

Kauffman's Guide To Navigating The Startup Game

By Nick Sequin

Starting a company, like capitalism, is messy. If there were a known formula for success, there would be far more startups and far more successful large businesses. Anecdotal evidence and case studies based on past successes do little to illustrate important decisions and the real process of business building. Rose-colored glasses tend to be the eyewear of choice for entrepreneurs looking back on how they won in startup game.

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Would Treetop Ventures be interested in helping start a finance company?

By Tom Boje (Principal at Treetop Ventures LLC and President of Prairie Finance LLC)

In late December 2010, Treetop Ventures was approached by two brothers, who own an auto dealership and happened to be angel investors in other companies associated with Treetop, asking if Treetop would be interested in getting involved in creating a finance company for sub-prime automobile loans. One of our principals has owned car dealerships in the past and understood the basics of the overall business model. We listened to their story, liked the concept and thought others would too.

Treetop took the initiative to build the financial models to determine viability. Next, the idea was vetted with external legal and automotive experts to determine feasibility, costs, processes, risks, etc. Once business risks were identified, Treetop negotiated the operating agreements with the dealership principals to properly mitigate these risks. They included recourse for loans that were delinquent, gap insurance for consumers purchasing the vehicles, insurance requirements, auto-ACH payments for consumers, etc. Then, using the data gathered, Treetop approached their database of angel investors and in less than one week secured commitments for \$1.7 million to fund the loans and the business for the first year. It was



An Angel's Take on the Nebraska Angel Incentive Legislation

Treetop Ventures has been actively following the legislation proposed and recently advanced by a 38-0 vote in the Unicameral here in Nebraska. The new angel tax incentive would provide a 40% tax credit this year, followed by a reduction to a 35% tax credit in 2013. As currently proposed, the credits would run through 2017 and the amount would be capped at three million dollars for the total credit funds set aside in the budget.

Most of the debate on this proposed bill focuses on the issue of how successful angel ventures are. However, a majority of startup companies don't succeed. There is plenty of skepticism by those opposed to giving such a large tax

incentive to the funding of these ventures. On the other hand, there is a definite benefit to be gained from making Nebraska a location that is strongly rooted in entrepreneurial endeavors and attracts investors to back startup companies. As an angel firm, we know better than most the ratios of failures to success when it comes to startup companies. However, one success story can easily offset the unsuccessful attempts that preceded it. We have also seen that often those involved in one successful start up tend to get involved in other successful ventures as well. First Data, ACI Worldwide and West, Inc. are all examples of local entrepreneurs starting a company that today employees thousands of employees in the local economy. The list is actually much too long to list in a note like this.



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Nebraska was able to largely avoid the economic downfall that the recession led to throughout the rest of the country; however, as time goes by and the recovery slowly dredges on, we have felt the aftershocks. An incentive like this Angel Tax Credit is one more opportunity for Nebraska to add to a well diversified economy which allows us to attract a wide array of businesses and strive towards being well rooted in entrepreneurial growth. Being the heart of the Midwest, we are known for conservatism and stability, but with that we can make decisions that will advance our leadership role in areas such as business.

Successful pockets of entrepreneurial companies exist in areas of the country where the university system and the state both join in with local investors to create a climate where entrepreneurs can create success. Boston (MIT), Austin (University of Texas), Boulder (University of Colorado) and Palo Alto (Stanford) are all examples of this. Although this bill isn't an answer to everything we need to build a strong and successful entrepreneurial ecosystem, it is a start! While we appreciate the effort behind the legislation, the question that seems to be going unasked is whether this is enough? Those opposed to the legislation fear that it is too much money for too limited a return given the success rate of Angel investments. To those in the field, the amount is far too low. Capped at three million dollars per year, this would hardly cover the investments for any active Angel group (for example, it wouldn't cover ours!). Perhaps there is a lack of understanding as to how active Angel investing really is in Nebraska. As we said, it is a start, but the state needs to realize and research how much of this activity actually goes on so that the legislation is tailored to have an actual and respectable effect.

This tax credit is an opportunity for Nebraska to once again illustrate to the country that while we may not always make the news, we are always making advances; we just need to ensure that we are taken seriously in the manner in which we seek to help grow Angel investing.

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estimated that the business will return a minimum of 13-15% annually to the investors. Treetop then led the efforts to form Prairie Finance LLC and complete the myriad tasks involved with starting this business including:

- Company formation
- Due diligence and Legal Compliance
- Subscription agreements
- Operating agreements
- All banking arrangements
- Surety bonds
- Applications to the Nebraska Dept. of Banking and Finance
- Licensing software to run the back office
- SEC filings
- Capital calls

The NE State license was received on March 14 and Prairie Finance was launched the next day. From the time the idea was initially discussed, the business was operational in less than 3 months. Prairie will be looking for additional investments (additional commitment from current investors and new investors as needed) as the business advances beyond the first year.

Avoid Startup Opportunity Bubbles Ready To Burst

By Martin Zwilling

In finance, a bubble is too much money chasing assets, greater asset production and a herd mentality. In startup business plans, a bubble is too many entrepreneurs and too many investors chasing the latest "next big thing," like Google search engine, Facebook social network, or Amazon e-commerce site.

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The Role of Angel Investors and VCs Explained in Simple English

By Amit Agarwal

Angel Investors usually invest smaller sums of money (\$100,00 to \$500,000) and are more interested in working hands-on with innovators. Angel investors are open to high degree of risks, and their decision process is usually quick, with the diligence far less intrusive than that of larger VCs.

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How to Find the Right Investor for Your Business

By Eileen P. Gunn

Entrepreneurs looking for investors often feel they can't be choosy. If they need money, their reasoning goes, they have no business turning away anyone who has it.

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Treetop Ventures, LLC.
14680 West Dodge Road, Suite 2
Omaha, Nebraska 68154

Phone: (402) 505-7195
Fax: (402) 504-1779

www.treetopventures.com