-profit corporations, social purpose corporation, public benefit corporations, flexible purpose corporations, etc.

Limited Liability Company

The standard "LLC" is a very common legal entity for angel organizations. They are simple, adaptable, and relatively inexpensive to create and manage.

Corporation

There are many different types of corporations, including stock corporations, non-stock corporations, non-profit corporations, for-profit corporations, mutual benefit corporations, social purposes corporations, flexible benefit corporations, etc., all depending on where you decide to incorporate your corporation.

Public Benefit Corporation and Similar Type Corporations

A public benefit corporation (PBC) is a form of for-profit corporation that can also pursue things other than purely maximizing shareholder value, such as a public benefit like promoting worker welfare or cleaning up the environment. Unlike a nonprofit organization, a PBC is still a for-profit corporation, just like a limited liability company (LLC) or C corporation. Tax filing and requirements are similar to a traditional corporation without the complexity associated with tax-exempt status. Different states refer to these types of entities by a number of different names. For example, in Washington they are referred to as Social Purpose Organizations and in California they are referred to as flexible purpose corporations.

Tax Status

Your organization's federal income tax status will depend on what type of state law entity you formed, the default tax classification for the entity under federal income tax law, and whether you made any special tax elections (such as an election by an LLC to be taxed as a corporation, or an election by a corporation to be taxed as an S corporation).

A state law limited liability company can have 4 different federal income tax classifications: (i) a disregarded entity; (ii) a partnership; (iii) a C corporation; or (iv) an S corporation.

A 501(c)(3) is a nonprofit organization typically created for religious, charitable, educational, scientific, and/or educational intent. They are tax-exempt for federal income tax purposes, have to file annual tax returns on Form 990 or lose their tax exempt status, and are subject to a variety of limitations on their political activity. Donations to 501(c)(3) organizations are tax-deductible.

501(c)(6) of the Internal Revenue Code provides for the exemption of business leagues, chambers of commerce, real estate boards, boards of trade and professional football leagues, which are not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual. Donations to 501(c)(6) organizations are not tax deductible. [More about 501\(c\)\(6\) from IRS.gov.](#)

Things to consider for Angel Organizations considering applying for a tax exempt status:

- ✓ Tax-exempt status must be applied for through the IRS and various requirements and reporting must be met on a continuous basis
- ✓ Can work for angel networks where members make individual investments and the organization's focus is on educating members
- ✓ Cannot work if the organization itself is making investments, or its members
- ✓ 501(c)(6) status allows groups to participate in political and lobbying activities
- ✓ The organization can form a non-profit, tax-exempt structure for operating the group, while creating a separate or multiple entities for actually making investments - such as an SPV (Special Purpose Vehicle)

205 ORGANIZATIONAL DOCUMENTS AND AGREEMENTS

SECTION
02

Once you have decided on what type of entity to form for your angel group, you will need to actually form the entity under state law and then have prepared and executed the organizational documents for the new entity.

Depending on the structure of the organization you'll need to work with a lawyer to draft formal organizational documents. The Angel Capital Association strongly recommends and encourages angel organizations to utilize professional legal counsel when creating and setting up your legal entity.

We've gathered several examples of various formation documents that you might need.

Examples:

- ✓ [205S_ArticlesOfIncorporation.pdf](#) provided by Tech Coast Angels, Inc.
- ✓ [205S_Bylaws.pdf](#) provided by Maine Angels
- ✓ [205S_LLCAgreement.pdf](#) provided by Next Wave US Impact GP, LLC



206 ROLES, RESPONSIBILITIES & TASKS

During the organizational formation process it's easy to forget about all the work that it will take to operate the group post-formation. The following chapter provides a starting point for building an awareness of the many activities that need to be accomplished on an ongoing basis. It is important to point out that who conducts each of these activities varies greatly by each angel organization and often changes over time.

At the beginning of an organization's existence, for example, the organization might rely heavily on founders/volunteers with much of the responsibility falling on individual members. However, as the organization evolves, increases in size, and has a larger budget, more of the activities can be taken over by paid professionals and/or administrators.

The Sample Roles, Responsibilities & Tasks shown below provides contrasting examples of how an angel organization could function.

SAMPLE ROLES, RESPONSIBILITIES, TASKS

Below are three basic examples of how an angel group organization can function. There is no "one right way" to organize your group, these are just illustrative examples to provide insight into how different organizations could operate.

Description of Three Sample Organization

	A NEW & LESS EXPERIENCED FIRST 1-2 YEARS OF INVESTING	B INDIVIDUALISTIC LESS THAN 5 YEARS	C ESTABLISHED & EXPERIENCED ESTABLISHED 5+ YEARS
# OF MEMBERS	<15	Under 50	100+
GROUP DNA	New to angel investing, prefer group support	Highly individual	Large cohort of experienced angel investors
INVESTMENT STRUCTURE	Members invest together through a SPV for each deal	Members invest as individuals	Organization has a Fund, but members can also invest individually

ADMINISTRATION OF THE ORGANIZATION

<p>A NEW & LESS EXPERIENCED</p>	<p>B INDIVIDUALISTIC</p>	<p>C ESTABLISHED & EXPERIENCED</p>
<p>Organizational administration often relies heavily on the group founder(s) in the beginning. While the organization is less complex, it is important to not underestimate the amount of time and effort required to managed an angel organization. New organization leaders often spend a lot of time:</p> <ul style="list-style-type: none"> • Organizing group meetings • Communicating and adjusting group processes and procedures • Researching potential resources, platforms, angel group norms • Managing projects and activities performed by contractors (Legal for example) • Managing volunteer members 	<p>Ideally by now the organization has grown beyond the initial founder(s) and has an active group of members that administer the organization.</p> <ul style="list-style-type: none"> • Established leadership team such as an Executive Committee or Board - heavily reliant on “core” group of members • Unlikely to have paid staff yet or if so very limited • Passionate members take on areas of expertise - such as financials, marketing, etc. 	<p>The organization is now significantly more complex with more moving parts and activities to manage. Larger more established groups typically have:</p> <ul style="list-style-type: none"> • Volunteer Executive Committee or Board of Directors provides oversight, creates policies, manages resources • Hired administrator executes • Established ongoing relationship with external services providers: accountants, legal • Individual members volunteer for pre-defined roles

MEMBERSHIP

<p>A NEW & LESS EXPERIENCED</p>	<p>B INDIVIDUALISTIC</p>	<p>C ESTABLISHED & EXPERIENCED</p>
<ul style="list-style-type: none"> • Founder meets individually with all new potential members • Founder and all members approve all new members • New members become a part of a small, tight-knit group that learns and operates together 	<ul style="list-style-type: none"> • New member applications and communication managed by volunteer membership committee • Membership committee reviews applications and make recommendations to entire group • Group members can “veto” new membership applications 	<ul style="list-style-type: none"> • Paid administrator does initial review of new applications and initial communication with interested new members • Administrator hands off completed membership applications to a membership committee to review and admit new members • New members are assigned a member mentor

DEAL SCREENING

A NEW & LESS EXPERIENCED	B INDIVIDUALISTIC	C ESTABLISHED & EXPERIENCED
<ul style="list-style-type: none"> • Founder reviews submitted deals and brings “relevant” opportunities to members at each meeting • Full group discusses top opportunities and determines which or any should move to due diligence 	<ul style="list-style-type: none"> • Deal screening committee is formed by a subgroup of active members • Subcommittee reviews all deals, and selects deals that are invited to present to the full group • Subcommittee communicates with applicants to make sure they are ready • Selected companies present at the organization’s meeting 	<ul style="list-style-type: none"> • Paid administrator does initial review of new applications and initial communication with interested new members • Experienced professional, such as a paid group leader, reviews pre-screened deals

DUE DILIGENCE

A NEW & LESS EXPERIENCED	B INDIVIDUALISTIC	C ESTABLISHED & EXPERIENCED
<ul style="list-style-type: none"> • Usually the same person, or group of people “lead” each deal because there aren’t enough experienced investors to share the load • Due diligence more focused on understanding the deal and opportunity as referred by other investors 	<ul style="list-style-type: none"> • Individual members volunteer to be the “deal lead” and conduct due diligence with a group of interested members • Diligence group may or may not create a “deal document” to share with full group 	<ul style="list-style-type: none"> • Due diligence often led by professional organizational leader with help from volunteer members who are particularly interested or experienced in the deal • Could supplement diligence with student interns from local business school • Fund manager could be part of the diligence process or have it’s own network’s diligence process • Experienced member or paid manager creates a final due diligence packet that can be shared with other angel groups to “syndicate” the deal.

