

Angel Investors News

The Membership That Empowers Entrepreneurs & Investors To Make Dreams A Reality, Create Jobs, Stimulate The Economy & Create Wealth!

EDITORIAL

Editor's Note



In this month's issue I yield my editorial space so that you can hear from my friend and mentor, Harvey Mackay.

Harvey is the author of New York Times #1 best-sellers *Swim With The Sharks Without Being Eaten Alive* and *Beware the Naked Man Who Offers You His Shirt*. Both books are on the list of the top 15 most inspirational business books of all time, according to The New York Times. In 1959 at age 26, Harvey purchased a small, failing envelope company. Today it has grown to be a \$100 million business which employs over 600 people. It is one of the nation's major envelope manufacturers, producing 25 million envelopes a day. As chairman, Harvey's personal philosophy is engrained into the company, beginning with his motto "Do what you love, love what you do and deliver more than you promise". I share our newest contributing editor Harvey Mackay's article being a "Class Act".

- Greg Writer, Editor

A Short Course In Class



BY HARVEY MACKAY

You have probably heard the term, "He or she is a class act." Of course, it's always a compliment. But exactly what does that mean?

Class is easy to recognize but much harder to define. Similarly, the absence of class is easy to detect - and a serious flaw for anyone who aspires to be successful. First of all, class is not an "act." It's a deep seated way of life for those who possess it. Having

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OPPORTUNITY FEST

STAR SHOP

FEATURED ARTICLE: StarShop

See StarShop Story on page 8

Kevin Harrington & Paula Abdul



INVESTOR'S EDGE

SEC: Startups Can Now Raise \$50 Million in 'Mini IPO'



BY KENDALL ALMERICO

The SEC on Wednesday approved game-changing final rules in the implementation of Title IV of the JOBS Act, known as "Regulation A+," which will allow small businesses and startups to raise up to \$50 million from "the crowd."

As I reported more than a year ago, this little-known provision of the JOBS Act will allow a startup company or emerging business to hold a "mini IPO" from the general public, not just accredited investors, and should be a complete game-changer for the way businesses are funded.

When Congress passed the JOBS Act in April 2012, Regulation A+ was an attempt to fix Regulation A, a rarely-used provision of federal law that allowed companies to raise up to \$5 million in a public offering. Regulation A was a bust because it required the company to register its offering in each state where it was to be sold. The cost of complying with each state's "Blue Sky Law" was exorbitant, compared to more commonly used laws such as Regulation D that allowed a company to raise the same amount of money, or more, without having to pay for expensive state-by-state compliance.

Under the SEC's new rules for Regulation A+, the amount that could be raised in-

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(CLASS, continued from page 1)

class involves good manners, politeness, and pride without showboating, empathy, humility, and an abundance of self-control. The actions of class-act people speak louder than their words. You can see it in their body language and the way they carry themselves. Class always shows without being announced.

People can tell if you have class by the way you interact with others. If you have class, you don't need much of anything else to be a winner. If you don't have it, no matter what you do, it won't make up the difference. Money, notoriety or success by themselves won't give you class. Class comes from within, not from external sources. As an explanation, I've created an acronym of what it means to be a class act:

C IS FOR CALM, COURTEOUS AND IN CONTROL. People who have class carry themselves in a certain way. They stay calm under pressure and don't lose their temper. They are respectful and use good manners. They don't use crude language or criticize or complain in public. They don't interrupt others.

L IS FOR LIVING BY HIGH STANDARDS. Class acts set goals in both their career and personal life. They are not afraid to step out of their comfort zone and push themselves beyond their limits to see how successful they can become.

A IS FOR ABOVE IT ALL. Class acts take the high road and refuse to stoop to the level of their adversaries. They don't have to apologize for their unfortunate words because they know better than to give in to the heat of the moment.

S IS FOR SELF-RESPECT, AND RESPECT FOR OTHERS AS WELL. They don't gossip or say mean and petty things about others. They take every opportunity to make others feel good about themselves and appreciated.

S IS FOR SELF-CONFIDENCE WITHOUT BEING ARROGANT. Class acts understand their abilities and are not afraid to use them. You can develop confidence, just like any muscle or character trait, if you are willing to work hard. Class acts also increase the confidence of others.

A IS FOR ACCOUNTABILITY. Class acts take responsibility for their actions and results, whether it's a success or failure.

C IS FOR COMPASSION. Classy people understand that helping someone up will never pull you down. Compassion is a vital part of class acts. Compassion feels and whispers, "I'll help." Class acts really care.

T IS FOR TRUST, TRUTHFULNESS AND INTEGRITY ARE THE BASIS FOR TRUST. Classy people are trustworthy and understand the importance of maintaining confidentiality. To me the most important five-letter word in business is T-R-U-S-T.

In his book "The Success Principles," my friend Jack Canfield lists "Be a Class Act" as Principle #55. What I found most intriguing are some of the reasons he lists as to why being a class act helps you succeed. He writes: "People want to do business with you or become involved in your sphere of influence. They perceive you as successful and someone who can expand their possibilities. They trust you to act with responsibility, integrity and aplomb. Class acts tend to attract people who are at the top of their game." That's true in the game of life or sports. Class athletes have an edge over their opponents. Why? Their poise allows them to concentrate better. They exhibit better confidence to play to their potential. An added plus: Classy athletes usually have the crowd behind them.

So take a close look at your network of friends, co-workers, customers and so on. Are they class acts?

Whether you realize it or not, they are a reflection of you. The good news is that you can change. Make a decision to recreate yourself as a class act and see what kind of people you start attracting. Do fewer things, but do them better. Change your behavior for the better. Raise the quality of your attitude.

When you have a higher level of personal standards, you get better treatment from everyone around you.

