

MAINE ANGELS
Operating Guidelines
October 31, 2003

Mission

MAINE ANGELS seeks to provide Maine's entrepreneurs with two critical resources: seed capital and management guidance from experienced business veterans.

The MAINE ANGELS organization was founded in 2003, and its goal is to continue to grow its Angel Investment group and to be a premier Angel Investment group for high growth businesses in Maine and surrounding areas.

Objectives

- To provide our members with investment opportunities with attractive financial returns.
- To provide pre-venture capital equity to startup and/or expanding companies.
- To promote and enhance entrepreneurship in the region's business community, by working with entrepreneurs, incubators, universities, service providers, government and venture capitalists.
- To offer management participation/mentoring opportunities to our members which will provide valuable expertise to new businesses.

Organization and Operations

- MAINE ANGELS is and will remain an unincorporated club or association. It will have the following four (4) officers: Chairperson, Vice-Chairperson, Treasurer and Secretary. The duties and method of selection of each officer are set forth in Attachment A.
- MAINE ANGELS will maintain three standing committees, namely, the Investment Committee, the Membership Committee and the Planning Committee. The primary duties and method of selection of each committee are set forth in Attachment B.
- MAINE ANGELS will seek to provide a total investment pool of at least five (5) million dollars by 2008.
- All investments made by MAINE ANGELS will be made as personal investment by individual members, i.e., the group will have no legal entity status nor any responsibility to members regarding investment decisions. Each member shall remain solely responsible for his/her investments and related decisions.
- Each 'group investment' should include at least five members investing a minimum of \$10,000 each. Investments of lesser amounts or by fewer members will not be considered or tracked as MAINE ANGELS investments.
- MAINE ANGELS has formed networking and referral relationships with Maine Investment Exchange (MIX), Finance Authority of Maine (FAME), Small Enterprise Growth Fund (SEGF) and other Maine organizations (see Attachment D.) Each MAINE ANGELS member is expected to support the events and activities of these organizations.

Target Company Profile

The following are general guidelines describing the typical investment opportunities MAINE ANGELS members are seeking:

- Individual company investments should be in the **\$100,000 to \$1 Million** range.
- Each investment should offer a minimum potential of **35%** compounded annual return within a five to seven year window.
- New ventures seeking funding through MAINE ANGELS should be at an early, seed-stage of development. Seed-stage as defined herein means after Alpha funding or Beta testing and before Venture Capital funding.
- Venture Capital funds may participate as co-investors in investments led by MAINE ANGELS members. Individuals associated with such Venture Capital funds may join and participate in MAINE ANGELS activities on a regular basis. A working relationship with MAINE ANGELS (both individual members and the portfolio of investment companies) may offer significant value to institutional investment organizations.
- Investments will be directed at technology-oriented or other industry startups in which one or more MAINE ANGELS member has a reasonable level of understanding or expertise.
- Candidates for investments should offer one or more MAINE ANGELS members an opportunity for active participation and/or oversight (ex. consultant, board member, or manager.) All such relationships must be fully disclosed as soon as formed and while continuing, and are not to be used for personal advantage by any MAINE ANGELS member to the disadvantage of other MAINE ANGELS members.
- MAINE ANGELS members will be the lead investor group or a substantial minority investor group.
- Candidates for investments must be geographically located such that group involvement and monitoring is practical.

Notwithstanding the previous guidelines, the Investment Committee will consider individual investment opportunities of any kind, and will pass through to the MAINE ANGELS membership those opportunities that pass the minimum due diligence requirements established by the MAINE ANGELS membership.

Membership Requirements

- All members must be Accredited Investors, as defined by the SEC, and able to sustain the financial risks inherent in their investments.
- Each new member must state a willingness to invest a minimum of approximately \$50,000 per year and a total of \$100,000 in appropriate deals over the first three-year period of membership.
- Each new member candidate must have an existing member as his/her sponsor. New membership is subject to unanimous approval of the Membership Committee. New member candidates can be rejected by a recommendation of at least two existing Active MAINE ANGELS members.
- Each new member will disclose (in strict confidence) to the Chairperson, the maximum non-binding amount that the new member has to invest in various projects during each of the first three years he or she is a member of MAINE ANGELS.

