A

Angel Screening and Valuation Worksheet

Company ______________________________ Date ____________

Weighted Ranking	Factors and Issues Relevant to the Viability of Pre-Revenue Start-Up Companies for Angel Funding	
0–30% (x3)	**Strength of the Management Team**	
	Impact	*Founder's business experience*
	+++	Experience as a CEO
	++	As a COO, CTO, CFO
	+	As a product manager
	0	Many year's business experience
	−−	Sales person or technologist only
	−−−	Straight out of school
	Impact	*Founder's domain experience*
	++	Successful experience in this space
	+	Experience in directly analagous space
	−	New entrant to this space

(*continued*)

Weighted Ranking	Factors and Issues Relevant to the Viability of Pre-Revenue Start-Up Companies for Angel Funding (*continued*)	
	Impact	*Willingness to step aside, if necessary, for a new CEO*
	++ + 0 −− −−−	Willing Somewhat willing Neutral Somewhat unwilling Unwilling
	Impact	*Is the founder coachable?*
	+ −−−	Yes No
	Impact	*How complete is the management team*
	+++ + 0 − −−	A complete and experienced management team Rather complete team Good start Somewhat incomplete Very incomplete
0–15% (x3)	**Size of the Opportunity**	
	Impact	*Size of the specific market for the company's product or service*
	++ + − −−	>$500,000,000 >$100,000,000 >$50,000,000 <$50,000,000
	Impact	*Potential for revenues in five years*
	++ + −	>$100,000,000 >$50,000,000 <$25,000,000
	Impact	*Strength of competition in this marketplace*
	+ 0 −	Weak Modest (or none) Strong

Weighted Ranking	Factors and Issues Relevant to the Viability of Pre-Revenue Start-Up Companies for Angel Funding (*continued*)	
0–15% (x3)	**Product or Service**	
	Impact	*How well is the product/market defined?*
	+	Clear, focused and succinct
	0	Some definition, needs focus
	−−	Poorly defined
	Impact	*Is the product/service compelling?*
	+	Product is a pain-killer with no side effects
	0	Product is a pain-killer
	−	Produt is a vitamin
	Impact	*What is the path to product acceptance?*
	+	Product is an easily understood and adopted improvement
	0	Product is an innovative approach to a known market
	−	Product defines a new industry or category
	Impact	*Can product/service be easily copied?*
	++	Solid, issued patent protection
	+	Product is unique and protected by trade secrets
	−	Duplicated or replaced with difficulty
	−−	Easily copied
0–10% (x5)	**Impact**	**Sales Channels**
	++	Channels established and moving product
	+	Initial channels verified
	0	Narrowed to one or two channels
	−−	Channel strategy not yet established
0–10% (x5)	**Impact**	**Stage of Business**
	++	Customers generating significant revenue
	+	Positive, verifiable acceptance by beta sites
	0	Product ready to market
	−	Product in prototype
	−−	Only have a plan

(*continued*)

Weighted Ranking	Factors and Issues Relevant to the Viability of Pre-Revenue Start-Up Companies for Angel Funding (*continued*)				
0–5% (x5)	**Impact**	**Size of This Investment Round**			
	+ 0 −−	\$250,000 to \$750,000 \$750,000 to \$1,500,000 Over \$1,500,000			
0–5% (x5)	**Impact**	**Need for Subsequent Funding**			
	+ 0 −−	None Less than \$2,000,000 Over \$10,000,000			
0–5% (x5)	**Impact**	**Quality of Business Plan and Presentation**			
	+ 0 −−−	Excellent OK Poor			
0–2.5% (x2.5)	**Impact**	**Location of znusiness**			
	+ 0 −−	Within driving distance Within the same country Elsewhere			
0–2.5% (x2.5)	**Impact**	**Type of Industry**			
	+ 0 −	Meets investor's specific thesis Scalabe consumer or B-to-B Capital intensive			
	Raw Score		**Intangible (±25%)**		**Final Score**

B

Angel Investment Due Diligence Checklist

Internal Due Diligence Checklist	Investor Analysis
Company Overview	***Team Member Responsible***
■ Articulate the "equity story" here (i.e., why the company is on to something and why its stock will appreciate greatly). Is it compelling? ■ Does the company engage in thorough business planning? ■ Does management have a clear understanding of the challenges it faces and a realistic plan to address them? ■ Are there any skeletons in the company's closet from previous activities (e.g. outstanding liabilities, unassigned IP)?	

(*continued*)

Management Team	***Team Member Responsible***
■ Are all resumes and personal references available? ■ What key strengths does the management team have collectively and individually? ■ What holes are there in the team and how/when might they be filled? ■ Have there been any disgruntled employees and, if so, why? Do these employees cause any tangible risk going forward? ■ What strengths does the Board bring to the company? How might it be augmented? ■ Is there a Board of Advisors, and, if so, how active is it?	
Marketing	***Team Member Responsible***
■ Does the company have a well-defined sense of what its true market is? ■ Is this market sufficiently large and fast-growing to be attractive? ■ Is the company's market generalized or niche? ■ If generalized, does the company stand out from competitors? ■ If niche, will the company dominate sufficiently to either build attractive cash flow or be bought by a larger firm? ■ Is the company the leading firm in its market? Market share? ■ What barriers to entry does the company enjoy? How long-lasting are they?	

Marketing	***Team Member Responsible***
■ Does management understand the key metrics to measure its business and does it track its progress effectively? How do the metrics compare to similar firms? ■ Does the company have a sensible business model?	
Sales	***Team Member Responsible***
■ Do customer reference calls bear out claims management make about demand for their products/services? ■ Is the company pipeline attractive? What is the probability that it will hit its targets? ■ Does the sales strategy make sense? What could be done to improve it? ■ Can the company acquire customers profitably? ■ Is the company's sales cycle better or worse than its competitors and is it attractive?	
Competition	***Team Member Responsible***
■ Does the company know who its competitors are, including indirect competitors? ■ Where does the company stack up versus competitors? Can it win business from them? ■ Has the company focused its business plan narrowly enough to limit its competition? ■ How well-funded is the competition?	

(*continued*)

Product Development	***Team Member Responsible***
■ Is the product a need-to-have, a nice-to-have, or a luxury? Does it solve a critical problem or enable growth (if B2B)/provide entertainment (if B2C)? ■ Describe the customer demand in detail. ■ Has the company proven adept at product development? Does it have an adequate technical team? ■ Did product development flow from perceived (or, better yet, researched) customer demand or from some other impetus? Explain.	
Intellectual Property	***Team Member Responsible***
■ Does the company have an appropriate IP strategy? Explain. ■ Are there any issues relating to patents or intellectual property?	
Production/Operations (HR, Customer Support, Fulfillment, Returns, Distribution Logistics)	***Team Member Responsible***
■ Do the management team and other employees enjoy appropriate incentives to run the company for the long term? ■ Are the interests of management aligned with ours? ■ Are total labor costs appropriate? ■ Does the company have a realistic plan for managing its back office and customer support? Will it be able to handle customer growth while maintaining customer satisfaction?	

Financing Strategy	***Team Member Responsible***
■ Is the valuation attractive? What is the projected times money returned and IRR (if calculable)? Is the risk-adjusted return attractive? ■ Does the company have a thorough plan as to what it will do with our money? Is it sensible? ■ Is the company raising the right amount of money? ■ What financing risk exists in the business plan? How much additional money must they raise and how flexible (in amount and timing) can they be in raising it?	
Financials	***Team Member Responsible***
■ Does the company have a realistic set of projections based on reasonable assumptions? ■ Are the projections bottom-up (good) or top-down (not so good)? ■ Does the company have good operating leverage? ■ Are the margins attractive (absolutely and relative to competitors)? ■ Has the company met, exceeded, or fallen short of its previous budgets? Analyze variances.	
Assets and Property	***Team Member Responsible***
■ Are there any issues here?	

(*continued*)

Customer References	*Team Member Responsible*
■ Write up summary of reference calls. ■ Do customer reference calls bear out claims management make about demand for their products/services? ■ Are there any issues flagged by customers? Does management recognize and admit to (without prompting) these issues?	
Contracts and Agreements	***Team Member Responsible***
■ Review all contracts with legal counsel and flag any issues, risks, or omissions.	
Corporate Documents	***Team Member Responsible***
■ Review all corporate documents with legal counsel and flag any issues, risks or omissions.	
Taxes	***Team Member Responsible***
■ Review company tax situation and analyze effects on cash flow over next several years.	
Insurance	***Team Member Responsible***
■ Assess adequacy of insurance coverage and analyze risk to investment thesis of any insurance gaps.	