MACKAY'S MORAL:

A class act can say a lot without uttering a word.

Monster Funding Trending Up



“Risk is a part of God’s game, alike for men and nations.”

–Warren Buffett



BY GREG WRITER

After doing research online I found some fantastic statistics that are good news for entrepreneurs, free enterprise and capitalism. Keep in mind these funds have nothing to do with Angel Investing, other than there are some happy Angels that either exited or are close to exit from their investment. Without Angels, Entrepreneurs could not access VC money!

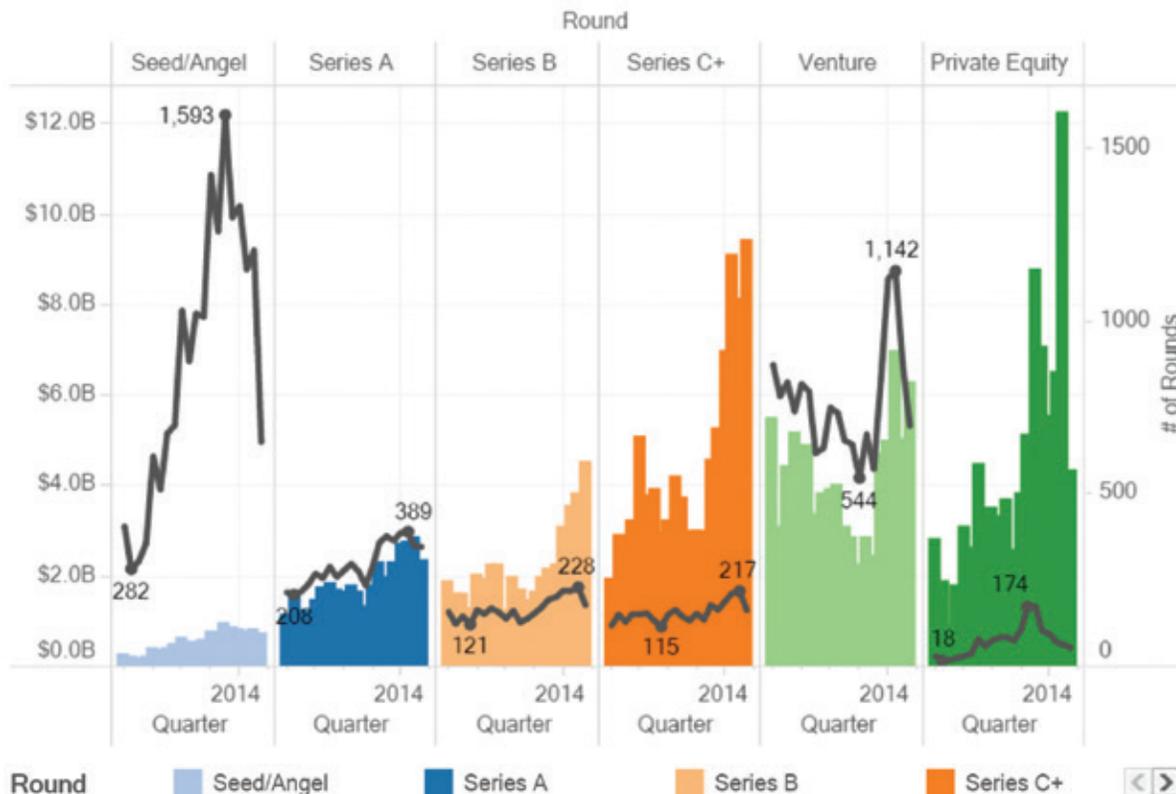
ing, to SurveyMonkey’s \$250 million cash influx announcement, to Uber’s latest mega round reported, over \$1 billion in capital was committed by investors in one week alone!

The abundance of venture cash invested may seem out of the ordinary, but these recent deals fit into a bigger trend. Though the number of rounds tracked remains relatively static, the amount invested is growing, according to CrunchBase data.

This growth especially applies to later stage funding. In 2014, the number of later stage funding rounds (Series C+) increased by less than 20% from 2013. However total capital raised through funding efforts more than doubled.

While reading an article on CrunchBase from December of last year, I discovered venture dollars are pouring into deals at an exceptionally rapid rate. From WeWork’s brand new \$350 million in fund-

Amount Invested vs. Deals Recorded By Round 2010 - 2014 YTD



Investors uncomfortable with your valuation, lack of liquidity and exit timing?



The answer may be Revenue Royalties

BY ROBERT STEVEN KRAMARZ

Gaining access to qualified investors (individuals, syndicates, funds) is only a part of gaining capital for launch or growth. Making a compelling financial offer that will get investor backing is the other part of this battle, the part frequently neglected. Possibly because you assume your passion and business model will speak for itself, and possibly because you assume you'll just work that out in negotiation. If this were true, then why do 97% of companies that approach angel networks (whether live or online) fail to get significant funding from those sources, AFTER they have access? I know this stat as a previously active member of Tech Coast Angels and active in the on-line community today.

I believe the reason is the structure of the deals presented, and I'm going to suggest a highly viable alternative. The problem is selling equity. Selling equity (ownership, stock, etc.) in your venture requires an exit. Yet exit timing and probability is highly problematic since 2001 and getting worse. This is not a function of the markets; it's a function of the ever-increasing rate of change of technology. You and the investor community can't escape the fact that there is no way to predict when you'll ever be able to enjoy a liquidity event.

In evidence, today the average time to a liquidity event for angel-funded ventures is about 9 years. Is there any way you and your investors can honestly predict the state of technology and the viability of your business idea in the year 2024 with today's rate of change? It's ridiculous. Exits are increasingly a crap-shoot. Investors might as well throw

darts at a phone book when selecting companies to support.