DEAL EXECUTION

A NEW & LESS EXPERIENCED	B INDIVIDUALISTIC	C ESTABLISHED & EXPERIENCED
<ul style="list-style-type: none"> • Founder reviews submitted deals and brings “relevant” opportunities to members at each meeting • Full group discusses top opportunities and determines which or any should move to due diligence 	<ul style="list-style-type: none"> • Deal screening committee is formed by a subgroup of active members • Subcommittee reviews all deals, and selects deals that are invited to present to the full group • Subcommittee communicates with applicants to make sure they are ready • Selected companies present at the organization’s meeting 	<ul style="list-style-type: none"> • Paid administrator does initial review of new applications and initial communication with interested new members • Experienced professional, such as a paid group leader, reviews pre-screened deals

INVESTMENT TRACKING & PORTFOLIO MANAGEMENT

A NEW & LESS EXPERIENCED	B INDIVIDUALISTIC	C ESTABLISHED & EXPERIENCED
<ul style="list-style-type: none"> • Reasonably simple to collect group’s investment data as the members invest together in SPVs. • Founder likely has to collect and submit group data to Angel Capital Association • Founder also likely responsible for SPV reporting • Perhaps a member volunteers to “follow” this deal and report to the membership group to assist the organization’s leader 	<ul style="list-style-type: none"> • Collecting member investment data through the group is rather onerous in this model and the group likely doesn’t have the funds for paid professional help • Volunteer would have to collect individual investment transactions from members • Could be using a deal management platform but requires significant time and knowledge • Most likely investment tracking and portfolio management is left up to the individual member 	<ul style="list-style-type: none"> • Paid administrator does initial review of new applications and initial communication with interested new members



EDUCATION & ECOSYSTEM SUPPORT

A NEW & LESS EXPERIENCED	B INDIVIDUALISTIC	C ESTABLISHED & EXPERIENCED
<ul style="list-style-type: none"> • No formal education or ecosystem support yet • Informal learning among members • Individual members participate in Angel Capital Association face-to-face and virtual events or engage in similar local investor education programs 	<ul style="list-style-type: none"> • Members likely active in the local ecosystem as volunteer mentors, etc • New member training likely still done on an ad hoc basis 	<ul style="list-style-type: none"> • Formalized training plan for new members administered by staff and supplemented by active volunteer members • Process in place on how to engage, train, and educate new members • Organization has created significant personalized educational materials and templates • Paid staff organizes ecosystem events with help of members

Take a few moments to fill in the PDF, **206 Roles, Responsibilities, Tasks**. You can refer back to the samples in this chapter should you have questions. More details and information about creating processes for deal and investment management can be found in Chapters 400 - 404.

ANGEL CAPITAL ASSOCIATION



207 THE ANGEL ORGANIZATION MEETING

SECTION
02

Most Angel Organizations hold monthly member meetings which serve as the primary way members learn about startup companies in their target investment profile. The meetings are a place for all members to gather and discuss the portfolio companies under consideration. What is great about angel investing is that it is a team sport and each member brings their own professional experience and perspective into the meeting dynamic. Below is a template for an angel organization meeting.

SAMPLE ORGANIZATION MEETING OUTLINE

Leadership	<i>Who: Creates the agenda, communicates with guests, sends out invites, manages RSVPs and the venue, runs the technology, creates meeting materials, facilitates the meeting?</i>
Frequency	<i>Monthly / twice a month</i>
Timing	<i>Example: 3rd Friday of each month</i>
Format	<i>Virtual / In person / Hybrid</i>
Location	<i>Local meeting room</i>
Length of time	<i>2-4 hours</i>
# of companies to present	<i>Varies, but 1-3 is typical</i>
Networking time	<i>Many groups build in ~ 30 minutes of networking time in the beginning or end of the meeting</i>
Will food be served? If so what, and what is the budget	<i>Coffee, breakfast, lunch, snacks</i>
Require member RSVPs?	
Do members pay to attend meetings?	<i>Generally, annual dues are meant to cover meeting expenses. However, some groups have issues with members RSVPing to attend, buying food, and then having a large percentage of no-shows. This can be a significant drain on the organization.</i>
Do you charge a fee for entrepreneurs to present at the meeting?	<i>It is not typical for Angel organizations to charge entrepreneurs.</i>

SAMPLE MEETING AGENDA

8:15 AM	Arrival, Networking, Coffee & Refreshments
9:00 AM	Meeting begins: Introduction of new members and guests
9:15 AM	Deal Management Report - review of open deals
9:30 AM	Portfolio Review - Update of major events at member portfolio companies
9:45 AM	Company Pitch and Q&A
10:15 AM	Break
10:30 AM	Company Pitch and Q&A
11:00 AM	Open Discussion on Presentations, determination of next steps, identify deal leads, and due diligence next steps
11:30 AM	Formal meeting adjourned
11:30AM	Optional educational session

Take a few moments to fill in the PDF, [207 Our Organization Meeting Outline](#). You can refer back to the sample in this chapter should you have questions. We also recommend that you create your sample meeting agenda. Use the above format to ensure meetings are kept on track and on time.

208 REVENUE MODELS

In order to create and sustain a viable angel organization it is important to develop a strong revenue model to meet the needs of the membership. Even if the organization is going to be volunteer-run, there will be expenses associated with efficient operations. The following are the most common sources of revenue for angel organizations:

1. Membership Fees
2. Sponsorships
3. Events
4. US Economic Development Administration (EDA) Grants
5. Carried Interest (Funds only)

1. Membership Fees

By far the most common way to meet the expenses of an angel organization is through annual fees. A typical annual fee to be a member of an angel organization is \$1,000. The table below is a representation of an organization's annual membership revenue as a factor of the # of members and the value of the annual fee.

NUMBER OF MEMBERS	ANNUAL FEE			
	\$ 499	\$ 1,000	\$ 1,500	\$ 2,000
15	\$ 7,485	\$ 15,000	\$ 22,500	\$ 30,000
25	\$ 12,475	\$ 25,000	\$ 37,500	\$ 50,000
75	\$ 37,425	\$ 75,000	\$ 112,500	\$ 150,000
100	\$ 49,900	\$ 100,000	\$ 150,000	\$ 200,000
150	\$ 74,850	\$ 150,000	\$ 225,000	\$ 300,000
200	\$ 99,800	\$ 200,000	\$ 300,000	\$ 400,000

If the vision of your organization is to be small and focused, then you'll likely need to consider charging a higher annual fee in order to generate enough revenue to sustain operations. Alternatively, as membership numbers increase it is easy to see how some organizations can then afford to have paid staff.

Many angel organizations have tiered membership fees that reflect their different "levels" of membership. For example - some groups have student/education memberships, and organization memberships in addition to the traditional investor membership.

