

**INVESTIGATING THE SCREENING PROCESS OF ANGEL INVESTORS**

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**By**

**Ramona Criddell**

**Jason Hilario**

**Kristoffer Jensen**

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## **1 Introduction**

The Innovation and the creation of new technologies require resources to commercialize them. Such cyclic growth relies on a continuous stream of early funding for originators of new concepts and founders of innovative products and services to enable them to develop their ideas. Angel Investors and venture capitalists contribute to the developmental process by enabling entrepreneurs to transform their proposed products and services into potentially ground-breaking innovations that have the capacity to benefit society. It is important that funding is not disseminated carelessly because modernization and advancement is predicated not only on the availability of funds, but also upon the strategic channeling of such funds into appropriate, useful, and profitable areas. Conversely, the process allows for reaching beyond conventional investment criteria.

Angel investment and venture capital groups use a screening process to filter out proposals that meet the objectives of their investment strategies and especially promising deals. In conversations with a veteran angel investor it was learned that although angel investors (AIs) and venture capitalists (VCs) publish written criteria that state investment criteria they invest in and outline what an entrepreneur should do in order to obtain funding from them; they often reject proposals that have met their guidelines and run parallel to their investment strategy. This is suggestive of a dichotomy between the published criteria and the actual criteria used to evaluate proposals and business plans. AIs and VCs receive exceedingly high quantities of proposals that can not all be realistically evaluated in detail. Therefore, screeners often rely on subjective typecasting techniques when weeding out plans at a fast pace. Categorizing proposals under

stereotyped labels revolves around intuition and experience which is abstract and potentially inconsistent. The goal of this project is to investigate the screening process used by angel investors and explore the possibilities of improving the process. Furthermore, this project is intended to heighten awareness of angel financing in academia by presenting stylized facts and stimulating theory analysis regarding the screening process.

The analysis of the screening process was performed by interviewing the executive director of a local angel group. He identified rejected deals in the time period of 2004. Subsequently, follow-up interviews with the rejected companies was performed to gauge their outcome and to investigate whether they remedied their negative characteristics as cited by angel group. This follow-up with rejected companies provides a thorough analysis of the screening process by determining whether the quoted reasons for rejection by the screening committee were accurate indicators of successful investments.

Examining the angel investing and screening process is beneficial because the entrepreneurs and investors can benefit from the acquired knowledge. Screening committees of funding firms often rely upon abstract labeling mechanisms when analyzing proposals. Since instinct and experience tend to be biased and inconsistent bases of inspection, then screening committees would benefit greatly from a comprehensive analysis of the screening process. This project intends to identify elements of the screening process and measure the legitimacy of both the published and unpublished criteria in the screening process. One goal of the project is to generate

recommendations for improving the screening process. Entrepreneurs stand to benefit from an easier and smoother application process for funding through the enhanced clarity of communicated criteria.

## **2 Background**

### *2.1 The Entrepreneurial Economy*

The improvements in human productivity and solving power wrought by the information technology revolution (Atkinson & Correa, 2007) and the communicative advantages fostered by globalization (Friedman, 2000) have spawned an era where mankind is especially inclined to invent, discovery, and innovate. This young era – merely two decades old – cultivates a worldwide economy driven by innovation and empowered by entrepreneurship (Atkinson & Correa, 2007).

Entrepreneurship has been incorporated into the American dream. Jeffrey E. Sohl remarks that “the dream of yesterday, to own your own home, has been replaced by the desire to own your own business” (Sohl, 1999). Moreover, this “new dream” is not merely an intention or desire but a goal actively strived for. The amount of new businesses doubled between 1979 and 1995 (Dennis, William J. Jr., 1997; Freear, Sohl, & Wetzel, 1997; Sohl, 1999; Van Osnabrugge & Robinson, 2000) while the net population increased only by 17% showing that the average American adult was extremely more eager to start a company in the mid-90s than in the late-70s (SBSC, 2007; Van Osnabrugge & Robinson, 2000).

The growing momentum of entrepreneurial start-ups is evident when considering their power to replace large public companies and their capacity to create new jobs. Regarding the replacing power of new ventures, Dr. Robert D. Atkinson and Daniel K. Correa of the Information Technology and Innovation Foundation report that “in the 60 years after 1917, it took 30 years to replace half of the 100 largest public companies. Between 1977 and 1998, it took an average of 12 years” (Atkinson & Correa, 2007). John Haltiwanger’s paper on “Entrepreneurship and Job Growth” (Haltiwanger, 2006) reports that the net job growth experienced in the United States between 1980 and 2001 was accomplished by companies younger than 5 years old, when in fact older companies contributed a deficit to the job market (Atkinson & Correa, 2007). This, in turn, creates a situation where more funds and capital are necessary.

This gradual shift in American job creation power from the traditional, mature and large institutions to younger entrepreneurial businesses has occurred for around 40 years. Since the late 1960s, the contribution of older and larger companies to job creation has been shrinking, while concurrently, small and medium-sized enterprises (SMEs) and new businesses have been offering the bulk of new job opportunities to the American public (Drucker, 1985). In the 20 years preceding the late 1960s, SMEs, the bulk of which were new enterprises, created approximately 40 million new jobs while older conglomerates and other traditional employment sectors such as government, education and health care removed around 5 million jobs (Drucker, 1985).

Innovative products and services are able to form the basis for stand-alone companies like never before. This is because information technology and globalization have birthed a new dynamic system of e-commerce that provides global and easily-accessible distribution channels that give entrepreneurs incredible selling power (Drucker, 2002). One no longer needs the marketing power and the customer base of a Fortune 500 company to assist in selling a new and relatively unknown product. Now, if a product or service is a solution to a market need, customers will be available and able to access it or contact the company through the internet (Drucker, 2002).

The information era not only provides supreme linking services between sellers and buyers through the internet, but furthermore equips innovators and “techies” with technological tools to assist design and lab experimentation, thus accelerating the high-tech invention process (Atkinson & Correa, 2007). Lastly, the emergence of IT and the global society that is no longer segregated by cold war hostilities and barriers of communication has fostered an environment where information is easily shared and where humans can collaborate in grand innovative projects (Friedman, 2000). Ease of access to valuable information is conducive to product development and entrepreneurship.

## *2.2 Venture Financing of Entrepreneurial Start-ups*

Constructing new companies around novel products or services requires strong financial backing to overcome initial funding shortages that characterize start-ups. Typically, new

ventures find it difficult to amass funds in the \$100,000-\$500,000 region with the limited funds of the founder, family, and friends (Preston, 2004; Van Osnabrugge & Robinson, 2000). This range is typically a range that VC's do not sustain and therefore other sources of funding are required. To hurdle this so-called equity gap, entrepreneurs often tap into the private equity market in the form of angel investors and venture capitalists.

Angel Investors are "qualified" as high-net worth individuals that offer their personal funds to start-up companies for a proportion of the company stock (Van Osnabrugge, 2000). Alternatively, venture capitalists are institutionalized money managers for accredited investors. Unlike AIs, the actual limited partners for VCs often do not decide which companies to channel their funds into. Furthermore, VCs typically invest larger rounds in companies later on in their development such as in the expansion stage, which is often the last stage preceding liquidity events, whereas AIs generally focus on funding in the seed, start-up, and early stages of a company's career (Maruca, 1993; Preston, 2004; Sohl, 1999; Van Osnabrugge & Robinson, 2000; Van Osnabrugge, 2000).

In fact, the National Venture Capital Association (NVCA) reported that in 2003, only 2.0% of applied VC funds were directed towards seed and start-up stages (Preston, 2004). This establishes AIs as the dominant investors responsible for bridging the \$100,000-\$500,000 equity gap (Van Osnabrugge, 2000). Van Osnabrugge (Van Osnabrugge & Robinson, 2000) reports that "angel investors provide 84 percent of rounds under \$250,000, and 58 percent between \$250,000 and \$500,000, while overall in rounds of less than \$500,000 angel investors offer in dollar terms, four times as much as venture

capitalists.” Angel funding often develops a venture to a point where it qualifies for larger rounds of funding between \$2 million to \$5 million from formal venture capital firms (Madill, Haines Jr., George H., & Riding, 2005; Preston, 2004; Sohl, 1999). AIs and VCs justify the risk they incur from their early-stage investments by seeking returns in the vicinity of ten times the investment, although most angel portfolios only achieve 30 percent returns (Van Osnabrugge & Robinson, 2000).

### *2.3 Angel Groups and their Participating Investors*

The majority of individuals serving as angel investors assemble into angel groups of individuals with similar interest. Collectively, accredited investors aggregate their funding power together to provide more impactful funding rounds (Preston, 2004; Van Osnabrugge & Robinson, 2000). Furthermore, individual investors are able to diversify their portfolio of funded ventures as many members from different industries and niche fields add their expertise to the group. Not only is versatility added to groups, but the simple power of numbers assists the screening and deal analysis process (McGee, 2004; Preston, 2004). Precious time and resources is saved as due diligence is delegated among select members (Sohl, 1999). Entrepreneurs benefits from targeting angel groups as they can submit proposals and formally present to many angels at one time (McGee, 2004).

Angel groups typically consist of entrepreneurs that have sold their companies (Aernoudt, 1999). Their age falls within the 35-65 year range as they usually intend on seeing their investment through to fruition (Aernoudt, 1999). AIs also claim to be value-adding investors in that they contribute their entrepreneurial and managerial experience as well

as their industrial expertise to new companies (Sohl, 1999; Van Osnabrugge & Robinson, 2000).

