Sheltowee Network

THE BASICS OF FUNDING YOUR EARLY STAGE BUSINESS

by Alex Day

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A NOTE FROM ALEX DAY

The Sheltowee Self Assessment Notebook is a tool to assist you in evaluating where you are in life and helps you chart a course to where you want to be. Use this notebook as a reference.

Be sure to put your name and the date of when you started this on the cover. This will allow you to go back and review your information in the coming weeks and months. I have assembled this notebook to help people in their lives and in business. The greatest help I have found in life is my faith in God. This notebook is for any individual regardless of their theological background.

Our goal is to welcome everyone who agrees with our four core values which are:

1. Help others
2. Always act in a kind, ethical and transparent fashion
3. Honor those who assume the risk
4. Expect a financial return for your interactions within our network

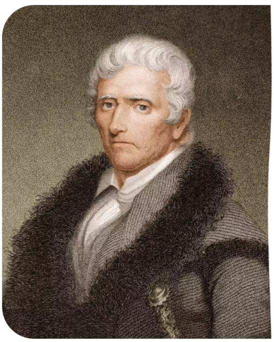
We do not use the Sheltowee Business Network or this notebook to proselytize or force our theology on anyone. But for those who are interested in learning more about my faith, and how it has impacted my life, you can go to www.ThisIsWhyIBelieve.org to learn more. I hope that the Sheltowee Business Network and this self-assessment notebook will help you identify aspects of who you are and help you achieve your full potential in life.

Sincerely,

Alex Day

CEO and Founder of the Sheltowee Network & Konexons

THE STORY OF SHELTOWEE



Daniel Boone was a great American Frontiersman who opened new expanses and carved a civilization out of wilderness. In 1778 he was captured by the Shawnee Indians during a hunting trip. He was such an exceptional outdoorsman, and so respected by the tribe that he was adopted as one of their own. The chief that adopted him thought he had broad shoulders and looked like a turtle, and was given the name Shel-towee.

We at the Sheltowee Network respect Daniel Boone's skills and what he achieved as an entrepreneur and pioneer.

We hope to blaze new trails and open new expanses, just as Daniel Boone did.

"It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat."

INTRODUCTION

Walking the entrepreneurial path can be incredibly rewarding. Entrepreneurs have made amazing contributions to society and have brought amazing innovations to the market.

Most of the time, these entrepreneurs need outside resources to commercialize their innovations. This means they have to raise money. A common need for all entrepreneurs is capital. We are going to discuss the various ways that entrepreneurs can fund their businesses.

This is not meant to be the definitive compendium of how to raise money for your business, but a primer that provides a good overview of the options for funding your business and some of the aspects of each of the options.

This book will be the most useful for entrepreneurs who are seeking to fund scalable businesses. This is because a major portion of this book discusses equity investment. To qualify for an equity investment, you have to be in business that has the potential for tremendous growth, so that investors will be able to make returns that justify the risk they are taking. Often times, main street businesses do not qualify for equity investment. So if you want to start a coffee shop or a boutique, it is unlikely that you would qualify for equity investment.

I hope that you find this to be a useful book and one that provides you insights to funding and growing your business.

Entrepreneurism in America
Owning your own business can be one of the most rewarding things you ever do. It can provide you with amazing economic returns, it can provide you freedom and it can change the world. We live in an amazing country where entrepreneurism has created the most powerful economic force that the world has ever seen. This book is meant to provide you the very basics on how to get the funding you need for your business. It is my intention to provide information and resources to entrepreneurs to help start hundreds of amazing companies that can change the world for the better. Entrepreneurship has taken us to the roads, to the skies and to the stars. Perhaps your company can help take us to amazing places!

SECTION 1
THE BACKGROUND INFORMATION

ABOUT ALEX DAY

I am a serial entrepreneur and angel investor. I have walked the entrepreneurial path for most of my life. One of my frustrations are the entrepreneur posers. Many of the individuals who are there to “help” entrepreneurs are bureaucrats, academics or philanthropists. They are most definitely NOT entrepreneurs. Let me give you a quick litmus test. If they are being paid by a government agency…they are not an entrepreneur. My first entrepreneurial experience was in grade school. My father taught me about this incredible

concept...profit. You can purchase something for one price and then sell it for a higher price and keep the difference!!! I was fascinated with this concept. At the school PTA sale in elementary school I discovered that the kids liked these hand knit yarn door hangers that had cinnamon and other spices to provide a nice fragrance.
I purchased all that they had and marked them up by 100% and started reselling them. Some of the mothers in the PTA did not like this and approached the principal. This was my first lesson that regulatory authorities are by their very nature anti-business.