2. Sponsorships

It is possible to generate some additional revenue on top of membership fees by seeking sponsorship funding from local organizations.

Potential sponsor organizations include:

- ✓ Local legal firms
- ✓ Local accounting firms
- ✓ Local tech companies
- ✓ Local banks

3. Events / Other fees

Angel organizations can fund events and programs through charging fees - but please be mindful event revenue likely will not add significantly to ongoing operation costs and take significant volunteer and/or paid labor.

Common events that angel organizations hold include:

- ✓ Regional deal syndication events
- ✓ Business plan competitions / Pitch contests
- ✓ Social events

Some angel organizations can also consider charging fees for normal operating activities to help meet expenses, however, it's likely preferable to use membership fees. For example:

- ✓ Nominal meeting fees to cover facility and food expenses
- ✓ Nominal fee to companies to pitch the group to cover meeting costs / software platform fees. The ACA recommends that angel groups charge entrepreneurs no more than nominal fees

4. EDA Funding Grants

Angel organizations that are designated nonprofits can often qualify for federal grants through the US Economic Development Administration in order to support operating, education, and growth initiatives. The grant opportunities change frequently as new programs come and go. Many grant programs have cash matching requirements, so grant funding requires significant planning and resources. The following is a current example from 2022 of an EDA program that was available to angel networks:

BUILD TO SCALE (B2S) PROGRAM

The U.S. Economic Development Administration has published the FY22 Build to Scale (B2S) Program [Notice of Funding Opportunity](#) making \$45 million in federal funds available to build regional economies through scalable startups. The program continues to further technology-based economic development initiatives that accelerate high quality job growth, create more economic opportunities, and support the next generation of industry leading companies. Under the FY22 B2S program, EDA is soliciting applications for two separate Challenges – the Venture Challenge and Capital Challenge. The Venture Challenge seeks to support entrepreneurship and accelerate scalable companies' growth in communities that are challenging the status quo of markets, commercializing technology, and furthering job creation. The Capital Challenge seeks to increase access to capital in communities, sectors, or regions where risk capital is in short supply. This includes accelerators, educational institutions, angel networks, and investment funds (B2S does not directly fund individuals or individual startups).

For full program details, please visit www.eda.gov/oie/buildtoscale/.

Examples of activities that the grant can support include:

- ✓ expanding the supply and investment of equity-based capital focused on technology startups
- ✓ increasing the number of regional equity investment managers
- ✓ developing dealflow, conducting due diligence, and closing investment deals
- ✓ introducing new equity-based investment opportunities that increase access to capital for entrepreneurs and would-be entrepreneurs
- ✓ CANNOT be used as investment capital

More information: <https://www.eda.gov/funding-opportunities/>

209 ANGEL ORGANIZATION TOOLS

As you begin to form your angel group, there are many tools available to streamline your group's operations, ranging from managing deal flow, tracking investments, and obtaining sound legal advice. Below is a list (not all inclusive) of the tools that might be useful for your group.

CATEGORY	COMPANY	WEBSITE
Deal Management	All Stage	allstageinvest.com
Deal Management	dealum	dealum.com
Deal Management	gust	gust.com
Deal Management	seraf	seraf-investor.com
Deal Management	Startup steroid	startupsteroid.com
Deal Management	Millennium Trust	mtrustcompany.com
Deal Management	Linqto	linqto.com
Law Firms	Foley Hoag	foleyhoag.com
Law Firms	K&L Gates	klgates.com
Law Firms	Fox Rothchild	foxrothchild.com
Law Firms	Morgan Lewis	morganlewis.com
SPV Platform	Allocations	allocations.com
SPV Platform	Carta SPV (Vauban)	vauban.io/angels
SPV Platform	AngelList	angellist.com/syndicates-for-managers
SPV Platform	Sydecar	Sydecar.io
SPV Platform	Smart Capital X	Smartcapitalx.com
SPV Platform	Loon Creek Capital Group	Looncreekcapital.com

Congratulations! You have now completed Section 200. Please take the time to review any concepts you wish and make sure to complete any related chapter worksheets.

300 ABOUT ANGEL FUNDS

SECTION
03

Welcome to Section 300! This section is devoted to providing you with a comprehensive overview of the best practices involved with forming an angel fund. This section is intentionally brief, given the complexities involved with angel fund formation. For more information on this topic, please reach out to the Angel Capital Association and/or seek legal counsel prior to forming an angel fund.

In addition to, or in lieu of, angel organization members making their own investment decisions, some angel groups choose to create an Angel Fund. The basic structure works as follows:

- ✓ Angel group members and affiliates invest in a unique legal entity, “The Fund”
- ✓ “The Fund” then invests the capital in companies
- ✓ Returns come back into the “The Fund”
- ✓ “The Fund” distributes returns to individuals/investors
- ✓ Funds have a designated time period - typically around 10 years
- ✓ Many Angel Organizations raise consecutive funds. Once the initial capital of the Fund has been invested, the angel organization raises a new fund. In this way, the organization is able to continue to invest in new companies.

LIFE-CYCLE OF AN ANGEL FUND

Most angel funds have a lifespan of 10-15 years, not including the time it takes to form the fund. Therefore, it's important to think about the resources needed along that entire time period.

FORMATION: Creating the fund structure, management plan, and soft-circling potential investors, and ultimately raising the fund. This entire process can easily take 1-2 years. Typically, investors in a fund are expected to contribute 1/3 to 1/2 of their investment initially, with the remaining due upon a “capital call.”

YEARS 1-4: Deploying Capital - In the first 2 years the majority of the initial investments are made. The fund will typically reserve a portion of the fund to support follow-on investments in those initial companies. As the fund's capital is deployed, the fund will issue “capital calls” for investors to the remaining capital.

YEARS 5-8: Portfolio Management, initial returns: By this point the fund is making a few last follow-on investments, monitoring the companies, managing any returns, and distributing funds to investors.

YEARS 9+: Harvesting, the last phase of a fund includes actively seeking returns from remaining portfolio companies where possible.

Many angel organizations raise consecutive funds that overlap in time. For example, once the first fund is fully deployed the fund managers begin plans for raising the next fund. In this way, the organization can be “in the market” investing most of the time. Overlapping, consecutive funds take additional resources, as multiple activities are happening across funds during the same time period.

REASONS WHY ANGEL ORGANIZATIONS MIGHT CHOOSE TO FORM A FUND

- ✓ Investments from Angel Funds are generally more attractive to entrepreneurs since the check size is generally larger and the startup only has to communicate with one entity vs. several in the direct investing model.
- ✓ Angel Funds allow members of angel organizations to diversify their angel investment portfolio. Generally speaking, when angels invest in a fund —> the fund then invests in a greater number of companies than if the angel investor would have been able to with direct investments.
- ✓ The angel fund structure makes it easier to fund operations by charging a management fee and/or by compensating a fund manager/team through carried interest - a compensation structure whereby the managers receive a share of the fund's profits.
- ✓ Some angel investors are more comfortable investing through the Fund model where they aren't the sole decision maker. Therefore, angel organizations with a Fund can attract a wider variety and range of new members. Similarly, many new angel group members first invest in an organization's fund, participate in the diligence and deal process, and afterward start making their own direct investments in companies. Funds are a great way for new angel investors to get started.
- ✓ There can be tax advantages to investing through an Angel Fund. Some states have refundable tax credits on investments made by Funds in startups located in the State. For example, **Maine has a Seed Capital Tax Credit** - where qualified investments in Maine companies by Venture Capital Funds can receive up to 40% of their investment back over 4 years in the form of cash from the State.
- ✓ Angel organizations can leverage their member's capital by attracting additional investment from local organizations, such as community banks. In addition, the US Economic Development Administration (EDA) sometimes has grants and programs available to support organizations participating in angel investing. At times, the fund structure can be a better way to utilize these programs. For example, some Angel Funds took advantage of the federal SSBCI - State Small Business Credit Initiative - to leverage individual investment. Example: **Indiana Angel Network Fund III**.