Knowing this, investors are increasingly insecure about every investment and compensate by assembling large portfolios and follow increasingly rigid standards of selection. Then we demand large shares of ownership where every deal pays at least 10X if not 30X on exit. All this knowing that most will never pay at all.

The answer is to stop selling equity. Start selling a share of revenue: a share of the future top-line revenues of your company known as revenue royalties, revenue participation, synthetic royalties or revenue based finance - Google to learn more. This structure is now increasingly well accepted in the angel and fund communities. I know of six funds that focus almost exclusively on these kinds of deals, and I'm an advisor to one of them. There's also a growing community of high-net worth individuals who've invested in revenue royalties as well. The idea is not new; it's well established in mining and oil drilling ventures. Arthur Lipper, a Wall Street legend and publisher of Venture magazine, began recommending this structure ahead of its time in the 1980's. See his opus Financing and Investing in Private Companies. It's real - it works.

Why does it work in today's fast-paced world? With revenue royalties, investors appreciate that liquidity begins almost immediately and does not depend on an exit event that may never occur. Revenue royalties turn uncertainty into near certainty. This makes a real difference. I've recommended it to a number of companies in the last few years and more than half have succeeded

in raising all of the capital they needed, and quickly. This can't be a coincidence.

In addition to winning a "yes" from investors, revenue royalties offer a number of other significant advantages to a growing enterprise in terms of privacy, legal obligations, control, and freedom to operate. There is also a lot more to learn, in terms of how to compute the revenue royalty terms of agreement and to present them to investors. It's worth the effort in both your ability to close investment deals, the reduced time it will take, and the long term benefits to you and your company. You can learn more about revenue royalties online at www.IntelliversityCampus.org and www.PacificRoyalties.com. You can also write to me directly at robk@intelliversity.info for a no-charge eBook on revenue royalties that goes into greater depth.

The author: Robert Steven Kramarz is both an angel investor and longtime entrepreneur. He is a previous member of Tech Coast Angels, currently Executive Director of Intelliversity, "the leadership academy for entrepreneurs, led by investors" (www.IntelliversityCampus.org). Also president of advisory firm 22nd Century Ventures (www.22ndCenturyVentures.com), partner at advisory firm Vantera Partners (www.VanteraPartners.com) and management advisor to Pacific Royalties (www.PacificRoyalties.com).

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18 Key Findings at the European Business Angels Investment Forum

“In investing, what is comfortable is rarely profitable.”
- Robert Arnott



BY DAVID DRAKE

The first European Business Angels Investment Forum was held at the Shangri-La Bosphorus and Hayrettin Iskelesi hotels in Istanbul, Turkey. It was organized by EBAN, Business Angels Association - Turkey (TBAA), Borsa Istanbul, and Forbes I Para Conferences.

With the theme ‘Access to Finance from Start-up to Scale-up to Exits’ the forum was attended by 284 Angels from 36 countries; university officials and professors, bankers, company officers and crowdfunding platform owners.

It is important that we recognize the importance of angel investments in supporting startups. The European Governments know the importance of angel investment in funding startup and early stage businesses in Europe, so they provide tax incentives to individuals that back small businesses as well.

EBAN President Candace Johnson remarked “In Istanbul our TBAA colleagues bridged the gap between Stock Market Exchanges and Business Angels with a most thoughtful, insightful Investors Forum in one of the most beautiful cities in the world. Majestically presented to all present with midnight tours and local culture, Istanbul was also the perfect place for our new MBAN Colleagues to come together and have a special Middle East Forum where four world-class entrepreneurs were showcased to investors from around Europe, the Middle East and the world.”

TBAA President Baybars Altuntas said “The forum attendees learned the intricacies of the Turkish ecosystem. Turkey recently passed the Angel Investment Law in one year, legislated the highest tax incentive in the world in nine months, and involved its exchange as an exit strategy for early stage investments”.

He further adds “The Forum also brought together the key stakeholders of the eq-



uity market, analyzed the challenges and advantages in angels’ investing, and found out what more could be done in connecting the early stage market ecosystem. We also deliberated if there is still a need to change regulatory and fiscal rulings. We also defined how angel investors should approach the public markets.”

“It has been the greatest privilege for EBAN to work with the newly established MBAN and ABAN entities this last six months and we are so looking forward to a glorious 2015 where cross-border engagement will give way to cross-continent engagement and wonderful global EMEA Success Stories” Candace Johnson added.

All 18 key findings in the forum will be officially declared at the Special European Business Angels Forum session to be held at the World Entrepreneurship Forum on November 2015 in China.

THE KEY FINDINGS ARE:

1. A reliable local ecosystem is essential for cross-border angel investments. Stock markets can create a platform where angels and startups can meet and negotiate.
2. Open a Private Market for startups

and entrepreneurs. In this market, all must register as stock exchanges, be accredited angel investors and have access financing in a secure environment.

3. Mentorship programs, independent audit firms and other service providers must be present in this reliable local ecosystem.

4. Develop co-investment funds. Banks, as public entities, should invest together with angels in startup investments. A certain percent of the profits, say 1 percent, should go to the co-investment fund.

5. Private investors should be allowed to make co-investments with public funds.

6. With European Union funds, policy makers should undergo training on how to’s and the advantages/disadvantages of co-investment funds. Policymakers must be trained to show the best practices, pro - cons and how to’s of co-investment funds. EU should finance these training best practices and how to’s.

7. While pitching to angels, startups should demonstrate their products. Crowdfunders should be considered as mini-business angels, and thus be accepted as a seed funding structure around the globe.

(continued on page 6)

(18 KEY FINDINGS continued from page 5)

8. Stock exchanges and crowdfunders complement each other, rather than compete.

9. At the start of any entrepreneurial journey, the first to support the startups are crowdfunders and the last help will be from stock exchanges. Thus, there is a need to create an information drive among the key stakeholders and guide the entrepreneurs on where to go for financing.