#### *2.4 The Investment Process*

The investment process that angel investors use to decide which companies to fund has several stages. Initially, AIs accumulate business proposals that are either blindly submitted or championed by one of the investors in the angel group. The first stage of assessment entails, as a screening committee made up of a portion of the investors in the angel group commit to an *a priori* analysis of the business proposals (Csaszar, Nussbaum, & Sepulveda, 2006; Van Osnabrugge & Robinson, 2000; Wright, Sapienza, & Busenitz, 2003). The business proposals that pass the screening stage proceed into the next round of the evaluation process where by entrepreneurs of the new ventures present formally to the angel group in person. If the investors are interested in funding the company at this stage a “champion” to lead the remaining process is identified. Then a due diligence analysis takes place. If a company passes the due diligence process, then the entrepreneur and the angel investors negotiate a term sheet for funding (Van Osnabrugge & Robinson, 2000; Wright, Sapienza, & Busenitz, 2003).

### **3 Project Methodology**

For our case study the following approach was used. A preliminary background literature research was conducted which gave us the basis on which to formulate our argument. It was decided by the group members and the advisors that at least one Angel investment firm would be contacted in order to gather data on their rejected company proposals. In

order to obtain proper results proposals made three years ago would be requested. This would ensure that enough time had past for the developing firms requesting funds to be able to mature or fail in their endeavor. The year chosen for the rejected proposals to be collected was 2004 in order to give time for the company's to develop a "history." The contacted Angel investment firm was then visited or contacted by the group to observe a screening meeting. This provided a good perspective on the manner in which screening was conducted. Executive summaries made through out that year categorized by month were collected provided by the Angel firm. Once the data was collected it was analyzed by means of a standard rubric (see appendix). The rubric detailed reasons for rejection that were recurring within the Angels' screening committee. The rubric and analysis was formulated as follows:

1. Rubric: 0-1-2-3: 0 means no screeners rejected, 1 means one screener rejected, 2 means 25% of screeners rejected, 3 was half or more of the screeners rejected.
2. Reasons for Rejection Graph: Adding together 1-2-3s for the total of the weight. This histogram details the amount of 1s, 2s and 3s that each category received in total. This action was performed to determine which category was mentioned the most as a reason for rejection.
3. 3-D Analysis Numerical Total of Rejection Weights Graph: 3-D graph showing amounts of 1s, 2s, and 3s for each criterion/rejection category. A histogram was constructed to determine the weight that each category carried in relation to the number of times they were mentioned as a reason for rejection. This graph detailed the frequency of 1s, 2s and 3s that were recorded from the designed rubric. This graph determined which categories carried more strength when screeners rejected proposals.

After analyzing the data and determining the predominant reason for rejection used by the Angel Investors (if any) the following step was to establish contact with the entrepreneurs and conduct a short interview. This was accomplished with a standardized questionnaire (appendix A3). The purpose of contacting the entrepreneurs was to

determine whether their rejected companies had become operational or not even after being negated funding by the Angels. It was to be determined if these firms had been profitable or if they were even in existence.

In order to find these firms searches were made through Google search engine and LexisNexis company search using the company names that had been provided by the Angel firm. This was done if no other contact information was available or if the telephone numbers and email addresses were no longer operational. If no contact was made after using the contact information provided and no matches were obtained after conducting internet searches it was assumed that the companies had not survived and were defunct.

The procedure used to select the firms to be contacted was to determine the companies with the highest percentage of rejections by screeners (No's). The cut off was 80% of the screeners had rejected the business proposal (see Compilation of Screeners initial impressions in appendix). Twenty companies were obtained using these criteria.

After the establishment of contact with the entrepreneurs an interview with the Executive Director of the Angel firm was conducted in order to document the following information:

“Understand the dynamics of screening process (someone who understands the field carries enormous credibility... industry background). If there are contradicting comments, the person with industry background prevails. They review everything even if outside of published criteria, however, typically they

stick to companies that fit the published criteria. If a company is located too far away from the base of the angel group, then they'll pass it on to another angel in that area. If they pass due diligence with another Angel firm, would their Angel firm might come in later and invest also. That shows trust among different angel groups. They all know one another and many accredited investors are active in many different angel groups.”

The 20 companies that were compiled which had been rejected by 80% of the screeners present were then categorized into groups depending on their current state as of July 2007 (*Flow Diagram of Outcomes and “Rejected” Companies*, Figure 4). A comparison was then made between the reasons for rejection by the screening committee and the operational status of the company. The status of the company was correlated to the predominant reason of its rejection (*3-D Analysis: Comparison Between Reasons for Rejection and Operational Status* graph, Figure 6). Additionally a comparison was made between the status of the company and the reason or method for its current state and the predominant reason for its rejection. In theory those categories that had 2s and 3s had been rejected with more strength therefore only these were accounted for.

The *Operational Status of Followed up Companies* graph (Figure 3) summarizes the operational and non-operational firms derived from the finalized 20 companies. The *3-D Analysis: Comparison Between Reasons for Rejection and Outcomes of “Rejected” Companies* graph (Figure 7) represents a break down of outcomes and the manner in

which the companies attained their current status (July 2007). Conclusions and recommendations were derived from these analyses.

- Although this study could have been more complete if another Angel firm had been found to compare their methods and determine best practices, it was felt that a single firm would be able to provide adequate information. Therefore, a conscious decision was made to focus on one Angel firm in order to do a more thorough analysis of the data provided.
- The initial intention of the project was to compare two venture capital firms and two angel investors firms. However this made for a scope that was too broad for the nature of this project. Also venture capitalist and angel investors have different cultures and methods and it would be comparing two completely different industries “apples to oranges”
- The different categories (explained in appendix A4) were derived from the information provided by one of the senior screeners.
- Problems with the Data
  - It was attempted to create a scatter plot with the goal of creating a linear regression reflecting the frequency of “no’s” to the amount of screeners present. This may have provided a relationship between the number of screeners and the strength of rejection. However this was impossible because of the overlap of data. There were not enough screeners (6 at most) which would mean points overlapping each other many times over and over again.

- During some months the number of screeners varied which made it difficult to the frequency of “no’s” to number of screeners during the course of the year. This due to the fact that for different months there were different numbers of screeners available.

*Assumptions*

1. A good rejection was defined as a proposal that had been rejected by 80% of screeners present at the time.
2. When searching for companies that were operational it was determined that companies were not operational if:
  - Their telephone numbers were non-active
  - Their websites had not been updated since the year 2004 in which they were reviewed
  - They did not appear in searches done through Google name search and LexisNexis company search
3. If company bootstrapped then it was already operational and trying to expand

## 4 Graphical Section

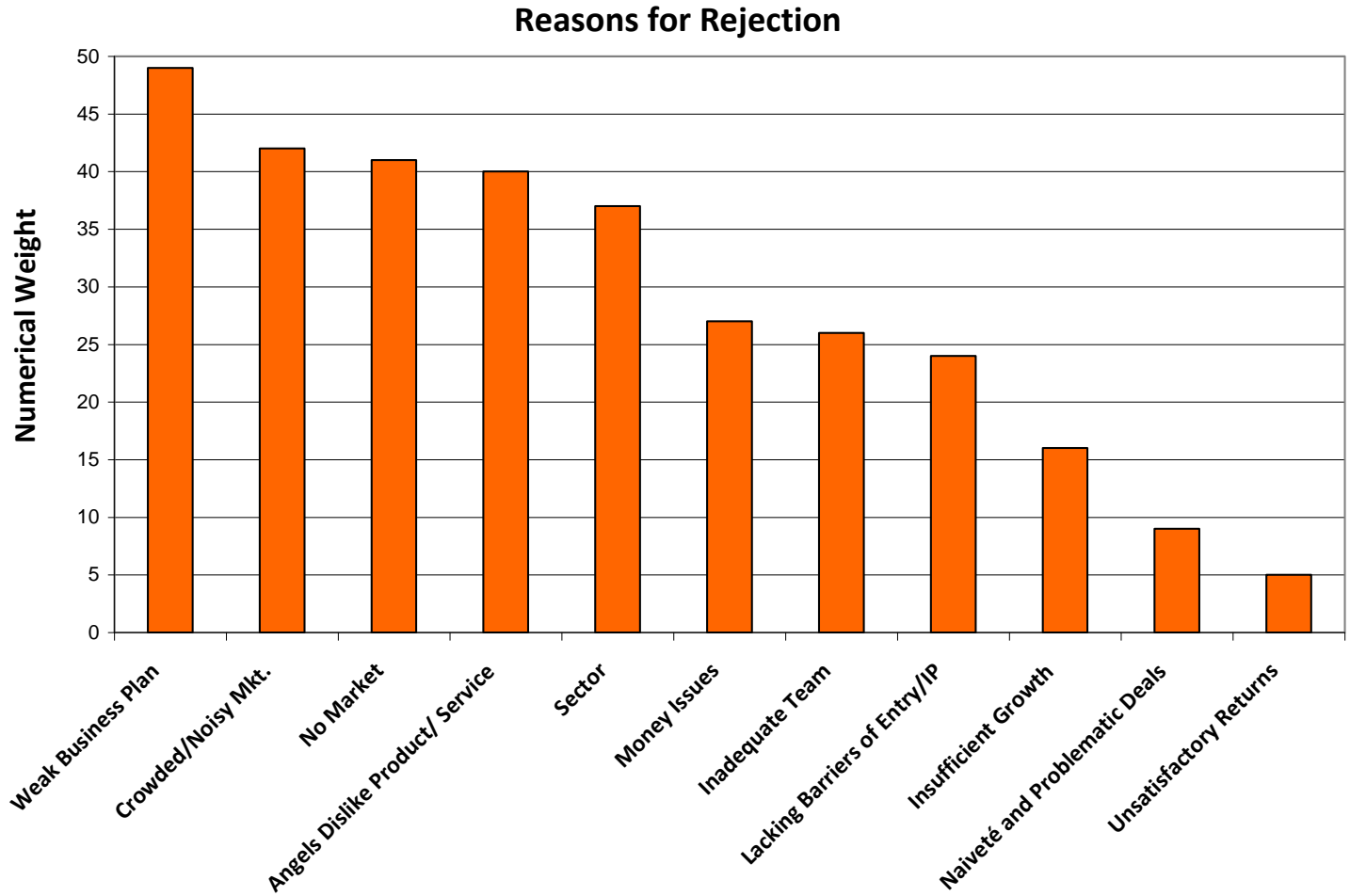


Figure 1: Reasons for rejection in descending order of prevalence in screening decisions.

