HARVARD BUSINESS CASE

AngelList

Case Researcher: Dr. **Ramana Nanda** and a HBS team
Associate Professor of Business Administration
Marvin Bower Fellow
Harvard Business School

Moderator: Dr. **Thomas Hellmann**
B.I. Ghert Family Foundation Professor in Finance and Policy
Sauder School of Business
University of British Columbia

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Case Researcher

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Associate Professor of Business Administration
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Ramana Nanda is Associate Professor of Business Administration at the Harvard Business School. He teaches Entrepreneurial Finance in the second year of the MBA program and in HBS executive education offerings.

Ramana's research focuses on the ways in which the financial sector impacts innovation and entrepreneurship in the economy. One strand of research examines the role of financial intermediaries such as banks and VCs in shaping the founding and growth of new ventures in a region. A second, related strand, examines how government policy towards the financial sector impacts innovation, entrepreneurship and productivity growth in the economy. A current project that draws on both these strands of research relates to the challenges of financing clean-energy startups and the appropriate role for government policy in facilitating the commercialization of new technologies in this sector.

Ramana is a Faculty Affiliate at the Center for International Development and the Center for the Environment at Harvard University and a Research Associate at the Center for Corporate Performance in Arhus, Denmark. He received his Ph.D. from MIT's Sloan School of Management and has a BA and MA in Economics from Trinity College, Cambridge, U.K. He is a recipient of the 2010 Kauffman Junior Faculty Fellowship in Entrepreneurship Research.

Prior to starting his Ph.D., Ramana was based in the London and New York offices of Oliver, Wyman & Company, where he worked primarily with clients in global capital markets as well as in small-business banking. He continues to advise startup ventures on their financing strategies, with a focus on the biotechnology and clean energy sectors. He also works with philanthropic investors who use market-based solutions to address poverty and promote entrepreneurship in developing countries.

Moderator

Dr. **Thomas Hellmann**
B.I. Ghert Family Foundation Professor in Finance and Policy
Sauder School of Business
University of British Columbia

Dr. Thomas Hellmann is the B.I. Ghert Family Foundation Professor in Finance and Policy at the Sauder School of Business at the University of British Columbia. He holds a BA from the London School of Economics and a PhD from Stanford University. He is the director of the W. Maurice Young Entrepreneurship and Venture Capital Research Centre at UBC. Prior to joining UBC, he spent ten years as an Assistant Professor at the Graduate School of Business, Stanford University. He teaches executive, MBA and undergraduate courses in the areas of venture capital, entrepreneurship and strategic management. His research interests are venture capital, entrepreneurship, innovation, strategic management and public policy. He is also the founder of the NBER Entrepreneurship Research Boot Camp, which teaches the frontiers of entrepreneurship economics and entrepreneurial finance to PhD students. Recently he wrote a report about the role of government in venture capital for the World Economic Forum in Davos. He also led the evaluation report of the venture capital program in British Columbia. His academic writings have been published in many leading economics, finance and management journals. He has also written numerous case studies on entrepreneurship and venture capital, and led the development of a library of case studies focused on high technology companies in British Columbia. Currently he is writing a textbook on venture capital and private equity.

SECOND PANEL

"Institutional investors' views on the financing of innovation"

Moderator:

Ms. **Ann Leamon**
Former Teaching Fellow
Harvard Business School (USA)

Panelists:

Mr. **Jagdeep Bachher**
Executive Vice President
Venture and Innovation
AIMCO (Canada)

Mr. **Frank Landsberger**
Senior Managing Director
INKEF (Netherlands)

Mr. **Peter Pereira Gray**
Managing Director Investment Division
The Wellcome Trust (UK)

Panelists

Mr. **Jagdeep Bachher**
Executive Vice President Venture and Innovation
AIMCO (Canada)

Jagdeep Singh Bachher is Executive Vice President, Venture & Innovation at Alberta Investment Management Corp. Dr. Bachher leads Global Special Opportunity Investments and is the Executive Sponsor of "AIMCo Innovations," an organization-wide initiative to transform AIMCo's operating infrastructure and investment processes. He joined AIMCo as Chief Operating Officer and was then appointed Deputy Chief Investment Officer. Prior to AIMCo, Dr. Bachher was President of JH Investment LLC (subsidiary of Manulife Financial Corp.), a fixed income asset management firm. While at Manulife, he worked in Global Investments Management, Canadian Division and U.S. Wealth Management. Before joining Manulife, Dr. Bachher was an entrepreneur. Dr. Bachher is a Visiting Scholar at Stanford University and an Adjunct Professor in Finance and Energy at the University of Alberta. He holds a Ph.D. and M.A.Sc. in Management Sciences, and B.A.Sc. in Mechanical Engineering from the University of Waterloo. Dr. Bachher is a member of Young Presidents' Organization (YPO) and the Institute of Corporate Directors (ICD.D). He is the Chairman of the Institutional Investors Roundtable and serves on the Board of Bloom Energy. Dr. Bachher was recently named to the Power 100 and Top 40 under 40 Chief Investment Officers by aiCIO.

Mr. **Frank Landsberger**
Senior Managing Director
INKEF (Netherlands)

Frank Landsberger is the Founder of INKEF Capital. In his varied career in the US as well as in Europe, Dr. Frank Landsberger has acquired significant experience as a venture capitalist, start-up entrepreneur, academic and senior corporate manager.

Panelist

Mr. **Peter Pereira Gray**
Managing Director Investment Division
The Wellcome Trust (UK)

Peter Pereira Gray is the Managing Director of the Investment Division of the Wellcome Trust, working with a team managing the £14 billion multi asset global investment portfolio. Peter reports to the Chief Investment Officer and is a member of the Investment Committee. Previous roles held were Co head of the portfolio Management team and Head of Property Investment. Peter has a wide brief, responsible for the oversight of the Investment Services, Support and Portfolio Management teams. Prior to joining the Trust in January 2001, Peter worked for 12 years at Prudential Property Investment Managers, latterly as a Director of Property Fund Management and Deputy Life Fund Manager. Wellcome has been a finalist in Property Week's 'Property Fund Manager of the Year' awards and has twice been a winner in the Estates Gazette/Investment Property Forum /Investment Property Databank Property Investment awards. Peter was recognised by Private Equity Real Estate magazine as one of the worlds' 20 most influential Limited Partners in 2008, and in March 2010 they named Wellcome as European Property 'Limited Partner of the Year 2009'. Wellcome recently won "Best Institutional Investor in the UK/Ireland' at the prestigious IPE Real Estate awards in May 2010, and Peter was shortlisted alongside others for the "Industry Contributor' of the year award by both titles during 2010. In March 2012 Peter was recognised by Estates Gazette as one of the most influential voices in real estate in the UK. Peter is a past Chairman of the Investment Property Forum, the UK's leading property investment professionals' members association. He is a member of both the Bank of England Commercial and Residential Property Forums, and a member of the Royal Institution of Chartered Surveyors. Peter was a past founding and advisory board member and member of the Management Board of INREV (the European Association for unlisted real estate vehicles). Peter is an Advisory Board member for Composition capital partners, a real estate fund manager with offices in Amsterdam and Hong Kong. Outside work he is a Life Fellow of the Royal Society of Arts and an Advisory Board member and Honorary Fellow of the Institute of Continuing Professional Development. Peter has written a number of papers and presents regularly at the major international conferences including IPD/IPF, INREV, IMN, Property Week, and PERE in London, New York and Europe.

Moderator

Ms. **Ann Leamon**
Former Teaching Fellow
Harvard Business School (USA)

Ann Leamon was a Teaching Fellow at the Harvard Business School and is now the COO and a Partner at Bella Research Group. At Harvard, Ann co-founded the Center for Case Development. She left that position to collaborate with Professors Josh Lerner and Felda Hardymon in the further development of the Venture Capital & Private Equity course. She has co-authored more than 120 cases, three editions of Venture Capital & Private Equity: A Casebook, and the textbook Venture Capital, Private Equity and the Financing of Entrepreneurship. Recently, she and Professor Lerner founded Bella Research Group, which provides customized research and education to the private equity community. Ann is also the former Director of Communications for Bessemer Venture Partners, a global top-tier venture capital firm. Prior to joining the private equity industry, Ann spent six years as a senior business analyst at L.L. Bean and three years at Central Maine Power Company as a senior economic and load forecaster. Her work in local area load forecasting won an Industry Innovators award from the Electric Power Research Institute. Ann holds a B.A. (Honors) in German from University of King's College/Dalhousie, an M.A. in Economics from University of Montana, and an M.F.A. in Poetry from the Bennington Writing Seminars.