When I was 15 my cousin and best friend Earl and I contracted with Paramount Pickles to raise cucumbers (and you never refer to them as "cucumbers", they are referred to as "pickles"). We put out almost an acre of pickles and worked hard that summer. I remember taking great satisfaction in watching the plants grow and waiting in great anticipation for our first harvest. Then came time for the harvest. Picking pickles is back breaking work. We would start before the sun came up to get them picked before the heat of the day. We would have to pick them every other day for a few weeks. This back breaking work became a strong incentive to get a college education. I was much more fit to work with my mind, than I was for physical labor.

As the years went on, I discovered one of my other passions in life. And that is science and technology. I have been an early adopter of interesting technology for many years. I decided to get a degree in physics and my initial goal upon graduating high school a year early was to get a PhD in astrophysics. It was not until my senior year in college in my nuclear physics class, that I realized, I was not going to be able to get a PhD in astrophysics, because I did not have the gift to understand the complex math involved (yes it took me until my senior year to come to that realization). I can be a slow learner.

I earned a degree in physics, mathematics and Russian language. I studied Russian language for a semester at the Leningrad Polytechnic Institute in the Soviet Union (this was an amazing experience, and gave me a great respect for the freedoms we have in this country). I ended up going to work for my father who had started his own pharmaceutical research and development company. There were only three people in the company when I started and I worked with my dad for 10 years growing the business. In 2001 I started Sheltowee LLC. I was 31 years old and was convinced that without the many constraints my father had put on me in his business, I was going to be able to grow an amazing business and exit in five years. Well the path was much harder and much longer than I had anticipated. I have been blessed to keep Sheltowee running since then and have done some very interesting things, but I have not hit that home run yet. I have made a living hitting singles and doubles and had one triple, but have not had that home run...yet.

My entire life has been spent working in entrepreneurial endeavors. I have been blessed to work with some incredibly smart people and have learned how to deal with genius inventors like my father. They are a completely different breed and they are very different to work with.

Over the years of walking the entrepreneurial path, I had very few mentors. I found that the people in most of the organizations that I went to for help had no entrepreneurial experience (but spoke as if they were the most knowledgeable people in the world regarding entrepreneurship). This started to become more and more of a frustration. The entrepreneurial path is a very challenging one. It requires risk taking and requires the ability to endure long periods of hardship until there is the opportunity to break through. This reality sustained and built upon my frustrations with these groups that became gate keepers for real entrepreneurs. So I started to do something about it. For years I worked on a curriculum for entrepreneurs to share with them the realities of entrepreneurship, from someone who had actually walked the path. That led me to start the Sheltowee Business Network. It is an organization made up of entrepreneurs that provides community, resources and tools to help entrepreneurs walk the path.

I want to share one more thing about myself. I have talked about two of my passions. Those are entrepreneurship and science. My other passions are my faith and the outdoors. As for my faith, this embodies who I am and what drives me. A major tenant of my faith is to do unto others as you would have them do unto you. Well I have no interest in reading about someone else' faith in a book about business. But I also want to be able share the hope and love that are at the core of my faith. If you are interested in learning more about what I consider to be the most important thing in the entire universe you can go to www.thisiswhyibelieve.org. There I share why I believe and information and resources so you can learn more if you want to.

SECTION 2

THE RICH MAN'S PATH TO STARTING A BUSINESS

Before you seek to secure funding for your business, make sure you are ready for this. One thing that we strongly recommend is that you DO NOT operate your business as a sole proprietorship.

A sole proprietorship means that there is no legal distinction between you and your business. This means that you are personally liable for anything your business does. One of the reasons we setup a legally entity for our business is that it shields us from personal liability. We set up LLCs or corporations as distinct legal entities and run our businesses through them so that if an issue arises

> How you setup your business and what the goals of your business are, will have a major impact on what sources of funding are available.

with our business, the attorneys will have a very hard time coming after us personally. You can learn more about why we setup legal entities for our businesses through our webinar on Business Basics.

How you setup your business and what the goals of your business are, will have a major impact on what sources of funding are available.