### 3-D Analysis: Numerical Total of Rejection Weights

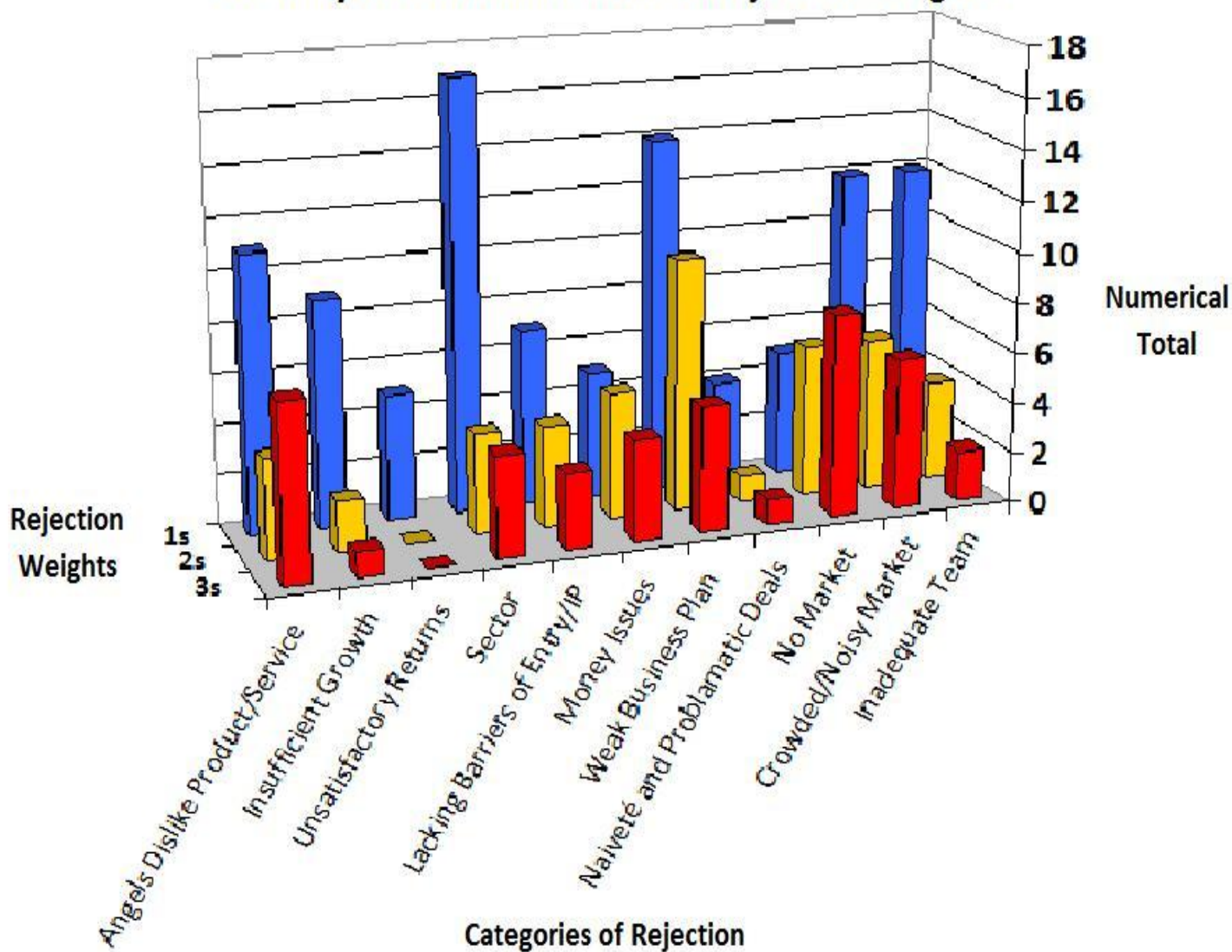


Figure 2: Total number of rejection weights (1,2, or 3) for "rejection" categories. A 1 represents one mention by a screener, while a 2 means that 25% or more of the screening committee cited the category, while a 3 shows that 50% or more of the screening committee "rejected" the new venture based on the given "rejection" reason.

### Operational Status of Followed-Up Companies

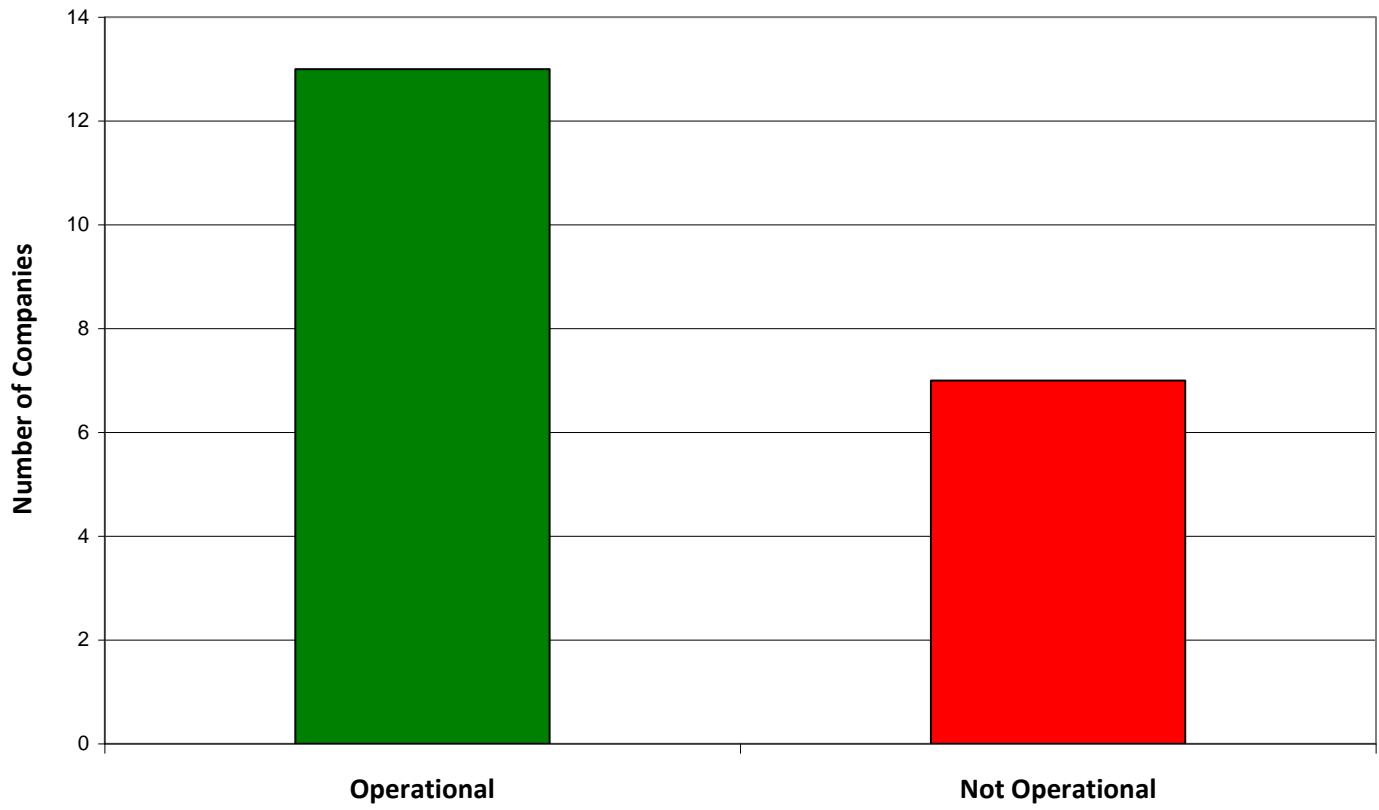


Figure 3: Number of followed-up companies that were operational and non-operational.