C

Gust Convertible Note Term Sheet

TERMS FOR CONVERTIBLE NOTE BRIDGE FINANCING OF NEWCO, INC.
_______, 20__

The following is a summary of the principal terms with respect to the proposed Convertible Note Financing of NewCo, Inc., a Delaware corporation (the "**Company**"). Except for the sections entitled "Expenses" and "No Shop/Confidentiality", such summary of terms does not constitute a legally binding obligation. Any other legally binding obligation will only be made pursuant to definitive agreements to be negotiated and executed by the parties.

Securities to Issue:	Convertible Promissory Notes of the Company (the "**Notes**").
Aggregate Proceeds:	Minimum of $_________ and maximum of $__________ in aggregate, including the conversion of any prior Convertible notes outstanding as of the Closing.
Lenders:	Nice Guy Angels, LLC (the "**Lead Lender**") who will lend a minimum of __________ and other lenders acceptable to the Company and the Lead Lender.

Purchase Price:	Face value.
Interest Rate:	Annual 5% accruing cumulative interest, payable at maturity.
Term:	All principal, together with accrued and unpaid interest under the Notes, is due and payable on the date that is 12 months from the Closing (the "**Maturity Date**"). The Maturity Date may be extended by the consent of holders of the Notes that hold a majority of the aggregate outstanding principal amount of the Notes (a "**Majority Interest**").
Note Priority:	Notes shall be senior to all other indebtedness. All unsecured indebtedness of the Company for borrowed money will be fully subordinated to the prior payment of all principal and interest on the Notes.
Prepayment:	The Notes may not be prepaid without the consent of a Majority Interest.
Conversion:	The "**Conversion Sales Price**" shall be a price per share equal to the lesser of (i) 80% of the lowest price per share paid by any other party purchasing Common or Preferred stock upon a Conversion Event as defined below, and (ii) the price obtained by dividing (x) $____________ (the "**Valuation Cap**") by (y) the number of Fully Diluted Shares outstanding immediately prior to the Conversion Event. "**Fully Diluted Shares**" shall mean the number of shares of Common Stock of the Company outstanding at the applicable time assuming full conversion or exercise of all then outstanding options, options reserved for issuance, warrants and convertible securities (other than the Notes). A "**Conversion Event**" shall mean any one of the following events: (i) *Qualified Financing*. The Company consummates, on or prior to the Maturity Date, an

equity financing pursuant to which it sells shares of a series of its preferred stock ("**Preferred Stock**") with an aggregate sales price of not less than $__________ (excluding all indebtedness other than the Notes that is converted into Preferred Stock in such financing) with the principal purpose of raising capital (a "**Qualified Financing**").

(ii) *Non-Qualified Financing*. The Company consummates, on or prior to the Maturity Date, an equity financing pursuant to which it sells shares of a series of Preferred Stock, which is not a Qualified Financing (a "**Non-Qualified Financing**".)

(iii) *Change of Control*. On or prior to the Maturity Date and prior to the consummation of a Qualified Financing, the Company consummates a change of control or sale transaction of its common stock ("**Common Stock**".)

(iv) *Maturity*. The Company has not consummated a Qualified Financing or a change of control or sale transaction on or prior to the Maturity Date, and the Maturity Date has not been extended by a Majority Interest.

Conversion under (i) shall be automatic. Conversion under (ii)–(iv) shall be at the option of a Majority Interest.

In the event of a Financing conversion described in (i) or (ii) above, the Notes shall convert into a series of Preferred Stock that is identical to the securities issued in the Qualified or Non-Qualified Financing and on the same terms as the other parties purchasing such stock upon the Conversion Event, except that for the purposes of the Notes, the Original Issue Price in such financing shall be the discounted price actually paid per share by the noteholder.

	In the event of a Change of Control conversion described in (iii) above, the Notes shall convert into Common Stock.
	In the event of a Maturity conversion described in (iv) above, the Notes shall convert into non-participating convertible preferred stock with a 1x liquidation preference, customary dividend preference, customary broad-based weighted average anti-dilution protection, and customary protective provisions which will entitle the holder to customary contractual preemptive rights and other customary contractual rights (each as provided in the Seed Series Convertible Preferred model documents maintained at gust.com/seedseries) ("**New Preferred Stock**").
Special Approvals:	So long as a Majority Interest is entitled to elect a Lender Director, the Company will not, without Board approval, which approval must include the affirmative vote of the Lender Director: (i) incur any aggregate indebtedness in excess of $50,000; (ii) make any loan or advance to any person, including employees, subject to customary exceptions; (iii) make any expenditure not in compliance with the annual budget approved by the Board including the Lender Director (other than expenditures within 25% of budget, individually, and in the aggregate); or (iv) approve or enter into any related party transactions (including any amendment of agreements with the founders).
	The Company will not, without the consent of a Majority Interest: (i) approve the voluntary liquidation or dissolution of the Company (or any subsidiary), a sale of all or substantially all of the Company's assets, a merger or

	consolidation of the Company with any other company, or a lease or exclusive license of the Company's assets (each a "**Liquidation Event**") (other than a Liquidation Event in which net proceeds exceed $__________); (ii) authorize, create (by reclassification or otherwise) or issue any new class or series of shares (including in connection with a Qualified Financing) or debt security; or (iii) declare or pay any dividend or distribution or approve any repurchase of capital stock.
Use of Funds:	Proceeds shall be used for general corporate operations, and not for repayment of any existing debt obligations of the Company.
Documentation:	Transaction documents will be drafted by counsel to Lenders.
Financial Information:	All Lenders will receive quarterly financial statements and narrative update reports from management. Lead Lender will receive such information monthly.
Board of Directors:	Following the initial Closing, the Company's board of directors (the "**Board**") shall include one representative designated by the Lead Lender (the "**Lender Director**"), so long as any principal or interest remains outstanding under the Notes.
Expenses:	The Company shall pay the reasonable fees and expenses of a single counsel to the Lenders up to $5,000 if the financing closes. If the financing is not consummated, each party will bear its own legal fees and expense, unless the financing is not consummated by reason of the Company's refusal to proceed, in which case, the Company shall pay the Lenders' out-of-pocket expenses, including legal fees.
Founder/Employees:	Founder(s) and all employees and contractors as of the Closing shall have assigned all relevant IP to the Company and shall have entered

	into nondisclosure, noncompetition, and nonsolicitation agreements in a form reasonably acceptable to Lenders, with such covenants to be applicable during the term of their employment by the Company and for one year after the termination thereof.
No-Shop/ Confidentiality:	The Company agrees to work in good faith expeditiously towards a closing of this note financing (the date the earliest Note is issued shall be the "**Closing**"). The Company and its officers and founders agree that they will not, for a period of 30 days from the date these terms are accepted, take any action to solicit, initiate, encourage or assist the submission of any proposal, negotiation or offer from any person or entity other than the Lenders relating to the sale or issuance, of any of the capital stock of the Company or the acquisition, sale, lease, license or other disposition of the Company or any material part of the stock or assets of the Company, or the execution of any debt instruments of any kind, and shall notify the Lenders promptly of any inquiries by any third parties in regards to the foregoing. The Company will not disclose the terms or existence of this Term Sheet or the fact that negotiations are ongoing to any person other than officers, members of its board of directors, and the Company's accountants and attorneys and other potential Lenders acceptable to the Lead Lender, without the written consent of the Lead Lender.
Expiration:	This Term Sheet expires on ___________, 20__ if not accepted by the Company by that date.

This Term Sheet may be executed in counterparts, which together will constitute one document. Facsimile or digital signatures shall have the same legal effect as original signatures

NEWCO, INC.

____

Name:

Title: Founder and CEO

Date: ______________________

NICE GUY ANGELS,LLC

____

Name:

Title:

Date: ______________________

D

Gust Series Seed Term Sheet

This term sheet for financing early stage companies with investments from sophisticated angel investors was developed by Gust, the platform powering more than 90 percent of the organized angel investment groups in the United States. The goal was to standardize on a single investment structure, eliminate confusion and significantly reduce the costs of negotiating, documenting and closing an early stage seed investment.

For those familiar with early stage angel transactions, this middle-of-the-road approach is founder-friendly and investor-rational, intended to strike a balance between the Series A Model Documents developed by the National Venture Capital Association that have traditionally been used by most American angel groups (which include a 17-page term sheet and 120 pages of supporting documentation covering many low-probability edge cases), and the one-page Series Seed 2.0 Term Sheet developed in 2010 by Ted Wang of Fenwick & West as a contribution to the early stage community (which deferred most investor protections and deal specifics until future financing rounds).