Challenges to consider if you're thinking of forming an Angel Fund

- ✓ There are more steps in the process of forming an Angel Fund vs. an Angel Network. Not only do you have to form the organization itself that will manage the fund, but you'll have to raise the capital for the fund as well.
- ✓ In most cases, you will need a strong track record in order to create and raise an Angel Fund. If you don't have a lot of experience in Angel Investing you will need to find partners who have a track record.
- ✓ Some Angel organizations start out as networks and then add a Fund based on member interest several years after initial formation. In this way, the organization already has a pool of interested investors and a track record to attract additional capital.
- ✓ It is not impossible to start your angel organization as a Fund, but as stated earlier, the founding team will need a strong track record in order to raise the capital for the Fund.
- ✓ There are generally more upfront costs associated with forming an angel fund than a network—mostly in legal fees
- ✓ Depending on the structure of the Fund, as a founding member you may be expected to contribute a significant amount of your own capital into the fund. Learn more about this topic in the next chapter [301 Angel Fund Structures](#)
- ✓ There are additional tasks associated with operating an angel fund as compared to an Angel Network. The Fund has "responsibility" over the capital provided by investors and with this responsibility comes additional work.



301 ANGEL FUND STRUCTURES

SECTION
03

There are several structural considerations that should be considered during the formation of a new Angel Fund. This chapter provides an overview of some of the most important characteristics of common angel fund structures.

RELATIONSHIP WITH AN ANGEL ORGANIZATION

Angel Funds most commonly exist in two forms, Stand-alone Funds or Side Car Funds Associated with an Angel Network

STAND-ALONE ENTITIES. Angel investors can invest their capital into a fund without being affiliated with an angel network. The Angel Fund operates completely autonomously as its own entity.

Example stand-alone funds:

The JumpFund: *Women Investing in Women*

We invest in women-led companies headquartered in the Southeast U.S., specifically in the states of Arkansas, Louisiana, Tennessee, Mississippi, Alabama, Georgia, Florida, South Carolina, North Carolina, Kentucky, and Virginia.

NextWave Impact Fund: *ENGAGE. EDUCATE. INVEST.*

The Next Wave US Impact Fund I will follow a triple-bottom-line model of investing (financial, environmental, social). Companies that aim to improve our health, expand quality educational opportunities, provide clean energy/tech, and develop new models for sustainable food production are examples of the kinds of firms we will seek to invest in with this new fund. Impact does not mean giving up return. In fact, 6 of the 10 companies in the last year's pilot fund would have qualified as impact as we are defining it for the Next Wave US Impact Fund I.

ASSOCIATED WITH AN ANGEL NETWORK/SIDE CAR FUNDS - in this case, the Fund is often referred to as a “Side-Car” fund. The Fund itself is its own legal entity, but it operates in conjunction with the broader Angel Organization/Network. There are many different side-car models, some common examples include:

- ✓ The Fund invests exclusively alongside individual investments by the angel network members. For example, if a company raises at least \$200k from individual members of an angel organization, then the Fund will put in an additional \$100k. In this way, the Fund “piggy-backs” on the diligence activities of the angel organization members. These types of funds tend to be managed by group members rather than having separate fund managers and general partners (more on this below).
- ✓ The Fund invests in deals that the organization’s members are also investing in OR in deals that are syndicated through a “friendly/known/approved” angel organization.
- ✓ The Fund has broader latitude to invest in a wider variety of deals, but the decisions are made by the members of the angel organization or a subcommittee of the angel network.
- ✓ In all cases, much of the decision-making, deal flow, and operations are closely related to the goals and objectives of the related angel organization/network.

Examples of Side Car Funds

Maine Angels

Maine Angels have raised two sidecar funds associated with their angel network.

Entrepreneurs seeking investment apply through Maine Angel’s regular process. Those deals that receive enough interest by members can also be considered by the organization’s Fund for additional investment. Most of the capital in Maine Angel-related funds come from the organization’s members. There is a subcommittee of members who manage the Funds.

Tech Coast Angels

TCA is a major catalyst in helping build the startup ecosystem with its headquarters in Southern California. With more than 425 members and three angel funds, TCA has the wherewithal and financial ability to fund and help start-ups at the seed, bridge and early A-round.

Learn more about these Funds and their basic structure by reviewing samples [301S_FundOverviewSample1.pdf](#) provided by Next Wave, [301S_FundOverviewSample2.pdf](#) provided by Gem State Angel Fund, and [301S_FundOverviewSample3.pdf](#) provided by The Jump Fund.

MANAGEMENT STRUCTURE

In most cases, stand-alone funds are managed by a paid manager/group of managers. While side-car funds, most typically, take a hybrid management approach, with members playing key decisions making roles, supplemented by paid contractors.

Member-managed Funds

With a member-managed fund, the investors make the investment decisions through a voting process. While cumbersome, such a fund does involve all the investors. Maine Angels provided as an example above is member-managed, and for this fund ALL investors in the fund vote on investment decisions. In most cases, member-managed funds are side-car funds raised by and associated with existing angel organizations.

Gem State Angel Fund is another example of a member-managed fund with a detailed and well-thought-out management structure. Document [301S FundOverviewSample2.pdf](#) includes a description of how the Gem State Fund is managed.

Manager-managed Funds

Manager-managed funds are more similar in structure to venture capital funds. The fund is managed by a professional manager or designated group of managers. Decision-making is more centralized to that manager rather than distributed among volunteer angel group members. In this structure, the manager or managing entity is compensated through a management fee and carried interest.

Decision-making is often more straightforward in a manager-managed fund, however, those investing in the fund need to have a high level of confidence in the manager. Manager-managed funds need to have a strong reporting and communication process to build transparency and trust with investors.

PARTNERSHIP/MEMBER STRUCTURE

The angel fund structure allows angel investors to invest in a fund, and the fund then invests in companies. When portfolio companies are successful, for example, when a company is acquired, the proceeds from the sale flow into the fund first. The returns do not flow directly back to investors as in the direct purchase model.

In the fund model, there are different legal structures that grant different rights and responsibilities to those who are investing in a fund.

The most simple structure is where investors purchases units/shares of the fund and are all treated equally. This flat structure grants the same rights per unit purchased to all unit holders. This can be accomplished using a simple LLC agreement. In this case, when the fund receives proceeds from a portfolio company, those proceeds are distributed on a per-unit/share basis to investors.

However, it is currently most common for Angel Funds to follow a similar structure as venture capital funds - where there are different types of shares - using a general partnership structure. Under a general partnership structure, investors in a fund are designated as either general partners or limited partners.

General partners include the individuals who are responsible for raising and managing the fund, while limited partners are those who are only investing capital and do not have any management responsibility.

In the context of an angel fund, the general partner typically contributes a designated amount of the fund, forms the fund, raises the capital, and is involved in the fund operations. The general partner can be an individual or a group of individuals. General partners carry higher risk, but also have the opportunity for higher rewards. The risks to limited partners, the angel investors and/or institutions investing in the fund, are mitigated by the general partners.

The benefit of the general partnership model is that it is easier to provide different preferences in returns when the fund receives capital back from an exit event and/or carried interest.

COMPENSATION STRUCTURE

The Angel fund structure can make it easier to hire and compensate those who operate the fund without relying on annual member dues like Angel networks.