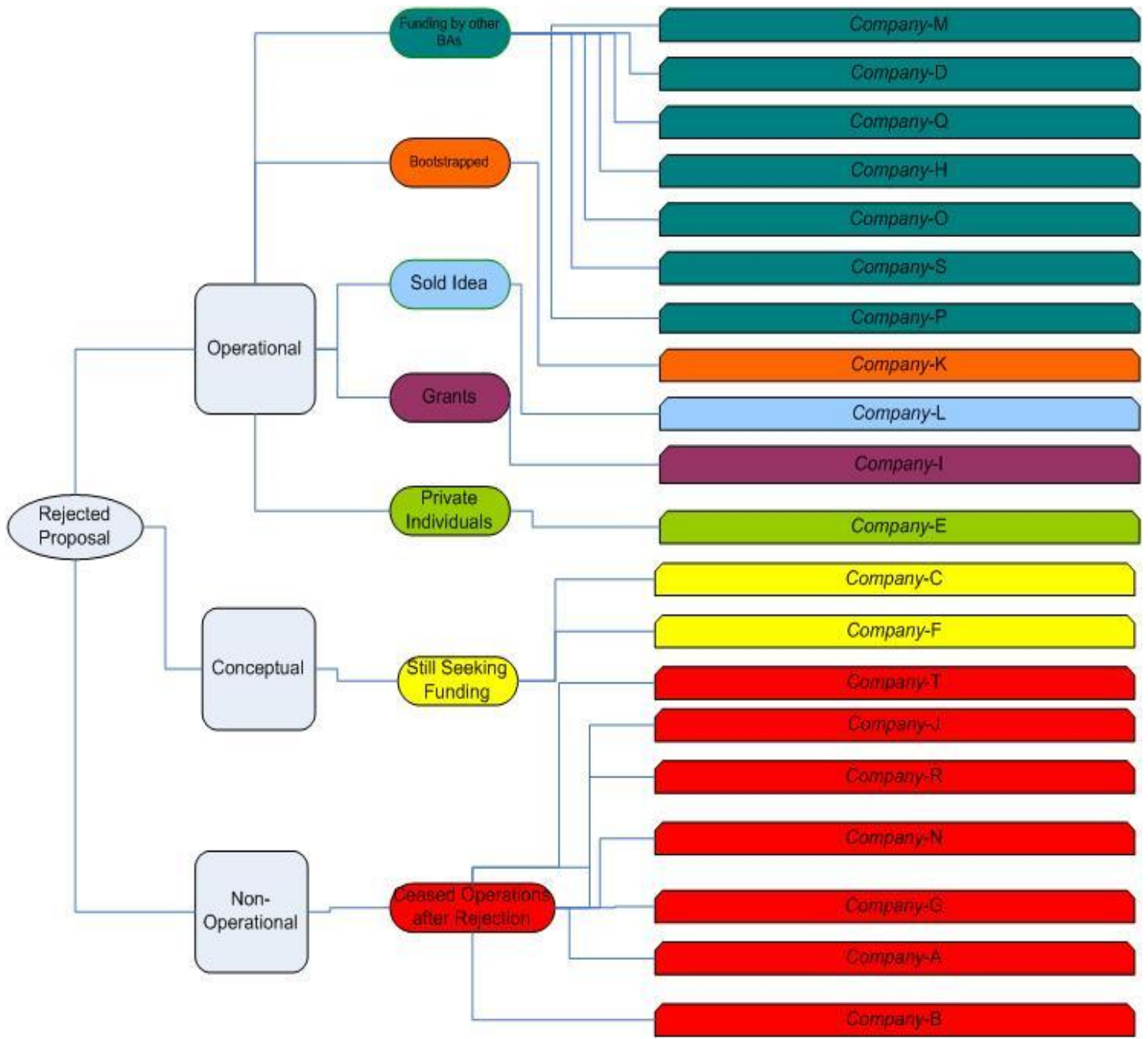
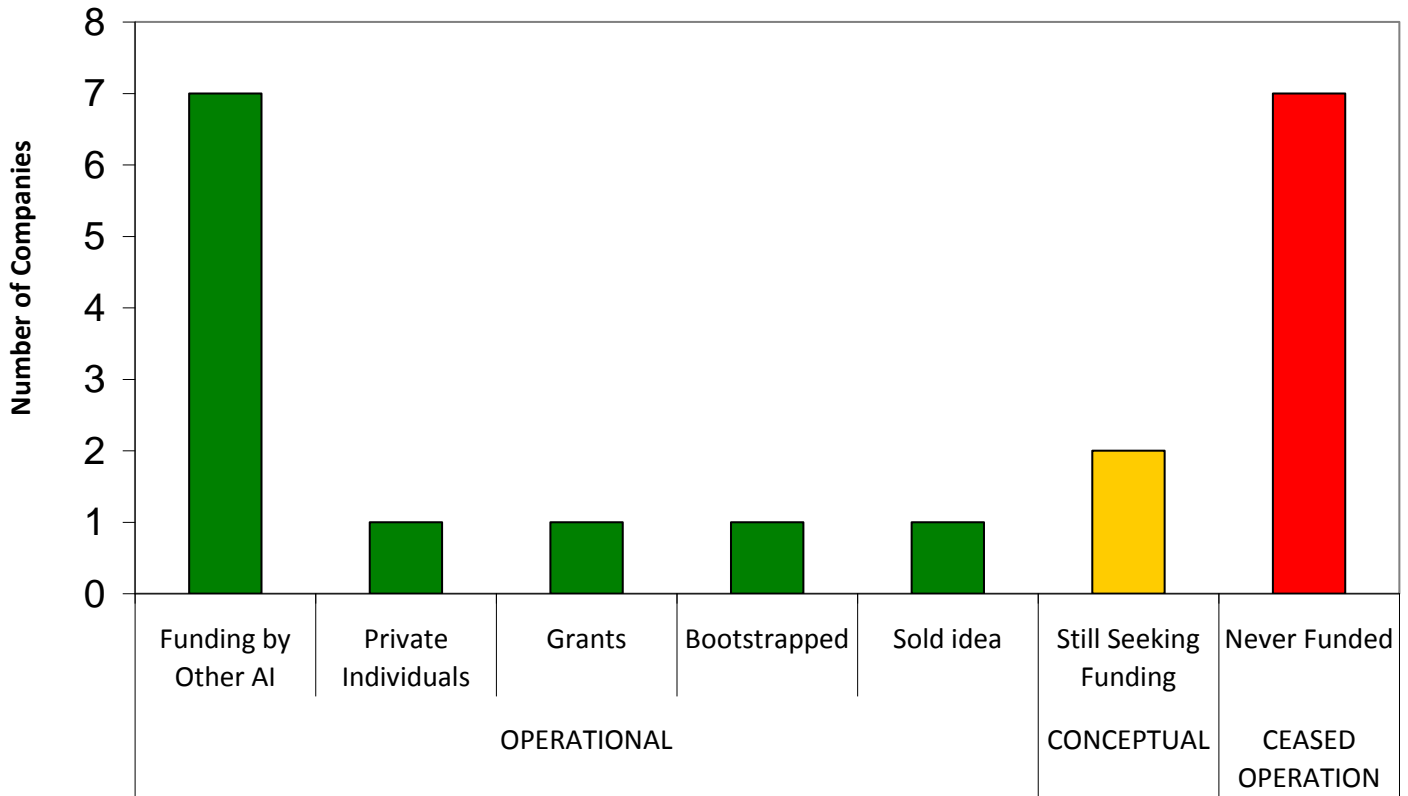


Figure 4: Flow diagram showing how outcomes were attained, and which companies fell into the defined outcomes.

## Outcomes of "Rejected" Companies



**Figure 5: Graph showing the outcomes of the followed-up "rejected" companies. Color code: red-venture ceased, yellow-still seeking funding, green-operating and running ventures. 10% of the followed-up companies were still seeking funding. These "intermediates" are often referred to as the "living dead" since they are still surviving although there are not doing anything or adding value to the firm or growing. If such companies attain funding, they often provide problems for angel groups as they remain in the angel portfolio despite their stagnant growth.**