- There will be two membership classifications available, Active and Passive. Each new member must state his/her desired classification, and every member can request a reclassification at any time.
- All Active members are expected to:
 - Provide timely feedback on company business plans.
 - Periodically participate in due diligence and aid portfolio companies.
 - Participate, on a rotating basis, on the MAINE ANGELS standing committees.
 - Bring to the group appropriate potential investment opportunities of which they become aware.
 - Promote the goals and objectives of MAINE ANGELS to the region's business community.
 - Attend at least 50% of the regular MAINE ANGELS meetings.
- All Passive members are expected to:
 - Meet all financial obligations and expectations of MAINE ANGELS membership.
 - Provide timely feedback on company business plans.
 - Communicate regularly with at least one Active MAINE ANGELS member.
 - Promote the goals and objectives of MAINE ANGELS wherever appropriate.
- Each member will be assessed a nonrefundable entry fee of \$1,000, the money to be used to cover administrative, legal, and other approved group operating expenses. Future assessments will be made as required, subject to 60% majority vote of all then existing Active members. Annual Dues may be considered in the future.
- The MAINE ANGELS officers will control the operating budget and approve all expenditures by simple majority vote. Expenditures greater than \$500 will require the approval of a majority of members in attendance at a properly scheduled and announced meeting.
- MAINE ANGELS members undertake to uphold high standards of ethical conduct in their professional and business conduct. A critical component of such standards is voluntary disclosure and discussion of potential or actual conflicts of interest. Complaints or allegations of unethical behavior are to be forwarded to the Membership Committee, which will investigate, report and make recommendations for action by the full membership. In the extreme case, membership may be terminated by majority vote of the Active members.

Meeting Schedule and Format

- 'Full-group' meetings will be on an as needed basis, but typically at least one per month. All members are encouraged to attend.
- The meetings will generally be held on a regular schedule (currently the last Friday of each month.) MAINE ANGELS will endeavor to hold meetings throughout Maine proportionately to the residency of its active membership.
- Each meeting will be chaired by The MAINE ANGELS Chairperson or his/her designee, acting as the meeting coordinator. The meeting coordinator is responsible to finalize the time, location, and agenda of the meeting, and to document and communicate the results of the meeting to all members.
- Other sub-group meetings of the Standing Committees will be held as necessary, and the selected Standing Committee spokesperson will report back to the MAINE ANGELS

membership as appropriate. Of the three standing committees, the Investment Committee will necessarily hold the most frequent meetings.

Attachment A

Duties and Selection of Officers

1. Provisions that apply to all officers.

- a) The Investment Screening Committee will present a single nomination for each officer position to the membership, and additional nominations (including self-nominations) can be made by any member.
- b) Members can vote in elections of officers in person, in writing, or by email. An election is valid only if at least 60% of the active members cast votes.
- c) The nominee must receive a majority of the votes cast by members to be elected to the office. If the nominee does not receive a majority of the votes cast, the Investment Screening Committee shall present another candidate as nominee, and another vote will be held.
- d) Length of Term: Two years. Limit of two successive terms.

2. Chairperson

- a) Duties:
 - i) Act as public spokesperson.
 - ii) Chair meetings.
 - iii) Confidentially discuss with members the amount of investment capital they have available, annually.
 - iv) Provide leadership to all committees, and monitor the operation of MAINE ANGELS and its committees.
 - v) Sign checks for group expenditures.

3. Vice-Chairperson

- a) Duties:
 - i) Automatically assume and discharge duties of Chairperson when that individual is absent or incapable.
 - ii) Provide backup knowledge and continuity for group.

4. Treasurer

- a) Duties:
 - i) Gather and present semi-annual reports on investments (amount and investors) and MAINE ANGELS board positions in those companies.
 - ii) Have custody of the MAINE ANGELS financial records and bank accounts.
 - iii) Collect membership fees and dues.
 - iv) Give an annual financial report to the members.
 - v) Sign checks for group expenditures.
- b) The same person can be both Treasurer and Secretary.

5. Secretary

- a) Duties:
 - i) Keep minutes of meetings.
 - ii) Manage communication between and among members.
 - iii) Maintain MAINE ANGELS records.

Attachment B

Duties and Selection of Committees

1. Planning Committee

- a) Primary Functions:
 - i) Review and update the Guidelines periodically.
 - ii) Conduct an annual strategic planning process.
- b) Method of Selection:
 - i) MAINE ANGELS officers are the permanent members, and will invite participation by other members on a project-by-project basis.
 - ii) The Chairperson of MAINE ANGELS will be the Chair of this committee.

