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VEGAS VALLEY ANGELS advisor

September 2008

Upcoming Membership Meeting:

Tuesday, September 16, 2008
3:00p.m. – 5:30p.m.
**Guests are invited to attend VVA membership meetings

Upcoming Networking Opportunities:

Thursday, September 4:
Vanguard Media Group's Development Roundtable with Mayor Goodman
11:30a.m. – 1:00 p.m.
(702)383-4002,
rsvp@vanmedia.com

Tuesday, September 16:
Henderson Chamber Networking Breakfast
7:00a.m.
www.hendersonchamber.com

Wednesday, September 17:
TBAN August Luncheon
11:45a.m. - 1:20p.m.
www.tban.us

Friday, September 19:
North Las Vegas Chamber Member Briefing
8:00 a.m. - 9:00 a.m.
www.nlvchamber.org

Wednesday, September 24:
LV Chamber New Member Breakfast
7:00 a.m. - 9:00a.m.
www.lvchamber.com

Thursday, September 18:
Nevada Development Authority Breakfast
7:00 a.m.
www.nnda.org

CHAIRMAN'S CORNER

By William Botts, Vice Chairman, Vegas Valley Angels

While our chairman is off making some high-risk, high potential return investments in Del Mar, the task of preparing the Chairman's Corner has fallen to the Vice Chairman. While the title probably sounds great from a position of responsibility standpoint, don't let the term "vice" excite you, it's really a term for, "whatever else might need doing." Anyway, here is my opportunity to vent!

Having been a VVA for about four years, I have watched the organization develop, evolve and mature. Today we are a much different and much more organized angel group than ever before. With tools such as AngelSoft we have moved into the 21st century and with good leadership we should be able to attract more and better deals and invest in many successful enterprises. Having staked out the position that the Vegas Valley Angels are destined for a bigger and better future, let me focus on what worries me about our organization and the road to the future.

The VVA Board of Directors discusses, assesses and attempts to address our weak spots. However, I have concluded that most of the solutions to our weaknesses must come from the members, not the board. Let me enumerate a few of my worries.

1. Inconsistent member attendance---We are all busy whether making a living or just having fun. However, one of the obligations of being in the VVA is a commitment to attend meetings. It is pretty poor form (and quite embarrassing) for us to have a company present with only a dozen members present. With between 35 and 45 members we should be able to field at least 80% per meeting. The only solution to this concern is for the members themselves to recommit and become active as near 100% as possible.
2. Limited due diligence participation---Our organization's performance, thus our member's returns, will in large part depend on how well we pick and choose among investment opportunities. Our process involves doing a comprehensive evaluation of the opportunity/deal before we recommend an investment to our members. Done properly the due diligence team will cumulatively spend hundreds of hours on understanding the company, the market, the deal, management, the financial plan and many other parameters. The goal is to winnow out the good from the bad and the stars from the dogs. Obviously early stage investments cannot be made risk-free but good due diligence will have a large positive impact on picking those most likely to succeed. My concern is that too few members are willing to participate in the due diligence process. Many times the same faces are seen doing the same investigations. We need all of our members to participate at least twice a year on a due diligence team. Even those that have never done it before should participate as a vehicle for gaining the experience needed to prepare them for future lead roles with other due diligence efforts.

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ANGEL TERM SHEETS

By William H. Payne, Vegas Valley Angels

Venture capitalists and angels approach term sheets somewhat differently. VCs tend to look at the company and then ask the entrepreneur to sign a non-binding term sheet before beginning serious due diligence. If the VCs find problems which might impact the valuation or other terms, they come back to the entrepreneur with a modified term sheet. VC term sheets are generally (but not always) non-negotiable.

Angels, on the other hand, tend to start or even complete due diligence prior to initiating discussions of term sheets. This may or may not be in the best interest of both parties. Angels should begin negotiating term sheets with entrepreneurs as the due diligence process begins. In fact, angel groups should publish standard term sheets (available to entrepreneurs) and make known to all (including entrepreneurs) the range of pre-money valuations generally acceptable to the group for pre-revenue companies. For example: The Vegas Valley Angels are preparing a standard term sheet, which we will make available to all interested parties. We should also make it clear to all entrepreneurs (in advance) that we normally expect to invest in pre-revenue companies at a pre-money valuation in the range of \$1 million to \$3 million.

Here are a few additional suggestions for negotiating term sheets:

- The deal lead should **facilitate the early negotiations of term sheet** as the due diligence process begins, to avoid wasting time on due diligence for entrepreneurs with unreasonable deal terms. Normally, we should expect one member of the due diligence team to assume the responsibilities for negotiating the term sheet and to complete that activity early in our relationship with the company.
- Angels should **negotiate vanilla term sheets**, especially when the company anticipates raising multiple rounds of financing to achieve positive cash flow. Onerous or overly protective term sheets will be viewed negatively by subsequent investors, who will likely ask earlier investors to moderate the terms of earlier rounds at the time of the subsequent investment.
- There are many appropriate deal structures. But, angels should **avoid those deals for which establishing the valuations is postponed** until a later time or event. Deals for which negotiating the valuations is postponed usually under-value the investment and reduce returns.