### 3-D Analysis: Comparison Between Reasons for Rejection and Operational Status

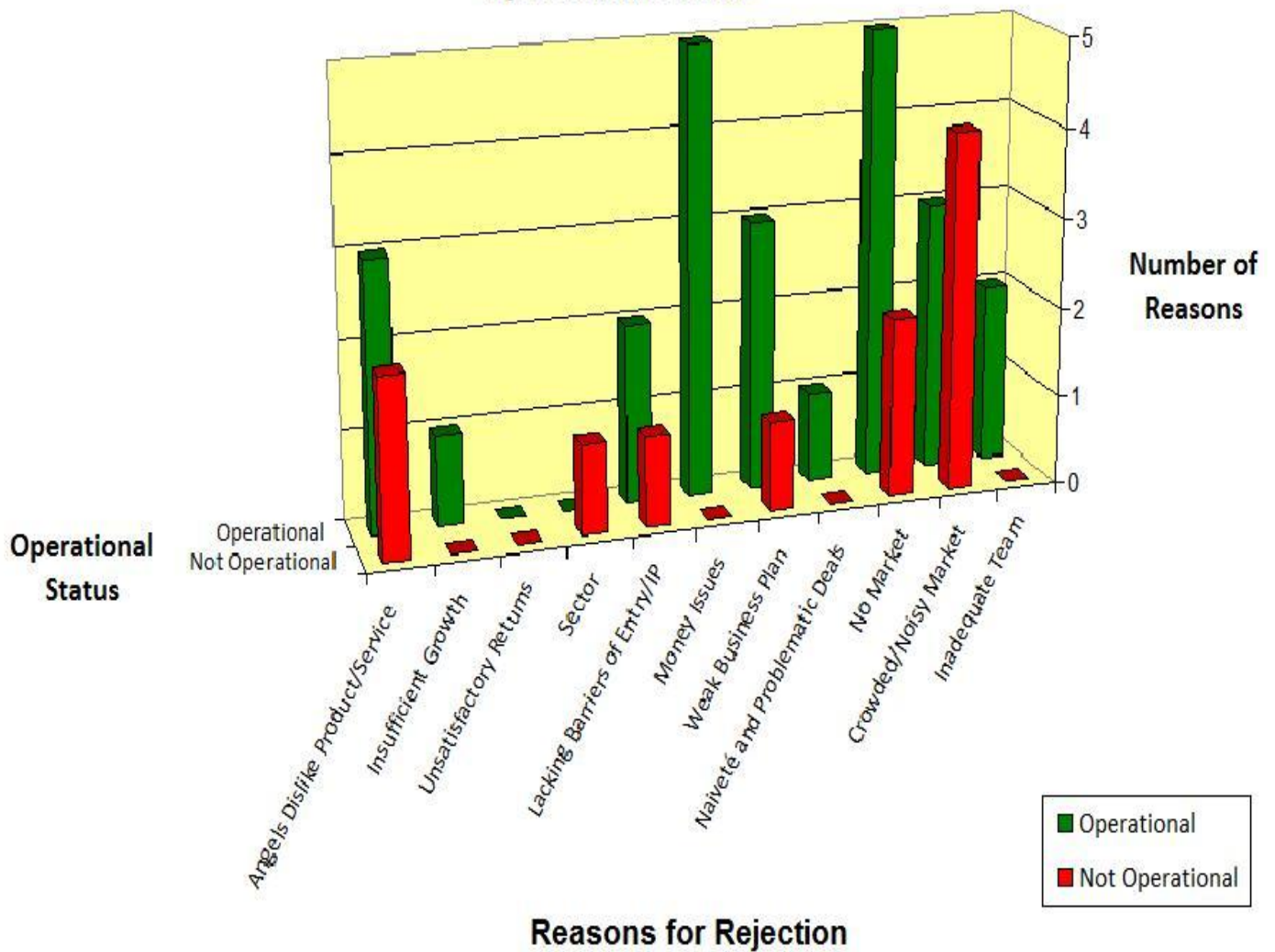


Figure 6: Comparison between reasons for rejection and the operational status of companies. This shows the effectiveness of certain screening criteria.

### 3-D Analysis: Comparison of Reasons for Rejection with Outcomes of "Rejected" Companies

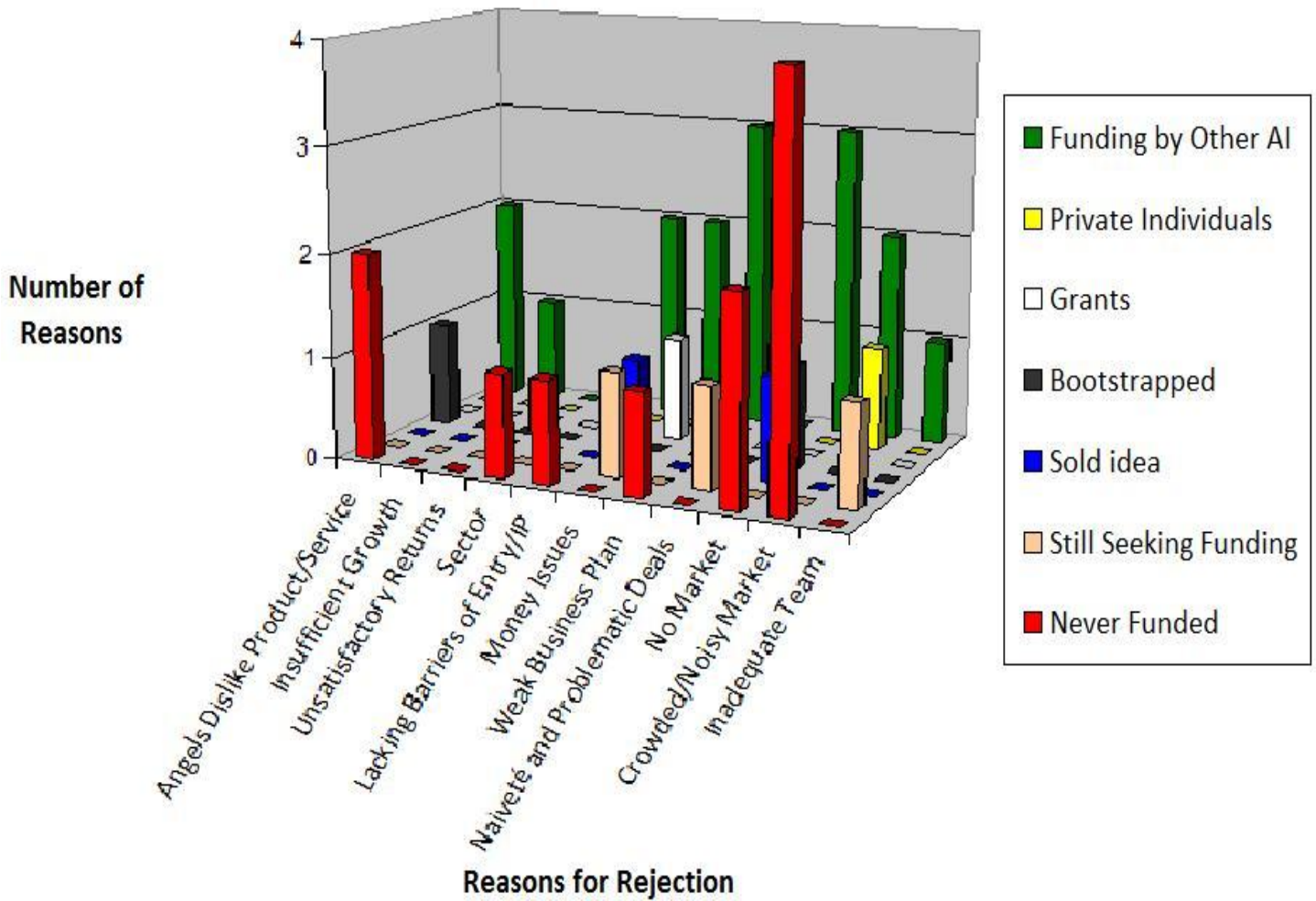


Figure 7: Alignment between reasons for rejection and the final outcomes of followed-up companies.

Comparison of Number of Screeners to the Operational Status of "Rejected" Companies

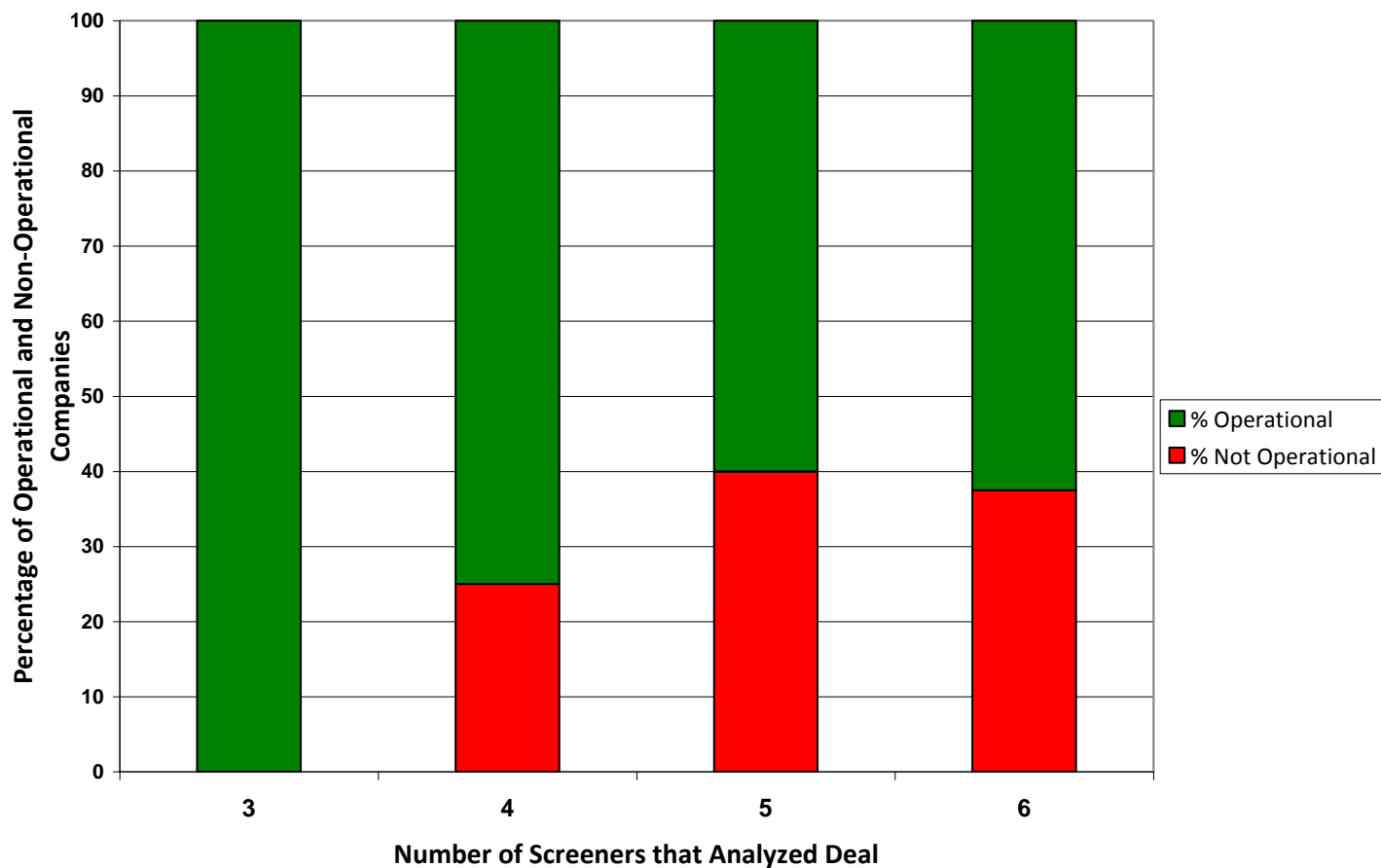


Figure 8: Percentage comparison of operational and non-operational ventures with respect to the number of screeners analyzing the ventures.