TERMS FOR PRIVATE PLACEMENT OF SEED SERIES PREFERRED STOCK OF [*Insert Company Name*], INC. [Date]

The following is a summary of the principal terms with respect to the proposed Seed Series Preferred Stock financing of ____________, Inc., a [Delaware] corporation (the "***Company***"). Except for the sections entitled "Expenses," "No Shop/Confidentiality," and "Special Terms", such summary of terms does not constitute a legally binding obligation. Any other legally binding obligation will only be made pursuant to definitive agreements to be negotiated and executed by the parties.

> Shares of stock are only applicable to an incorporated company (which means that this term sheet is only applicable to a C Corporation. Angel investments in a Limited Liability Company are more complex, and require a different structure.) Delaware is the favored state of incorporation for U.S. businesses (including more than half of the Fortune 500) because it is considered "corporate-friendly" with well-established case law. While not required either by law or by this term sheet, incorporation of the company in Delaware is strongly advised. Recently, Nevada has developed a similar reputation, and is sometimes used as the incorporation venue for companies based on the West Coast.
>
> This term sheet is, for the most part, "nonbinding", which means that it is used only to document the general meeting of the minds between the two parties, and not to serve as the legal basis for the investment. However, this paragraph makes clear that the three specific sections referenced, "Expenses," "No Shop/Confidentiality," and "Special Terms" (if such a section is included), ARE legally binding, and once this term sheet is signed by both parties, those sections [only] are immediately in force. Therefore, regardless of whether or not the investment is ultimately made, any breach of things such as the confidentiality provisions, or the requirement to pay legal fees, can subject the breaching party to legal action by the other.
>
> Note that the company name should be inserted in both the title and in this paragraph, the state of incorporation should be inserted where indicated, and the brackets should be removed. If there is a Special Terms section added to the document, the brackets around that phrase should be removed, otherwise delete the whole bracketed phrase.

Offering Terms

Securities to Issue: Shares of Seed Series Preferred Stock of the Company (the "***Series Seed***").

In exchange for their financial investment, the investors under this term sheet are acquiring shares of stock in the company. Unlike Common Stock (which is what is usually purchased on the public stock markets), this term sheet specifies Preferred Stock. The difference is that in the case of a sale, liquidation or winding up of the company, the Preferred Stock gets paid back first, before any Common Stock (which is typically what Founders and employees of the company hold.) However, because Preferred Stock gets back ONLY the amount invested, all of the upside goes to the Common Stock holders. For that reason, a subsequent section of this term sheet provides for the option of the investors to convert the Preferred to Common, if such conversion would be in the investors' interest.

Note that the class of stock being purchased in this investment round is named "Series Seed". This is a purely arbitrary name, for reference purposes. Traditionally, a first, relatively small, investment round from angel investors or a seed fund would be called a Series Seed. The first institutional investment round from a venture capital fund would be called a "Series A", with each subsequent round incrementing one letter (Series B, Series C, etc.).

Aggregate Proceeds: Minimum of $________ [and maximum of $__________ in aggregate].

This sets forth how much money the company is planning to raise in this round. Investors typically would not want to fund their commitments until they are sure that the company will receive enough money to be able to achieve its objectives for this round. As such, even if the investors and the company sign the term sheet today, no money will change hands until at least the minimum amount is committed by adding additional commitments from other investors. If the company and investors have agreed upon a maximum amount to be raised, insert it here and remove the brackets. If there is no maximum, delete the bracketed phrase.

Lead Investors: ________________ who will invest a minimum of $________

This sets for the identity of the investor(s) who are signing this term sheet and committing to invest in the company. While other investors may participate in the funding, the primary investor (whether individual, fund, or group) may (but need not) be granted additional rights in the term sheet. The amount here is the minimum amount that the Lead investor(s) are committing to this round, and is distinct from the minimum amount required to consummate the investment.

Price Per Share: $________ (the "***Original Issue Price***"), based on a pre-money valuation of $____, calculated based upon the capitalization of the Company as set forth in Exhibit A inclusive of an available post-closing option pool of 15 percent after receipt of maximum Aggregate Proceeds.

The price that investors will pay for each share of Preferred Stock is calculated on the basis of the other factors noted in the term sheet, as well as the number of shares that the company has authorized (or will do so as part of this round). This price is usually filled in last, with the important number in this paragraph being the "pre-money valuation." This is the amount that the Founders and investors agree that the company is worth as of the date the term sheet is signed, before the investors' money is received by the company.

To make this section absolutely clear for everyone, it refers to Exhibit A to the Term Sheet, which is a Capitalization Table for the company, showing in names and numbers exactly who owns what shares, both before and after the investment.

In the second part of the sentence the parties agree that before the investment happens, the company will set aside extra shares of Common Stock that will be used to attract and compensate future employees. This is known as the "unallocated, post-closing, option pool." The important thing to understand here is that the 15 percent for the option pool is what will exist AFTER the investment, but the calculation is done BEFORE the investment is made. That means all of the shares for the option pool come out of the Founder's shares, not the investors'.

> Here is an example: A founder owns 100 percent of a company. Investors put in $350,000 in exchange for 35 percent ownership. That means the "post money" valuation of the company is $1 million, and the "pre-money" valuation (after subtracting out the $350,000) is $650,000. However, as the term sheet indicates, there needs to be a pool of 15 percent of the stock available for employee options. This means the post-closing Cap Table shown in Exhibit A will show 35 percent for the investors, 15 percent for the option pool, and 50 percent for the Founder.

Dividends: Annual 5 percent accruing cumulative dividend payable when as and if declared, and upon (a) a Redemption or (b) a Liquidation (including a Deemed Liquidation Event) of the Company in which the holders of Series Seed receive less than five times the Original Issue Price per share (the "Cap"). For any other dividends or distributions, participation with Common Stock on an as-converted basis.

> A dividend on Preferred Stock is roughly equivalent to interest on a loan. This paragraph says that investors are entitled to a 5 percent dividend each year on their investment, but that the company's Board decides "when, as, and if" dividend payments are actually made. Since growing companies always need cash, it would be extremely unusual for a Board to declare a dividend payment during the early years. However, "accruing cumulative dividends" means that if the dividends are not paid each year, they continue to accrue until such time as they are.
>
> This paragraph sets out a couple of additional cases where the accrued dividends must be paid: (1) is the highly unusual case in which after seven years (as laid out in a subsequent section) the company is successful but the investors have not been able to get their money out, and therefore require the company to repurchase their stock; and (2) a sale or other winding up of the company … but only in a case where the investors would otherwise receive less than a 5x return.
>
> Finally, the last sentence says that if the Common Stock (usually held by the Founders) gets a dividend, so does the Preferred Stock held by the investors.

Liquidation Preference:	One times the Original Issue Price plus any accrued and unpaid dividends thereon (subject to the "Cap") plus any other declared but unpaid dividends on each share of Series Seed, balance of proceeds paid to Common. A merger, consolidation, reorganization, sale or exclusive license of all or substantially all of the assets or similar transaction in one or a series of related transactions will be treated as a liquidation (a "Deemed Liquidation Event").

> This paragraph says that if the company is converted to cash ("liquidated") whether for happy reasons, such as getting acquired for a billion dollars, or sad ones, such as going out of business and selling the furniture, after paying all of its debts (which always get paid before equity) any remaining money first goes to pay back the amount put in by the investors and then goes to pay the accrued dividends. After that, everything and anything that's left goes to the Common Stockholders (typically the Founders and employees.)
>
> While this sounds good for investors in the sad case, it means that in the happy case, even if the company is sold for a billion dollars, the only money the investors will get back is their original investment plus the 5 percent dividend. That's the reason for the next section: conversion.

Conversion:	Convertible into one share of Common (subject to proportional adjustments for stock splits, stock dividends, and the like, and Broad-Based Weighted Average antidilution protection) at any time at the option of the holder.

> Here's where investors get their return: while Preferred Stock gets paid off first, it doesn't participate in any upside benefits. On the other hand, Common Stock gets a proportional share of any incoming money (such as a from the proceeds of an acquisition), but have to stand in line behind the Preferred. So this paragraph says that investors who hold Preferred Stock can choose at any time to convert it into Common Stock.

> The result is that in a bad scenario (the company is going out of business) the investors stay with Preferred, and get the first money out. But in a good scenario (an acquisition at a high price), they will choose instead to convert to Common, and share in the good things.
>
> The "Broad-Based Weighted Average antidilution protection" means that if the company at some point in the future raises money at a lower valuation than that being used for the current round, the current investors will be partially protected. This provision is a middle-of-the-road industry standard, halfway between the Founder-biased "no antidilution" approach and the Investor-biased "full ratchet antidilution" version.