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RAMANA NANDA
LIZ KIND

AngelList
PPF 2013 Harvard Business Case

Questions from Professor Josh Lerner

Please consider the following questions:

1. Do you think that equity-based crowd funding will play an important role in the financing landscape for startups going forward? Which startups and investors will be most attracted to this mode of financing and what will be the drivers of success?

2. Do you think that several niche crowd funding platforms will continue to coexist or is this a "winner take all" market? What steps should AngelList take to be successful?

3. Which elements of AngelList's emerging business model do you like? What could go wrong? How should Naval and Nivi manage the risk-reward ratio?

4. As VC investor, would you invest $25 M in Angellist at a $150 M post-money valuation? Why or why not?

Professor Ramana Nanda and Senior Researcher Liz Kind prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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AngelList

As AngelList co-founders, Naval Ravikant and Babak Nivi, looked around their new office space in San Francisco, CA, they couldn't help but reflect on the success they had in the past few years. The two met in the Bay Area in 2005 through mutual professional and social connections. In 2007, they decided to start Venture Hacks, a blog dedicated to helping entrepreneurs navigate the world of venture capital. Their newest endeavor, AngelList, was an extension of Venture Hacks. In early 2010, Ravikant and Nivi posted a list of angel investors on the Venture Hacks blog as a resource for founders looking for funding prior to seeking venture capital. The list quickly evolved into AngelList, a separate matchmaking platform for founders and investors to make early stage fundraising more efficient. Within the first month of launching AngelList, one of the startups profiled got funding, and by mid-2010, Ravikant and Nivi were dedicating all of their time to the new site.

By June 2013, AngelList had garnered substantial media attention, and was used by many high profile angel investors and venture capitalists. It had approximately 100,000 startups and 18,000 accredited investors. Since the site was launched, almost 40 startups on AngelList had been acquired, and over 2,000 startups had been funded. For most entrepreneurs, posting a profile on AngelList had become as commonplace as setting up a personal profile on Facebook or LinkedIn. Within the last year, the site added an active recruiting product and began providing online tools and documents to help facilitate the funding process. Most recently, the site added Invest Online, a new product that in partnership with SecondMarket, allowed accredited investors to make small investments—as low as $1,000—in startups at the same terms as larger investors.

While the co-founders were proud of AngelList's growth, as of June 2013, they were not charging for its use and had not yet determined its business model. Ravikant and Nivi wondered if they should reconsider and have AngelList apply for broker dealer status so it could charge transaction fees, but they were reluctant to enter what they considered a regulatory minefield. The recently passed JOBS Act was expected to relax constraints around crowdfunding, and Nivi and Ravikant knew that would be a logical extension for AngelList as well. Finally, they wondered if they should avoid any potential regulatory issues altogether and instead focus on generating revenue primarily from recruiting and other ancillary services.

Background on AngelList

Ravikant had a wealth of experience as both an entrepreneur and an investor. He was born in India, and moved to New York with his family when he was nine. He worked his way through Dartmouth College, graduating in 1995 with degrees in computer science and economics. After a short stint with the Boston Consulting Group, Ravikant moved to Silicon Valley in 1996 to focus on high-tech and began working with a variety of startups and in venture capital. In 1998, he helped found Genoa Corporation, a manufacturer of semiconductor optical components. The company was acquired in 2003 by Finisar Corporation in a stock transaction valued at approximately $5.5 million. In 1999, while an Entrepreneur in Residence (EIR) at August Capital, Ravikant co-founded Epinions, a consumer product reviewing Web site that was acquired by DealTime in 2003 for an undisclosed amount. Ravikant and three of the company's five founders had left the firm, but agreed to the deal, even though the terms rendered their shares worthless. The new company, renamed Shopping.com, went public one year later, raising over $124 million with an implied valuation of approximately $750 million by the end of the first day of trading.

Ravikant, the three co-founders that had left Epinions, and some former employees made headlines in January 2005 when they sued the remaining founder and the two venture firms—Benchmark Capital and August Capital—which had provided seed funding, claiming they had been deceived and cheated out of nearly $40 million. By the end of 2005, the suit was settled, and Ravikant went on to co-found and serve as CEO of another startup, Vast.com, an online classifieds marketplace. On the side, he launched his blog, Startup Boy—The Truth in Startups and a Whole Lot Less. In 2007, he raised $20 million for The Hit Forge, a fund focused on early-stage social media investments. Through the fund, Ravikant invested in a number of highly successful ventures including Foursquare, Twitter, and SnapLogic.

Nivi also had experience in both startups and venture capital. Born in London, England to Iranian parents, Nivi spent his early childhood in Tehran before moving to Canada. His early schooling was in Canada and Michigan. Nivi graduated from the Massachusetts Institute of Technology (MIT) in 1997 with bachelors and masters degrees in electrical engineering and computer science. He continued his studies at MIT as a Ph.D. candidate, again in electrical engineering and computer science. While at MIT, he and his collaborators received two U.S. patents, one of which supplied the technology behind Kovio, a startup backed by Silicon Valley venture capitalist, Vinod Khosla, and Bessemer Capital (Bessemer). In 2000, Nivi dropped out of his doctoral program, and after toying with some startup ideas, decided to pursue a position in venture capital. He explained, "It looked like a really fun job—you get to sit…all day, people come and pitch to you with their great ideas, and then you're like a king with a checkbook who decides whether to invest money or not. But it wasn't really like that." He worked as an associate at Seed Capital Partners, and as an EIR at Bessemer and Atlas Capital. He became interested in an online music company, Songbird, and joined them full time as vice president. While Nivi was grateful for the venture capital colleagues who served as his mentors, he recognized that VC was not for him. He elaborated:

> I was just awful at it, and I hated it because I thought it was the worst run profession ever. It was a relationship business at a time when everything should have been running online like eBay. The structure made no sense. Dealflow came from people you knew; there was no online or other repository where you could see all the companies seeking funding, the way you would in the public markets. Then, once you identified a company you wanted to invest in, you had to sell your way into a deal and convince the founders to take your money. And, because every deal was unique, there was always negotiation around each of the terms.
>
> Ultimately, my biggest issue was that, no matter what they said, the VCs were never on the side of the entrepreneur. I think capital partners should act like co-founders or team members, but venture capitalists have a lot of different incentives. I also think it's unfair that the VCs know so much more about fundraising than the entrepreneurs.

While helping Songbird raise money, Nivi noted, "I got a lot of good advice from Naval and others about how to manage and negotiate the process, and I decided I'd rather be spending my time publishing that kind of guidance online." Ravikant added, "After the Epinions experience, a lot of people came to me for advice on the whole VC game."[1] In 2007, he and Nivi decided to start Venture Hacks. Kevin Laws, chief operating officer at AngelList, commented, "Nivi took a lot of the information that Naval, in particular, had shared with him about how to raise money, and turned it into good advice for entrepreneurs. Nivi is a brilliant writer. He has an unusual ability to distill lengthy writings into a half page and still cover it all."

The Venture Hacks blog quickly gained a following among entrepreneurs and was sponsored by the Kauffman Foundation for Entrepreneurship. Posts covered a variety of topics from "How to pick a Co-founder," to "How to Make a Cap Table." A compilation of the blog posts, *The Venture Hacks Bible*, was published in 2012. Ravikant and Nivi routinely received inquiries from entrepreneurs, asking for referrals to investors. Eventually, Ravikant and Nivi decided to compile a list. Nivi elaborated:

> We were brainstorming while driving in Naval's car, and decided that we should just make a list of investors—people were asking us for names all the time. Venture Hacks teaches entrepreneurs how to negotiate a deal, but a lot of founders don't know any investors to be negotiating with. So, we thought it made sense to put together a list, with things like where they were based, what they were interested in investing in, and what their portfolio looked like. We made an online form, emailed it to our investor friends, and asked them to fill out their name, location, number of investments they were going to make during the year, the typical dollar amount of their investments, how they could add value, and generally, what kinds of companies they were interested in investing in. We took their answers and cut and pasted them into a big blog post that, within a few months, grew to be over 100 investors.
>
> That giant blog post was the first version of AngelList. From there, it grew a bit at a time. There was demand from day one, but we constantly tweaked it and created new iterations. The next natural question we got from the entrepreneurs was, "How do I get in touch with the investors on the list?" We tried adding the investors' email addresses, but they quickly got overwhelmed with spam. Next, we had founders fill out a form describing their company. If we liked it, we emailed it to the investors—we were basically middlemen. Then, we had the startups build an online profile, similar to what they might do for Facebook. Eventually, we made the profiles public, so that investors could browse the site and see all the companies that were looking for an introduction. It's been, and continues to be, a constant pivot.