## **5 Conclusions**

### *Establishing Rejections*

There is an incredible difficulty in establishing a clean rejection that is initially agreed on collectively by the screening group. This is shown by the percentage of no's required for a certain rejection (appendix A2). The cut-off percentage chosen as a threshold for rejection was 80% or above of the screening committee choosing no for a given business plan. However, *Company U* received 80% no's and 0% yes', and still proceeded into the presentation stage. Therefore, it is concluded that clear objective rejections based on a consistent standard cannot be defined.

This shows that the screening process is extremely qualitative and possibly inconsistent. Quantitative analysis supports the assertion that consensual rejections based on screener inputs do not follow an objective standard.

### *Authority of Members in the Screening Committee*

One knowledgeable member can sway the entire screening decision. Screeners with technical expertise and experience within the field have more authority in decisions pertaining to companies within their area of expertise in comparison to screeners that are operating outside of their niche field. This is evidenced by the ratio of yes' to nos' involved in critiquing business plans that passed the initial stage of screening. Out of the 21 companies that proceeded into the next round of deal assessment for the 8-months that were analyzed, 16 of those companies received less than or equal the amount of yes' than

no's, showing that positive evaluations carry more weight than negative evaluations. One "yes" vote is more powerful than one "no" vote.

*Graph (3-D: Numerical Total of Rejection Weights)* (Figure 2) shows that the reason for rejection with the highest number of 1s (representing one mention or below 25% of screening committee mentioning the category as a reason for rejection) was *sector*. This implies that for a given company, there is often a fraction of the screening committee or an individual screener that is unacquainted with the industry sector that the given company falls into, and are therefore, operating outside of their area of expertise. A "no" vote from a screener operating outside of his or her area of expertise, will not be as authoritative as a "yes" or "no" vote from a screener that is familiar with the industry of the new venture.

Future work should analyze the hierarchy present within screening committees. Since more credence is given to certain especially astute investors than to others, then this inequality should be quantified in future research. This research work was possibly limited in this respect, as all the comments of different screeners were counted with equal weight.

#### *Quality of Unanimous Decisions*

Of the 11 companies that were rejected unanimously by the screeners (100% no's), six of them received funding from other AIs and four of them ceased operation (appendix A2). One of the unanimously "rejected" companies was still looking for funding in 2007.

Since there were 50% more operational “rejected” companies than non-operational “rejected” companies, it is concluded that consensus and unanimity of screeners does not add to the decision-making process.

Future research should investigate the discussion process involved in screening. This project was limited since the opinions of screeners were measured by review sheets which were generated individually. However, final screening decisions are never made before reviewed companies are discussed in meeting.

### *Reasons for Rejection*

One of the senior investors in the screening committee reported that the number one reason for rejecting companies was an inadequate team. The second reason was high competition in the target market and the third highest ranking rejection reason was that the product or service had no market.

According to the numerical weights of rejection from the 2004 data *Reasons for Rejection* graph (Figure 1), the primary reason for rejection was a weak business plan. However, the second and third reasons were high competition in the target market and no market respectively, which corresponded with the second and third reasons reported by the investor. Additionally, *no market* received the highest amount of 3s in the rejection weight graph (3-D: *Numerical Total of Rejection Weights* graph, Figure 2). This shows that many consensual decisions are made for rejection based on the *no market* criterion. Inadequate team ranked only as the seventh most frequent reason for rejection.

However, from the interview with the executive director of the angel group, it was concluded that the group only invests in companies where they know the entrepreneur and where they are confident in his or her entrepreneurial ability. Companies that submit business plans blindly to the angel group through the angel website or an angel directory nearly never get funded. The entrepreneurs must be known, and one of the members in angel group must have championed the business proposal. Therefore, it is possible that referrals from the individuals within the angel group count as a vote for the team. Evidently, entrepreneurial success is directly related to effective networking.

Since *weak business plan* was the main reason for rejection according to this study, it is recommended that the angel group control the information they receive from other companies by clarifying their published criteria as reported on their webpage.

Furthermore, it would be profitable to make certain demands on the submitted business proposals in order to add objectivity to the screening analysis. At the moment, many companies are being “rejected” because their business plans provide inadequate information. This forces the screening committee to make *a priori* decisions based on company potential, which can be extremely ambiguous, rather than proven sales and growth characteristics.

### *Significant Survival Rate for “Rejected” Companies*

The *Operational Status of Followed-Up Companies* graph (Figure 3) and the *Outcomes of “Rejected” Companies* graph (Figure 5) show that the majority of “rejected” companies received alternate funding after rejection from the analyzed angel investing group.

Thirteen of the followed-up companies were still operational while seven were non-operational. This statistic, coupled with the multiple sources of funding shown in the *Outcomes of “Rejected” Companies* graph, demonstrates that entrepreneurial companies can survive “rejection”. The plethora of funding sources in the form of multiple angel groups, private individuals, and government grants assist the entrepreneurs in the funding process. Furthermore, there was an equal amount of “rejected” companies that received funding from other angel investors as there were companies that ceased operation.

Therefore, “rejection” from an angel group is clearly survivable.

### *Poor Reason for Rejection*

According to *Graph (3-D Analysis: Comparison Between Reasons for Rejection and Operational Status)* (Figure 6) comparing the reasons for rejection with the operational status of the “rejected” companies, the worst reason for rejection was *money issues* since all the companies that were rejected based on this criterion were operational at the time of the follow-up interviews. For the “rejected” companies that were contacted, five of the companies were rejected because their money demands were a concern for the investors. However, all five of these companies rejected based on needing too much money were operational in 2007, and none of them had shut down.

### *Good Criterion for Rejection*

The only two criteria for rejection that ended up predicting more non-operational than operational companies were *sector* and *crowded/noisy market* (3-D Analysis:

*Comparison Between Reasons for Rejection and Operational Status* graph, Figure 6).

Investors that chose not to invest based on the fact that the company industry was outside of their niche field made good decisions since Figure 6 indicates companies rejected based on the *sector* criterion became non-operational. *Graph (3-D Analysis: Comparison Between Reasons for Rejection and Outcomes of “Rejected” Companies)* (Figure 7) shows that the *crowded/noisy market* criterion “rejected” companies that subsequently ceased operation four times. However, the companies rejected on the basis of competition attained funding from angel investors two times and from private investors one time. *Crowded/noisy market* was the only criterion that gave more than three non-operational and operational companies, showing that it is a major concern for angel investors, but that it is a difficult predictor of future operational status.

### *Effect of the Number of Screeners*

*Graph (Comparison of the Number of Screeners to the Operational Status of “Rejected” Companies)* (Figure 8) shows that increasing the amount of screeners increases the quality of the decision. Ideally, increasing the number of screeners would bring more industry-specific expertise into the committee, and thus, greater collective foresight on the success of new ventures. A high-quality “rejection” decision would be represented on the graph by a higher percentage of non-operational “rejected” companies. In this study, graph (Percentage) shows that as the amount of screeners increases from three to six the

percentage of non-operational “rejected” companies increases as well. When there were five and six investors involved in the initial reviewing, 40% and 37.5% of the “rejected” companies ceased operation respectively. However, when there were only three screeners, 0% of the “rejected” companies ceased operation. This shows that screening decisions lose validity as the number of screeners decreases.

As a result of this finding, it is recommended that more angel members be added to the screening committee so that more niche expertise is manifested and so that the industry-specific voice is amplified to achieve greater reliability in screening decisions.

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## 7 Appendix

### A1. Categorizing Rejected Proposals (Adapted from the Screening Categories of a Senior Angel Investor)

Name of Company: _____				Month _____
Inadequate Team	0	1	2	3
Crowded/Noisy Market	0	1	2	3
No Market, Not Stand-alone Company, Technology in Search of Market	0	1	2	3
Naiveté and Problematic Deals (Do Not Know What They Are Doing or Are Getting in to)	0	1	2	3
Poor Presentation of the Company and/or Weak Business Plan (No Clear/Concise Explanation of What They Were Doing)	0	1	2	3
Money Issues (Need Too Much Money, Money Needed is Too Large Compared to the Ultimate Size of the Company, Poor Valuation)	0	1	2	3
Lacking Barriers of Entry or Intellectual Property	0	1	2	3
Sector: Not Within the Niche Field of the Angel Investors	0	1	2	3
Unsatisfactory Returns	0	1	2	3
Insufficient Growth	0	1	2	3
Angels Do Not Like the Product/Service	0	1	2	3

**A2. Spreadsheet Representing Screening Decisions**

<u>Month</u>	<u>Name of Company</u>	<u># of Screeners</u>	<u>No</u>	<u>Yes</u>	<u>Maybe</u>	<u>????</u>	<u>Blank</u>	<u>Yes %</u>	<u>No %</u>
April	AMS	6	3	1	0	2		16.7	50
April	A	6	5	0	0	1		0	83.3
April	B	6	5	0	0	1		0	83.3
April	Fy	6	4	1	0	1		16.7	66.7
April	C	6	5	0	1	0		0	83.3
April	IJC	6	5	1	0	0		16.7	83.3
April	NB	6	2	2	1	0	1	33.3	33.3
April	PO	6	3	2	0	1		33.3	50
	<b>Total:</b>		<b>27</b>	<b>3</b>					
	<b>Total:</b>		<b>5</b>	<b>4</b>					