Voting Rights: Votes together with the Common Stock on all matters on an as-converted basis. Approval of a majority of the Series Seed required to (i) adversely change rights of the Series Seed; (ii) change the authorized number of shares; (iii) authorize a new series of Preferred Stock having rights senior to or on parity with the Series Seed; (iv) create or authorize the creation of any debt security if the Company's aggregate indebtedness would exceed 50 percent of the aggregate proceeds of the Series Seed; (v) redeem or repurchase any shares (other than pursuant to the Company's right of repurchase at original cost); (vi) declare or pay any dividend; (vii) increase in the option pool reserve within two years following the closing; (viii) change the number of directors; or (ix) liquidate or dissolve, including any change of control or Deemed Liquidation Event.

> This is where most of the protective provisions for investors are found. It says that even though investors hold Preferred Stock, when it comes to voting we will treat them as if they had converted to Common Stock, so that everyone who owns stock (founders, investors, et al.) gets to vote together on things requiring Shareholder approval. However, in addition to their voting

alongside every other shareholder, this paragraph provides for a "series vote" on certain issues. That is, even if the Board of Directors and 100 percent of all the other shareholders voted to do something in one of these areas, it wouldn't happen unless a majority of the investors in this round agreed. The subjects requiring a series vote are generally ones that protect the investors from having their rights stripped, or their voting power diluted out of existence, or having the money they just put in go to someone else.

Documentation: Documents will be based on Seed Series Preferred Stock documents published at http:/gust.com/SeriesSeed which will be generated/drafted by Company counsel.

A term sheet lays out the general outline of an investment, but the devil is in the details. Once the Term Sheet is signed and the company and investors proceed to a closing, the lawyers then draft dozens of pages of documentation, including an amended Certificate of Incorporation, a Shareholders' Agreement, an Investors' Rights Agreement, etc. The Gust website has a set of standard, model documents that match the provisions of this term sheet, and make it very easy for an attorney to use them as the basis for his or her work.

While nothing will be signed and finalized until both the parties and their respective attorneys are satisfied, someone has to take the first step in drafting the documents. This paragraph says that the Company's counsel will do so, based on the Gust standard docs.

Financial Information: All Investors will receive annual financial statements and narrative update reports from management. Investors who have invested at least $25,000 ("***Major Investors***") will receive quarterly financial and narrative update reports from management and inspection rights. Management rights letter will be provided to any Investor that requires such a letter. All communications with Investors shall be conducted through Company's secure investor relations deal room on the Gust platform, which Company shall be responsible for maintaining with current, complete and accurate information.

> Because private companies are not required to file any statements with the Securities and Exchange Commission, this section lays out what information the company will be required to provide to its investors so that they are aware of what is happening with their investments. It provides for annual financial and written update reports from the company's management be sent to all investors. In addition, investors who have put in more than $25,000 are entitled to quarterly reports, and also have the right to visit the company on request and see the corporate books and records (subject, of course to confidentiality.)
>
> A Management rights letter is a particular document required by certain venture funds.
>
> To ensure timely communications with investors, the company is required to keep its information updated and current in its Gust deal room, which will greatly enhance both the company's investor relations, and the investors' portfolio management activities.

Participation Right: Major Investors will have the right to participate on a pro rata basis in subsequent issuances of equity securities.

> If the company sells additional stock at any time in the future, this says that each investor has the right (but not the obligation) to participate in such future rounds on the same terms as the new investors, at least up to an amount that will enable them to maintain the same percentage ownership after the new investment that they had before.

Redemption Right: The Series Seed shall be redeemable from funds legally available for distribution at the option of the holders of a majority of the outstanding Series Seed commencing any time after the seventh anniversary of the Closing at a price equal to the Original Purchase Price plus all accrued but unpaid dividends and any other declared and unpaid dividends thereon. Redemption shall occur in three equal annual portions.

> If, after many years, the company ends up as "lifestyle" business, where it is profitable but not likely to ever have an exit, this paragraph gives the investors the right to require the company to buy back their stock for what they paid for it (plus dividends.) The repurchase (known as "redemption") would take place over three years, starting at the investor's option any time after the seventh year.

Board of Directors: Two directors elected by holders of a majority of Common stock, one elected by holders of a majority of Series Seed. Series Seed Director approval required for (i) incurring indebtedness **[exceeding $25,000]** for borrowed money prior to the Company being cash flow positive, (ii) selling, transferring, licensing, pledging or encumbering technology or intellectual property, other than licenses granted in the ordinary course of business, (iii) entering into any material transaction with any founder, officer, director, or key employee of the Company or any affiliate or family member of any of the foregoing, (iv) hiring, firing, or materially changing the compensation of founders or executive officers, (v) changing the principal business of the Company or (vi) entering into any Deemed Liquidation Event that would result in the holders of Series Seed Series receiving less than five times their Original Purchase Price.

> The Board of Directors of a company is in charge of making all major decisions, including hiring/firing the CEO. This paragraph establishes a three-person board, with two of the members appointed by the Common stockholders, and one by the investors in this round.

> While this 2:1 ratio means that the directors appointed by the Common (usually the founder(s) themselves) could always outvote the investor, the term sheet equalizes things by setting forth a number of areas in which not only does a majority of the board have to approve, but the director appointed by the investors must also specifically approve. The $25,000 limit on borrowing is rational for smaller deals, but can be increased for larger ones.

Expenses: Company to reimburse Investors a flat fee of $______ for background check expenses, due diligence and review of transaction documentation by Investors' counsel. Company shall be responsible for expenses related to Company's Gust investor relations deal room.

> Out-of-pocket expenses related to closing an investment are typically picked up by the company out of the investment proceeds. Given no deviation from this standard term sheet, a moderate flat fee for all of the investors' legal work is eminently reasonable, likely much less than the $20,000 or more when a full-scale NVCA term sheet is used. Including the cost of maintaining the company's investor relations site means that investors are assured of always getting up-to-date information in a form that is immediately usable to them.

Future Rights: The Series Seed will be given the same contractual rights (such as registration rights, information rights, rights of first refusal, and tagalong rights) as the first series of Preferred Stock sold to investors on terms similar to, or consistent with, NVCA or other standard documents customary for venture capital investments by institutional investors.

> This is the magic paragraph that ensures investors are protected with all the provisions included in the NVCA Model Documents, assuming that the company does a follow-on investment round with an institutional investor such as a traditional venture fund. It is what allows us to cut 14 pages worth of detail out of this term sheet, compared to the NVCA one.

Founder Matters:	Each founder shall have four years vesting beginning as of the Closing, with 25 percent vesting on the first anniversary of the Closing and the remainder vesting monthly over the following 36 months. Full acceleration upon "Double Trigger." Each Founder shall have assigned all relevant IP to the Company prior to closing and shall have entered into a nondisclosure, noncompetition, and nonsolicitation agreement (to the fullest extent permitted by applicable law), with such noncompetition and nonsolicitation covenants to be applicable during the term of his or her employment by the Company and for one year after the termination thereof. Founders shall be subject to an agreement with the Company pursuant to which the Company shall have a right of first refusal with respect to any proposed transfer of capital stock of the Company at the price offered.

This section provides for what is called "reverse vesting" for the company's founders. Even though they may start out owning 100 percent of the company's stock, this gives the company the right to repurchase the stock owned by the Founder(s) if they leave the company. The terms are the standard 'four year vesting/one year cliff', which means that if the founder leaves within the first year after the investment, the company can reacquire all of his or her stock, and after the one-year anniversary, the remaining stock vests monthly over the next three years. While some Founders initially find this onerous, it is actually *very* much in each of the Founders' best interest, because otherwise one co-founder (say, out of two) could theoretically walk away from the company the day after the closing, and retain nearly half of the equity … something that would be manifestly unfair to the other founder.

The "full acceleration upon Double Trigger" means that if the company is acquired before the four years are up, and the new owners terminate the Founder, all of the remaining stock owned by the Founder immediately vests.

> Other provisions of this section including ensuring that the Founder(s) have fully assigned all of their intellectual property so that it is owned by the company, that they have entered into an employment agreement providing for nondisclosure of confidential information, and that if they leave the company they are restricted for a year from either directly competing with the company, or poaching its employees.
>
> Finally, this section says that if Founders want to sell any of their stock, they are required to first offer it to the company.

No Shop/ Confidentiality: The Company and the founders agree that they will not, for a period of 60 days from the date these terms are accepted, take any action to solicit, initiate, encourage, or assist the submission of any proposal, negotiation, or offer from any person or entity other than the Investors relating to the sale or issuance of any of the capital stock of the Company and shall notify the Investors promptly of any inquiries by any third parties in regards to the foregoing. The Company and the founders will not disclose the terms of this Term Sheet to any person other than officers, members of the Board of Directors, and the Company's accountants and attorneys and other potential Investors acceptable to the Investors, without the written consent of the Investors.