According to Ravikant, the site was modeled on and named after the online classifieds site, Craigslist. He noted, "At its simplest [Craigslist] is about helping people find the connections they need for every service."[2] Laws also reflected on the site's history:

> It began as a side project. Naval and Nivi recognized that venture capital didn't make as much sense as it had in the past as the cost of starting a business went down. They hired some engineers to write software that would filter deals and investors for each other. We put in all kinds of things we knew investors would look for: Who do you know? What's your background? Did you come out of Google? Did you go to Harvard or MIT? How much traction does your company have?
>
> Once we added that kind of screening, AngelList became much more than just a blog to help out friends. It exploded. We weren't planning to take over the world with AngelList; it was a project to give back to the community. Yet, when it took off, we decided to form a company and build it out from there. AngelList is structured as a for-profit company, although we don't have profits—or revenues for that matter, yet—for a variety of reasons, primarily regulatory. We raised some funding from angels and the Kauffman Foundation for Entrepreneurship. The idea for now is to grow bigger and to figure it out how to make money in 2013. In the past, we've all built successful companies, and are comfortable that for the time being, the best move is to just keep growing.

AngelList – The Platform and Company (as of June 2013)

Typically, startups began on AngelList by creating a profile for their company, and identifying investors they wanted to meet. Any company was eligible to publish a profile on AngelList. Investors, however, were screened and required to be "accredited" according to U.S. SEC [Securities and Exchange Commission] rules and regulations.[3] The AngelList platform functioned similarly to a social networking site. Participants could "follow" people and/or companies, comment on posts, and "like" others' updates. Search filters, such as market or industry, geographic location, and investments in similar companies, provided startups and investors the ability to connect more easily.

Within 72 hours after a company profile had been published, the AngelList team used an algorithm to screen the startups and hand review the top ones in order to determine which organizations they would feature to investors. Ravikant explained:

> For each company, we look for team, product, traction, and social proof because that is was investors are interested in. With team, a lot of it is based on background—where the team went to school and what they did in terms of prior jobs or companies. We try to structure that information as much as possible, but it's half fuzzy, half crunchable. On product, it's almost all fuzzy—you have to have nose for what products are interesting, how well the team will execute, and so on. Traction can be quantified to a certain degree in terms of a company's revenue; how many users they have; and how many customers they have. And then finally, social proof is measured based on who's advising and who's investing in the company. We've managed to quantify things enough so that for every 100 companies that come in, we only need to look at the top 10 to 20 profiles manually.

Ash Fontana, who worked on fundraising products, including core investor/company matchmaking at AngelList, estimated that somewhere between 100 to 200 startups published a profile on AngelList each day. AngelList manually reviewed approximately 200 per week, and interviewed some of the startup teams by Skype, phone, or email before selecting the three to five companies that would be featured to investors or on the Web site that week. Ravikant provided more background:

> We started out vetting all the companies, but eventually asked ourselves: who are we to judge what should get funded and what shouldn't? Obviously when you're scaling a network there's a quality/quantity tradeoff, so we work very hard to curate the best companies and feature them on the homepage. Every single view on the site is sorted and rank filtered, whether someone is looking at incubators, investors, lawyers, or companies in specific markets or locations. Right now, there are about 100,000 company profiles on AngelList. A lot of them are junk like the hair salon down the street that will never get funding from professional investors. But, some of the best companies—such as Pinterest—start out as complete unknowns. In addition, a lot of companies begin on AngelList with a minimal amount of information and then progressively build up their profile. And then of course, a lot of serendipity can happen and one person's trash is another person's treasure. There are some companies that don't appeal to traditional investors, but may appeal to angels who know the space or who are interested for personal reasons.

Ravikant estimated that of the 188,000 total profiles, approximately half were "community profiles" that were not actively maintained by their founders or CEOs. He described 4,000 to 7,000 of the remaining startups as "high-quality fundable companies." Of these, the vast majority were early stage technology companies. Ravikant added, "The breakdown is something like 70% software information technology, 20% to 25% enterprise, 5% to 10% hardware, 5% consumer goods, some healthcare, and then all kinds of miscellaneous."

Investors also filled out a profile for AngelList, including data on their background, portfolio, and anticipated number and dollar size of investments for the upcoming year. As of June 2013, there were approximately 18,000 accredited investors that had been approved by AngelList. Once approved, investors had their own pages that included a list of featured companies for the week, which were based on AngelList's recommendations and their own investment preferences. Investors could also use the page to track investments, the companies they were advising or following, and the startups that were trending popularly within the AngelList community. The investors on AngelList included high net worth individuals, professional angel investors or investor groups, or venture capitalists. Ravikant estimated 40% were venture capitalists and 60% were angels. AngelList ranked investors by the number of "followers" they had. (See **Exhibits 1 and 2** for a list of the highly ranked venture capital firms and angel investors.)

The site rapidly gained loyal followers, but in February 2011, venture capitalist Bryce Roberts created a media stir when he publicly deleted his AngelList account, claiming a herd mentality toward investing.[4] (See **Exhibit 3** for Robert's post.) Another naysayer posted a blog titled, "The Crapification of AngelList," citing excessive emails and requests from entrepreneurs to "like" their company, in order to game the system.[5] Nonetheless, the vast majority of press around AngelList was extremely favorable. Mark Suster, a former entrepreneur and venture capitalist, described AngelList as "one of the most important contributions to the Web in angel investing in a long while."[6] Another prominent venture capitalist described his reasons for using AngelList:

> AngelList is an incredibly powerful platform for connecting entrepreneurs with capital and has rapidly become one of my best sources of early-stage dealflow. I read every summary the system sends me.
>
> Here's one reason AngelList is a big improvement for me: most entrepreneurs are all too familiar with how inefficient and time intensive a process raising capital can be but may not realize that this is also true for the investors. To make the best investment decisions I want to see as many deals as I can but the traditional method of companies contacting me by email, usually referred through someone we both know, imposes a non-trivial amount of overhead in that each intro then requires a follow up – which is most often to politely decline – and which requires care to avoid offending any of the parties involved. This may only take 15-30 minutes but when you're seeing 3-5 new deals/ day, it adds up.
>
> On AngelList, in contrast, I'm presented with a clear, crisp "elevator pitch" in the introductory email and further have access to a detailed summary with a single click. Because there is no human introduction involved at this stage, if the deal isn't a fit I can just hit "delete" and move on. This is the best of both worlds – I can see as many deals as I want with none of the wasted time on the no-fits.[7]

Entrepreneurs who raised funds through AngelList, such as Rene Reinsberg, spoke highly of the site as well. Reinsberg described his experience raising over $600,000 in seed funds for his tech firm, Locu:

> AngelList was an amplifier for us. When we started fundraising, we were aiming to raise around $500,000 and initially got commitments of about $250,000 from east coast investors. However, our networks were somewhat limited. My co-founder and I went to MIT, but are originally from Germany and Belgium. We had moved to San Francisco and were looking to optimize for the company and find other investors who could add value in specific areas of expertise. We put our profile on AngelList and quickly got in front of a lot of people. I think we had 20 or 30 introductions within two to three weeks. One angel made an investment after only two phone calls, without ever meeting us. By then, people knew and respected the other

investors we were talking to, and we were able to close the round within a few weeks. AngelList was a very powerful tool that gave us social proof. It worked out really well for us and we are very happy with every one of our investors.

New Offerings

As the platform's influence grew, AngelList's users and others began using the site to search for and find information. In August 2012, AngelList launched its talent recruiting product, initially to match entrepreneurs whose companies failed to raise money on AngelList with companies that succeeded in raising funds and were looking to hire additional staff. The Talent portal quickly took off, making more than 2,000 introductions per week on behalf of over 31,000 candidates, resulting in approximately 120 placements per week. AngelList Talent was offered free of charge, saving companies $25,000 or more in standard placement fees. Ravikant elaborated:

> As we scale, something like 95% of the companies on AngelList will not be fundable. But, the majority of people working at those companies, such as founders, developers, designers, and product managers, are quite employable. Some of the companies recruiting on AngelList Talent—such as Quora, Yelp, and Kickstarter—never raised funds through us, but have been successful and need entrepreneurial talent. We are finding that we do a very reasonable job in connecting Silicon Valley-based companies and talent, but we do a really great job across different geographies. All kinds of people are moving to the startup hubs. So, if you are graduating from Carnegie Mellon in Pittsburgh, you'll want to see all the New York and San Francisco based startups that happen to be on AngelList.
>
> We use some of the same filters that we use to sort and rank startups. People fill out a complete profile that includes things like what school did you go to, what's your GPA, who are your references, what companies have you worked at, are you a developer or a designer, and are you on GitHub, Dribbble, or Behance? In addition to our own algorithms, we rely on real world signals such as who follows you and who is a friend with you on other social media sites.

