



# Newsletter

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### Membership Committee

Mike Bateman  
David Burwen  
Brian Frenzel  
Martin Lefebvre  
Art Reidel  
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### Dinner Details

**Date:** Wed., May 16, 2007

**Place:** Los Altos Golf and Country Club

**Time:** 6:15 - 9:00 pm

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## Introduction

The Angel Capital Association (ACA) annual meeting is to be held in two weeks in Chicago (May 23-25<sup>th</sup>). At least two Band members will be joining more than 300 other angels representing more than 110 member groups. Angel investing sure has come a long way since our original twelve members met at the old Chantilly on Ramona Street and wondered what to call their merry band ('The Ramona Club' was one candidate).

As angel investing gets more sophisticated we hope that it doesn't lose its charms; that we succeed in marrying the best of angels to the best of professional VCs. The former camp is our natural strength. Angels are good mentors; they like to help entrepreneurs, they identify with them, and therefore make excellent, "company building" focused, investors and board members. In the latter case, it is from banding together in the Band that we learn how to be better investors. Best practices in diligence, deal terms, and investing are enshrined in "institutional memory" and passed along from member to member. The ACA is trying to do for angel investing in general what the Band has done, and is doing, for our members in particular—noting that even very accomplished operating entrepreneurs may be relatively inexperienced investors, the ACA makes available programs to help angels become more sophisticated. There is an all day tutorial ahead of the ACA conference for members; and similar events are run locally by others (look at the ASTIA and UC Berkeley programs described at the end of this newsletter).

From such a tutorial, I extracted a short segment on the topic of valuation. John Huston, leader of the Ohio Tech Angels, wrote the following on how to value a pre-revenue company:

*There is more art than science in assigning a valuation to a pre-revenue venture seeking its first outside capital. Wise entrepreneurs focus on setting their initial pre-money valuation, not at the highest attainable value, but rather on where they can ensure an "up-round" for their investors and a speedy close to their financing. This avoids the "deathly down round" and encourages their early investors to join the next round. Also, because the team has indisputably built shareholder value, they can more easily raise the next round and thus concentrate on building the business, not on fund raising. Naïve entrepreneurs take an often fatal short term view of fund raising and focus on obtaining the highest level of valuation in their initial round. They may eventually find "nice" angels who accommodate them, but then are disappointed by a flat round, or shocked by a down-round and the other demands ("pay-to-play") of the next round financiers (i.e. VCs). Especially when they thought they were doing the entrepreneur a favor by being so flexible on the initial valuation which left no margin for either delay or course corrections.*

Sound familiar? I hope not! The Band seems really good at pricing things right and keeping a reserve for future rounds; we participated in as many follow-on financings (12) last year as we did new financings (13). But its worthwhile keeping as faithful to our sensible investor practices as we are to our entrepreneurial roots.

- Ian