> The idea behind a No Shop provision is that investors do not want to be used as a "straw man" for the purpose of helping the company get a better deal from someone else. So there can be as much discussion as necessary, and as many unsigned drafts of the term sheet exchanged as necessary, but the minute the company signs this term sheet, they are agreeing that for 60 days they won't talk to anyone else about investing, without the investors' approval.

Special Terms: [Deal specific comments/conditions inserted here. Otherwise "None".]

In order to keep the rest of the term sheet absolutely standard and reduce legal and drafting costs, there should be absolutely NO modifications within the text of the other sections of the term sheet. This "Special Terms" section is the one place that anything unusual or specific to this particular investment should go, although the more special terms or modifications there are, the longer it will take to negotiate, and the more the legal fees will cost. Remember that every page in the Term Sheet ultimately translates into ten or more pages of the actual deal documentation, and every new or special provision added requires that the lawyers on both sides write, read and negotiate something non-standard. As a rule of thumb, every time the documents need to go back and forth between the lawyers, it adds approximately $5,000 to the overall legal costs for the transaction.

COMPANY: [__________, INC.]	FOR THE INVESTORS:
____________________________	____________________________
Name: __________________	Name: __________________
Title: ____________________	Title: ____________________
Date: ____________________	Date: ____________________

Since parts of the Term Sheet are legally binding, it should be signed by someone legally able to bind both parties. This would normally be the CEO of the company, and a Lead Investor who is firmly committed to investing in the company on these terms.

This sample term sheet was developed by Gust with the legal support of Lori Smith, Esq. of White and Williams, and extensive comments from the members of the New York Angels Term Sheet Committee including Larry Richenstein, Jeffrey Seltzer, and Mark Schneider. Annotations and commentary copyright © 2013 by David S. Rose.

E

Gust Revenue-Backed Note Term Sheet

Issuer:	*[insert company name]* (the "Company")[1]
Amount of financing:	*[include Min/Max - $0 - $1 million]*[2,3] (the "Financing")
Closing Date:	The Offering will only close if the Minimum Investment Amount is committed by *[insert date—see footnote 3]*
Type of Security:	Unsecured Revenue Backed Promissory Note ("Note")
Investment Amount:	$*[__________]*[4] ("Original Principal Amount")
Maturity Date:	5 years from issuance
Interest Rate:	5% per annum calculated based on a 360-day year, compounding annually

Repayment:	The note shall require payments quarterly within 30 days after the end of each fiscal quarter of the Company in an amount equal to (a) 5 percent of the Gross Revenue of the Company as reported on the Company's regularly prepared financial statements until the Original Principal Amount plus any interest accrued to date is repaid in full, and thereafter in an amount equal to (b) 2.5 percent of the Gross Revenue of the Company until receipt by the Investor of five (5) times the Original Principal Amount, plus all accrued and unpaid interest thereon (the "Obligation Amount"). Any balance of the Obligation Amount outstanding on the Maturity Date shall become immediately due and payable.
Prepayment:	Permitted at any time at the option of the Company, in whole or in part, provided however that the Note shall not be deemed satisfied and repaid in full unless and until the Investor has received 100 percent of the Obligation Amount. Any prepayment must be pro rata among all Notes issues in this Financing.
Use of Proceeds:	*[insert intended use]*[5]
Amendment:	The Notes may not be amended once issued.
Information Rights:	The Company shall provide each Investor with all information required by the JOBS Act of 2012 and the relevant rules issued by the SEC. The Company will (i) file with the SEC annual reports as required by the SEC; (ii) mail each Investor a copy of such annual reports; (iii) make the contents of such annual report available to each Investor electronically through both (a) *[insert name of Funding Portal]* and

	(b) Gust.com, and optionally otherwise make such reports available as permitted by the SEC and applicable laws, rules and regulations. In addition the Company will provide each Investor with a quarterly narrative report from the CEO with an update on the Company's operations and financial condition through one or more of the above means. No other information rights will be provided unless required by law.
Restrictions on Transfer:	Notes issued in the Financing will be subject to a one-year transfer restriction pursuant to the JOBS Act during which time such securities may only be transferred (a) to the Issuer, (b) pursuant to a registered offering, (c) to an Accredited Investor, (d) to certain family members, or in connection with the death or divorce of the Investor or similar circumstances at the discretion of the SEC. Transfers will also be subject to other limitations as the SEC may establish. In connection with any transfer, Investor must notify the Company at least ten (10) days prior to the effective date of such transfer, provide proof that the Transfer is permitted hereunder, and provide the name and address of the Transferee. The Company shall have the absolute right in its sole discretion to refuse to transfer ownership of the Note on its books, and such transfer shall be null and void absent evidence satisfactory to the Company that such transfer is in compliance with all applicable laws.
Events of Default:	The sole events of default shall be (i) nonpayment of any principal and interest when due

hereunder; (ii) bankruptcy, insolvency or otherwise seeking the protection of any creditors' rights statute, or (iii) dissolution, liquidation or complete cessation of business of the Company.

[1]Use of this term sheet is limited to U.S. private companies. The exemption applicable to this offering is not available to foreign companies, issuers already reporting pursuant to Section 13 or 15(d) of the Securities Act, investment companies, and other companies that the SEC determines should be ineligible to use this exemption.

[2]$1 million limitation applies to the aggregate amount of all securities sold by the Issuer, whether of the same or a different class, over the preceding 12 months (including the securities sold in the offering under the crowdfunding exemption. "Issuer" includes all entities controlled by or under common control with the Issuer.

[3]The JOBS Act requires that the offering include a target offering amount, the deadline to reach such target amount, and regular funding progress reports relating to the issuer's progress in meeting the target offering amount. [Note: It appears that prior to close there will need to be a mechanism to allow crowdfunding investors to rescind their investment once all final terms are set and all required disclosures have been made.]

[4]The amount sold to each investor is limited based on the investor's annual income and net worth. For an investor with an annual income or net worth of less than $100,000, the investor's maximum aggregate annual investment in securities issued under the crowdfunding exemption over a 12-month period is capped at the greater of $2,000 or 5 percent of such investor's annual income or net worth. For investors with an annual income or net worth of greater than $100,000, such investments are capped at the lesser of $100,000 or 10 percent of such investor's annual income or net worth.

[5]JOBs Act requires a description of the intended use of proceeds. Note that JOBS Act will also require disclosure of business plan and other information but for purposes of term sheet we have assumed that the funding portal or broker dealer will have a process in place for collecting and disseminating such information.

DISCLAIMER: THE NOTES ISSUED PURSUANT TO THE FINANCING ARE NOT THE EQUIVALENT OF PURCHASING A SHARE OF CAPITAL STOCK IN THE COMPANY. THEY DO NOT REPRESENT ANY PERCENTAGE INTEREST IN THE PROFITS OR LOSSES OF THE COMPANY NOR DO THEY PARTICIPATE IN THE PROCEEDS OF ANY SALE EXCEPT TO THE EXTENT OF THE OBLIGATION AMOUNT. THE NOTES WILL NOT INCREASE IN VALUE AS A RESULT OF THE FUTURE OPERATIONS OF THE COMPANY OR ANY TRANSACTION IN WHICH THE COMPANY MAY ENGAGE INCLUDING ANY SALE OF THE COMPANY OR ITS ASSETS OR ANY PUBLIC OR PRIVATE OFFERING OF SECURITIES. THE

COMPANY WILL HAVE NO OBLIGATION TO PREPAY THE NOTES ON THE HAPPENING OF ANY EVENT, INCLUDING ANY SALE OF THE COMPANY OR ITS ASSETS OR ANY PUBLIC OR PRIVATE OFFERING.

THE NOTES PROVIDE SOLELY FOR A FIXED MAXIMUM PAYMENT EQUAL TO THE OBLIGATION AMOUNT. YOU WILL NOT BE ENTITLED TO ANY AMOUNTS IN EXCESS OF THE OBLIGATION AMOUNT AND ONCE THE OBLIGATION AMOUNT IS RECEIVED THE COMPANY SHALL HAVE NO FURTHER OBLIGATION TO YOU AS AN INVESTOR, CREDITOR, OR OTHERWISE.

THE NOTES DO NOT PROVIDE YOU WITH ANY VOTING RIGHTS AS A SHAREHOLDER OF THE COMPANY NOR DO THEY PROVIDE YOU WITH ANY RIGHT TO PARTICIPATE IN ANY FUTURE OFFERING OF SECURITIES OF THE COMPANY (INCLUDING ANY FUTURE OFFERING OF NOTES OR OTHER DEBT SECURITIES).