10. Aside from money, the startups need know-how, mentoring and networking. The public can provide financing, but the rest comes from business angels. Cooperation between the two should be fostered and public money should be converted to smart money.

11. An accreditation scheme should be established to qualify angel investors, and thus be recognized by public authorities.

12. Legislation that will set the same minimum amount for qualified angels to invest in startups.

13. Turkey has a very dynamic and fresh angel investment ecosystem. Within the next few years, the ecosystem will be able to provide successful exits for startups.

14. The Business Angel Networks in Turkey should be able to connect with the global angel investment market to facilitate exit strategies. There is a need to follow global events and create links with key players.

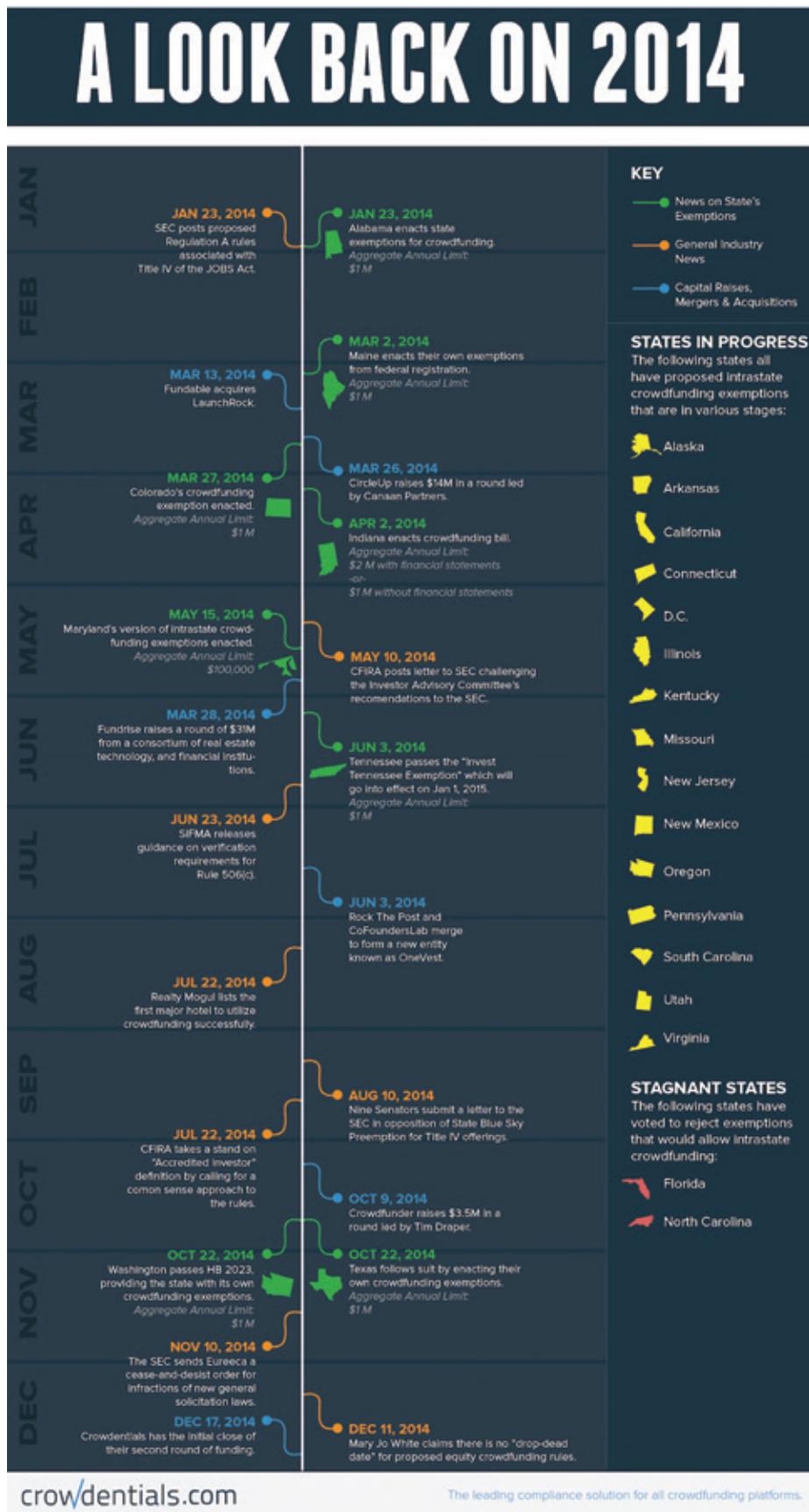
15. Business Angels of Turkey see foreign angels as their 'mentors.' Thus, there is a need for policy makers to provide more incentives to foreign investors that work with Turkish angels.

16. Acceleration centers should be established, and be accepted as institutional angel investors.

17. These acceleration centers will check professionally all startup applications for financing, if they are already investment ready. If and when angels receive requests for funds, they will first forward these to acceleration centers for verification.

18. When the acceleration centers are established, then startups should not go to an angel investor directly, but to the said center first. Startups should have to understand that acceleration centers are highways to access smart money.

“No great man ever complains of want of opportunity.”
~ Ralph Waldo Emerson





What's Your New Venture Worth?

BY PAUL HOYT



There are several different ways for investors can place a value on a venture so they can systematically determine for themselves how much equity their investment should purchase.

THE THREE MOST POPULAR WAYS ARE:

- The Harvard Method
- The Berkus Method
- The Scorecard Method

The Harvard Method

The Harvard Method, also called “The Venture Capital Method”, depends on projections of future earnings. First, you estimate / project the Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) 3-5 years out. Next determine an appropriate valuation multiple based on the industry and the size of the company which gives a projected acquisition value, EBITDA X Valuation Multiple = Acquisition Price. Finally discount to the current point in time, yielding a current value for the company.