100% VOLUNTEER - A small number of side-car funds that are closely linked to active angel networks operate on a 100% volunteer basis, or at least start out this way. However, angel funds often operate for 10-15 years, and during that time there are important accounting, financial, and reporting tasks that have to happen year after year beyond the initial investment-making decisions. It's important to consider if the volunteers managing a 100% volunteer fund have the skills, experience and time available for the long-term.

MANAGEMENT FEE - A distinct advantage of creating an angel fund is the ability to build in an annual management fee to fund ongoing operations. Management fees are often calculated on a % basis of the size of the fund. For example:

	\$5 MILLION FUND	\$10 MILLION FUND
1% FEE	\$50,000 / year	\$100,000 / year
3% FEE	\$150,000 / year	\$300,000 / year

In this way, a small percentage of the money raised is set aside for fund operating purposes and not invested in companies.

It's common for funds to have a variable management fee percentage that mirrors the workload at different stages of a fund. For example, in the "deployment" years (~the first 3-4 years), the fee might be 3%. This reflects the increased workload during that time of sourcing deals and making investment decisions. Once the fund is fully deployed, the management fee might be reduced to 0.5% as a result of fewer responsibilities during portfolio management.

CARRIED INTEREST - When a fund is organized using the general partnership structure described above, the general partnership can earn additional compensation through carried interest. Carried interest often ranges from 10-30% of the returns, after fund investors receive their initial investment back. Carried interest is figured differently depending on the fund. Deal by deal carry is generally considered beneficial for general partners - since general partners reap profits from profitable deals while ignoring losses. Other carried interest agreements combine losses and gains to determine the bottom-line for profit sharing. There is a lot of flexibility on how carried interest is calculated and this needs to be carefully considered when forming a fund. For example, it's not necessary to compensate all general partners equally. Some funds motivate general partners to lead due diligence and lead deals by allocating a portion of carried interest from that deal to the lead investor.



302 ANGEL FUND OPERATING TASKS

As noted in the previous chapter, the Angel fund model centralizes the activities of the fund. Below is a reference list of Angel Fund Operating Tasks. Your organization should review these tasks carefully and take all factors under consideration prior to launching a new angel fund.

EXAMPLE CORE ACTIVITIES	EXAMPLE RESPONSIBLE PARTY(IES)
<p>DEVELOP AND ALLOCATE THE REPUTATION/ MONEY</p> <ul style="list-style-type: none"> • Promote the firm • Develop and implement policy • Manage investor relationships to raise capital for funds • Review and evaluate recommendations of Managing Partner/ Fund Manager/ Investment Committee • Vote on investments and budgets 	<p>General Partner/ Investment Board</p>
<p>DEVELOP AND MANAGE THE INVESTMENTS/ PROCESS</p> <ul style="list-style-type: none"> • Promoting the firm • Oversee and execute on the operations and processes of the fund • Pipeline generation and deal vetting • Sponsor deals, manage and execute deal due diligence • Portfolio monitoring and interaction • Exit strategy and negotiation • Make investment recommendations 	<p>Principals/ Investment Managers/ Managing Partner/ Fund Manager/ Investment Committee</p>
<p>TRACK AND MANAGE THE MONEY/ DATA</p> <ul style="list-style-type: none"> • Facilitate internal and external data • Management and reporting • Support investor information needs • Provide pipeline tracking • Due diligence coordination • Support strategy development as needed by Principals/Investment Managers/ Managing Partner/Fund Manager/ Investment Committee • Monthly bank reconciliation with accounting software • Monthly reports on fund activities • Create and send quarterly partner capital account reports to LPs • Manage return distribution to investors • Manage K-1 process • Initiate wire transfers for investments as requested 	<p>Bookkeeper/ Analyst/ Fund Administrator</p>
<p>TRACK AND FACILITATE THE PROCESS/PEOPLE</p> <ul style="list-style-type: none"> • Facilitate internal and external administrative tasks and processes at the direction of the Managing Partner/ Fund Manager • Marketing activities, special operational/ events projects 	<p>Administrative Assistant/ Interns</p>

400 ENTREPRENEUR APPLICATION

SECTION
04

Welcome to Section 400! Congratulations for getting through the first three sections. In the past sections, you have learned how to develop a mission/vision for your fund, and were provided with details on angel networks versus angel funds. Now it is time to focus your attention on deal flow mechanics. This section will provide an overview of the various components of Deal and Investment Management. More information on these topics can be found in the [Ann and Bill Payne ACA Angel University courses](#).

New angel organizations need to create a process for sourcing new deals in which to invest. Sourcing deals typically happens in several different ways including,

- ✓ **SYNDICATION** by established angel groups - It's important to develop a relationship with other angel organizations that have similar investing criteria in order to share deals
- ✓ **REFERRALS** by like-minded service providers or organizations in an angel group's geography and/or area of interest. Similarly - getting to know economic development professionals in your area, such as incubators and state-funding programs can improve deal flow
- ✓ **EVENTS** such as regional angel syndication pitches, business plan and pitch competitions and events by startup incubators can provide additional visibility into companies seeking angel funding.
- ✓ In the end, however, most angel organizations need to create a way for entrepreneurs seeking funding to **APPLY DIRECTLY** to the organization.

Tips for creating an effective application for funding

1. Your website needs to have clear instructions - make it easy for entrepreneurs to understand your process and apply directly
2. Align your application with the organization's investment criteria
3. Consider adopting a deal management platform for tracking and managing deal flow

EXAMPLES OF APPLICATIONS

MAINE ANGELS APPLICATION - NETWORK WITH SIDE-CAR FUND

View Application

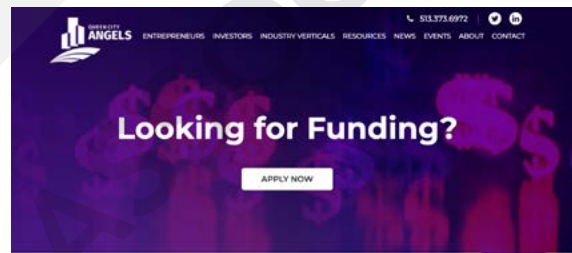
- ✓ Easy to find on the organization’s website
- ✓ Clearly states the organization’s investment criteria
- ✓ Details the process and expectations
- ✓ Describes the materials required for submission
- ✓ Utilizes Gust for application submissions



QUEEN CITY ANGELS

View Application

- ✓ Tab on the Homepage for Entrepreneurs
- ✓ Custom application embedded in the organization’s website
- ✓ Clear investment criteria



Queen City Angels' members are right there with you – for the long run.

At QCA, we understand you have many challenges as a founder... countless milestones to meet, teams to build, validating your value proposition, testing your growth plans, and of course, raising money.

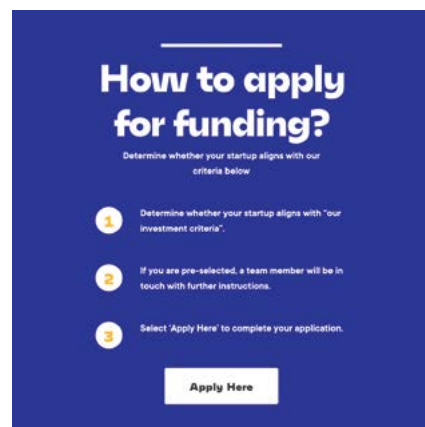
We understand, because many of our members have been where



ANGELES INVESTORS - ANGEL NETWORK

View Application

- ✓ Custom application embedded in the organization’s website
- ✓ Clear investment criteria
- ✓ Straight forward and to the point initial application



401 DEAL FLOW PROCESS

What do you do once you start receiving applications from companies for funding????