INVESTMENT IN THE NOTES IS OF HIGH RISK. INVESTOR UNDERSTANDS AND ACKNOWLEDGES THAT THE COMPANY HAS A LIMITED FINANCIAL AND OPERATING HISTORY AND THAT AN INVESTMENT IN THE COMPANY IS HIGHLY SPECULATIVE. THERE CAN BE NO ASSURANCES THAT THE COMPANY WILL GENERATE ANY REVENUES OR SUFFICIENT GROSS REVENUES TO MAKE THE PAYMENTS DUE ON THE NOTES. IN THE EVENT THAT THE COMPANY DOES NOT GENERATE SUFFICIENT GROSS REVENUES TO PAY THIS NOTE BY THE MATURITY DATE, THERE IS A HIGH RISK THAT YOU WILL NOT RECEIVE PAYMENT OF ANY AMOUNTS THAT REMAIN DUE. YOU UNDERSTAND THAT YOU MAY LOSE YOUR ENTIRE INVESTMENT IN THE NOTE.

THE NOTES ARE UNSECURED. THE OBLIGATIONS ARE NOT SECURED BY ANY ASSETS OF THE COMPANY. THE COMPANY MAY INCUR ADDITIONAL INDEBTEDNESS TO FUND ITS OPERATIONS THAT MAY BE EITHER UNSECURED OR SECURED BY THE ASSETS OF THE COMPANY AND WHICH MAY GIVE THE CREDITORS

WITH RESPECT TO SUCH INDEBTEDNESS PRIORITY OVER THE RIGHTS OF THE HOLDERS OF THE NOTES IN THE EVENT OF ANY BANKRUPTCY, INSOLVENCY, DISSOLUTION, OR OTHER PROCEEDING INVOLVING CREDITORS RIGHTS. SUCH OTHER INDEBTEDNESS MAY ALSO GIVE SUCH OTHER CREDITORS RIGHTS THAT ARE MORE FAVORABLE OR SENIOR TO THE HOLDERS OF THE NOTES.

IT IS LIKELY THAT THE COMPANY MAY NEED TO RAISE ADDITIONAL FUNDS IN THE FUTURE TO GENERATE THE GROSS REVENUES NECESSARY TO PAY THE OBLIGATION AMOUNT. THERE CAN BE NO ASSURANCES THAT SUCH AMOUNTS CAN BE RAISED OR THAT THE TERMS ON WHICH SUCH ADDITIONAL FUNDS ARE RAISED WILL NOT HAVE AN ADVERSE IMPACT ON THE ABILITY OF THE COMPANY TO PAY THE OBLIGATION AMOUNT.

AS NOTED ABOVE, THE NOTES ARE ILLIQUID. THERE IS NO PUBLIC MARKET FOR THE NOTES AND THERE IS NOT LIKELY TO BE A PUBLIC MARKET FOR THE NOTES. THE COMPANY HAS NO OBLIGATION TO CREATE OR FACILITATE A MARKET FOR THE NOTES. YOU SHOULD UNDERSTAND THAT YOU MAY NEED TO HOLD THE NOTES INDEFINITELY. YOU SHOULD NOT INVEST IN THE NOTES UNLESS YOU CAN AFFORD TO HOLD THE NOTES INDEFINITELY AND BEAR THE TOTAL LOSS OF YOUR INVESTMENT.

EXCEPT FOR THE INFORMATION REQUIRED TO BE MADE AVAILABLE PURSUANT TO THE JOBS ACT, THERE IS NO PUBLIC INFORMATION AVAILABLE ABOUT THE COMPANY AND THE COMPANY HAS NO PRESENT PLANS TO MAKE SUCH INFORMATION AVAILABLE.

F

International Angel Investor Federations

ACA, Angel Capital Association (U.S.), http://www.angelcapitalassociation.org/

AEBAN, Asociacion Espanola Business Angels, http://www.aeban.es/

AANZ, Angel Association New Zealand, http://www.angelassociation.co.nz/

APBA, Associação Portuguesa de Business Angels, Portugal, http://www.apba.pt

AAAI, Australian Association of Angel Investors, http://aaai.net.au/

AAIA, Austrian Angel Investors Association, http://www.aaia.at

BAE, The European Confederation for Angel Investing, http://www.businessangelseurope.com/

EBAN, European Trade Association for Business Angels, Seed Funds and Early Stage Market Players, http://www.eban.org/

EstBAN, Estonian Business Angels Network, http://estban.ee/

FiBAN, Finnish Business Angel Network, https://www.fiban.org/

FNABA, National Federation of Business Angels, Portugal, http://www.fnaba.org/

France Angels, http://www.franceangels.org/

Q1 HBAN, Halo Business Angel Network, Ireland, http://www.hban.org/

LINC, The Scottish Angel Capital Association, http://www.lincscot.co.uk/

NACO, National Angel Capital Organization, Canada, http://www.angelinvestor.ca/

NBAA, National Business-Angels Association, Russia, http://rusangels.ru/

NorBAN, Norwegian Business Angel Network, http://www.norban.no/

TBAA, Business Angels Association Turkey, http://melekyatirimcilarderneg i.org/

WBAA, World Business Angel Association, http://wbaa.biz/

G

Major Regional Angel Groups

North America

New York Angels, http://newyorkangels.com/index.html

GoldenSeeds, http://www.goldenseeds.com/

Ohio Tech Angels, http://www.ohiotechangels.com/

Tech Coast Angels, http://www.techcoastangels.com/about-us

Hyde Park Angel Network, http://www.hydeparkangels.com/

Pasadena Angels, http://pasadenaangels.com/

Capital Angel Network (Canada), http://www.capitalangels.ca/

Q1 Venture Alberta, http://www.va-angels.com

Investors' Circle, http://investorscircle.net

Keiretsu Forum, http://www.keiretsuforum.com/

Atlanta Technology Angels, http://www.angelatlanta.com

TiE Angels, http://www.tiesv.org/

Rain Source Capital, http://www.rainsourcecapital.com/

Boston Harbor Angels, http://www.bostonharborangels.com

Eastern NY Angels, http://easternnyangels.com/

Launchpad Venture Group, http://www.launchpadventuregroup.com

Robin Hood Ventures, http://www.robinhoodventures.com/

Central Texas Angel Network, http://www.centraltexasangelnetwork.com

StarVest, http://www.starvestpartners.com/

Band of Angels, http://www.bandangels.com/

Space Angels, http://spaceangels.com

Life Science Angels, http://lifescienceangels.com

Alliance of Angels, www.allianceofangels.com

Europe

Paris Business Angels, www.parisbusinessangels.com

Be Angels, www.beangels.eu

Go-Beyond, www.go-beyond.biz

Arts & Metiers Business Angels, www.am-businessangels.org

Grenoble Angels, www.grenobleangels.grenobleecobiz.biz

IT Angels, www.itangels.fr

Savoie Angels France, www.savoie-angels.com

Galata Business Angels, www.galatabusinessangels.com

Saint Petersburg Business Angels, www.soba.spb.ru

Angels Ontime, www.angelsontime.com

Tech Angels, www.techangels.ro

Club Invest 77, www.business-angels-77.fr

Capitole Angels, www.capitole-angels.com

Synergence, www.synergence.fr

ClearlySo Angels, www.clearlyso.com/investors/CSA.html

Keiretsu Forum London, www.keiretsuforum.com/global-chapters/london/

Invent Network, www.inventnetwork.co.uk/

Cambridge Angels, cambridgeangels.weebly.com/

ESADE BAN, www.esadeban.com/en

Inveready, www.inveready.com/

First Tuesday Business Angel Network, www.firsttuesday.es/

Southern Hemisphere

Anjos do Brasil, www.anjosdobrasil.net/

Gavea Angels, www.gaveaangels.org.br

ChileGlobal Angels, www.chileglobalangels.cl

Melbourne Angels, www.melbourneangels.net

Sydney Angels, www.sydneyangels.net.au

Ice Angels, www.iceangels.co.nz

Angel HQ, www.angelhq.co.nz

H

Angel Investing Blogs and Resources

The Gust Blog on Angel Investing
http://www.gust.com/blog

Angel Resource Institute Resource Center
http://www.angelresourceinstitute.org/resource-center.aspx

Angel Capital Association—Angel Investing Resources
http://www.angelcapitalassociation.org/resources/angel-group-overview/

Angel Capital Association—Angel Insights Blog
http://www.angelcapitalassociation.org/blog/

The Frank Peters Show—A Podcast on Angel Investing
http://thefrankpetersshow.com/

Bill Payne's Angel Investing Thoughts
http://billpayne.com/category/angel-investors-2

Angel Blog—Basil Peters on Early Exits for Angels and Other Best Practices
http://www.angelblog.net/index.html

Berkonomics—Dave Berkus on Angel Investing
http://berkonomics.com/

Quora Questions & Answers on Angel Investing
http://www.quora.com/Angel-Investing