For instance, if you want to start a coffee shop, where you can pursue your passion of serving great coffee to your community, it is going to be pretty unlikely that you are going to be able to pursue equity financing. It also means you won't be available for the largest source of grants in the country, the SBIR program. Now if your end goal for your business is to own 50 coffee shops around your region, then you may be opening up the opportunity for equity financing. People and groups who invest on equity of companies, are looking for a return on their investment. This means that your business needs to be successful enough to provide a strong financial return for you AND for your investors.

This generally requires a scalable business. The single coffee shop on the corner does not meet the qualification of a scalable business. We will talk more about this later. Always remember to start with the end in mind.

There are also considerations to be made on whether you setup a C-Corp or an LLC. I like LLCs and most of my businesses are LLCs. But there are some sources of capital that are not available to LLCs. Many traditional venture capital firms will not invest in an LLC. They will only invest in a C-Corp. So these are things to take into consideration on how your business is setup.

Be sure that you are not operating your business as a sole proprietorship. Have a legal entity for your business setup. We establish legal entities for our businesses for a number of reasons.

One of the primary reasons is to reduce our personal liability. When we establish a legal entity for our business such as a C-Corp or an LLC, that company then takes on certain legal rights and responsibilities.

It creates what we call a corporate veil. If you are operating your business as an LLC or C-Corp, then you are shielded from liability for that business. For example, if you have a company that produces computers, and one of your computers starts a fire in someone else's business because of a mistake you made, they can sue your business, but they can not sue you personally.

This is the reason many high net worth individuals will segregate their different businesses into different legal entities. This then protects them personally and their other businesses from their activities. If you are operating your business as a sole proprietorship, then you are personally liable for whatever your business does. This is why we highly recommend a legal entity for your business.

There are other reasons to form a legal entity. There are tax advantages to having a legal entity, and if you are ever going to sell your business, it makes it much easier to sell, when you have a legal entity than when you have a sole proprietorship. I have seen instances where it became much more difficult for the individual to sell their business, because it was a sole proprietorship.

SECTION 3

THE ENTREPRENEURIAL'S PATH TO STARTING A BUSINESS

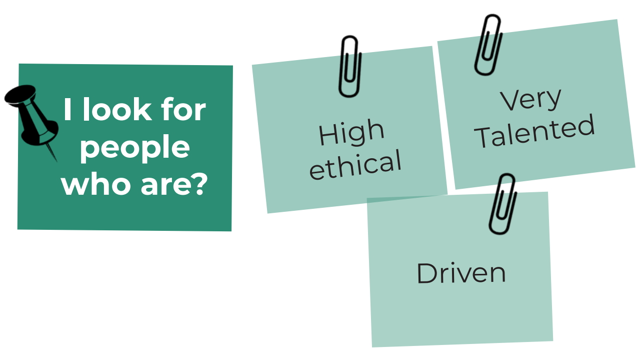
One thing that is common to all businesses is that they need monetary capital (money) to grow. As I have mentioned before, the characteristics of your business dictate what funding sources are available. Getting people to part with their money for your business will likely be a very challenging effort.

Whether you are going to a bank, or whether you are going to private equity investors, you will have a number of hoops to jump through and it is going to require some skill and knowledge to secure the funds you need. There are a few common items you will likely need, regardless of the funding source you are going after.

Items You Need For Raising Money For Your Business

A Team

Even if the team is just you, you really need to understand that the people in your business are the most important asset you can have. If you are going to grow a very successful business then you are going to have to have a team to help you accomplish this. I can not emphasize this enough, please write this down. **Finding good people is harder than finding money. When I look for people to bring onto my team I look for people who are:**



I have had businesses fail because I had team members who had 2 out of 3 of these traits.

I have had businesses fail because I had some who was very talented, very driven, but he was unethical. It took me a while to figure that out, but it ended up being a major contributing factor to the failure of the company.

I had another incident that the individual was very ethical, and very driven, but he did not have the talent for the position in which he was placed. I have also known people who were highly ethical, very talented, but had no drive. When you find an individual that possesses these qualities it is more valuable than gold.

One of the reasons a team is more valuable than money, is that with a great team, you drive the chances of raising money up dramatically.

Good teams can attract money. So think carefully about the type of person you need and always be recruiting. Also, demonstrating to investors you understand the value of good people, and that you can attract them, is very helpful.

