



StartUp NEPA Angel Fund Additional Frequently Asked Questions

What is an angel investor?

An angel investor or angel is a high net-worth individual who invests his or her money in businesses for an equity share. The Securities and Exchange Commission (SEC), in Rule 501 of [Regulation D as amended by the 2010 Dodd-Frank Act](#), requires angels to be accredited. Angels are, almost always, individuals who can add value to the company via high-quality mentoring and advice.

- Angels make investments to gain a return on their money, to participate in the business process, and to give back to communities by catalyzing economic growth.
- Angels make a return on their investment when the business successfully grows and/or the business liquidates through a sale or merger.

What are angel groups?

An angel group is a group of individual investors (called angel investors or angels) who invest collectively in privately-held businesses. Angel organizations come in many forms, with all having certain characteristics:

- Angel Members meet or communicate regularly to review business proposals
- Angel Members actively participate in the viewing of business proposal presentations, as approved by the group.
- Angel Members conduct due diligence to validate the plans, personnel, statements, viability and history of the business
- Angel Members decide whether to invest in the presenting business

What is the difference between angels and venture capitalists?

While both invest in businesses and take equity (ownership) in those businesses, there are some important differences:

- Funding source - Angels invest their own funds directly in a business, while venture capitalists invest funds from other sources (e.g., pension funds, insurance companies, foundations).
- Stage of entrepreneur - In general, angels invest in seed, start-up and early-stage businesses, while venture capitalists invest in later-stage businesses (although there are exceptions).
- Size of investment - Venture capitalists generally invest \$2 million and up in a financing round, while individual angels make much smaller investments (\$5,000 to \$200,000) per round.

What criteria do angel groups use to select entrepreneurs or businesses in which to invest?

Angel groups generally look for:

- A strong management team with experience and proven skills.
- Unique product or service distinguished by an identified competitive advantage and large market.
- A clear picture of the market for the product or service and a realistic plan for market penetration.
- An exit strategy for the investor that is reachable within 5 to 7 years.
- The potential for a strong return on investment.

Why start an Angel Fund?

The Fund was formed to pool the capital resources and business connections of knowledgeable and community-minded wealth investors in and around the region, to provide favorable investment returns to investors and promote the entrepreneurial culture of the region.

There is a new crop of entrepreneurs emerging and a cluster of existing small businesses that have growth potential. Northeastern Pennsylvania needs a point of focus that will assist these emerging entrepreneurs with mentor talent and growth capital.

What is the geographic focus of the StartUp NEPA?

The Fund will initially focus its investments on companies located in the region including Carbon, Lackawanna, Luzerne, Monroe, Pike, Schuylkill, and Wayne counties. However, the fund will not be restricted from investing in any businesses that the members deem suitable. If the fund is unable to successfully deploy its capital in the region, it will have access to a list of other companies provided from similar angel funds to fully deploy its committed capital.

What exactly does StartUp NEPA do?

- The fund invests in private companies and may co-invest with other accredited investors.
- The fund focuses on businesses within the region; *but it is not restricted from investing in any businesses that the investor members deem suitable.*
- The investor members of the fund may take an active role in assisting or mentoring the companies that receive investment from the fund.
- Investors in the fund can additionally participate individually in side-by-side investments within the fund.

What kind of companies will StartUp NEPA invest in?

- The primary investment focus is on small businesses (as defined by the United States Small Business Administration) that demonstrate the potential for growth and a suitable return to the fund members.
- The fund intends to develop a *diversified* portfolio of high-growth companies. If available, a majority of the investments will be located in the region. The fund will not invest in publicly-traded companies, nor will it invest in privately-held companies that are associated with (or are directly involved in) activities considered unethical or immoral by its members. The members will vote on, approve, and authorize all investment transactions.

What type of entity is StartUp NEPA?

The Fund, a Limited Liability Corporation (LLC), was created to provide investment capital to businesses that demonstrate the potential for growth and return on capital to its invested members.

What are the goals of StartUp NEPA?

- To organize accredited investors into a structured process to invest capital and mentor high-growth potential companies,
- To develop and build a diversified portfolio of investments capable of providing returns to its investors, and
- To enhance the development of the entrepreneurial culture and spirit in the region.

How will investment decisions be made?

- Companies, which fit the criteria established by the fund and pass the initial screening, will be invited to present at member meetings. If members decide to pursue an investment opportunity, a due diligence team made up of members or non-members based on their industry and functional expertise will be appointed. The due diligence team will gather information and analyze the business. The due diligence team can either decline the opportunity during this process or may ultimately provide information on an investment to the members.
- The members will vote on, approve and authorize all investment transactions and other important business by a majority vote.

Will Members be able to invest additional funds side-by-side with the fund?

Yes, and members are encouraged to do so if they feel strongly about the investment and there is room in the investment round.

How is a fund funded or capitalized?

The fund is capitalized from the issuance of investment units in the amount of \$50,000 per unit. The minimum investment commitment accepted from any single investor is \$50,000 or one (1) full unit.