In September 2012, AngelList announced that it had partnered with incubator 500 Startups to assist in vetting applicants for the incubator's next program. That December, AngelList announced its partnership with broker-dealer, SecondMarket, to launch Invest Online, a service that allowed smaller—yet still accredited—investors to put $1,000 or more in a startup at the same terms as the deal's larger investors. Fontana noted, "Previously, AngelList investors were investing in substantial increments, up to $250,000. Now, with the Invest product, we are changing the game and creating a new class of capital for entrepreneurs. Through SecondMarket, we aggregate the investors into a fund of at least $200,000, and the fund invests in the startup." SecondMarket charged investors $250 per deal, and startups, a fee of $10,000 to cover legal and compliance costs, and to pool the investors into a single fund.[8] In Invest Online's first forty-eight hours, four companies raised $500,000. During a four-month test period ending in April 2013, 18 startups raised $6.7 million in funding commitments from 620 investors.[9]

By June 2013, AngelList had twelve employees—nine who worked on products, two who worked on screening startups and disseminating the promising ones to investors, and one administrator. While the numbers were difficult to track because so much of the funding took place offline, Ravikant estimated the platform helped drive 500 to 700 introductions per week and had raised approximately $200 million for startups.[10] He also estimated that a relatively high percentage—up to 25%—of introductions through AngelList ended up getting funded.[11] Success stories on AngelList, such as Uber, BranchOut, and GetAround had gone on to raise over $1.1 billion of additional funding (although not all on AngelList). (See **Exhibit 4** for a breakdown by market segment and geography.)

Seed and Early-Stage Investing Overview

Generally, entrepreneurs turned to angel investors to fill the gap between "friends and family" funding (usually in the neighborhood of $25,000 to $100,000), and Series A venture capital funding (traditionally $5 million to $10 million in initial investments). According to the Center for Venture Research, angel investments totaled $22.9 billion in 2012 and funded 67,030 entrepreneurial ventures.[12] There were 268,160 active investors in 2012 who made an average individual investment of $85,435. The average angel deal size in 2012 was $341,800. Thirty-five percent of angel investments in 2012 were seed and startup stage, 33% were early stage, and 29% were for expansion financing.[13]

Typically, angel investors were affluent individuals who invested their own personal funds in entrepreneurial concerns within their geographical area, and often within their prior areas of professional expertise or interest. Increasingly, individual angels were joining groups or networks of angels to pool their resources and coordinate on leads, due diligence, contacts, and management advice, and invest jointly. Hans Severiens founded the first angel investing group, Band of Angels, in 1995. By 2007, the Angel Capital Association estimated there were between 10,000 and 15,000 angels who were believed to belong to angel groups in the U.S.[14] In 2012, there were approximately 300 angels groups across the country. On average, each angel group had 42 member angels and invested $1.94 million in 7.3 deals per year (as of 2007).[15]

A third and more recent category of angel investors called "super angels," often acted as micro venture capital firms, investing their own funds as well as funds from limited partners. Well known super angels included individuals with divergent investment approaches such as Ron Conway (broad-based) and Mike Maples (highly focused), as well as funds with multiple partners, such as Founder Collective and CommonAngels (with over 75 individual angels). Super angels had raised funds ranging from a few million to $75 million. Average investments were generally between $25,000 and $1 million per deal.

The movement toward angel groups and super angels largely reflected changes in venture capital and the decreasing costs associated with starting a company. Venture capital firms saw low returns throughout the 2000s, and especially in conjunction with the 2007/2008 financial crisis and subsequent recession. In addition, through 2010, a declining IPO market made venture capital exits more difficult. (According to data from Sand Hill Econometrics, only 6% of venture capital exits since 2003 were through an IPO.)[16] At the same time, open-source software, "cloud" infrastructure services, and social media platforms helped cut startup costs by 90%.[17] Suster reflected on his days starting a software business, "What used to cost $5 million, now costs $500,000. As a result, more and more people are able to start companies very, very quickly."[18]

Many venture capital firms responded by lowering their minimum commitment levels and investing in earlier-stage companies. For example, in 2010, Kleiner Perkins Caufield & Byers raised $250 million for its sFund, to invest in seed-stage social media concerns. One year later, Google joined the fund as a strategic partner. Also in 2010, the venture capital firm Sequoia Capital was the lead investor in a $8.25 million fund designated for investments in Y Combinator, a leading incubator's startups.

The resulting dynamics had created a much more entrepreneur-friendly funding environment than in the past. The number of seed fundings (investments less than $1.5 million) by either angel investors or venture capitalists in technology startups increased from 472 in 2009 to 1,479 in 2012.[19] One investor noted that valuations for startups had hovered at $1 million to $2 million for years, but by 2011 had jumped as high as $5 million to $6 million.[20] Some experts however, were concerned about an overheated market and the sustainability of the higher valuations. Already, evidence was pointing toward a "Series A crunch," in which industry observers speculated that previously funded startups would have trouble raising a Series A round. (See **Exhibit 5** for data from a 2013 seed funding survey.)

Regulatory and Policy Issues

When Nivi and Ravikant were creating the platform, they made a conscious decision not to structure AngelList as a broker dealer in order to avoid becoming highly regulated. However, Ravikant and Laws spent six months trying to get the securities laws changed. (See **Exhibit 6** for an image of Ravikant and Laws in Washington DC.) Ravikant provided some background:

> The financial securities laws were written in 1934, which is a long time ago….A lot of the stuff that goes on at incubator demo days and at these conferences is technically illegal. When someone stands up at demo day—some mentor—and says, "You should invest in this company," that's not completely kosher. Or [if he or she] says, "Here's a standardized term sheet that we're using. This is the standard AngelPad or TechStars note," that is not legal. You are supposed to be a broker dealer if you are doing those kinds of things. All of this was operating very much in the grey areas of the securities laws.
>
> We bend over backwards to be securities laws compliant. We have a full legal opinion up and all that stuff. We never touch money—it's part of the reason. But, it is still pretty scary. There are a bunch of products we wanted to offer, like Docs, that we could not legally do…without being a broker dealer. Being a broker dealer means you have all these regulations and requirements that actually make it impossible to work with startups. So, we wanted to get the law changed, which people told us was impossible to do.[21]

In the third quarter of 2011, several bills aimed at easing restraints around funding for small businesses were introduced in Congress. Over the next few months, the bills were modified and combined into legislation that was renamed as the Jumpstart Our Business Startups Act (the JOBS Act). Laws described his involvement on AngelList's behalf:

> The most unusual thing we did as a startup was to lobby congress to change the law. There were three key things we were interested in making sure got passed in the JOBS Act. One was comfort that what we were doing was not in a legal gray area. There is a bright line test for a broker dealer which is: do you collect a fee from a company for raising money for them? The answer is no, we do not. But, there are all kinds of ways of looking at that, and we wanted acknowledgement that as a platform, AngelList wouldn't have to register as a broker dealer just for making introductions. The second key thing we wanted was confirmation that we could express an opinion on companies. For example, we wanted to make sure we can say to investors, "Out of this pile of 100,000 companies on AngelList, here are six this week that we think might be interesting to you." We are heavily aided by algorithms, but there are always companies where we use a person to take a final look. We needed to make sure that it was legal to have someone in that role. Third, we were looking for was the ability to provide standardized closing documentation. The SEC was interested in making sure that we offered—but did not require—the use of that documentation in order to use the platform.
>
> Of course, had we chosen to register as a broker dealer, we would have been allowed to do these sorts of things. However, there are a number of costs and capital requirements associated with registering as a broker dealer. The biggest issue is that there are a set of regulations that wouldn't allow us to run the service the way we do. Two were particularly relevant for us. One is what's called the suitability requirement that regulates brokers to make

sure they're not selling inappropriately to widows and orphans. A broker must know enough about the opportunity he or she is putting forward to know that it is not defrauding the person they're presenting it to. In our case, that would require us to individually meet with and vouch for all 100,000-plus companies that appear on AngelList. Obviously, that would not be feasible. The other issue is that anything on the Web site of a broker dealer could be considered an advertisement and would be subject to review and approval by FINRA, the independent regulator of all securities firms in the U.S. Some people here have worked in design and engineering at brokerages, and they said it can take weeks to get approvals for changes. We're trying eight different ideas a day, and while not all of them are big and visible, a lot of them are and there's no way we could work under those circumstances. So while we certainly considered becoming a broker dealer, the regulations we'd have to live under would have hobbled us without actually helping investors they were meant to protect in any way. The securities regulations just weren't written with modern platforms in mind.