A2A: Analyst To Angel—Adam Quinton
http://www.analysttoangel.com

Bloomberg BusinessWeek on Angel Investing
http://go.bloomberg.com/tech-deals/angel-investing/

David Teten on Angel Investing
http://teten.com/blog/category/investing/angel/

Dan Rosen on Investing and the Future of Technology
http://blog.drosenassoc.com

Angel Investing News from George McQuilken
http://angelinvestingnews.blogspot.com/

ScratchPaper Blog on Angel Investing by Christopher Mirabile
http://scratchpaperblog.com/category/angel-investing/

SeedInvest's Blog on Angel Investing
http://blog.seedinvest.com

Seed Funding Blogs and Resources

Fred Wilson (Union Square Ventures)
http://Avc.com

Brad Feld (Foundry Group)
http://feld.com

Charlie O'Donnell (Brooklyn Bridge Ventures)
http://www.thisisgoingtobebig.com

Mark Suster's Both Sides of the Table (Upfront Ventures)
http://BothSidesOfTheTable.com

Jeff Bussgang's Seeing Both Sides (Flybridge Capital)
http://bostonvcblog.typepad.com/vc/

Bill Carleton (Counselor @ Law) on Angel Investing
http://www.wac6.com/wac6/archives.html

Chris Dixon (Andreesen Horowitz)
http://cdixon.org

Rob Go (Nextview Ventures)
http://robgo.org

First Round Review (First Round Capital)
http://firstround.com/review

Paul Graham's Essays
http://paulgraham.com/articles.html

Bill Gurley's Above the Crowd (Benchmark Capital)
http://abovethecrowd.com/archives/

Glossary

accelerator A for-profit type of business incubator that typically accepts startup teams into a three-month program and provides basic living expenses, office space and intense mentorship in exchange for equity in the startup.

Accredited investor Defined by the SEC as an individual with at least $1 million in assets not including the value of the primary residence, or at least $200,000 in income for the past two years (or $300,000 together with a spouse).

acqui-hire One company's acquisition of another for the primary purpose of hiring its employees, rather than for the intrinsic value of the business itself.

ACA Angel Capital Association, the national federation of professional angel groups and angel investors in the United States.

angel group A formal or information organization of individual Accredited investors who pool their deal flow, resources, expertise and capital in order to make angel investments.

angel investor An Accredited investor who invests his or her personal capital in early stage, potentially high-growth companies.

angel round A round of investment into a startup company from angel investors not previously affiliated with the founder. Typically the first money invested in a company after the founder's own money, and the founder's friends and family.

AngelList A prominent website based in Silicon Valley bringing together startup companies and angel investors.

BHAG Big Hairy Audacious Goal, the giant sweeping vision of a startup founder to change the world.

board of directors A group of people elected by a company's shareholders (often according to the terms of a negotiated Shareholders Agreement) that makes decisions on major company issues, including hiring/firing the Chief Executive Officer.

bootstrapping Funding a company only by reinvesting initial profits; from "pulling yourself up by your own bootstraps."

bridge A temporary loan used to cover a company's operating expenses until a future financing.

burn rate The monthly negative cash flow from a pre-profitable startup.

business angel networks In Europe, synonymous with angel groups. In North America, a collection of individual angel groups operating under a common brand and leadership, that typically syndicate deal flow and investments.

Business Model Canvas A strategic management template for developing or documenting business models through a visual chart with elements describing a firm's value proposition, infrastructure, customers, and finances.

business plan competition A program historically run by a university or other not-for-profit organization to encourage students to develop plans for new businesses. Increasingly a showcase competition for existing startups seeking financing from angels and other investors.

cap The maximum company valuation at which a convertible note will convert into a company's stock.

carried interest A percentage of the profits realized from a venture capital fund's investments that are retained by the fund's General Partners as the incentive compensation component for their investment activities.

co-invest When more than one investor joins in making an investment on similar terms.

common stock A U.S. term for a form of equity ownership of a company, equivalent to the terms "voting share" or "ordinary share" used in other parts of the world. In a liquidity event or a bankruptcy, common stock holders receive all of the net value of a company after paying the fixed amounts due to bondholders, creditors, and Preferred stock holders. Common stock usually carries with it the right to vote on certain matters, such as electing the board of directors.

convertible debt A type of loan (also known as **note**) which provides that the amount of money loaned may (or must, under certain conditions) be converted by the investor into shares of stock in the company at a particular price.

convertible preferred stock Preferred stock in a company that is convertible at the option of the holder into Common stock at a predetermined valuation. This provides the priority and security of holding Preferred stock, as well as the potential value appreciation of Common stock.

corporate venture An investment from one corporation in another, typically at an early stage for strategic reasons.

cram down When a new funding round is done at a lower valuation than the previous one, meaning the original investors (or Founders) end up with a much smaller percentage ownership.

crowdfunding A joint effort by many individuals (collectively referred to as the "crowd") to support a cause, project or company. **Donation**-based crowdfunding bears no expectation of returns. In **Reward**-based crowdfunding, contributors are promised rewards (such as the ability to purchase a product) in exchange for their contributions. **Equity**-based crowd funding gives funders the ability to purchase equity interests in a company.

dead pool Where companies that die go.

deal flow The stream of new investment opportunities available to a particular investor or investment organization.

deal lead The investor or investment organization taking primary responsibility for organizing an investment round in a company. The deal lead typically finds the company, negotiates the terms of the investment, invests the largest amount, and serves as the primary liaison between the company and the other investors.

debt Borrowed money that needs to be paid back. The entrepreneur rents the money for a specific period of time and promises to pay interest on the money for as long as the loan is outstanding.

demo day The "graduation" day for a class of companies in an accelerator or other business program at which each company has 5 to 15 minutes to present their investment opportunity to potential angel and other investors in attendance.

dilution When a company sells additional shares of stock, thereby decreasing the percentage ownership of existing shareholders. Note that if the valuation of the new sale is at a high enough level, the value of stock held by existing investors may increase, even though the percentage ownership may decrease.

discounted convertible note A loan that converts into a the same equity security being purchased in a future investment round, but at a discounted price representing a risk premium for the early investment.

double bottom line In Impact Investing, the goal of measuring a company by its positive societal impact in addition to its financial returns.

down-round When the valuation of a company at the time of an investment round is lower than its valuation at the conclusion of a previous round.

drip feed When investors fund a startup a little bit at a time instead of in a lump sum.

drive-by deal An investment by a venture fund looking for a quick exit through a short term sale; different from the current "early exit" approach by angel groups, which is a strategic focus

dry powder Money held in reserve by a venture fund or angel investor in order to be able make additional investments in a company

due diligence The careful investigation into a company prior to making an investment to insure that all facts are known.

early exits An approach to angel investing popularized by author Basil Peters, in which the goal of an investment is the sale of the company within a few years without requiring additional large investments from VCs, thereby providing high relative returns without requiring companies to be home runs.

entrepreneur A person who organizes and operates a business or businesses, taking on greater than normal financial risks to do so. Entrepreneurs are the founders of startups, and are the people angel investors support.

equity seed round When an entrepreneur first sells a part of his or her business—and therefore a proportional part of the good things (like profits) and the not-so-good things (like losses)—to an investor. Equity investments, unlike loans, do not need to be paid back.

escrow When a third party holds value during a transaction, releasing it only when a specified condition has been fulfilled.

exit When an angel's investment in a company is either acquired for cash, sold during a public offering, or rendered worthless because the company fails.

finder An intermediary engaged by a company to attempt to find investors, in exchange for a percentage of the transaction. Serious angel investors typically do not deal with companies through intermediaries.

flat-round When the valuation of a company at the time of an investment round is the same as its valuation at the conclusion of a previous round.

follow-on investment An additional investment made in a company by one of its existing investors.

founders stock The common stock owned by one or more of a company's founders, typically received when the company was incorporated, and not purchased for cash.

Friends & Family round An investment in a company that often follows the founder's own investment, from people who are investing primarily because of their relationship with the founder rather than their knowledge of the business.

funding platform Any online website used to facilitate investments in private companies. As a defined term, a specific type of platform defined by the JOBS Act of 2012 that will allow non-Accredited investors to invest in private offerings.

general partner The manager(s) of a venture capital fund, who are compensated with a Carried Interest on investments made by the fund.

general solicitation When a private company publicly seeks investors in connection with an equity offering. Previously prohibited by U.S. securities law, now permissible under certain conditions according to the JOBS Act of 2012.

grant Money provided by a government agency or other organization that does not need to be repaid and does not purchase equity.