There is no limit on the number of units that may be purchased per investor. However, if an investor purchases more than 10% of the units, the units in excess of 10% will be nonvoting units. A deposit of \$5,000 per unit is required when the unit is purchased. As investments are made by the fund, the balance (\$45,000 per unit) of the investment unit price will be drawn-down from the investors as needed. As the members make investment commitments, they will be contractually obligated to pay, upon 30 days notice, any portion of the remaining per unit capital commitment needed to fund the investment. Usually, investment commitments occur over a period of three to four years.

How many member units will there be within the Regional Angel Fund?

With the capitalization goal being between \$500k and \$2M, we expect to be between 20 and 40 units represented by 20 to 35 member investors.

Who operates the fund and how are operations funded?

StartUp NEPA is managed by its members with support from qualified professional service providers including AIA and NEPA. AIA and NEPA provide administrative and investment support services. Services include agenda preparation, meeting logistics, records and financial management, capital account management, financial reporting, communication with members and a variety of other services. The administration fee is 2.5%. Members approved all the service providers and their related compensation at the first organizational meeting. The operational fee is paid by the fund from the investors-committed capital.

What additional services will be required to properly operate StartUp NEPA?

The fund requires customary tax preparation and may incur, if not reimbursed by a company at the closing of the investment, some legal expenses.

Are members required to be active in StartUp NEPA?

Members are encouraged, but not required, to be active participants in the Fund. Members will be asked to serve on essential committees or teams performing such duties such as company screening, due diligence, exit analysis and co-investment strategies. These teams will be formed based on the industry or functional expertise of the respective members. Members will also be given the opportunity to perform mentoring/monitoring duties for portfolio companies. Recruiting mentors, board members, and other talent to ensure the success of the companies that receive investment is paramount. Members, as well as others throughout the region, will be expected to participate and assist in the generation of deal flow.

Why is StartUp NEPA organized and governed as a Limited Liability Company (LLC)?

StartUp NEPA was organized as a Limited Liability Company, in large part to take advantage of the “pass-through” tax characteristics of this type of entity and to implement a governance structure like that of a partnership. Investors will become “Members” of the LLC. Members must be accredited investors as defined by the SEC and will be required to purchase one full-voting membership unit.

The LLC is self-governed by its members with an elected chairperson, secretary/treasurer, committee chairpersons and other officers as required. The terms of office will also be determined by the members. ***The members will vote on, approve, and authorize all investment transactions and other important LLC business.***

Will there be a lot of meetings? There will be 8 to 10 meetings per year. A variety of technologies (email, conference calls, the StartUp NEPA website, etc.) will be used to keep members fully informed of the activities of the fund and reduce the frequency of meetings.

Will there be a lot of legal paperwork to read and review prior to committing to StartUp NEPA? There will be some. A Private Placement Memorandum (PPM) will be available to all investors. A PPM contains all terms, conditions and relevant disclosures, which the investor can use in weighing the risk involved before making a fully-informed decision with respect to the investment. Members are encouraged to consult with their respective financial advisors regarding the information presented in the PPM.

Explain in greater detail the financial commitment? As stated above, members are committed to provide \$50,000 in capital contributions over the lifetime of the Fund. Ten percent (10%) of the total capital contribution will initially be deposited in the funds' accounts. Depending on deal flow and specific investment opportunities, the additional capital contributions (\$45,000) will be called for (capital calls) as required. Typically, this takes about 3 to 4 years, which is consistent with how most Venture Capital companies operate.

What happens if sometime during the life of the fund, a member cannot or chooses not to participate?

If a member does not fully fulfill their membership obligations, here are the options:

- The member may sell their membership to the fund or to another fund member. (In the case of death or disability, there will be a provision in the operating agreement for the LLC to have the first opportunity in buying back the membership at a discount.)
- The member may sell their membership to another person or entity acceptable to the other LLC member investors.
- The LLC may freeze the membership capital contribution at the level it has been funded. Thus, future distribution will be based on this new level.
- The LLC may penalize for non-funding by distributing the members' capital contribution to the other members of the LLC.

How and when do members get a return on their investment? Members get a return on their original investment from exits obtained from the companies, in which they invest. Usually this happens when a company is acquired or recapitalized. As exits are achieved, the cash received by the fund is distributed to the members based on their share of the LLC. It is anticipated that the majority of the portfolio companies will exit via a merger or acquisition in a 5- to 10-year time frame. Returns will be paid to the members of the fund.

What performance measures will be used to evaluate the success the fund? The fund is not a philanthropic fund. It is a private investment fund measuring performance based on:

- Achieving competitive financial returns over the life of the fund (10 years),
- Supporting sustainable profitable growth businesses capable of providing a return to investors,
- Creating a positive economic impact on the region,
- Growing the entrepreneurial base of the region,
- Developing future generations of angel investors for the region, and
- Creating new long-term relationships.

Who should I contact for more information?

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