The JOBS Act resolution that included legislation to address AngelList's concerns was passed with bi-partisan support by Congress in March 2012, and signed into law by President Obama in April 2012. The legislation included six provisions with varied implementation schedules. (See **Exhibit 7** for a chart depicting the pieces of legislation and their expected implementation time frame.) Some provisions were effective immediately, while others required the SEC to conduct studies and formulate rules prior to implementation. However, more than a year after its passage, the SEC had not met many of its deadlines due to the complexity of the task, limited resources, and top level leadership transitions. In May 2013, one reporter noted, "getting the regulations into effect will take close to a year: three months for public comments, three more months for the SEC to revise its rules in response to those comments, and three to six months for FINRA to design a registration process that complies with the rules."[22]

Separate from the JOBS Act, in March 2013, AngelList and FundersClub,[1] an online venture capital platform, made headlines when they received "no-action" letters from the SEC, stipulating that the government would not recommend enforcement action against either of the two firms. Both companies believed they were acting within existing legal guidelines, but had sought assurance from the SEC that their current and proposed operations would remain exempt from broker dealer requirements. Laws elaborated, "The biggest change that the letters allowed wasn't the funds – our partnership with SecondMarket already made those legal since SecondMarket was a broker dealer— it was the stipulation that we could charge a carried interest on those funds, allowing us a legal way to charge for our services without becoming a broker dealer ourselves."

AngelList's request to the SEC stipulated it was considering creating startup-specific investment funds, each headed by a successful and experienced "Lead Angel," who would help screen and select a given startup, negotiate the structure and terms of the deal, and possibly provide operational assistance after the transaction had closed. As part of the plan, AngelList would create an affiliated subsidiary, AngelList Advisors, which would register with the SEC as an investment advisor. AngelList would not charge a management fee, but would take a backend carry that would be split between AngelList Advisors and the Lead Angel.

1 FundersClub was a Y Combinator startup that launched in 2012 and had raised $7 million in angel and venture capital funding. The company functioned as an online venture capital platform, but unlike traditional venture firms that took a standard 2% management fee and 20% backend carry (interest in the profits of the fund), FundersClub took just the backend carry. On a case-by-case basis, FundersClub was considering increasing the size of the backend carry to up to 30%.

While the letters were limited in scope and specific to the two companies, many believed they indicated the SEC was leaning a step closer toward online equity investing, and allowing a bigger pool of investors. For both FundersClub and AngelList, investors were required to be accredited, but could invest as little as $1,000. Ravikant responded to press inquiries about AngelList's no–action letter saying, "It lets us know the legal boundaries of what's possible in the space and will inform our future products, but right now we're happy with the SecondMarket partnership…."[23]

Other Seed and Early Stage Funding Alternatives

Incubators and Accelerators

Incubators (also often referred to as accelerators) were designed to help entrepreneurs launch their companies, and rose to prominence during the technology boom of the late 1990s. Typically, they offered office space and assistance with access to funding and basic business services such as accounting, recruiting and legal, often in exchange for a small equity stake. Starting with the founding of Y Combinator in 2005, a new group of incubators—including TechStars, AngelPad, and 500 Startups—arose and redefined the category. (See Exhibit 8 for a list of top startup incubators.) Instead of office space, these incubators provided short-term intensive coaching and networking, similar to a boot camp experience. Entrepreneurs applied for highly competitive admission to "class" sessions, generally ranging from three to six months. Many incubators offered multiple class cycles each year. Once accepted, the founders typically received a cash infusion—currently $11,000 plus $3,000 per founder from Y Combinator—in exchange for an equity stake, generally in the neighborhood of 6% to 7%. In addition, the entrepreneurs received individual advice from incubator partners on a wide variety of topics, including marketing, technology, and legal matters, as well as on how to refine their business models and investor presentations. The incubators had strong relationships with angel and venture capital investors, and at the end of each session, held "Demo Days" for entrepreneurs to solicit funding through short two- to five-minute pitches.

In Y Combinator's case, Demo Day had grown into a day-long event with at one point, over 80 startups presenting to about 400 high-profile investors.[24] (At the Winter 2013 Demo Day, 47 startups presented.) During the incubator's first six years, 72% of its startups raised money after Demo Day.[25] Y Combinator success stories included Reddit (valued at $400 million in early 2013), DropBox ($4 billion) and Airbnb ($1.3 billion).[26] In addition to Sequoia Capital's investment, in early 2011, investor, Yuri Milner partnered with Ron Conway's angel fund, SV Angel, to create The Start Fund which offered $150,000 in convertible notes to all Y Combinator startups. (A new version with slightly different investors, YC VC, was announced in late 2012 to replace The Start Fund and instead offered $80,000 per startup.)

Crowdfunding

Crowdfunding—the ability for companies to raise funds from individual investors online—was a relatively new phenomenon and fell into four general categories: rewards-based, lending-based, donation-based, and equity-based. The best known crowdfunding company, Kickstarter, was started in 2009 with $10 million in venture capital funding to help creative projects get financed. Instead of receiving an equity interest, funders on Kickstarter contributed to projects in exchange for perks or rewards, such as t-shirts, discounts, and early access to upcoming products or events. On Kickstarter, projects that failed to meet their financial goals within a certain time frame received no funding at all. As of May 2013, since its launch, 4.1 million people pledged more than $629 million for 42,000 projects on Kickstarter.[27] Kickstarter prescreened projects for listing on the site (approximately 25% were turned down) and took a 5% fee on funds raised.[28] One of its most high profile projects, the

Pebble smart watch, raised over $10 million on the site. Nineteen of the films on the 2013 Sundance festival slate had been funded on Kickstarter.[29]

Other sites, such as Kiva, focused on social or peer-to-peer lending. Funders provided small loans to individuals and organizations, assuming they would receive interest and principal repayments in return. As of the spring of 2013 and since its founding in 2005, Kiva users provided approximately $438 million to 1.1 million borrowers. The funds were provided by approximately 940,000 individual Kiva lenders.

A third category, donation-based crowdfunding, relied on funders who donated to philanthropic or other causes, with no expectation of compensation or of getting their money back. The best known of these sites, Indiegogo, founded in 2008, enabled fundraising campaigns for a broad spectrum of activities, including films, music, personal finance needs, charities, and startups. The company did not curate its listings, but did use an algorithm to feature the most active campaigns on its homepage. Indiegogo charged a 9% fee on funds raised through its site, but for campaigns that met their entire fundraising goals, charged only 4%. In June 2012, Indiegogo raised $15 million in a Series A round led by Khosla Ventures.

Equity crowdfunding—where funders received an equity interest in exchange for their investments—while legal in many countries was limited in the U.S. to accredited investors and platforms in partnership with broker dealers. In 2011, there was $112.6 million of equity-based crowdfunding worldwide, with over one-half of the activity based in Europe.[30] Five platforms from four countries were responsible for 93% of the equity-based crowdfunding volume raised that year.[31] The largest equity-based crowdfunding platform, SEEDUPS, was launched in the UK and Ireland in 2011. SEEDUPS enabled technology startups to raise up to $500,000 in a six-month listing period from qualified high net worth investors who bid anywhere from $1,000 to $25,000 per listing. SEEDUPS used an "all or nothing model," where startups only received funds if they met their full financial goals. SEEDUPS charged a 5% fee on successful deals.

Industry observers expected U.S. equity crowdfunding to get a significant boost once the JOBS Act rulings were defined by the SEC and implemented. Three of the JOBS Act provisions were particularly relevant to equity-based crowdfunding. Title III allowed small businesses to offer up to $1 million in securities through crowdfunding, selling either through a broker dealer or a "funding portal" registered with the SEC. Another provision allowed widespread advertising and marketing of private offerings that had formerly been limited to accredited investors. A third allowed private companies to have up to 2,000 investors (rather than 500 previously) before having to make public filings.

Already, Web sites with a domain name including the word "crowdfund" had grown tenfold in 2012 and totaled over 9,000.[32] In the last year, Kickstarter deliberately discouraged new product or "gadget" campaigns in favor of more creative, arts-oriented projects, and publicly denied an interest in pursuing equity-based crowdfunding. However, in recent media interviews, Indiegogo and others, such as CircleUp and RocketHub, expressed a desire to pursue equity-based crowdfunding, pending the complexity of the forthcoming SEC rules and regulations.