Business Plan

One of the first things you need is a business plan. Now there are several differing views of whether a "formal business plan" is needed.

Equity investors (angel investors and venture capitalists) on the west coast, typically are not asking for formal business plans anymore.

Many decisions are made from the pitch deck, without the old school business plan. I believe that a written business plan is a really good thing to have, even if it is only for your own personal use.

Below are some of the key purposes of a business plan. How you write the business plan will depend on what the purpose of the plan is and who the audience is.

- Seeking bank funding
- Seeking equity funding
- For a grant
- A road map for you
- A communication tool

Sections of Your Business Plan

Below are what I recommend as some of the key sections of a business plan. And remember that in general there are no hard and fast rules for what you include in a business plan. The objective of the business plan is to communicate to people what your business is. In some situations you may need more, or different sections, and in some cases you may need fewer sections.

- Executive Summary
- The Product or Service
- The Need
- The Market
- The Marketing Plan
- The Team

- The IP
- The Competition
- The Operations
- The Financials
- The Exit

In my opinion, the most important part of the business plan is the Executive Summary. The Executive Summary is that one to two page (two at the very most) summary that tells the reader all about your business, in a brief and concise fashion. The goal of your business plan is to communicate to outside parties what your business does, why it is a good idea and why you can be successful. This needs to all be conveyed in your Executive Summary. I do recommend that you have a summary of your financials in the Executive Summary. Some people are very driven by the financial projections for your business and it is good to provide a summary up front.

Legal Entity

I have said it before and I will say it again. You should NOT operate your business as a sole proprietorship. You should form a legal entity (an LLC or a C-Corp) and operate all of your business dealings through that legal entity. There are a number of reasons to have a legal entity, among those is the protection from personal liability and tax advantages.

Professional Identity Package

In my book, "The $355 Startup: Ten Easy Steps to Starting Your Own Business", I discuss how you can get a logo for your company for as little as $150. It is VERY important that your business look professional. You only get one opportunity to make a first impression, so be sure to have a professional logo. And be sure that you get feedback on it. What you think is a great looking logo, may not be what others consider a great looking logo.

Website

In todays world you just have to have a website. It does not have to be anything fancy, but you should have a web site. I talk about how to get a very inexpensive website in "The $355 Startup".

Linkedin Profile

If you are going to be seeking funding, one of the first things that people are going to do is to look up your LinkedIN profile. Be sure that you have an up to date profile and make sure you have a recent photo. Your 20 year old head shot is not what you want on your LinkedIN profile. Be sure that it has been taken in the recent past (not more than 5 years old). And make sure that it is up to date with your past experience. Your should really use your LInkedIN profile as your on-line resume. Don't just put that you are founder of your company with no other experience listed. Provide an honest and accurate accounting of your experience.

Clear Ask

When you are seeking funding for your business, have a clear ask. Ask how much money you are looking for and have answers to the immediate questions you are going to get. Those questions are going to be, what is your valuation and what are you going to use the money for. Don't throw out the old, "well the valuation is negotiable".

Investors want to know what you think your business is worth. They are not going to be the one's who put a first offer on the table. They want to know what you want. They will likely come back with a counter proposal, but they may actually take you up on your offer. One of the reasons I want to know valuation up front, is because many entrepreneurs have a highly inflated idea of what their company is worth. This is particularly true of inventors who are entrepreneurs. They HIGHLY over value their idea. If I ask an entrepreneur what the valuation of their business is, and they tell me $100 million, then I am likely not interested at all in pursuing the conversation any further. If this is someone who has never started a business and they think that their idea is worth $100 million, then they are so far out of the realm of realty, that I do not want to have to spend the time on educating them on why they are never going to get that.

Also, be sure to have a number to ask for. If you are talking to investors then they want to know what you need. Have this number ready. I remember talking with some entrepreneurs and telling them they were not ready to talk to investors because they did not know how much money they were going to ask for. They got a meeting with an individual who could stroke big checks (and probably would have), but when he asked them how much they were looking for, they did not have an answer.

By the time they came back with an answer, the investor was no longer interested. **Investors don't want to wait for you to figure out how much money you need. If you are talking to them, then you need to have a number ready to tell them. And it needs to be a well thought out number.** Don't waste investors time while you educate yourself. They want to be able to analyze the opportunity and move on (most of the time).