GUIDING PRINCIPLES FOR AN EXCELLENT DEAL FLOW PROCESS

- ✓ Remember Angel organizations have two primary customers - members and startups - so when creating a deal flow process make sure you are serving both groups well
- ✓ Companies seeking funding value: clear instructions, simple application, quick turnaround, clear communication of next steps, designated point of contact
- ✓ Members value: access to investable/ready deals, complete applications that provide a good starting point, clear expectations for volunteer-member involvement in the process
- ✓ Optimize online tools, checklists, and any paid staff in order to reduce the burden on member volunteers
- ✓ The process needs to align with your investment criteria and investment model - deal screening looks different depending on how the investments will be made (individuals, SPVs, Fund)
- ✓ Most deal flow processes are aligned with the angel organizations' meeting schedule where a select few companies make a presentation to the group
- ✓ The more clearly the organization can define go/no go criteria for each stage of the deal, the more efficient the process can operate

EXAMPLE DEAL FLOW FUNNEL FOR AN ANGEL ORGANIZATION

1. RECEIVE & SCREEN APPLICATIONS

- ✓ Determine the date when applications will be reviewed for consideration at the upcoming meeting
- ✓ Clearly define characteristics required to invite a company to presentation stage
- ✓ Volunteer or staff screen for completion and match with the organization's investment criteria
- ✓ Quickly eliminate deals that are not a good fit or are incomplete - communicate the reason with the entrepreneur so you don't waste their time
- ✓ Viable applications get screened by the "deal screening committee" and a select few are invited to present at the upcoming members meeting. Most organizations have 1-3 presentations per meeting.
- ✓ Example outcome: 10 applications. 3 invited to present.



2. PRESENTATION AT THE MONTHLY MEMBERS MEETING

- ✓ Determine format of presentations at the meeting - such as 20 minute presentation, followed by 20 minutes of Q&A with the company
- ✓ Build in time during the meeting for group members to discuss the deal after the company leaves and determine next steps
- ✓ Create a policy and process for how to move companies to the next stage and/or decline their application
- ✓ Common questions that members consider at this stage include:
- ✓ Does the deal meet the angel organization's investment criteria?
- ✓ Do any members have expertise in the company's industry?
- ✓ Does there appear to be enough interest by enough members to conduct due diligence?
- ✓ Is there a member who is interested in leading due diligence?
- ✓ Communicate next steps with all companies promptly
- ✓ Feedback is generally appreciated, for both companies that you're moving to the next stage and those that are declined.
- ✓ Example outcome: 3 companies present - two companies go into due diligence



3. DUE DILIGENCE

- ✓ Creating a strong due diligence process can be found in the next chapter in this series: [402 Due Diligence Process](#)
- ✓ The process typically ends when a summary report is written and shared with all interested members of the angel organization
- ✓ In many cases, angel investors make their own individual decisions, however, if your group's structure is a fund or investment together through Special Purpose Vehicles then an additional stage and process is required for making group investment decisions.
- ✓ Example outcome: 2 companies go into due diligence, one company receives investment funds from members



4. DEAL TERMS & STRUCTURING

- ✓ Deal terms are typically a part of the due diligence process as the terms of the investment and prospects of the company are interrelated
- ✓ You can learn more about this step in Chapter [403 Deal Structures & Terms](#)



5. MEMBERS INVEST

Depending on the type of [107 Angel Organization Investment Vehicles](#) companies receive member investment capital through different processes

- ✓ Direct investment from individual members - example process: an individual from the diligence team is elected to organize the interested members and communicate with the company to execute the investments
- ✓ Investment through a Special Purpose Vehicle (SPV) - example process - Organization can pool member investments into one SPV. This simplifies post-investment tracking, but requires additional upfront work by the angel organization to set up. There are new services available for SPV as well as customized assistance by legal advisors.
- ✓ Investment through the organization's fund - more information on angel fund process can be found in the [300 Series Documents](#)



6. ONBOARDING NEW PORTFOLIO COMPANIES, ONGOING TRACKING AND GOVERNANCE

- ✓ Making the initial investment is just the start of the angel investment process!
- ✓ The next three chapters in the series: 402 Due diligence, 403 Deal Structures and Terms and 404-Best Practices for Portfolio Governance are aimed at providing a starting point for these concepts. These concepts are covered in greater detail in the [Ann and Bill Payne ACA Angel University courses](#).

Examples of ways some groups simplify/shorten the deal flow process

- ✓ Strictly defining types of deals the group is willing to consider, such as:
- ✓ Must have a deal lead
- ✓ Must have deal terms
- ✓ Deal stage / industry
- ✓ Max valuation considered
- ✓ Max/min raise size considered
- ✓ Eliminate the once a month presentation requirement during the organization's meeting

402 DUE DILIGENCE PROCESS

A major reason why angel investors decide to join an angel organization is to share the burden of the due diligence process and benefit from the collective knowledge of the organization’s membership. In order to deliver on this expected benefit, it’s important that the angel organization develops a due diligence process that leverages its members and has clear expectations.

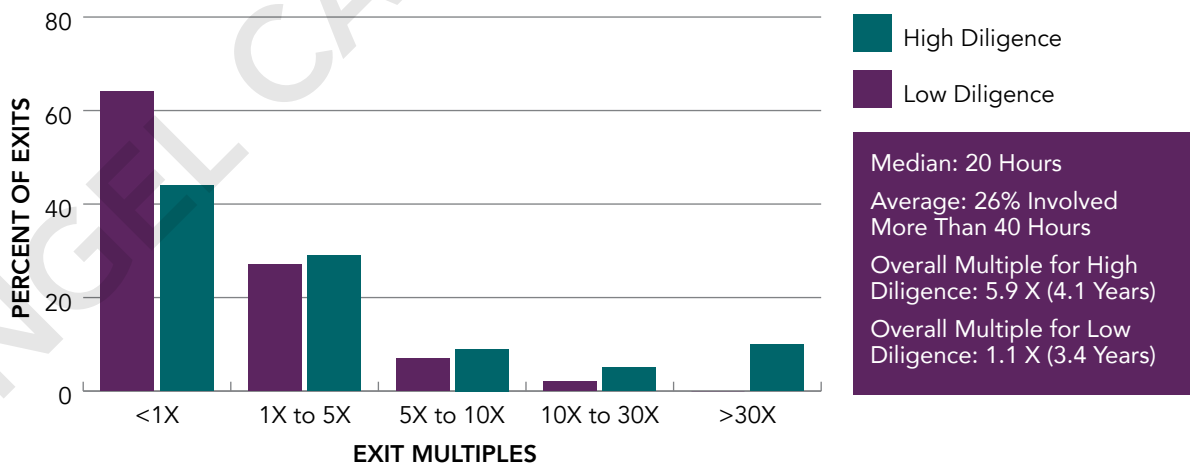
Generally speaking, due diligence starts after a company first applies for funding, goes through the organization’s screening process, presents at a meeting, and is invited into the formal due diligence process.

This is NOT a comprehensive chapter about how angel investors should perform due diligence. The Angel Capital Association, through [Ann and Bill Payne ACA Angel University](#), has an excellent course on how to conduct due diligence. Some of the following materials are from that course. However, the focus of this chapter is to help new angel organizations think about how to create a due diligence process.

Before getting into the process of due diligence at the angel organization level, here are some basics on the Why and What of angel investing due diligence.

WHY DILIGENCE IS IMPORTANT?

- ✓ Diligence is not about removing all risk and eliminating all mistakes
- ✓ Investing at an early stage; there are lots of unknowns, there will be failures
- ✓ Diligence is about spotting the obvious mistakes
- ✓ According to data collected by the Angel Capital Association, a well-executed diligence effort increases angel investment returns



The core of due diligence should be centered around the following three guiding principles:

- ✓ Identify key risks
- ✓ Develop the investment thesis
- ✓ Acknowledge “What Needs to Be Believed” to invest

The following are some thoughts and tips on how a new angel organization can create a process that leverages members to achieve the best results.