Proponents of the likely increase in equity-based crowdfunding welcomed what they saw as the democratization of early stage funding, and the opportunity for small, everyday investors to participate in private financings. Others, however, were more skeptical. Consumer advocate groups were concerned about fraud, particularly for unsophisticated investors. Others worried about "pack mentality," potential for overvaluation, and over the long-term, low returns. One venture capitalist commented on crowdfunding:

> In the short-term, I think it will be kind of a mess. A lot of companies that probably shouldn't get funding will get it, because of the novelty of the platform and the momentum investing that tends to characterize individual investors. That will cause some VCs to try and outbid them, causing more and more hype for mediocre deals. At the same time, the good deals that hit the traditional markets will also be overfunded—because VCs will fear companies getting financed by other means….
>
> Then, reality will set in. I don't really think a bunch of individuals with little to no experience are suddenly going to "beat the market" when compared to people who do this for a living fulltime. Plus, I've heard…that most angel investors put 70% of all the money they will ever put into startups to work in their very first year of angel investing. Why? Because they realize it's super hard, a lot of work, and dealing with the companies when they need more financing and start hitting a wall is much more difficult than just writing checks. For many investors, it's a pretty sobering experience. It's going to be no different in the crowdfunding world. Money flows will come pouring in at once, and when the returns aren't there, they'll dry up quickly.[33]

As a whole and including all four categories, the crowdfunding industry raised $2.7 billion in 2012 from over 1 million campaigns around the world.[34] Over the last three years, funds raised grew at a compound annual growth rate of 63%. Crowdfunding platforms numbered less than 100 in 2007, and were estimated at 536 as of year-end 2012. In 2013, the industry was expected to raise $5.1 billion.[35] (See **Exhibit 9** for a list of popular crowdsourcing platforms.)

Defining the Business Model

As Nivi and Ravikant looked toward the future, they continued to struggle with the best business model for AngelList. Laws provided background, "Initially, we didn't even think about having a business model. We incorporated as a for-profit just because we didn't expect to be doing this for free forever. We're in the midst of a growth mode, so the business model question isn't on the top of our minds, but it is always in the back of our minds."

One obvious source of revenue would be for AngelList to start charging a transaction fee. However, the firm would have to register as a broker dealer. In a 2012 interview, Ravikant commented, "We will never charge startups and investors for meeting each other. That we'll never do. It's just not going to happen. Investors always say, 'Why don't you charge the investors? No one would care.' We don't want adverse selection. We want everyone who wants to use us to be able to do so."[36] Laws elaborated:

> We have a hypothesis that if we were to charge either side of the transaction—the accredited investors or the companies raising financing—we would have an interesting problem. We think the best companies and the best investors would say, "Oh, I can do fine without this platform. I'll go ahead without it because I'd rather avoid the charge." And, since all the investors want to be in the best deals and all the startups want to get the best investors in their deal, you'd start to lose the top. We have a suspicion that the whole thing might eventually unravel. So we believe—although we haven't tested it—that we cannot charge a transaction fee to either the big investors or to the company. Everybody thinks that's what we're going to do, but we've pretty much foresworn ever doing it because we believe it won't work as a marketplace if that happens.

At the same time, there is no question that there are people who are not that sophisticated as investors and wouldn't know how to sort through the companies. Those are the guys we think we wouldn't have any problem charging because we would be providing access and data and investment advice. That said, we think crowdfunding is going to be a small piece of the pie. It will get outsized attention because it has broad appeal right now and it's a piece of fundraising that can be in the public eye. So, it will be something we'll offer—there's money in it and it's a transaction based compensation we can take without being a broker dealer. But, I think it will probably be only a very small part of the funding pie.

Co-investing was a second option for AngelList to include in its business model. Laws elaborated:

It's written into the JOBS Act that we can co-invest. We have done some experimenting, and always announced it so that we were being transparent. The way we handled it was to go last, so that if we didn't invest, it wouldn't be perceived as a negative signal. We would ask the founders about the possibility of having an allocation up front, make our decisions behind the scenes, and then just before closing, say we'd take that last $100,000 or whatever allocation. We co-invested for a while, but we stopped so we could focus more on scaling the site quickly. We had some interesting results, but the problem is that we can't create a track record on it in time to matter.

AngelList Talent and other ancillary services were another potential source of revenue for the company. By the spring of 2013, introductions for AngelList's recruiting product exceeded introductions for financings. One founder who raised funds for his startup through AngelList noted, "The hiring portion of AngelList came out of nowhere and totally took off! We found 10 people on it and hired one. The quality is great—better than on LinkedIn or any other channel. Now, it's free, but I would definitely pay for it." In addition to charging for recruiting, the AngelList team believed it could provide a suite of services for startups that could generate revenue. Nivi felt the concept fit well with the company's goal of being like a Craigslist for startups. He explained, "In general, we just want to be the matchmaker for any kind of business function, whether it's for getting your advisor, getting your lawyer, getting recruiting, getting press, or finding office space. It all goes back to taking a question that entrepreneurs might ask you and bringing it all online." Graham Jenkin, product and design lead for AngelList, had previously managed the user experience for Google Ads and Commerce. He too related the business model to AngelList's mission noting, "We're here to help startups get up and running. The market doesn't see it yet, but a Craigslist-like suite of services is a responsibility." (See **Exhibit 10** for summary data on selected job search and recruiting companies.)

Finally, Ravikant believed there was an opportunity to market the data AngelList collected through its platform. He commented:

We could potentially monetize the data itself but that would probably be a very secondary revenue stream. We've started pulling up some interesting data at Angel.co/ valuations—graphs that show the valuations of companies that have at least one investor commitment, broken down by market and location, incubator and time. Similarly we have graphs on salary and equity for companies that are recruiting—all kinds of fun data. But, it's hard to sell data. And, even though we have the largest data set in space it's by no means complete so it would be hard to draw conclusions from it.

Regardless of the model they chose for AngelList, Nivi and Ravikant were optimistic about its future. Jeff Fagnan, a partner in the technology group at Atlas Venture, agreed. He commented:

> My first investment was made as a personal angel investment, when Venture Hacks originated. I worked closely with Nivi and Naval as the business model evolved. Since the initial launch of AngelList, Atlas has invested a significant amount of money and has played an important role in the company creation process. Our investment in AngelList was predicated on making venture-like returns.

Media outlets had been reporting that AngelList was in discussions to raise a new round of financing. In mid-December 2012, *TechCrunch* wrote that AngelList was raising funds at an implied valuation of over $150 million through investors that might include Google Ventures. In June 2013, *Forbes* reported that AngelList was raising funds from venture capitalists—including Atlas Venture, Draper Fisher Jurvetson, Google Ventures, and Kleiner Perkins Caufield & Byers—as well as angel investors from its own site. While the total value of the round was not disclosed in the *Forbes* article, a multi-million dollar portion was reportedly being made available to certain investors on the AngelList site.[37] In both cases, the firm declined to comment. The one thing Ravikant was certain of was that, "we will never knowingly screw over our startups."[38] As he recently noted, "It's a work in progress. We've only been at it three years. It's a ten year mission. It's going to take us a long time to nail it."[39]

Exhibit 1 Venture Capital Investors Ranked By Number of Introductions Requested

1. General Catalyst – 64 intros
2. Atlas Venture – 61 intros
3. Bessemer – 60 intros
4. First Round – 53 intros
5. Charles River – 44 intros
6. IDG Ventures – 41 intros
7. Partech – 40 intros
8. Accel – 40 intros
9. Andreessen Horowitz – 39 intros
10. Polaris – 39 intros
11. Index – 34 intros
12. Spark – 27 intros
13. Redpoint – 26 intros
14. High Line – 23 intros
15. GRP – 23 intros
16. Highland – 22 intros
17. Balderton – 21 intros
18. Metamorphic – 20 intros
19. DFJ – 20 intros
20. Floodgate – 19 intros
21. Mayfield – 17 intros
22. Sequoia – 16 intros
23. Matrix – 16 intros
24. Shasta – 14 intros
25. Google Ventures – 14 intros

Source: Michael Arrington, "Venture Capitalists May Hate AngelList, But They're Still Using It," TechCrunch, March 23, 2011, available at http://techcrunch.com/2011/03/23/venture-capitalists-may-hate-angellist-but-theyre-still-using-it, accessed May 10, 2013.

Exhibit 2 Influential Angel Investors on AngelList

Well-known CEOs or operators who invest on the side:

Dave Morin, CEO of Path
Keith Rabois, COO of Square
Kevin Rose, formerly of Milk and Digg; now at Google
Max Levchin, co-founder of PayPal; founder of Slide
Paige Craig of Betterworks
Matt Mullenweg of Automattic
Marissa Mayer of Google and Yahoo!
Joshua Schachter of Delicious and Tasty Labs
Sizhao Yang of Betterworks and MyMiniLife/FarmVille

Others with extensive startup and operating experience:

Jonathan Abrams of Friendster
Auren Hoffman of Raplef
Even Williams of Twitter
Gil Penchina, formerly CEO of Wikia
Ben Ling, COO at Badoo and formerly of Facebook and Google
Jason Calacanis of Mahalo
David E. Weekly of PBworks
Mitch Kapor, founder of Lotus

Professional Angels/ Super Angels/ Micro-VCs
Jeff Clavier of SoftTech VC
Chris Dixon of Founder Collective
David Lee of SV Angel
Dave McClure of 500 Startups
Manu Kumar of K9 Ventures
Aydin Senkut of Felicis Ventures

Others who run incubators or accelerators
Joshua Baer of Capital Factory
Mike Jones of Science
Thomas Korte of AngelPad

Source: Tomio Geron, "The Most Influential Angel Investors on AngelList," Forbes, May 1, 2012, available at http://www.forbes.com/sites/tomiogeron/2012/05/01/the-most-influential-angel-investors-on-angellist/, accessed May 10, 2013.