Pitch Deck

In the old days the standard ask from an investor was for an executive summary and a business plan. As things have progressed the ask now is for a pitch deck. This is a deck of slides, usually done in PowerPoint, that concisely tells the story of the business. We recommend no more than 12 slides, and in these slides you need to tell the story of your company in a compelling way that will get people to want to learn more. The pitch deck has replaced the business plan in many cases, but the investor may still require a business plan at some point.

That is why we think it is good to have a business plan for your own use and then you have it if an investor requires it.

SECTION 4

STARTING YOUR OWN BUSINESS BASED ON YOUR OWN IDEA

Valuation

A very important part of raising money for your business is the valuation of your business. That is, how much is your business worth today. One thing I caution entrepreneurs on very early is to understand the difference between the “pre- money” valuation, and the “post-money” valuation.

This can have a MAJOR impact on how much of your company you give up for equity capital. So if I am raising $500,000 for my business and you ask me what the valuation of the business is, and I say $1 million. Well if it is a $1 million POST-money valuation, then I am offering to give up 50% of my company for $500,000. If it is a $1 million PRE-money valuation, then I am offering to give up 33% of my company.

Here is how that works. If the value of my company is a $1,000,000 pre-money valuation and I raise $500,000, this provides a $1,500,000 post-money valuation. $500,000 of $1,500,000 is 33%. So to get the post-money valuation, you always take the pre-money valuation and add the money raised, to give you the post-money valuation. I have seen entrepreneurs make this mistake and give up much more of their company than they needed to.

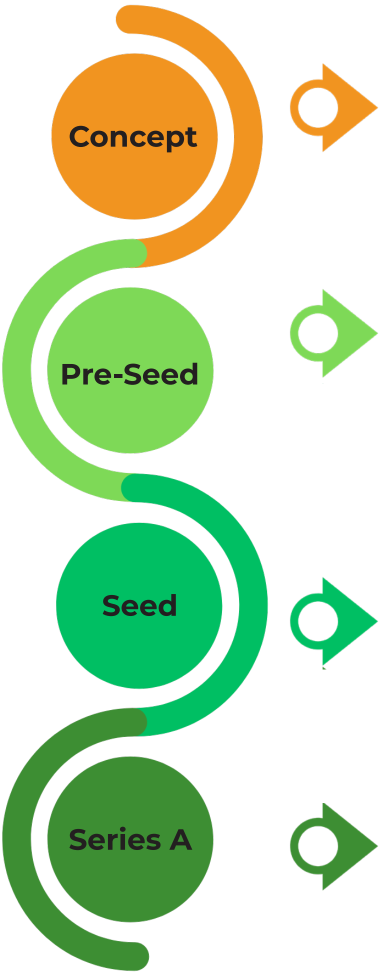
So now that we understand the difference between the pre-money valuation and the post-money valuation, let's talk more about valuations. The valuation is simply the value of your company. What is someone willing to pay for it. Now there are many ways to value established companies that have long operating histories. To value a start-up is really more art than science.

There will be those that tell you they use a discounted cash flow model, or other models.

Some of the models that are out there are:

- Discounted cash flow
- Asset approach
- Income approach
- Market comparison approach
- Venture Capital method
    - Anticipates exit price
    - Uses expected return to determine present value
- Scorecard Method
    - Compares your company to other companies in the area
- Risk Factor Summation Method
- Dave Berkus Method
- Chicago Method

What is really comes down to with a startup, is what is someone willing to pay. Well it is going to depend on the stage of your company. I typically use the following stages:



This is usually before you have legally formed your business, or have just formed it. Very early.

This is after you have formed your business and are just get starting. Most of the time you are pre-revenue, and are still working on bringing your product to market. It is probably only you in the business and you don't have your team filled out yet.

This is often your first round of funding and it is when you are ready to take on angel investors. You have probably started to build out your team and it is not just you.

This is after you have started to get sometraction in the market and have sales. This is often times the first round that professional venture capital will consider investing.

Your valuation is going to depend somewhat on what stage your business is. If you are at the Concept or Pre-Seed Stage you are going to have a significantly lower valuation than if you are at the Seed or Series A stage.

Some of the other factors that need to be taken into consideration on valuations are:

- Company assets
- Intellectual Property
- Market Size
- Management Team
- Market Conditions
- Geography
- The lead investor's attitude

All of these items can impact your valuation. If you have a lot of tangible assets in the company, this can impact your value. If you have really strong intellectual property, then this can really impact your business.