There is a lot of room for adjusting the numbers, because the ‘method’ depends on:

- The EBITDA projection
- The Valuation Multiple
- The Discount Factor

For example:

- Earnings are projected to be \$100,000 in 3 years
- Valuation Multiple is 5
- Company will be worth \$500,000
- A 50% ownership will be worth \$250,000
- For a 500% (5x) return, invest \$50,000 today for 50% of the company
- For a 1000% (10x) return, invest \$25,000 today for 50% of the company

Most angel investors want a chance at a greater return than 5x, because they realize that many of their investments will not pay off at all. They want - and need - a chance at

a home run to be successful in the long run.

The Berkus Method

The Berkus Method is name for Dave Berkus, a prominent angel investor from southern California. The method was first published in 2001 and has a lot of variations. But generally, the value of a company today is calculated based on the progress the company has made. The method assigns a current maximum value of \$500,000 for each of the following:

- Sound Idea
- Prototype
- Quality Management Team
- Strategic Relationships
- Product Rollout or Sales

The angel investor gets to decide how much to value to attribute to each of the elements with maximum value being \$2.5 million. It is similar to putting value on a piece of real property based on the cost to replace it in both time and money.

The Scorecard Method

The Scorecard Method is very popular, because every angel investor or angel group gets to develop their own scorecard. Generally, a company is rated in several categories and the total score is used to project a value relative to other companies of similar size in the same industry.

Here's an actual scorecard evaluation completed by the Angel Investors Network a few months ago for one of our clients. They hired us to analyze their offering in order to close some of their gaps and be better prepared for conversations with prospective investors.

Category	Max Score	Score	Notes
Strategic Fit	30	20	We prefer to invest in social cause companies.
Team	60	31	Would like to see more industry experience, capital raising experience, and sales and marketing experience on the executive team.
Presentation	40	32	Lack of sales and marketing experience shows on the team.
Opportunity	60	39	Competition is not well documented; marketing materials could be improved.
Plan	70	47	Plans are reasonable for the stage of development.
Progress	70	17	High risk with no market traction and provisional patents.
Return	70	52	Returns are projected to be good, but revenue projections are suspect.
Total	400	238	

(continued on page 11)



STAR SHOP™

On March 25th, 2015 history was made. The entire team at Angel Investors Network had the opportunity to attend a pre-launch party in West Hollywood, California for StarShop, a phone based app that will sell branded products (more later). It was electrifying! We were with celebrities, Hollywood execs, investors and the recently assembled management team of StarShop, including their new spokesperson Paula Abdul.

My business partner Ed Bracken and I have been involved with StarShop since the summer of 2014, the day Sprint, a fortune 100 company, signed on. We were having breakfast with Kevin Harrington - one of the original Sharks - in San Diego where we were both speaking at the same event. Kevin was eager to share his vision for StarShop. He announced the signed agreement with Sprint. Needless to say, I was super happy for Kevin and very excited about his vision for StarShop. I knew right then that StarShop was a going to be a big deal.

Kevin is a visionary with a been-there, done-that track record - something investors love. Sprint agreed to come on board with StarShop and market the new mobile App to their 55 million customers. It's apparent that Kevin has a tiger by the tail!

At this point Kevin had already been involved with Angel Investors Network (AIN) and this newsletter, as a shareholder and investor. I asked Kevin to let our team introduce StarShop to our network of investors so that we could be a part of helping market StarShop. After some discussion, Kevin agreed to give us an exclusive opportunity to buy in for a short period of time, to help benefit Angel Investors Network. Normally, when deals like this come along, it's big Venture Capital firms and/or investment banks that scoop them up and only people in their good ol' boys networks gets a chance to invest. Thanks to our relationship with Kevin, he graciously gave us the opportunity to share this opportunity with our good ol' boys network.

SO WHAT IS STARSHOP AND WHY ARE WE SO EXCITED?

StarShop is the newest app for smart phones. It is being designed as the first 100% mobile optimized 'Mobile Shopping Network'. It's like Home Shopping Network for mobile devices. The super cool twist about it is that it's celebrity and entertainment video driven - think of Entertainment Tonight meets Home Shopping Network only 100% optimized for mobile devices! A celebrity driven social engagement mobile shopping market place, the



first one of its kind.

StarShop's celebrities and their app stores will be used to sell branded products targeted primarily to an under age 50 audience. Celebrities are filmed in 30-120 second "selling videos" where they pitch, demonstrate, use and describe the various products being sold. It's a simple model, utilizing celebrities to sell merchandise from millions of phones on a daily basis.

Because of Kevin's extensive background in the industry, the team has gone to great lengths eliminating the expensive overhead driven model of QVC and HSN. They've created a lean, streamlined business model that is poised to make history in the mobile ecommerce space. This business model includes NO inventory, warehousing, multimillion dollar video production studios, expensive airtime or media buys. This model seems to have eliminated all the major costs of a proven TV based market. All that, combined with the muscle of Sprint and celebrity driven branding, Kevin has assembled a world class management team with an amazing strategic advisory board and some incredible joint venture partners. They are already planning to launch in 5 different countries and predict a global market within the next 36 months. This is a very aggressive plan that seems obtainable when considering the worldwide reach of Sprint and its parent company, Softbank.

Truly, this is the American dream in action. One of those rare deals with more risk reducers than we can count, and the probability for a huge financial upside.

Consider this one fact, when was the last time you saw a fortune 100 company involved in a startup? Do you think for a minute they would play at the level they are in StarShop to make just a few hundred million dollars? My guess is that Sprint is betting StarShop will become a 10 figure business. Anything less won't move their financial needle. Stay tuned for the rest of this story...