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Impact Sports Technologies Update

Since presenting to the VVA in the spring of 2005, 15 VVA members have made investments in Impact Sports Technologies (IPS). In 2005 Impact Sports Technologies CEO Don Brady turned to VVA to help launch his prototype fitness glove designed to easily allow users to monitor their heart rate and calories burned on the back of the hand. VVA initially invested \$400,000 into IPS to launch the Power Glove which was well received and even garnered recognition in Shape Magazine, Prevention, Women's World, and Curve Magazine.

Last month, Impact Sports Technologies launched its second generation product, the ePulse, an updated version of the first generation Power Glove that now fits easily over the forearm to give users full mobility of their hands for use in a variety of settings. One very unique aspect to IPS' products is that other heart rate monitors require chest straps and special watches to monitor vital signs, but the ePulse, which is made of lightweight and breathable material, conveniently and accurately provides vital statistics including heart rate and caloric burn rate.

VVA will be monitoring the success of IPS' new ePulse and will keep members updated on its status.

Member Spotlight

Mike Ballard

Mike Ballard is immediate past Chairman of the VVA, an entrepreneur, business counselor and angel investor. Over the last decade, his interests have turned to help grow several successful start-ups. Ballard has more than 20 years of experience in information technology and communications industries with strong leadership roles in sales, marketing, finance and executive management.

Ballard is currently chairman and CEO of 1Velocity, Inc. 1Velocity is one of the nation's first wireless local exchange carriers, deploying true carrier-class Ethernet-based metropolitan networks. Prior to joining 1Velocity, Mike was CFO and a board member of Switch Communications Group, a leading collocation company, and chief operating officer of Systems Research & Development where he helped grow revenues six-fold and the staff by 300 percent. The company later sold to IBM in January of 2005.

In 1992, he founded Ballard Communications, one of the most successful and award-winning Public Relations firms in Nevada and the West. For the better part of a decade, it was the largest independent PR firm in Nevada. Ballard also serves on the board of Skywire Media, a leading developer of innovative mobile marketing solutions.

Ballard is a past president of the Technology Business Alliance of Nevada and also sits on the boards of several not-for-profit organizations including the Nevada Center for Entrepreneurship & Technology, the UNLV MIS Department's advisory board, the Literacy and Education Awareness Project (L.E.A.P.), and the local chapter of Communities in Schools. He is also an active member of the Las Vegas Rotary.



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3. Unwillingness to invest---Our membership terms suggest that members must be willing to make at least one to two investments a year at the \$25,000 level. Now I know economic times are kind of scary and lots of us are trying to keep our powder dry, maybe even just damp, but if we continue to vet companies that pass our analysis yet are unable to fund all or even a moderate part of their needs, we will fail. The word will get out that the VVA is a "paper angel." Several years ago most of the money came from the same 6-10 members. Now even that has thinned out. The theory of angel investing is one of getting multiple investments working toward producing the statistical returns typically achieved by good angel groups. We need more companies in our collective portfolios to minimize the overall risk of making money. When a due diligence group recommends a company we must do a better job of getting our members to invest. When we invest the most in a deal we get more clout with and access to the company.

4. More and better deal flow---While we are finally seeing more investment opportunities it is clear that more deals coming down our pipeline will enhance our future outcome. We need to encourage entrepreneurs with good ideas and business plans to give us a try. We need for our members to be VVA salesmen to the community as a whole. We need more visibility in the region and more investments in local businesses to prove we are an important source of risk capital.

5. More accredited members---While we are hovering at just under 40 members, we probably need to target our membership at somewhere north of 50 accredited members. Most of the deals we are seeing need between \$500,000 and \$1,000,000. If we lead a deal and raise 70% of the need we have to come up with \$350,000 to \$700,000 for each such deal. With 50 members at an annual investment of \$50,000 our investable resource is still only \$2,500,000, or 3-6 deals per year. At fewer than 40 members, even if we find great deals, we will be unable to be real funding leaders. We need deeper pockets, or at least more pockets. Our best source of more pockets (new members) is in fact referrals by current members. We need to be constantly aware of our membership needs and invite our accredited business associates, friends and neighbors to get involved.

While all of these issues are important, many may be cured simply by a few positive outcomes. We have several portfolio companies that could well provide 3X-6X exits during the next twelve months. Success will certainly have a positive impact on our several challenges. I for one believe that our region will prosper in the coming years but we need to recommit to the VVA to ensure that our organization prospers as well.