Exhibit 3 Bryce Roberts 2011 Blog Post

Why I Deleted My AngelList Account

Yesterday I deleted my AngelList account. Doing so generated a lot of questions on Twitter, in email and from the press so I want to explain myself.

Its a decision I've been wrestling with for the last few months as I've found the service increasingly not matching my investment philosophy. That's not to say the service isn't a valuable one for entrepreneurs or even certain kinds of investors. I believe that it can be. Its just not a fit for me.

For those not familiar, AngelList's promise is an interesting one- connect entrepreneurs to an increasingly large base of angel and venture investors while simultaneously exposing those investors to a stream of dealflow that's been vetted by the AngelList team. That was a promise I could get behind, so I joined the service about a year ago and have been seeing 3 to 5 companies a week ever since.

Its not the emails, the companies or the filtering AngelList does that isn't a fit for me it's the investment style they espouse that finally pushed me to press delete on my account.

Though there may be more depth to it, I thought this quote from Naval sums up their investment style pretty well:

Making an investment is like throwing darts in the dark.

Now, they've provided a presentation that goes into more depth on specifics but his statement captures a very real vibe I get from the service. At the earliest stages, its nearly impossible to pick the next Google so throw a lot of darts in the dark and hope you hit it. That high velocity, light touch style is certainly a viable approach to investing. Its just not my style.

I tend towards a more concentrated approach to seed investing where we make fewer, larger, investments and take an active role in working with the companies we fund. Frankly, I just don't buy the notion that making an investment is akin to throwing a dart in the dark. Worse, I think its a dangerous idea to promote. The best angel and venture investors are consistently good. Think Mike Moritz, John Doerr, Jim Breyer, Fred WIlson, Peter Fenton, Danny Rimer, Reid Hoffman and the like are just exceptionally good at throwing darts in the dark? I don't.

The way AngelList deals with this uncertainty around being unable to clearly spot winners early on is the second place the service and I diverge. Given that most companies seeking funding at this stage have little to no revenue, low user numbers and light usage data AngeList puts a tremendous amount of weight on something they call "social proof". Nearly every email they send includes names of people or firms who've committed to invest. They put that information right in the Subject line. Its reenforced in the first paragraph or two of the email as well. On the surface this seems like one reasonable data point, among many, to weigh when making an investment decision but its AngelList's way of pushing social proof that bothers me. Scoble summed up the vibe I get from the service pretty well when he said:

Investors tend to be pack animals and tend to want to get in on "hot deals." AngelList makes the hot deals happen fast.

Maybe I have too thin of skin, but getting called a pack animal bugs me. Unfortunately, that's the vibe I've had from most of the AngelList emails I've received. Over the past year I've been able to tune it out, but I've noticed a distinct change in the tone of the overall market in recent months. "Social proof" is turning to a form or peer pressure where angels feel compelled to invest for fear of missing the boat everyone else is getting on. No one wants to be left on the dock when the next Google leaves port. Relying on other smart investors to make a decision, then jumping on their coattails, is definitely one way to invest it's just not one I agree with.

The last line of the quote above touches on the final reason I decided to delete my account.

Real or perceived, organic or manufactured AngelList is in the business of generating heat. As I've said here and elsewhere, I tend to be interested in ideas and companies that most investors aren't, so heat is generally a false signal for me. But heat does sway many investors.

Unfortunately, I've been seeing AngelList increasingly use their ability to create heat to push other types of deals on their members than just angel investments. In the last few months I've seen a couple venture funds raising money on AngelList as well as a number of later stage rounds of financing. Subtle inclusions for sure, but a very different kind of investment product than AngelList members are tuned to evaluate. Generating heat for Series B companies or for venture funds isn't the kind of investing the AngelList crowd has been trained for. More to the point, it feels like when those kinds of opportunities pass through, AngelList becomes the greater fool's list.

As I said right up front, I think AngelList is a great service for entrepreneurs, even a good service for certain kinds of investors. Just not me. And that's why I deleted my account.

Source: Bryce Roberts, "Why I Deleted My AngelList Account," Bryce Dot VC, February 2011, available at http:/ / bryce.vc/ post/ 3520840379/ why-i-deleted-my-angellist-account, accessed December 18, 2012.

Exhibit 4 Breakdown of Funding by Industry and Geography

<u>Industry</u>

Consumer Internet:	$644 Million (Includes $337MM from social media; $213MM from mobile; and $207 from e-commerce)
Enterprise:	$171MM
Clean Tech	$83.7MM
Education	$42.3MM

<u>Geography</u>

Silicon Valley:	$572MM (Includes $458MM from San Francisco-based companies)
New York	$136MM
Los Angeles	$78MM
Massachusetts	$45.3MM
Austin	$$25.2MM

International:

Europe	$48.2MM
Canada	$25.1MM
Russia	$14.8MM
India	$12.7MM

Source: Sarah Lacy, "Who Needs a Walk Down Sand Hill Road? AngelList Alums Have Raised $1.1B," PandoDaily, August 8, 2012.

Exhibit 5 Summary Data from Fenwick & West 2012 Seed Financing Survey

		2010	2011	2012
% Companies funded in prior year that raised Series A in next year		NA	45%	27%
% Companies funded in prior year that raised follow-on funding		NA	12%	23%
% Companies funded:	Software	29%	25%	34%
	Internet/Digital Media	71%	75%	66%
Lead Investor Breakdown:	Seed Funds	43%	46%	46%
	Professional Angels	31%	28%	20%
	VC Funds	26%	27%	34%
Financing Structure:	Preferred Stock	69%	59%	67%
	Convertible Debt	31%	41%	33%
Median Pre-Money Valuation:	Preferred Stock	NA	$3.8M	$4.6M
	Convertible Debt	$4.0M	$7.5M	$6.0M
Median Size of Deal:	Preferred Stock	$1.1M	$1.0M	$1.36M
	Convertible Debt	$0.7M	$1.0M	$0.9M

Source: "2012 Seed Financing Survey," Fenwick & West LLP, 2013.

Exhibit 6 Ravikant and Laws at the White House after the JOBS Act signing ceremony

Exhibit 7 JOBS Act Provisions

JOBS Act provisions at a glance

Title I - Reopening American Capital Markets to Emerging Growth Companies	Establishes the Emerging Growth Company IPO "on-ramp."	Effective immediately
Title II - Access to Capital for Job Creators	Lifts ban on general solicitation and advertising for Regulation D, Rule 506 offerings and Rule 144A offerings. (Note: This includes section 201c which carved out the functions platforms that introduce investors and companies can do. That section needed no further SEC regulation and become law as soon as it was signed.)	Certain rules required within 90 days of enactment of the Act
Title III - Crowdfunding	Registration exemption for limited-size offerings to be sold in small amounts to a large number of investors.	Certain rules required within 270 days of enactment of the Act
Title IV - Small Company Capital Formation	Increases the amount of capital that can be raised under Regulation A from $5 million to $50 million.	No deadline for rules
Title V - Private Company Flexibility and Growth	Raises the threshold for mandatory registration from 500 shareholders of record to 2,000 shareholders of record as long as there are less than 500 "non-accredited" investors.	Effective immediately
Title VI - Capital Expansion	Raises the threshold for mandatory registration from 500 shareholders of record to 2,000 shareholders of record and raises the thresholds for a non-listed bank or bank holding company to terminate its registration from 300 shareholders of record to 1,200 shareholders of record.	Rules required with one year of enactment of the Act

Source: "An Overview of the JOBS Act," McGladrey LLP, May 1, 2012, p.2, available at http://mcgladrey.com/pdf/jobs_act_overview.pdf, accessed May 20, 2013.