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 Los Angeles

Money Show
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 San Francisco
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 Orlando

3 Days To Cash
 Seattle
 Las Vegas
 San Diego
 Sydney
 Orange County
 New York
 Austin
 Minneapolis
 Fort Lauderdale

FSX Investment Conference
 Fort Lauderdale
 Westlake Village
 Los Angeles
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 Tuscon
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Freedom Fest
 Las Vegas

Capital Expertise & Opp. Summit
 Las Vegas

The Soho Loft Capital Creation
 Chicago
 Boca Raton
 Los Angeles
 Austin
 San Francisco
 New York City

New Orleans Investment Conference
 New Orleans

Kickercon Crowdfunding
 Houston

Hart Energy Conferences
 Various Cities

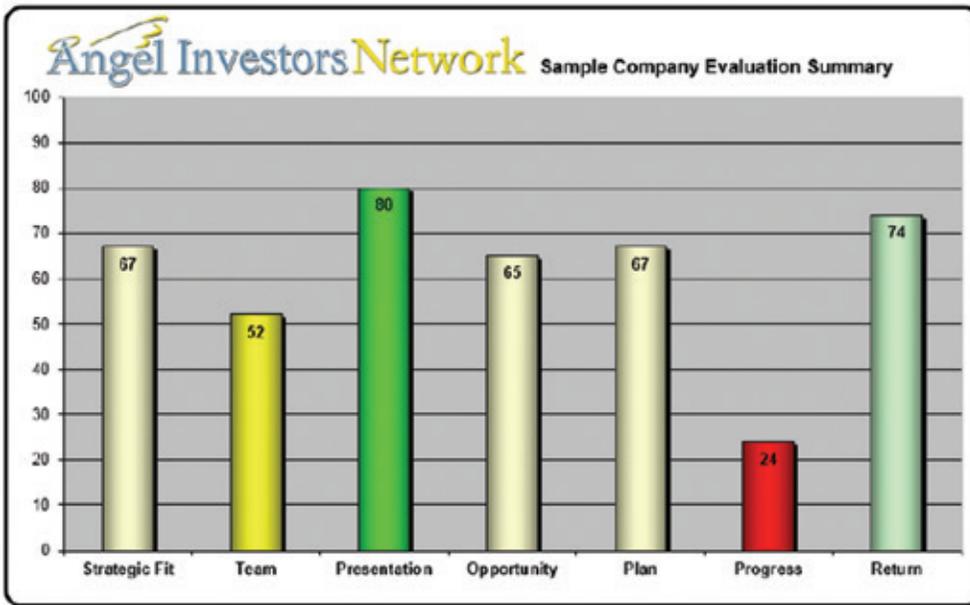
CrowdFunding 101
 Nashville
 Detroit

The Ultimate Millionaire Summit
 Various Cities

CrowdFunding Road Map
 Las Vegas

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 Visit: www.AngelNetwork.com/events

(NEW VENTURE continued from page 7)



As you can see, the big red flag was in their progress- they had done very little market testing. They had created a prototype, but it wasn't in the hands of customers yet and they had no sales or sales pipeline.

Summary

These are just three of the methods that you can use, and investors will use, to determine the value of your company today. It is recommended that you use multiple methods and be prepared to back up your valuation claim with an intelligent conversation on all of the methods.

(SEC continued from page 1)

creases to \$50 million and the need for state compliance has been eliminated. More importantly, Regulation A+ allows those funds to be raised from the general public, not just accredited investors like with Regulation D offerings.

The question that had everyone in the crowdfunding world holding their collective breath was simple: Would the SEC keep their proposed rules intact when its leadership voted, or would they succumb to the pressure of state securities regulators who were adamantly opposed to lessening of restrictions for their own selfish financial reasons? The answer is that the SEC stuck by their guns and allowed companies to raise Regulation A+ without having to go to each state and spend a fortune registering their offerings.

Another important issue the SEC decided involved who can invest in these offerings. The JOBS Act limited Regulation A+ offerings to "qualified investors" which led some to argue that only "accredited investors" would be allowed to invest. Accredited investors are those individuals who earn more than \$200,000 per year or have a net worth of greater than \$1,000,000. However, the SEC broadly defined the term "qualified investors" under Regulation A+ to allow anyone to invest, albeit with some limitations as to the amount.

For those worried about protecting investors from fraud, Regulation A+ only allows investors to invest 10 percent of the greater of their annual income or net worth in these securities. The SEC has also implemented other strong investor protections such as "bad actor" background checks on the companies offering the securities, and disclosure of the company's financial information as part of the offering.

The Regulation A+ rules can be read in full here. There are hundreds of pages, so get ready for a long read or a fast way to bore yourself to sleep. Having read the entire thing, I can tell you with confidence as a crowdfunding attorney that Regulation A+ has a chance to dramatically change the way small and emerging businesses raise capital in America.

The rules released by the SEC today now have to be published in the Federal Register before they become law, which takes about 60 days. As soon as that happens, entrepreneurs will have the ability to raise millions of dollars from "the crowd" in a simplified and comparatively affordable offering using Regulation A+.

“An investment in knowledge pays the best interest.”
 - Benjamin Franklin



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“...success is a process of continually seeking answers to new questions.”

– Sir John Templeton

Incubator vs. Accelerator: Is There A Difference?

If you're interested in getting your start-up into an accelerator or incubator there's no shortage of options, assuming you live in a metropolis. But these terms sometimes get thrown around interchangeably. Do you know the difference between the two?