<u>Month</u>	<u>Name of Company</u>	<u># of Screeners</u>	<u>No</u>	<u>Yes</u>	<u>Maybe</u>	<u>????</u>	<u>Blank</u>	<u>Yes %</u>	<u>No %</u>
May	AF	6	3	1	1	1		16.7	50
May	D	6	6	0	0	0		0	100
May	CFC	6	6	0	0	0		0	100
May	Fin	6	3	1	1	1		16.7	50
May	E	6	6	0	0	0		0	100
May	MP	6	1	0	2	3		0	16.7
May	OT	6	5	0	0	1		0	83.3
May	SZ	6	5	1	0	0		16.7	83.3
May	Imm	6	1	3	0	2		50.0	16.7
May	ZI	6	3	2	0	1	1	33.3	50
	<b>Total:</b>		<b>35</b>	<b>3</b>					
	<b>Total:</b>		<b>4</b>	<b>5</b>					

<u>Month</u>	<u>Name of Company</u>	<u># of Screeners</u>	<u>No</u>	<u>Yes</u>	<u>Maybe</u>	<u>????</u>	<u>Yes %</u>	<u>No %</u>
June	AJB	3	0	0	1	2	0	0
June	CC	3	2	0	0	1	0	66.7
June	CO	3	2	1	0	0	33.3	66.7
June	F	3	3	0	0	0	0	100

June	<b>G</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100</b>
June	<b>H</b>	<b>6</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>83.3</b>
June	<b>Nim</b>	3	2	0	0	1	0	66.7
June	<b>Os</b>	3	1	0	0	2	0	33.3
June	<b>SV</b>	6	3	1	1	1	16.7	50
June	<b>BDC</b>	6	3	2	0	1	<b>33.3</b>	<b>50</b>
June	<b>DZ</b>	6	1	1	0	3	<b>16.7</b>	<b>16.7</b>
June	<b>OR</b>	6	3	1	2	0	<b>16.7</b>	<b>50</b>
	<b>Per</b>	6	3	1	2	0	<b>16.7</b>	<b>50</b>
	<b>Total:</b>		<b>21</b>	<b>2</b>				
	<b>Total:</b>		<b>10</b>	<b>5</b>				

<u>Month</u>	<u>Name of Company</u>	<u># of Screeners</u>	<u>No</u>	<u>Yes</u>	<u>Maybe</u>	<u>????</u>	<u>No Vote</u>	<u>Yes %</u>	<u>No %</u>
July	<b>KOI</b>	3	0	0	1	2		0	0
July	<b>MS</b>	5	3	2	0	0		40	60
July	<b>I</b>	<b>5</b>	<b>4</b>	<b>0</b>	<b>1</b>	<b>0</b>		<b>0</b>	<b>80</b>
July	<b>J</b>	<b>5</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>100</b>
July	<b>UD</b>	3	2	0	0	0	0	0	66.7
July	<b>BR</b>	3	1	0	0	2		<b>0</b>	<b>33.3</b>
July	<b>Hist</b>	3	0	2	0	0	1	<b>66.7</b>	<b>0</b>
	<b>Total:</b>		<b>14</b>	<b>2</b>					
	<b>Total:</b>		<b>1</b>	<b>2</b>					

<u>Month</u>	<u>Name of Company</u>	<u># of Screeners</u>	<u>No</u>	<u>Yes</u>	<u>Maybe</u>	<u>????</u>	<u>Yes %</u>	<u>No %</u>
August	<b>Act</b>	6	2	2	0	2	33.3	33.3
August	<b>K</b>	<b>5</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>80</b>
August	<b>L</b>	<b>5</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100</b>
	<b>Total:</b>		<b>6</b>	<b>2</b>				
	<b>Total:</b>		<b>0</b>	<b>0</b>				

<u>Month</u>	<u>Name of Company</u>	<u># of Screeners</u>	<u>No</u>	<u>Yes</u>	<u>Maybe</u>	<u>????</u>	<u>No Vote</u>	<u>Yes %</u>	<u>No %</u>
September	<b>BSD</b>	5	2	1	0	2		20	40

September	BI	5	3	0	0	2		0	60
September	M	5	5	0	0	0		0	100
September	EP	5	2	2	0	1		40	40
September	LS	5	3	1	0	1		20	60
September	MN	5	4	0	0	1		0	80
September	N	5	5	0	0	0		0	100
September	Pera	5	1	0	0	0	4	0	20
September	PW								
September	PN								
September	O	5	5	0	0	0		0	100
September	Ver	5	0	1	1	3		20	0
September	WCS	5	4	0	0	1		0	80
September	LP	5	3	1	0	1		20	60
	<b>Total:</b>								
	<b>Total:</b>								

<u>Month</u>	<u>Name of Company</u>	<u># of Screeners</u>	<u>No</u>	<u>Yes</u>	<u>Maybe</u>	<u>????</u>	<u>No Vote</u>	<u>Yes %</u>	<u>No %</u>
October	Cep	6	3	1	0	1	1	16.7	50
October	P	6	5	0	0	1		0.0	83.3
October	GX	6	4	0	0	2		0.0	66.7
October	Q	6	5	1	0	0		16.7	83.3
October	NS	5	1	3	0	1		60.0	20
October	OS	6	1	3	0	1		50.0	16.7
October	R	6	5	1	0	0		16.7	83.3
October	Riv	5	2	0	1	2		0.0	40
October	TS	6	1	2	0	3		33.3	16.7
October	MV	5	2	2	0	1		40.0	40
October	U	5	4	0	0	1		0.0	80
October	VV	5	2	1	0	2		20.0	40
	<b>Total:</b>		27	11					
	<b>Total:</b>		8	3					

<u>Month</u>	<u>Name of Company</u>	<u># of Screeners</u>	<u>No</u>	<u>Yes</u>	<u>Maybe</u>	<u>????</u>	<u>Yes %</u>	<u>No %</u>	
November	S	4	4	0	0	0		0	100
November	RR	6	3	1	0	1		16.7	50

November	RA	4	0	2	0	2	50	0
November	SD	4	3	0	0	1	0	75
November	T	4	4	0	0	0	0	100
November	SM	4	2	0	0	2	0	50
November	Tomp	4	0	1	0	3	25	0
November	V							
November	FQ	6	3	3	0	0	50	50
November	FO	6	2	2	0	2	33.3	33.3
November	Nim	6	1	2	0	3	33.3	16.7
November	Nuv	6	2	1	0	3	16.7	33.3
November	Plu	6	1	3	0	2	50	16.7
November	WT	6	1	3	0	2	50	16.7
	<b>Total:</b>							
	<b>Total:</b>							

<u>Month</u>	<u>Name of Company</u>	<u># of Screeners</u>	<u>No</u>	<u>Yes</u>	<u>Maybe</u>	<u>????</u>	<u>Yes %</u>	<u>No %</u>
December	Mte							
December	PV							
December	TED							
December	MV	4	2	0	0	2	0	50
	<b>Total:</b>							
	<b>Total:</b>							

### **A3. Questions for Entrepreneurs**

1. Since your business plan submission to Launchpad Venture, did your business venture receive funding? (If so, what type?)
2. Was your business venture already operational when you requested funding?
3. Do you recall how many Angel groups you submitted your business proposal?
4. Was Launch Pad your 1<sup>st</sup> attempt at getting funded?
5. If so, did you use the feedback provided by LP to improve your overall presentation of the business plan to either represent it to LP and/or other investors?
6. If not, did the same business plan you submitted to LP get accepted by another investor?
7. If not, what happened to your idea?
8. Are you waiting for the right time, has the market come to past, or is the idea dead?
9. (If operational) Is your business venture profitable?
10. Would you try to fund an idea again using Angel investors? (If so, why? / if not, why?)

#### **A4. Categories for Rejection**

- Inadequate Team- The screeners determine that those members comprising the business team are not the adept or capable enough to manage the venture.
- Crowded Noisy Market- The screeners determine that the market is too saturated or not available for the product or service that the potential business is trying to sell.
- Naiveté and Problematic Deals- Screeners are unsure of what is being attempted by the entrepreneurs and believe that the deal would bring with it many inconveniences that would ultimately not be worth the investment.
- Poor Presentation of the Company and/or Weak Business Plan- Screeners determine that the business plan is not strong enough to keep the venture alive or that it is not professional enough to compete for funding.
- Money Issues- Screeners determine that the amount of funding required from them is too large for the types of funding that they conduct (greater than the interval of \$500K - \$1 million). Also that the company is not worth the amount of funding that it is requesting.
- Lacking Barriers of Entry or Intellectual Property- Screeners determine that the product or service sold by the company already exists and or is not differentiated from other products or services in the market.
- Sector: Not Within the Niche Field of the Angel Investors- Screeners determine that the company/proposal is not within their field of knowledge.
- Unsatisfactory Returns- Screeners determine that the company/proposal will not bring the required returns after the allotted time of operation. This would mean less than the desired 30 % return on investment.

- Insufficient Growth- Screeners determine that the company/proposal will not be able to attain the expected growth necessary to provide the 30 % return on investment.
- Angel Investors Do Not Like the Product/Service- Screeners simply do not like the product or service because it is not with in their interest for investment.

## **A5. Interview Data**

**Company A:** the business telephone number is disconnected; its website domain is for sale; No name match in LexisNexis company name search.

**Company B:** Spoke with the CEO of the company, he said the company never received funding therefore never launched. He didn't want to be interviewed.