If investors think that you can effectively keep competition out of the market with your intellectual property, they will give you a higher valuation. If you have a strong management team, then you are going to get a significantly higher valuation than if it is just you in the business.

Geography can impact your valuation. If you are a startup in Silicon Valley then your valuation is likely going to be higher, because you have more active sources of capital competing to invest. If you are based in Louisville, KY, there are much fewer sources of capital and you are likely going to have a lower valuation.

Then of course, whoever leads your round of investment will have a significant impact on your valuation. If they are very bullish and have seen that you have a strong position, they are going to have a major impact on your valuation. The lead investor is usually the one who negotiates the term sheet that the other investors follow. So this is an important relationship and their attitude towards your business can have a significant impact.

It is important to remember that just because someone may be naive and they are willing to pay you a much higher valuation, than a professional investor, it is not always good to take money at that valuation. If you convince your aunt Anita that your business is worth $10 million and that if she invests $100,000 she can get 1% of the business, you are likely going to deeply disappoint aunt Anita when you have to raise more money. Because you are likely going to have to do what we call a down round. That means you have to raise money at a lower valuation than your previous round of funding. Investors do not like down rounds, because they get diluted and means their previous

investment is worth less today than when they made the investment.

You want to try to avoid down rounds.

Another significant factor in valuations are market conditions. When money is plentiful and lots of people are investing, the valuations generally go up. As I am writing this book in August of 2022, we have seen the Series A valuations go down a bit because the economy has slowed down over the past several months.

A few months ago, Series A valuations where coming in very high. Now that it is harder to raise money, investors are in a better position to drive down valuations. Remember that the lower the valuation, the more of the company the investor will get for their investment. So it is in the investors best interest (most of the time) to negotiate lower valuations on the business.

The Term Sheet

Before we get into all the different sources of capital for your business, let's discuss the term sheet. A term sheet is a brief document that lays out the terms of the transaction. Depending on what type of funding source you are seeking, will determine many of the factors of the term sheet. We will talk primarily about a term sheet for an equity investment.

The really important parts of the term sheet for an equity investment are:

- Valuation of the business
- Investment being sought (how much)
- Type of investment
    - o Priced round
    - o Convertible debt o SAFE
    - o Revenue share
- Preferred terms, if a preferred equity is being offered
- Other terms depending on the type of investment

We will discuss in more detail the different types of investment, because there are nuances to be aware of for each one. But the term sheet essentially tells the investor what they are getting.

Bootstrapping

One of the most rudimentary means of funding your business is bootstrapping. This is how almost all businesses start off. Bootstrapping comes from the term “pulling yourself up by your bootstraps” that was used in the 18th and 19th century.

It essentially meant you were on your own and had to get it done on your own. That is what “bootstrapping” your business is. You fund it out of your pocket and out of the sales that you generate. As I mentioned most all businesses start this way. That first step that you take in starting your business is usually funded by you.

The question is, how far can you get on bootstrapping. How much money do you have to invest in your business. Some people have very little money to invest, and some have substantial resources.

I remember talking to an entrepreneur who said that it was his opinion that if you didn't have $50,000 to get your business started, then you shouldn't bother. Well I know this would have knocked me out of ever starting a business. But it is all a matter of perspective.

In another book I talk about the $355 Startup and the ten easy steps to starting your business. Something we discuss there is that some people have more time than money, and some people have more money than time.

For someone who is making $200,000 a year in their current job, it may be worth it to them to spend $50,000 with service providers to get their business started. But for that individual who is barely scraping by, they may be better off investing their time and doing much of the work themselves to get their business up and running.

This is the true character of bootstrapping.

Some of the areas that can help you support your bootstrapping are:

- Savings
- Credit Cards
- Loans from Family
- Loans from the Bank
- Loans from Government Agencies
- Sales from the business support the growth of the business

Remember that the very nature of bootstapping is that you are on your own. If you use your family savings or credit cards or loans, if your business fails you will still have to pay that back.