Exhibit 8 Top Startup Incubators and Accelerators

Rank	Incubator/ Accelerator	City	Note
1	Y Combinator	Mountain View, Calif.	Dropbox and Airbnb are just the biggest names in portfolio. Investors fight to invest in YC companies at sky-high prices. Founded in 2005.
2	TechStars	Boulder, Boston, New York, Seattle, San Antonio	Founded in 2007, it has grown to five cities, but keeps batches small to give each startup extra attention. Has broader impact by helping other incubators.
3	DreamIt Ventures	Philadelphia, New York, Israel	Founded in 2008, it has programs in Philadelphia, New York and Israel, with 65 portfolio companies, including SCVNGR/Level Up.
4	AngelPad	San Francisco	Founded by seven ex-Googlers in 2010; hot portfolio, but too early to value many of the companies.
5	Launchpad LA	Los Angeles	Founded in 2009, 23 companies have gone through program, 19 have been funded, 5 acquired.
6	Excelerate Labs	Chicago	Founded in 2010, the firm has graduated 20 companies so far. Mentors include local Groupon investor Brad Keywell.
7	Kicklabs	San Francisco	Stage-agnostic accelerator focuses on helping startups close first deals with large brands and agencies.
8	500 Startups	Mountain View, Calif.	Founded in 2010. Also has seed fund in addition to incubator. Focus on startups from overseas as well as US.
9	TechNexus	Chicago	Doesn't have time limits on companies it accepts. Invests in its companies on case-by-case basis. Founded in 2007.
10	Tech Wildcatters	Dallas	New incubator, but has some promising startups
	Others considered: The Brandery, Capital Factory, ERA Accelerator, LaunchBox Digital, NYC Seed Start		

Source: Tomio Geron, "Top Startup Incubators And Accelerators: Y Combinator Tops With $7.8 Billion in Value," Forbes, April 30, 2012, available at http://www.forbes.com/sites/tomiogeron/2012/04/30/top-tech-incubators-as-ranked-by-forbes-y-combinator-tops-with-7-billion-in-value/ , accessed January 22, 2013.

Exhibit 9 Top Crowdfunding Sites

1. Kickstarter
Kickstarter is a site where creative projects raise donation-based funding. These projects can range from new creative products, like an art installation, to a cool watch, to pre-selling a music album. It's not for businesses, causes, charities, or personal financing needs. Kickstarter is one of the earlier platforms, and has experienced strong growth and many break-out large campaigns in the last few years.

2. Indiegogo
While Kickstarter maintains a tighter focus and curates the creative projects approved on its site, Indiegogo approves donation-based fundraising campaigns for most anything — music, hobbyists, personal finance needs, charities and whatever else you could think of (except investment). They have had international growth because of their flexibility, broad approach and their early start in the industry.

3. Crowdfunder
Crowdfunder is the crowdfunding platform for businesses, with a growing social network of investors, tech startups, small businesses, and social enterprises (financially sustainable/profitable businesses with social impact goals).

Crowdfunder offers a blend of donation-based and investment crowdfunding from individuals and angel investors, and was a leading participant in the JOBS Act legislation. The company has localized crowdfunding and investment to help develop entrepreneurial ecosystems and access to capital outside Silicon Valley. Its unique CROWDFUNDx initiative in cities across the US and Mexico connects local investors with local entrepreneurs both online and offline, and does the work to validate top local companies in each city across the US and Mexico.

4. RocketHub
Rockethub powers donation-based funding for a wide variety of creative projects.

What's unique about RocketHub is their FuelPad and LaunchPad programs that help campaign owners and potential promotion and marketing partners connect and collaborate for the success of a campaign.

5. Crowdrise
Crowdrise is a place for donation-based funding for Causes and Charity. They've attracted a community of do-gooders and and fund all kinds of inspiring causes and needs.

A unique Points System on Crowdrise helps track and reveal how much charitable impact members and organizations are making.

6. Somolend
Somolend is a site for lending for small businesses in the US, providing debt-based investment funding to qualified businesses with existing operations and revenue. Somolend has partnered with banks to provide loans, as well as helping small business owners bring their friends and family into the effort.

With their Midwest roots, a strong founder who was a leading participant in the JOBS Act legislation, and their focus and lead in the local small business market, Somolend has begun expanding into multiple cities and markets in the US.

7. appbackr
If you want to build the next new mobile app and are seeking donation-based funding to get things off the ground or growing, then check out appbackr and their niche community for mobile app development.

8. AngelList
If you're a tech startup with a shiny lead investor already signed on, or looking for for Silicon Valley momentum, then there are angels and institutions finding investments through AngelList. For a long while AngelList didn't say that they did crowdfunding, which makes sense as they have catered to the investment establishment in tech startups, but now they're getting into the game. The accredited investors and institutions on AngelList have been funding a growing number of select tech startup deals.

9. Invested.in
You might want to create your own crowdfunding community to support donation-based fundraising for a specific group or niche in the market. Invested.in is a Venice, CA based company that is a top name "white label" software provider, giving you the tools to get started and grow your own.

10. Quirky
If you're an inventor, maker, or tinkerer of some kind then Quirky is a place to collaborate and crowdfund for donation-based funding with a community of other like-minded folks. Their site digs deeper into helping the process of bringing an invention or product to life, allowing community participation in the process.

Source: Chance Barnett, "Top 10 Crowdfunding Sites for Fundraising," *Forbes*, May 8, 2013, available at http://www.forbes.com/sites/chancebarnett/2013/05/08/top-10-crowdfunding-sites-for-fundraising/, accessed May 13, 2013.

Exhibit 10 Summary Data on Selected Job Search and Talent Companies

Company	Business Description	Public or Privately Held	Customers	Members	Unique Monthly Visitors	Countries	Languages	Job Listings	2012 Revenue	2012 Net Income	2012 Market Cap	Employees	Notes:
LinkedIn Corporation	Operates world's largest professional online network	Public	NA	238MM	143 MM	20 offices; available in 200 countries	20	1.73MM (2012 estimate)	$972.3MM	$21.6MM	$10,317.8MM	4,200	
Monster.com	Largest job search engine in the world; in 2012 held the leading traffic position in the U.S. for career services and development	Public (Subsidiary of Monster Worldwide, In.	300,000	> 63 MM job seekers per month	21 MM	40 offices	15	> 1 million	$890.4MM	$(258.7MM)	$624.5MM	5,000	Also owns BeKnown, a professional networking application available on Facebook
XING AG	Social network for professionals, based in Germany	Public		13MM (over 6MM in Germany)	4.2 MM	Used by people in 200 countries	17	NA	$96.8MM	$12.1MM	$311.0MM	513	Financial data based on 12/31/12 conversion rate of 1.3203 USD per Euro
The Viadeo Group	Second largest professional social networking group. Based in France, comprised of the brands Viadeo, ApnaCircle (India), and Tianji (China)	Private	NA	50MM	NA	12 offices; available in 226 countries	7	NA	$65MM (2011 est.)	NA	NA	400	
Career Builder	Largest online job site in the U.S.	Jointly owned by Gannett, Tribune, & McClatchy	300,000	NA	24MM	Operates sites in 22 countries, available in 60 markets	NA	1.6 MM	NA	NA	NA	2,000	
Dice	Leading recruiting and career site for technology and engineering professionals	Public (Subsidiary of Dice Holdings, Inc.)	NA	NA	2.0 MM	NA	NA	85,275	$133.4MM (Tech & Clearance Segment)	$51MM Operating Income (Tech & Clearance Segment)	NA	534 (Parent company total)	Financial data for Tech & Clearance Segment. Segment includes Dice.com, ClearanceJobs.com, and Slashdot Media.
Indeed	#1 job site worldwide, aggregating data from multiple listings	Private (Subsidiary of Recruit Holdings Co.)	NA	NA	100MM	6 offices; available in 50 countries	26	NA	NA	NA	NA	266 (Parent company total)	
Simply Hired	Online job aggregator	Private	NA	NA	30MM	24	12	NA	NA	NA	NA	NA	
Craigslist	Online classified service	Private	NA	NA	60MM (U.S. alone)	700 local sites in 70 countries	13	2 MM new jobs listings each month	$126MM	$103MM	NA	30	

Source: Company Web sites, annual reports, and 10-Ks. "Another Look at LinkedIn's Large Potential in Job Postings," TREFIS, July 3, 2013, available at <http://www.trefis.com/stock/lnkd/articles/194025/another-look-at-linkedins-large-potential-in-job-postings/2013-07-03>, accessed July 3, 2013. Kristin Ketteringham, Top Ten Employment Websites for Job Searching Online," Yahoo!, July 30, 2008, available at http://voices.yahoo.com/top-ten-employment-websites-jobs-searching-online-1722491.html?cat=3, accessed June 28, 2013. Eric Griffith, Jennifer Bergen, "The Best Job Search Websites," PC Magazine, June 4, 2013, available at http://www.pcmag.com/slidehow/story/294523/the-best-job-search-websites, accessed June 28, 2013. Peter M. Zollman, "Craigslist 2012 Revenues Increase 9.7%; 'Big Four' Battle for Global Classified Lead," AIM Group, November 7, 2012, available at http://aimgroup.com/2012/11/07/craigslist-2012-revenues-increase-9-7-big-four-battle-for-global-classified-lead/, accessed June 28, 2013.

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