2. Investment Committee

- a) Primary Functions:
 - i) Screen submitted investment proposals per the investment screening guidelines established by the membership process. The initial investment screening process is described in Attachment C. The committee may change the process from time to time as it sees fit to achieve the purposes of MAINE ANGELS, subject to the approval of a majority of the Active members.
 - ii) Publish standards approved by the MAINE ANGELS membership for screening deals, including.
 - (I) Forms and procedural guidelines for the conduct of deals after the initial screening.
 - (II) Forms and procedures for term sheets.
 - (III) Guidelines for the mechanics of doing deals.
 - (IV) Resources for persons leading deals.
- b) Method of Selection:
 - i) Membership is open to all MAINE ANGELS Active Members on a voluntary basis. The MAINE ANGELS Chairperson shall be responsible to maintain a minimum committee of five members.
 - ii) This committee shall meet regularly and the meeting schedule shall be published. Meetings will be open to all MAINE ANGELS members.
 - iii) Members who have led MAINE ANGELS deals or other deals, or who have raised early stage capital, are encouraged to join.
 - iv) The committee will select its chairperson by majority vote.

3. Membership Committee

- a) Primary Functions:
 - i) Fill and maintain MAINE ANGELS membership.
 - ii) Interface with prospective members nominated by MAINE ANGELS members and conduct the process of admitting new members. Each new member candidate must be approved by a unanimous vote of the Membership Committee, after the Membership Committee has given all MAINE ANGELS members an opportunity to express any disapproval of a Candidate.
 - iii) Coordinate social events and interaction among MAINE ANGELS members, as it deems appropriate.

- iv) Investigate, report and make recommendation to the general membership concerning any reported instance of unethical conduct by members.
- b) Membership:
 - i) MAINE ANGELS officers are the permanent members, and will invite participation by other members on an as-needed basis.
 - ii) The committee will select its chairperson by majority vote.

Attachment C

Investment Process

1. A company seeking financing will submit an Executive Summary Business Plan (not to exceed 5-pages, plus three years of financial projections), along with the application form and fee, through published channel(s) to MAINE ANGELS, and MAINE ANGELS will email all qualifying Executive Summary Business Plans to all members.
2. Any MAINE ANGELS member can email his interest to the Investment Committee, and participate in further investigation of any application.
3. The Investment Committee (including any additional members participating) is responsible for preliminary investigation of all qualifying investment opportunities. Members or non-member volunteers will be appointed to meet the company or otherwise investigate. If desired, the whole Investment Committee or general membership may participate in this effort.
 - a. Persons meeting with the company at this stage are not volunteering to be champions or deal leaders.
 - b. The Investment Committee will develop a standard list of questions for initial meetings and preliminary investigations and a suggested checklist for full due diligence.
4. The persons who meet with or otherwise investigate the applicant company will make written report to all MAINE ANGELS members, based at least in part on the company's answers to the standard list of questions.
5. If any MAINE ANGELS members so request, the company will be invited to make a presentation to the Investment Committee or the general membership.
6. After the meeting at which the company presents to MAINE ANGELS, the Investment Committee will explain its preliminary analysis of the investment opportunity.
7. After this meeting, if not before, the company must have a champion from among the MAINE ANGELS members, willing to lead the deal forward (including full due diligence, negotiation of definitive terms, etc.)
8. The leader or leaders will take the deal forward.
9. All written reports created by the Investment Committee or participating members will be made to the general membership, to enable participation by all interested members, before any investment is made.

Attachment D

Relationships between MAINE ANGELS and other organizations

1. MAINE ANGELS has networking and referral relationships with MIX, FAME, SEGF and other organizations, as described in this section.
2. MIX is a hub that solicits and encourages deal flow from entrepreneurs, using guidelines and an application process that MIX has developed. MAINE ANGELS will distribute applications for MIX presentation to its investor members upon company request (and payment of the MAINE ANGELS application fee.) MAINE ANGELS Active members will regularly attend and participate at MIX events.
3. MAINE ANGELS will regularly hold public educational events for entrepreneurs and investors, in partnership and with the support of the allied organizations.
4. MAINE ANGELS takes as several of its missions:
 - Educating new MAINE ANGELS members and other investors about angel investing, through its Angel Investing program and other events.
 - Increasing the number of credible applicant companies by educating and networking among local entrepreneurs.
 - Increasing qualifying deal flow by networking with allies and early stage investors in other regions.
5. MAINE ANGELS will consider investments only if the applicant companies submit through the MAINE ANGELS application process, except for co-investment opportunities that originate from non-MAINE ANGELS investors such as investment funds. MAINE ANGELS members should refer entrepreneurs whom they meet to its web site.