I did some research and here is how Paul Bricault, cofounder of Amplify, a Los Angeles-based accelerator, defined them:

“An accelerator takes single-digit chunks of equity in externally developed ideas in return for small amounts of capital and mentorship. They're generally truncated into a three to four month program, at the end of which the start-ups graduate”.

“An incubator, on the other hand, brings in an external management team to manage an idea that was developed internally. Those ideas can gestate for much longer periods of time and the incubator takes a much larger amount of equity [compared to accelerators]”.

TechStars would be an example of an accelerator, but good luck getting in! Even though thousands of companies apply every year, TechStars only selects 10 for each of its programs.

One highly successful incubator is Pasadena, California-based Idealab, which was started in 1996 by Bill Gross in. Bricault says Idealab itself usually comes up with lots of good ideas for new businesses then recruits outside people to bring them to fruition. Incubators like Idealab take a bigger cut of the company than an accelerator does—from 20 percent to possible more, Bricault says.



Want to get your idea incubated? Idealab doesn't accept business plan submissions they only consider ideas referred by people with whom they already have a business relationship. Bricault says that's not the case with all incubators.

Fortunately, now there are so many of these companies to choose from. Capital efficiencies in the market have brought down the cost of creating a start-up, Bricault says, thus fueling a boom in new accelerators and incubators.

“What would have taken \$5 million to get off the ground with product developed and customers and traction several years ago now can take a few hundred thousand dollars,” he says.

If you want your company get into an accelerator, here are a few interesting ones tailored for unique niches:

Women Innovate Mobile is a new accelerator in New York for mobile technology start-ups that have a female founder or co-founder. Companies accepted into its three-month program receive \$18,000 in funding, free office space, product development and design support, mobile-marketing promotions, and mentoring. In exchange, WIM takes a 6 percent equity stake in the companies it helps get off the ground.

San Francisco is the latest city to partner with Code for America (CfA) to launch an accelerator for Web developers who create apps that that help make the city government run better. In the last two years Code for America has helped hundreds of developers in dozens of cities and received \$1.5 million in funding from Google. CfA in San Francisco will start taking applications in the spring.

The NewMe accelerator is a 12-week program for businesses led by underrepresented minorities, specifically African Americans, Latinos, and women. This one is intense—if your start-up is selected you'll hole up with seven others in a house in Mountain View, Calif.

I hope that helps clarify the differences, and gives you some insights. Seeking one of the two options maybe your ticket to paradise.

Two Things You Need To Know About Yourself Before Starting Any Business



BY KEVIN HARRINGTON

“Know thyself” is one of the oldest pieces of advice in Western thinking. It is inscribed above the entrance to the Temple of Apollo at Delphi, and it appears multiple times in Plato’s dialogues (even he called it “old wisdom”). You could think of it as the shortest self-help book ever written.

These sayings don't stick around for 3,000 years for no reason. If you're looking for good business

advice, you could do a lot worse than those two simple words: “know thyself”.

Because not “knowing thyself” could cost you a big pile of money... possibly, even your life!

There are business - and personal - perils of not “knowing thyself”.

History is full of people who didn't understand their own strengths and weaknesses, and let me tell you—it never ends well!

Rudolf Diesel was one of those people. As the inventor of the diesel engine, he should have become fabulously rich. Instead, unfamiliarity with the world of business nearly broke him financially, and he (likely) committed suicide by jumping overboard in the middle of the English Channel. It's a story you hear over and over again - the gifted inventor who fancied himself an entrepreneur, driven to financial ruin by unscrupulous associates. Don't be Diesel!

On the other end of the spectrum is John Sculley. Sculley is most famous for firing Steve Jobs from Apple. We all know how well that worked out for him (AAPL -0.7%). While he was a talented marketer - he invented the Pepsi challenge after all - he didn't have the technical knowledge or product expertise that Jobs did, and failed to replicate any of the early successes of the company. It took Jobs' return in 1997 to change that and turn Apple around.

It's only fair that I include one of my own biggest failures in this column. While I've invested in more than 500 products, I've only tried to invent one by myself. It was a lighter shaped like a cigar—goofy, right? At the time, I loved it. Eventually, I'd dumped half a million dollars into the product with nothing to show for it! So, while I'm a good investor and business owner, I learned that trying to invent new products on my own would surely end in disaster.

THE TWO THINGS YOU NEED TO KNOW

There are two particularly important questions you need to answer about yourself:

1. *What are my strengths as an entrepreneur/business owner?*



2. *What are my weaknesses as an entrepreneur/business owner?*

HOW DO YOU ANSWER THESE QUESTIONS?

The only real sure-fire way to answer these questions is to experiment, try and fail. In the postmortem of any business venture, it should be easy to see what went well, what went poorly, and how much of it - the good and the bad - was your fault. You do analyze your ventures after the fact, right?

That's why it's so vital that entrepreneurs have some reasonable business experience under their belts before coming to me looking for investment.

I've had entrepreneurs in front of me who didn't want to talk about their previous projects because they failed and it was embarrassing to them. They didn't know that I don't care about the failures so much. What I care about is whether or not they learned about themselves through failure.

Don't be scared. We've all wasted cash and time on our own cigar-shaped lighters. You just have to make sure that you've wrung every last bit of self-knowledge out of each experience.

If you're still not sure what your strengths and weaknesses are, don't hesitate to consult a mentor, or peers in a mastermind group. Ask them for candid feedback - they'll give it to you. But keep in mind that it will be colored by their experiences and biases. That's okay - it's still useful information. Just keep in mind that a marketing guy is going to focus on marketing, inventors are going to focus on products, etc.

And anyone recently burned by their own failures in one area is going to focus on that in their feedback.

Know your strengths. Know your weaknesses. Don't be afraid to try things and fail. Those failures will teach you what your strengths and weaknesses are. When you try again, build your business around the strengths. The more you “know thyself”, the closer you'll be to your success!