Gust The international online platform for collaboration and investments among angel investors, entrepreneurs, and others in the early-stage economy.

home run When a company has an exit that returns 20 or more times an investors' initial capital.

illiquid An investment that cannot be readily sold or transferred into cash. Unlike public stocks for which there is a ready market, angel investments are typically held for 5 to 10 years.

impact investing Financial investments that also aim to have a benefit for society.

incubator Programs or shared office centers designed to support the successful development of companies by offering cost effective resources and support.

initial public offering (IPO) The first public sale of the stock of a formerly privately held company. After a lockup period, investors are typically able to sell their shares on the public stock market, as they are no longer illiquid.

internal rate of return (IRR) The annualized rate of return from an investment, not incorporating other factors such as interest rates or inflation.

investment round A set of one or more investments made in a particular company by one or more investors on essentially similar terms at essentially the same time.

J-curve The appearance of a graph showing the typical value progression of early stage investment portfolios. Values often drop soon after the initial investment during the startup and early stage period, but rebound significantly in later years after companies reach profitability.

JOBS Act of 2012 A law signed by President Obama on April 5, 2012 significantly changing the laws surrounding investments in private companies. Title I made it easier for larger companies to remain private and easier to go public. Title II allowed private companies to generally solicit for equity investments, provided that it only took funding from Accredited investors. Title III authorized limited, structured crowdfunding platforms, through which non-Accredited investors could invest in early stage companies.

law of large numbers A theorem that suggest that the average of results obtained from a large number of trials should be close to the expected value, assuring stable long-term results for the averages of random events. When applied to angel investing, it suggests that large portfolios of investments, made consistently over time, will return significantly positive returns.

lead investor See **deal lead**.

limited partner A passive investor in a venture capital fund, typically an institutional investor such as a university endowment, an insurance company or a pension fund.

LinkedIn The leading business-oriented social networking website.

liquidation waterfall The sequence in which all parties, including investors, employees, creditors, and others, receive payouts in the event of a company's liquidation through acquisition or bankruptcy.

liquidity event When investors have the ability to convert some or all of their equity interest in a company into cash. Typically as the consequence of an acquisition, this can also happen if a company is very successful and new investors are willing to buy out the interest of early investors.

lock up A period of time (typically after an IPO, or an acquisition of a startup by a public company) during which certain shareholders are not allowed to sell their stock; often 90 or 180 days, but could be a year.

mafia In the context of angel funding and startups, a colloquial term used to describe the loose association of people previously involved with a highly successful technology company, such as Google, Facebook, Paypal, or LinkedIn, as founders, early employees, or investors.

Main Street business A colloquial term used to describe traditional small, local retail and service companies. They typically serve local markets, provide jobs, and benefit the local economy, but are not aimed at high-growth industries or eventually acquisition by larger companies. As such, they are not usually funded by angel investors.

major investor As used in investment term sheets, any investor who puts in more than a defined amount into a given round and is therefore entitled to specific information and/or voting rights.

management fee Typically 2 or 3 percent of the committed capital in a venture capital fund, paid annually to the General Partner to cover operating expenses of the fund.

meetup A website enabling people with similar interests to coordinate in-person meetings online. There are many thousands of local Meetups related to technology, entrepreneurship and startup businesses. The New York Tech Meetup has over 37,000 members and is the largest on the platform.

micro-VC The correct term for organizations often referred to as *super angels*. Structured similar to a traditional venture fund, a micro-VC is typically much smaller in size, with fewer partners, and invests less money but at an earlier stage.

negative control provisions Terms agreed to as part of an investment round that protect investors from major adverse actions (such as dissolving the company, or selling it to someone for $1), but do not provide the right to affirmatively control the company.

NVCA Model Documents A standard set of investments documents for a Series A equity investment round developed by a group of most of the major venture law firms for the National Venture Capital Association.

pay to play A term in VC financings that requires investors to participate in future down-valuation financings of the company, or else suffer punitive consequences (such as getting their Preferred stock converted into Common stock). One reason why investors keep some dry powder on hand.

peer-to-peer lending A relatively new type of online financing solution through which individuals lend money to other individuals or small businesses.

pitch A presentation, typically supported by slides developed in PowerPoint or Keynote, in which a startup company's founder describes his or her company and seeks an investment from angels or venture capitalists.

portfolio The collection of all of the companies invested in by an angel or VC.

post-money valuation The value of a company immediately after it has received an equity investment, including both the company's pre-money valuation and the amount it received from the investment.

pre-money valuation The value of a company immediately prior to receiving an investment, used to determine what percentage of a company's ownership will be purchased in exchange for a specified investment amount.

preferred stock A type of equity ownership of a company that has both a fixed value and priority in liquidation sequence.

private companies Companies that are not publicly traded on the stock market.

private equity An asset class consisting of investments in late stage, profitable private companies.

Private Placement Memorandum An extensive document required when securities are being offered to investors other than Accredited or Qualified purchasers, detailing potential risks and other information about the company.

public companies Companies that are freely traded on the public stock exchanges such as NASDAQ and the New York Stock Exchange.

qualified purchaser An individual with more than $5 million in investments.

Quora A leading question-and-answer website where many industry experts in early stage investing answer questions.

representations and warranties A list of material statements or facts that are included in the investment documentation and to which the entrepreneur unequivocally commits.

reverse vesting When founders of a company agree that they will give back part of their stock holdings if they leave the company before a specified date (typically four years.) This is usually required by investors, and a good thing for founders themselves in the case of multiple founders.

return on investment (ROI) The ratio between the amount of money returned to the investor when a company exits and the amount of the initial investment. Serious angels attempt to target 20x or 30x returns on their invested capital in risky startups.

runway How long a startup can survive before it goes broke; that is, the amount of cash in the bank divided by the burn rate.

SAFE Simple Agreement for Future Equity, a new form of funding for early stage companies developed by YCombinator to solve a number of issues with traditional convertible note funding.

SBIR Small Business Innovation Research grant program from the U.S. government.

SEC The United States Securities and Exchange Commission, charged with regulating all sales of corporate securities.

seed fund A venture capital fund specializing in very-early-stage startups.

seed round The first investments made into a company by someone other than the founder. The term comes from planting a seed for the first time.

serial entrepreneur An entrepreneur who has previously founded and run one or more ventures.

Series A Traditionally the first professional outside money that is invested by a venture capital fund in exchange for ownership in a company, generally in the range of single-digit millions of dollars.

Series A crunch A putative problem that has, is, or may occur if more companies get early stage funding from angels and seed funds, than are eventually able to obtain later stage funding from venture capital funds.

Series B, C, D . . . Investment rounds from venture capital funds subsequent to the first Series A round.

series seed Used generically to refer to the first equity round from serious seed or angel investors in a company, following its Friends & Family round but prior to a Series A.

shareholders agreement An agreement signed during a financing transaction by all of a company's shareholders in which they agree in advance to various provisions. These will typically include indicating which parties are entitled to designate members of the board of directors, and thus control the company.

sniff test A colloquial expression referring to a quick assessment of a situation to see whether it appears legitimate.

social proof An investment approach leaning heavily on the identity of other, well-known people who are supporting the company.

social venture A company established to create societal benefit through entrepreneurial methods.

spray and pray Investing in lots of companies in the hopes that one of them will hit it big.

strategic investor A corporate investor funding an early stage company primarily for reasons related to the investing company's interest.

STTR The Small Business Technology Transfer program, from the U.S. government; intended to assist educational institutions in transferring new technology to the private sector.

success fee A percentage commission paid to an intermediary or other individual as an incentive on the closing of a large financing transaction.

super angel A misnomer describing microVCs. True super angels are active angels who make many significant investments, find and negotiate investments, and can bring other investors along with them.

tag along/drag along Provisions in a Shareholders Agreement that permit investors under certain defined circumstances to sell their shares if you sell yours (tag), or force you to sell your shares if they sell theirs (drag).

term sheet A summary of the major terms of an investment round that is agreed upon by all parties prior to beginning extensive legal documentation for the round.

The Golden Rule The investor with the gold makes the rules (the same meaning as "those who bring the money drive the bus"; i.e., forget whatever any previous contracts say, if you need money and only one source is willing to supply it, you'll take the money on their terms, period).

up-round When the valuation of a company at the time of an investment round is higher than its valuation at the conclusion of a previous round.

Valley of Death The period between the initial funding and the end of the Runway. If you get through here, you should be okay. If not ....

venture capital fund An investment fund that puts money behind high-growth companies.

venture debt A type of debt financing provided to venture-backed companies from specialized banks or non-bank lenders.

vulture capitalist A VC whose operating method is to deliberately take advantage of an entrepreneur's troubles.

walking dead A company that isn't bankrupt, but will never succeed, and thus can't be sold or otherwise exited.

waterfall the order in which investors (and everyone else) get their money out on an exit. Almost always this is "last in, first out."

Ycombinator The original, and still leading, business accelerator program.

zombie fund a VC firm that can't raise a new fund, and thus can't make new investments.