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THIS WEEK'S ISSUE

Region's angels in favor of pursuing new funds

North Coast, Akron groups seek to capitalize on startups

By **CHUCK SODER**

4:30 am, March 8, 2010



Northeast Ohio's only angel fund is about to deplete the cash it reserves for new investments, but the region could end up with two new funds to replace it.

The North Coast Angel Fund plans to finance three more early stage technology companies over the next three months, which would leave the group with no more money for new deals.

Startups looking for capital shouldn't fret, though. While the group of angels — a term for wealthy individual investors — has yet to decide if it will raise a second fund, managing member Clay Rankin said he would like the group to do so. They plan to make the decision over the next three months.

Plus, an informal network of angels in Akron, known as the ArchAngels, aims to raise its own formal fund over the next six months, according to Barry Rosenbaum, a senior fellow with the University of Akron Research Foundation, which oversees the Akron investors group.

Loose networks such as the ArchAngels allow individual investors to get together regularly to view presentations by startups looking for capital and to collaborate on investment opportunities. However, the region definitely benefits by a formal group such as North Coast Angel Fund, Mr. Rosenbaum said.

Not only do formal funds by definition serve as a source of money for promising companies, but their tendency to do their own research encourages other investors to open their wallets.

"The rigor of the processes that flow from having the fund, the formality

and the due diligence — it's very helpful," Mr. Rosenbaum said.

Planting seeds

The North Coast Angel Fund certainly has been opening its wallet of late. The group has invested in nine companies in nine months and will be 12-for-12 if it makes its next three on schedule.

The fund itself typically invests \$200,000 in each company. Members then chip in a few hundred thousand dollars of their own cash.

For instance, late last month the group led a \$2.5 million investment ABSMaterials Inc., a company in Wooster that makes a glass-like material meant to pull oil and other pollutants from air, water and soil. In addition to the fund's \$200,000, members and other individuals connected to the fund plopped down another \$570,000, a record add-on investment for the

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group.

Three other investors — local startup development group JumpStart Inc., strategic partner Fontz Drilling Inc. of Wooster and New York venture capital firm Harris & Harris Inc. — threw in \$250,000 each, and the rest of the \$2.5 million came from individuals not affiliated with the fund.

ABSMaterials is using the money to expand research and development, production, marketing and sales. On March 1 it opened a two-person Houston sales office to target the oil and gas industry, and soon it plans to lease another 11,000 square feet of lab space at Wooster's Ohio Agricultural Research and Development Center, said CEO Stephen Spoonamore. The company's Ohio office employs 14 in research, development and production, and that number only will grow, Mr. Spoonamore said. "We intend to stay in Northeast Ohio," he said.

ABSMaterials represents the kind of company the region needs and investors want to fund, said Todd Federman, executive director of North Coast Angel Fund. The company's Osorb technology serves a need, and it appears to do so better than other products on the market, he said.

"It really was a revolutionary concept. It wasn't a moderate improvement," he said.

Future prospects

After the next three investments, North Coast Angel Fund will have financed 20 companies in four years. By then, all that will be left of the fund's original \$5.6 million stash will be a "modest amount" reserved for follow-up investments in existing portfolio companies, Mr. Federman said.

Managing member Mr. Rankin said the group could continue meeting regularly to collaborate on individual investments and watch presentations by entrepreneurs. That, however, is the "fall-back" option. He'd rather raise more capital, which he said helps ensure high-potential companies stay in Northeast Ohio.

The fund is subsidized partially by the state: The group has received two grants totaling \$2.8 million from the Ohio Third Frontier project, a 10-year technology-based economic development program.

The fund likely would not have formed without money from the Third Frontier, according to Mr. Rankin, who said the state program will have "a huge potential impact" on Ohio as the technologies it helped create are commercialized.

As for the ArchAngels, the group plans to form its first formal fund without a Third Frontier grant, but it intends to apply for money next year, Mr. Rosenbaum said.

The ArchAngels' fund likely would focus on investments in the biomedical, advanced energy and advanced materials sectors, given the Akron area's strengths in material science and the technologies expected to come out of the newly formed Austen BioInnovation Institute in Akron, which is a research collaborative involving area colleges and hospitals.

Funds are heaven-sent

The existence of formal angel funds in Northeast Ohio helps high-tech companies in the short term, but in the long term it helps wealthy people in the region become more comfortable with angel investing, said Chris Coburn, executive director of Cleveland Clinic Innovations, the technology commercialization arm of the Cleveland Clinic. And that comfort level means more capital for future startups, he said.

"It raises the level of sophistication," Mr. Coburn said.

There are about 300 angel groups in the United States, but only 22% have formal funds, said Marianne Hudson, executive director of the Angel Capital Association in Overland Park, Kan. Most angel investing is done by investors not affiliated with a group, she said.

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