Questions to ask early in the process of forming a new angel organization

1. Does the founding group have the experience in the group’s investment profile to conduct due diligence? For example, if the group is focused on med-tech, then it would be natural to have active members with lived experience in med-tech.
2. Are any of the founding members experienced in evaluating angel investment opportunities?
3. Will due diligence be led by volunteer members or paid staff?
4. Are your members already skilled in due diligence or are they completely new to angel investing?
5. Will you rely on due diligence from other organizations or do your own due diligence?

Tips for setting the foundation for effective due diligence

1. Identify members who can lead the due diligence process and train others
2. Create a due diligence process document to share with members
3. Create template documents such as checklists and sample due diligence reports
4. Determine minimum due diligence requirements that are appropriate for the organization’s investment criteria and process
5. Join due diligence treaties/agreements with other angel organizations to share information

SAMPLE MEMBER-VOLUNTEER LED DUE DILIGENCE PROCESS

Step 1: Create a due diligence team

It helps to have a single point of contact for the company and members. Typically, the deal lead has experience in due diligence and is interested in investing in the company. All members who are interested in investing in the company should join in the due diligence process in order to learn and so the group benefits from multiple perspectives. Most organizations set a minimum number of interested members willing to participate in the due diligence process for a company to move forward in the investment process. If there aren't enough members willing to participate in due diligence then it's a good sign that the deal isn't a good fit for the organization.

Step 2: Make a diligence plan

Due diligence team reviews the submitted company materials and creates a list of top concerns and areas of focus. The deal lead should collect questions and concerns from the group in order to focus diligence activities. Typical angel investment diligence focuses on the following big picture areas:

TEAM - Are they an "A" team or a "B" Team?

PRODUCT - Nice to have OR Need to have?

MARKET - Is the market big enough?

RETURN - Is there a model for a 10X return at current deal terms?

Step 3: Deep Dive Meeting

An important part of the diligence process is to spend time with the founding team. As an early step in the process, many groups gather all interested members to meet with team, ask questions, and begin to form a relationship. Most angel investments span 5-10 years so it's important to set the stage for ongoing collaboration early. It's also important to quickly rule out any teams that are difficult to work with. After the deep dive meeting the diligence team should determine next steps and assign areas of focus to continued review.

[Seraf's template Due Diligence Checklist](#) is a helpful tool to use and modify to fit your organization's specific needs.

THE SERAF COMPASS has additional resources for angel education and to improve diligence and angel investing skills.

[Due Diligence Articles](#)

[Due Diligence eBook](#)

[Due Diligence Hardcopy Book](#)

[Due Diligence Tools](#)

Step 4: Diligence report

Many organizations summarize their diligence findings in a [summary diligence report](#). The report acts both as a guide for the process and an overview of the deal. The report can be shared with all interested members.

Step 5: Soft Circle & Close

If your organization's members invest as individuals, once diligence is completed, the deal lead should communicate the findings with the group and send the company a list of invested investors along with their investment amount and contact information. This makes it easier for the company to share the closing process and documentation.

Step 6: Onboarding

Once the deal closes the deal lead or a paid resource at the angel organization should collect core information about the company, deal and members' investments. Deal management platforms and tools can help angel organizations collect and track investments. Please refer to Chapter [209 Angel Organization Tools](#) for more details. By collecting investment data, angel organizations can participate in the [ACA Data Initiative](#) and [Angel Funders Report](#).

It is important to remember that making an angel investment in a startup is only the beginning of a multi-year relationship. Chapter [404 Best Practices for Portfolio Governance](#) is aimed at helping angel organizations work with companies after the initial investment.

403 DEAL STRUCTURES & TERMS

SECTION
04

An important part of the diligence process is making sure that the deal terms are aligned with the investment opportunity in order to increase the likelihood of a successful financial return and provide a balanced structure for overseeing the company and investment over time.

This chapter is not a comprehensive overview of the ins and outs of deal structures. The Angel Capital Association's [Ann and Bill Payne ACA Angel University](#) provides excellent courses on angel deal structures and terms. However, during the formation phase of a new angel organization, it's important to know some basics and understand how the deal structure is related to the operations of the organization.

- ✓ Will the angel organization lead deals or follow lead investors?
- ✓ If your organization prefers to set the deal terms, will this be done with the help of professional staff or advisors or through experienced members?
- ✓ If you plan to follow more experienced lead investors, does the organization have a large enough network of qualified deal leads?
- ✓ If your group doesn't set deal terms, what do you do if a company applies for funding but doesn't yet have a term sheet with a qualified lead?
- ✓ What are the minimum deal terms that your organization will consider, what are the deal breakers?
- ✓ How will the organization educate new members?

DEAL TERM BASICS

Below are general thoughts to consider when determining angel deal structures and terms.

Corporate Structure

- ✓ 99% of companies that have outside investors are either C-Corporations or LLCs (Limited Liability Companies)

Investment Security

- ✓ Typical securities to be familiar with are: common or preferred shares (equity), convertible debt, and SAFEs (Simple Agreement for Future Equity).
- ✓ Each security has pros and cons and specific deal terms that need to be considered

Deal Economics

- ✓ Can we make money on this deal?
- ✓ Deal economics are a function of percent ownership after the capital raise and the companies prospective fundraising needs that could lead to further dilution, market size, and valuation metrics upon a future exit event.
- ✓ % ownership after a capital raise depends on 1) pre-money valuation 2) amount of money raised, including past convertible debt 3) size of the option pool and how/when it is created

Management & Control

- ✓ Will the investors know what's going on, have a say in decisions and control founder behavior?
- ✓ Investors cannot help guide the company forward if they do not know what is going on. And if the management team does not do basic management reporting and tracking, they won't know what is going on either.
- ✓ Does the angel organization have board representation?

Investor Rights & Protection

- ✓ Are investors adequately protected against future dilution?
- ✓ Do you have appropriate information rights so the investors know what's going on at the company?

Exits & Liquidity

- ✓ Will the angel investors participate in any liquidity event?
- ✓ Does the company have any debt and how will it be handled at a liquidation event?

As described above, there are many factors to consider when negotiating Deal Structures and Terms with company founders. The collective strengths and talents of an angel organization can help individual investors wade through this process with group member support.



404 BEST PRACTICES FOR PORTFOLIO GOVERNANCE

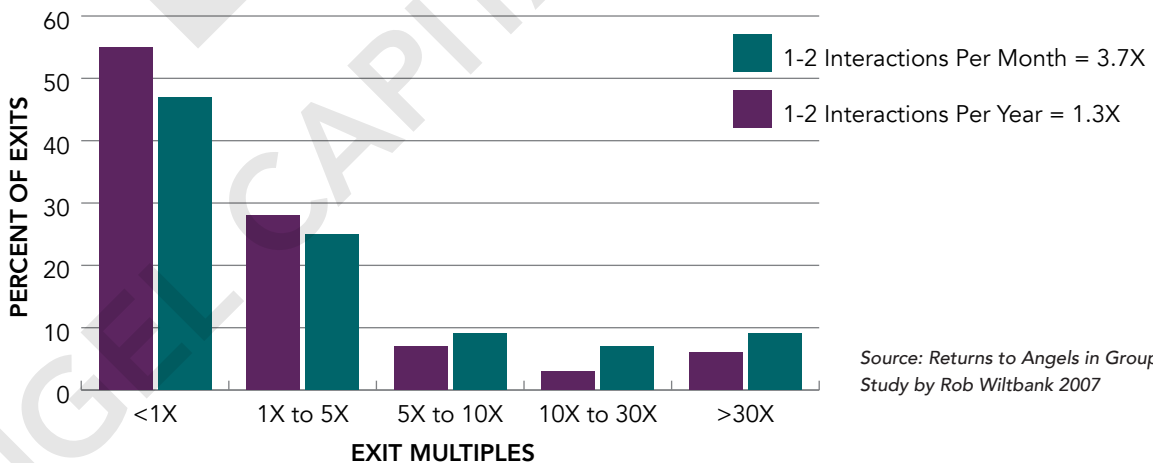
When new angel organizations are formed, there is always a lot of focus on creating a process for attracting, screening, and structuring great deals. However, in reality, an angel organization will spend significantly more time governing the companies that members invest in than it does making the initial investment.