Staying Within The LAW With 506c Private Placements

Title II of the JOBS Act allowed companies raising capital to use private placement to advertise the investment opportunity. Think about it. If you were trying to sell your house but were not allowed to advertise, selling it would be pretty hard. "General solicitation" as it is known, has been legalized in the United States for certain private placements as of September 2013.

In typical fashion, the SEC does not stipulate how companies must verify the accreditation of a potential investor, other than the fact that "reasonable steps" must be taken. However, there are several safe harbor ways in which a company can do this, including:

- Verify Income through a combination of tax reporting (such as W-2 or 1099) and written investor representations.
- Determine the net worth through a bank or brokerage statements, tax assessments, recent credit reports, etc.
- Written confirmation from an SEC registered investment advisor or a registered broker dealer.

What is Rule 506(c)?

An amendment to Rule 506 of Regulation D, making it possible for companies to solicit funding from accredited investors through general solicitation and advertising.

Main Benefit:

Most private companies have limited capital and limited financial networks. This can make using traditional channels for soliciting funds impossible. Rule 506(c) makes solicitation legal. Capital raising through digital methods, such as social media, can be very affordable.

Year	8%	13%	21%	45%
2013	8%	13%	21%	45%
2014	8%	13%	21%	45%
2015	8%	13%	21%	45%
2016	8%	13%	21%	45%
2017	8%	13%	21%	45%

Title II of the JOBS Act allowed companies raising capital using private placements to advertise the investment opportunity. As I said before, if you were trying to sell your house but were not allowed to advertise, selling would be pretty hard. "General solicitation" as it is known, has been legalized in the United States for certain private placements since September of 2013. Online investment crowdfunding platforms quickly positioned themselves to leverage the

power of the internet and solicit funding for companies in need of capital. There are certain requirements that companies need to adhere to – as one would expect. One of the most important is the verification of investors being "accredited" or qualified to participate in these offerings. Whether you are investing or offering an investment, be sure to consult with a qualified attorney or a certified public accountant to be sure you stay within the law.

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5 Quagmires To Avoid @ All Costs

“What the mind can conceive and believe, it can achieve”
– Napoleon Hill

Every startup is unique and different with individual circumstances and needs and there are avoidable mistakes that all startups should consider that can lead to legal complications. Complications which can jeopardize the long-term success of a business and future rounds of financing.

People like to give advice and share their opinion, but wise men seek counsel from someone who has been there and done that! AIN's goal is to use our years of experience and all we've learned to help you.

Here are the 5 quagmires to avoid at all costs!

FAILURE TO DOCUMENT A FOUNDER AGREEMENT AT THE BEGINNING.

This oversight can lead to the so-called “skeletons in the closet”. Early co-founders sometimes drop out of the picture due to disagreements and you might forget about them, but they don't forget about the verbal agreements you two made. Later when your venture is closing on financing or even going public, that forgotten early partner surfaces demanding shares, warrants or even money.

This problem can be avoided by incorporating immediately and issuing shares to the founders, which are recorded in the minutes of the corporation. Everything you discuss should be documented. There's a great tool we use titled “Elements To The Perfect Agreement”. This text helps to identify and document expectations between partners. We also recommend and use Laughlin & Associates for all our “Corporate Compliance”. They help make sure Corporate records include minutes and proper documentation that meet legal requirements for everything done on behalf of the corporation.

INCORPORATE & ISSUE FOUNDERS SHARES IMMEDIATELY.

Many startups delay incorporation until the first formal round of financing, which is too late. At this point your entity may already have several million in valuation, so the IRS can tax your shares a income at that value immediately. This is called “phantom income and is to be avoided at all costs. If you don't, you might have to pay taxes on stock that has no liquidity and or real cash value.

The solution again is to incorporate early, when founders' share clearly have trivial value. Also, file an “83(b) election” with the IRS within 30 days of the agreement. Then you will only have pay tax on the increased value of your shares when they are sold.

DISCLOSING PATENTABLE INVENTIONS BEFORE THE PATENT APPLICATION IS FILED.

Entrepreneurs often put off the hassle and the cost of filing a patent until their first funding. Sometimes they share their invention with the public, they might even launch and start selling their product before filing a patent application. Eventually, they realize that not filing a patent has them looking like a novice, which investors will likely shy away from.

There is no excuse for not filing at least a provisional patent early. This will hold your place in the patent line for a year. The costs and time for this provisional filing are generally less than a full patent would be. Trade secrets need to be documented, and reasonable steps taken to keep them secret. Business plans and other documents should always be labeled as confidential.

MAKING SURE YOU ARE LEGALLY COMPLIANT BEFORE ACCEPTING MONEY FROM INVESTORS.

Laws can be very complicated. Many times, federal laws don't necessarily line up with state laws, which make it difficult for the novice entrepreneur to understand what applies to them. With the new crowdfunding laws, things are changing dramatically state by state and on a federal level. Bottom line, make sure to get legal counsel when raising capital to ensure you comply with both state and federal laws.

Overall, the biggest legal mistake that a startup can make is to assume that legal problems can be resolved later. Finding a lawyer early is easy, we use and recommend James E. Burk at the law firm of Burk & Reedy. In reality, it will cost you much less to get it right the first time, when the stakes are still low, compared to the heartache and cost of correcting something later.

ALLOCATE FULL TIME TO RAISING YOUR CAPITAL AND DON'T STOP UNTIL THE JOB IS DONE!

We see hundreds of deals every month. Way too many entrepreneurs start the process of raising capital, get a portion in the door, then start to focus on the business without finishing the financing round. They end up in a situation of never having enough money to actually implement the business plan as outlined and then end up raising money for months and even years. I am guilty of this myself, which is why I don't want you to do down that road.



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