### **Questions for Entrepreneurs: Company C**

1. Since your business plan submission to LP Venture, did your business venture receive funding? (If so, what type?) **Entrepreneur:** No

2. Was your business venture already operational when you requested funding?

**Entrepreneur:** No, it was in the conceptual phase.

3. Do you recall how many Angel groups you submitted your business proposal?

**Entrepreneur:** I never submitted a business plan to LP – just discussed funding over the telephone.

4. Was LP your 1<sup>st</sup> attempt at getting funded? **No**

5. If so, did you use the feedback provided by LP to improve your overall presentation of the business plan to either represent it to LP and/or other investors? **N/A**

6. If not, did the same business plan you submitted to LP get accepted by another investor?

**Entrepreneur:** His business is always evolving; still looking for funding

7. If not, what happened to your idea? **Entrepreneur:** He is still looking for funding.

8. Are you waiting for the right time, has the market come to past, or is the idea dead?

**Entrepreneur:** The idea is still in the conceptual phase; He is currently talking with a power company.

9. (If operational) Is your business venture profitable? **N/A**

10. Would you try to fund an idea again using Angel investors? (If so, why? / if not, why?)

**Entrepreneur:** Yes, I will always approach a company that is willing to write a check.

**Company D:** We left several messages with this company's CEO but he never returned any of our calls to be interviewed.

Questions for Entrepreneurs: Company E

11. Since your business plan submission to LP Venture, did your business venture receive funding? (If so, what type?)

Entrepreneur: Yes – Private individuals

12. Was your business venture already operational when you requested funding?

Entrepreneur: Yes

13. Do you recall how many Angel groups you submitted your business proposal?

Entrepreneur: Ten

14. Was LP your 1<sup>st</sup> attempt at getting funded? Entrepreneur: No

15. If so, did you use the feedback provided by LP to improve your overall presentation of the business plan to either represent it to LP and/or other investors? N/A

16. If not, did the same business plan you submitted to LP get accepted by another investor?

Entrepreneur: Yes

17. If not, what happened to your idea? Entrepreneur: It's operational

18. Are you waiting for the right time, has the market come to past, or is the idea dead? N/A

19. (If operational) Is your business venture profitable?

Entrepreneur: Yes. He expects growth in profit for 2007.

20. Would you try to fund an idea again using Angel investors? (If so, why? / if not, why?)

Entrepreneur: Maybe if someone within the Angel group champions the idea but prefers a one-on-one relationship.

**Company F:** Still have an active website that states that they are looking for funding; the telephone number is still active but no interview.

**Company G:** the business telephone is disconnected; No match in a company name search thru LexisNexis or thru a Google name search.

### Questions for Entrepreneurs: Company H

1. Since your business plan submission to LP Venture, did your business venture receive funding? (If so, what type?)

**Entrepreneur:** Yes. I received a combination of funding: Private individuals; Angels; and small business loan.

2. Was your business venture already operational when you requested funding?

**Entrepreneur:** Yes. In San Francisco; Ottawa; and Canada

3. Do you recall how many Angel groups you submitted your business proposal?

**Entrepreneur:** 20-Angels; 1-VC

4. Was LP your 1<sup>st</sup> attempt at getting funded? **Unknown**

5. If so, did you use the feedback provided by LP to improve your overall presentation of the business plan to either represent it to LP and/or other investors? **N/A**

6. If not, did the same business plan you submitted to LP get accepted by another investor? **YES**

7. If not, what happened to your idea? **N/A**

8. Are you waiting for the right time, has the market come to past, or is the idea dead?

**Entrepreneur:** Still in business but under different mgmt. Currently in the process of being funded by a company from the U.K.

9. (If operational) Is your business venture profitable? **Have not seen the books.**

10. Would you try to fund an idea again using Angel investors? (If so, why? / if not, why?)

**Entrepreneur:** Yes. They are great for start-ups, and I will never try funding thru VCs ever again!

Questions for Entrepreneurs: Company I

1. Since your business plan submission to LP Venture, did your business venture receive funding? (If so, what type?) **Entrepreneur:** Yes. Government grants.
  
2. Was your business venture already operational when you requested funding?  
**Entrepreneur:** A model – prototype
  
3. Do you recall how many Angel groups you submitted your business proposal?  
**Entrepreneur:** Four or five
  
4. Was LP your 1<sup>st</sup> attempt at getting funded? **Entrepreneur:** No
  
5. If so, did you use the feedback provided by LP to improve your overall presentation of the business plan to either represent it to LP and/or other investors? **N/A**
  
6. If not, did the same business plan you submitted to LP get accepted by another investor?  
**Entrepreneur:** Yes. A healthcare firm
  
7. If not, what happened to your idea? **N/A**
  
8. Are you waiting for the right time, has the market come to past, or is the idea dead? **N/A**
  
9. (If operational) Is your business venture profitable?  
**Entrepreneur:** Still in early stage/prototype. Have received NIH grant; SBIR phase 1 = \$100K and looking for the phase 2 - \$1M this year.
  
10. Would you try to fund an idea again using Angel investors? (If so, why? / if not, why?) **Entrepreneur:** Yes. Early-stage is best for angels

**Company J:** The business telephone is disconnected; No match in a company name search thru LexisNexis or thru a Google name search.

Questions for Entrepreneurs: **Company K**

1. Since your business plan submission to LP Venture, did your business venture receive funding? (If so, what type?) **Entrepreneur: No**
  
2. Was your business venture already operational when you requested funding?  
**Entrepreneur: Yes**
  
3. Do you recall how many Angel groups you submitted your business proposal?  
**Entrepreneur: Four**
  
4. Was LP your 1<sup>st</sup> attempt at getting funded? **Entrepreneur: No**
  
5. If so, did you use the feedback provided by LP to improve your overall presentation of the business plan to either represent it to LP and/or other investors?  
**Entrepreneur: Yes, it wasn't their space**
  
6. If not, did the same business plan you submitted to LP get accepted by another investor?  
**Entrepreneur: No. 2-formally like LP; 1- Power point presentation; and one as a sit down business meeting.**
  
7. If not, what happened to your idea?  
**Entrepreneur: The business is still operational and slowly expanding / growing.**
  
8. Are you waiting for the right time, has the market come to past, or is the idea dead? **N/A**
  
9. (If operational) Is your business venture profitable? **Yes**
  
10. Would you try to fund an idea again using Angel investors? (If so, why? / if not, why?) **Entrepreneur: No, he prefers private monies.**

**Company L:** This company was bought out by a very large national corporation (sold its idea).

**Company M:** We left several messages with this company's CEO but he never returned any of our calls to be interviewed.

**Company N:** The business telephone is disconnected; No match in a company name search thru LexisNexis or thru a Google name search.

**Company O:** We left several messages with this company's CEO but he never returned any of our calls to be interviewed.

**Company P:** We left several messages with this company's CEO but he never returned any of our calls to be interviewed.

Questions for Entrepreneurs: Company Q

1. Since your business plan submission to LP Venture, did your business venture receive funding? (If so, what type?) **Entrepreneur:** Yes. In 2006, from another angel group.
2. Was your business venture already operational when you requested funding?  
**Entrepreneur:** No. Conceptual
3. Do you recall how many Angel groups you submitted your business proposal?  
**NO**
4. Was LP your 1<sup>st</sup> attempt at getting funded? **NO**
5. If so, did you use the feedback provided by LP to improve your overall presentation of the business plan to either represent it to LP and/or other investors? **No**
6. If not, did the same business plan you submitted to LP get accepted by another investor? **Entrepreneur:** Yes, eventually (two years later)
7. If not, what happened to your idea? **N/A**
8. Are you waiting for the right time, has the market come to past, or is the idea dead? **N/A**
9. (If operational) Is your business venture profitable?  
**Entrepreneur:** Yes. He expects additional fund this year to expand the business (\$1M)
10. Would you try to fund an idea again using Angel investors? (If so, why? / if not, why?) **Entrepreneur:** Yes. Angel funding is great for early stage concepts.

**Company R:** The business telephone is disconnected; No match in a company name search thru LexisNexis or thru a Google name search.

**Company S:** We left several messages with this company's CEO but he never returned any of our calls to be interviewed.

Questions for Entrepreneurs: Company T

1. Since your business plan submission to LP Venture, did your business venture receive funding? (If so, what type?) **Entrepreneur:** No
2. Was your business venture already operational when you requested funding?  
**Entrepreneur:** **No**
3. Do you recall how many Angel groups you submitted your business proposal?  
**Entrepreneur:** About fifty companies.
4. Was LP your 1<sup>st</sup> attempt at getting funded? **Entrepreneur:** No
5. If so, did you use the feedback provided by LP to improve your overall presentation of the business plan to either represent it to LP and/or other investors? **N/A**
6. If not, did the same business plan you submitted to LP get accepted by another investor? **No**
7. If not, what happened to your idea? **Entrepreneur:** It is dead
8. Are you waiting for the right time, has the market come to past, or is the idea dead?  
**Entrepreneur:** No, the idea is dead
9. (If operational) Is your business venture profitable? **N/A**
10. Would you try to fund an idea again using Angel investors? (If so, why? / if not, why?)  
**Entrepreneur:** No. The Angel group establishment has shifted away from early stage investments. They now want your business to already be up and running and profitable. They aren't giving away seed money for new ideas anymore. They listen to your pitch but do not fund the idea. Early stage funding is a misconception. Seed money is the thing of the past – if the monies is given for early stage, the Angel group is VERY selective about who and how much money is given. I believe that self-funding is better.