GOOD GOVERNANCE

The ability to make informed, fair, transparent, and accountable decisions efficiently, for the preservation of the company and safeguarding the legitimate interests of shareholders and other key stakeholders, in accordance with the law.

While screening and due diligence happen over a period of 1-2 months, most angel investments take 5-10 years from investment to return. During these years angel investors aren't typically passive shareholders. A key reason that attracts people to angel investing is the ability to create a relationship with a company and its founders. In addition, engagement post-investment is correlated to improved financial returns.

Why Engage with Portfolio Companies



Source: Returns to Angels in Groups Study by Rob Wiltbank 2007



There are many opportunities for angel group members to engage with companies post-investment, including

- ✓ As Board Directors representing investors and contributing via shared governance
- ✓ As advisors – usually a short-term relationship in a defined area of expertise
- ✓ Introductions to potential partners or customers
- ✓ Helping recruit management team members
- ✓ As Mentor – usually a longer-term relationship
- ✓ Introductions to other investors

Setting the stage for great portfolio governance starts from the very beginning of the investor - startup relationship. As an angel organization it's important to clearly communicate very early in the process

EARLY STEPS TOWARD GREAT GOVERNANCE

- ✓ Communicate the organization's philosophy on working with portfolio companies after investment on your website
- ✓ If you have any governance requirements such as board seats, board observation, and/or financial reporting it is best to communicate this during the application and screening process
- ✓ Always including governance requirements in term sheets and deal documents
- ✓ The deal lead during due diligence is the best person to create a foundation for the future post-investment relationship, therefore, deal leads need to understand how to communicate these expectations effectively
- ✓ If the deal lead does not invest in the company, consider asking a member who does invest in the deal to act as the ongoing liaison between the company and angel organization post investment
- ✓ Ensure that companies are reporting financials and progress at least quarterly and consider assigning an angel group member to track down any missing reporting.
- ✓ You will never have more governance leverage than during funding rounds

Formal governance provisions are an important part of the term sheet and deal documents. It is standard for board and information rights to be included in equity deals, however, they are not always covered in deals utilizing convertible notes or SAFEs. When investing through securities other than equity, angel organizations can use “side agreements” to the Note or SAFE to designate governance practices. Examples of good governance provisions to consider:

1. BOARD OF DIRECTORS

- A. Require that startups form a corporate board of directors that is balanced and not 100% controlled by common shareholders /founders
- B. Most startup boards have 3-5 seats
- C. Investor director seat to represent preferred shareholders / investors
- D. Depending on \$ amount invested by the angel organization in total, it could be possible to require a board seat or board observation role
- E. Board observers attend board meetings and receive all materials, but do not have a vote
- F. Require a designated frequency of board meetings - minimum is quarterly.

2. FINANCIAL REPORTING

- A. Minimal recommended reporting should include: Quarterly written management report and financial statements (profit & loss, balance sheet, cashflow)
- B. Other common financial reporting requirements include:
 - i. Annual budget and performance vs. budget
 - ii. Capitalization table
 - iii. Key performance indicators
 - iv. Cash runway
 - v. Annual audited financial statements

The Board of Directors is where angel investors can have the most visibility of and influence over a company’s trajectory.

DEFINITION - Board of Directors: a group of persons elected by the shareholders to jointly govern the affairs of a corporation.

- ✓ The board is the highest authority in a corporation: it delegates operating authority to management.
- ✓ If something goes wrong, it is the responsibility of the board
- ✓ Important tasks include: Never letting the company run out of cash, hiring/firing the CEO, and eventually selling the company.

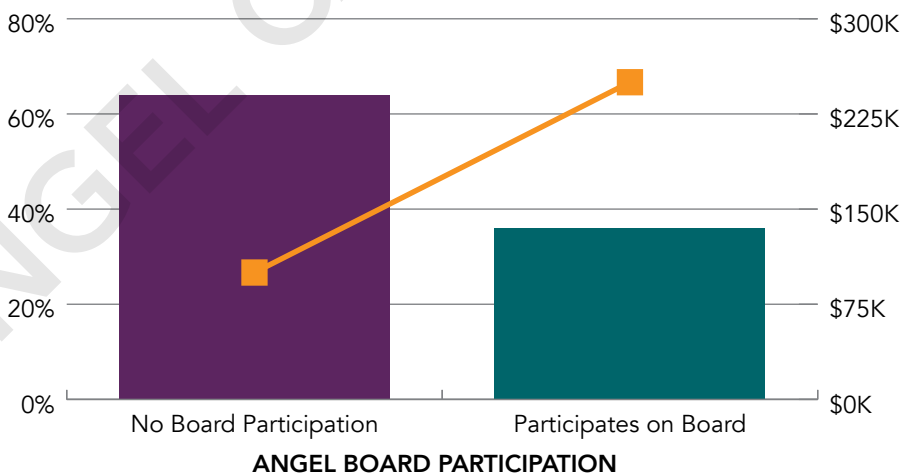
It's not unusual for investors to be represented on a startup's board. If angel investors make up a significant part of the capitalization of the company, that might mean a member from your or another angel organization would be elected as a Board Director.

Investors should want a Board Seat to:

- ✓ Ensure good governance
- ✓ Maximize investment returns
- ✓ Receive up-to-date information to better evaluate follow-ons
- ✓ Help fundraise and avoid bad financing rounds
- ✓ Mobilize angel groups to help company grow
- ✓ Help create and structure exits
- ✓ Guard against becoming a lifestyle company
- ✓ Avoid "asleep at the wheel" sudden shutdown risks

During the early days of a new angel organization, it's likely that members won't have the collective investment capital and experience to receive a board seat or serve as a board director. If that is the case with your organization, it's important to then align with other more experienced groups to ensure good governance.

Board Representation Requires a Larger Capital Contribution



Source: 2020 Angel Funders Report, Angel Capital Association, 2020

Board representation can come from within your angel organization or from a co-investor. Such investor directors are meant to represent ALL investors in the prospective series of capital. The following are some tips on the who and how of investor directors:

- ✓ The angel organization deal lead should ensure board representation is in the term sheet
- ✓ The lead angel organization often nominates the Board candidate but needs agreement from other Class investors and an OK from management. The lead angel group, not the deal lead, selects the candidate.
- ✓ Neither the biggest check writer nor deal lead is necessarily the right Board candidate
- ✓ Board candidates should, ideally, have strong industry knowledge, networks and governance skills
- ✓ Board candidates should be supportive but always objective and able to be tough when necessary
- ✓ Beware of Board candidates who have psychologically joined the management team.
- ✓ Role is to be a coach, not a cheerleader
- ✓ Consider the entire composition of the board when selecting an investor representative - diverse boards are correlated with better financial performance
- ✓ Make sure that prospective board members understand their responsibilities and are covered by Director and Officer insurance.
- ✓ Being a board member is a responsibility not an honor

Congratulations! You have completed all four sections of the Angel Box Basics course. Please review any information you wish to refresh and make sure to complete all the worksheets included as part of this toolkit.



ANGEL CAPITAL ASSOCIATION