A great example of someone who bootstrapped their business is James Dyson of the Dyson vacuum cleaner. He has an amazing story and you can hear it on the How I Built This Podcast at:https://www.npr.org/2018/03/26/584331881/dyson- james-dyson

Grants

If you absolutely need money fast, then skip this section and come back to it when you are not in need. Grants can be an amazing funding source, but they almost always take many months to get them. A “grant” is granted to you and do not have requirements for paying them back. In the investment world we consider this non-dilutive funding and is an amazing source of funding for innovative entrepreneurs. The primary source of grants for entrepreneurs is through the federal government's Small Business Innovation Research (SBIR) grants. Each federal agency is required to set aside a percentage of its research budget to go to small businesses.

Below are more sources of grants:

- Cities
- Counties
- Economic development agencies
- Foundations

SBIRs are geared more towards technology and research based businesses. So in general these are not available to companies that are not technology focused. According to the SBA, "The SBIR Program is structured in three phases: Phase I. The objective of Phase I is to establish the technical merit, feasibility, and commercial potential of the proposed R/R&D efforts and to determine the quality of performance of the small business awardee organization prior to providing further Federal support in Phase II".

According to the official SBIR website, the three phases of the SBIR program are:

The SBIR Program is structured in three phases:

PHASE 1

The objective of Phase I is to establish the technical merit, feasibility, and commercial potential of the proposed R/R&D efforts and to determine the quality of performance of the small business awardee organization prior to providing further Federal support in Phase II. SBIR/STTR Phase I awards are generally $50,000 - $250,000 for 6 months (SBIR) or 1 year (STTR).

PHASE 2

The objective of Phase II is to continue the R/R&D efforts initiated in Phase I. Funding is based on the results achieved in Phase I and the scientific and technical merit and commercial potential of the project proposed in Phase II. Typically, only Phase I awardees are eligible for a Phase II award. SBIR/STTR Phase II awards are generally $750,000 for 2 years.

PHASE 3

The objective of Phase III, where appropriate, is for the small business to pursue commercialization objectives resulting from the Phase I/II R/R&D activities. The SBIR/STTR programs do not fund Phase III. At some Federal agencies, Phase III may involve follow-on non-SBIR/STTR funded R&D or production contracts for products, processes or services intended for use by the U.S. Government.

There are other grants available. Examples of some of these other grants are from foundations, economic development agencies, state governments and local government agencies. It can sometimes be hard to find information on what grants are available and how to secure them.

Rewards-Based Crowd Funding

We will be covering equity based crowd funding later in this book, as it is a different animal from rewards based crowd funding. The big players in the rewards based crowd funding arena for businesses are Kickstarter and Indiegogo. GoFundMe is another big platform, but is geared more towards non-profit initiatives than business, so we are going to skip that one.

With rewards based crowd funding you are essentially selling your product, before you have the capability to deliver it. So you have to have a prototype, and then you can show this prototype to “the crowd” and they will pay you in advance for the item. This then provides you the funding you need to finish the final designs and conduct your manufacturing. The crowd is assuming a risk with you. This can be a good thing and this can be a very bad thing. Some of the most successful crowd funding campaigns destroyed the businesses they were supporting and ended up with a lot of angry backers. I will talk more about that later.

So the way crowd funding works is that you create a campaign, you need to have a prototype, you need to have a short video, usually around 3 minutes, talking about your business, you need to design the rewards, and then you launch your campaign. Now this is one of those issues where it seems that you can build it and they will come. There are amazing Cinderella stories of how companies have raised hundreds of thousands and even millions of dollars from “the crowd”. And this can happen, but most of those seeming strolls down easy street, took a lot of time, effort and money to pull off. Be prepared

THE REWARDS

Most of the rewards are your product, or products. But if you have a product you need to sell for $300 to make money on it, you may offer other rewards for people who just want to support you (and there are those people out there).

So you may offer a tea-shirt of ball cap for $20 as one of your rewards. Some people get really creative on the rewards, and they offer people who buy a lot of items opportunities to visit their facility or other creative experiences to go with the campaign. The easiest way to learn about this is to go to www.Kickstarter.com and www.indiegogo.com and see some of the campaigns that are up and running.

SOME DOWNSIDES

You really need to be careful in how you plan out your rewards. Make sure you set the correct expectations and that you get your pricing correct. It can be really exciting to raise $2,000,000 on a crowdfunding site, but if it is going to cost you $2,500,000 to deliver the products to the customers, you have a problem. One of the most famous Kickstarter campaigns was the Coolest Cooler. It was a cooler with a speaker and a blender built into it. In the summer of 2014, they raised over $13 million with 62,642 orders. They had tried to raise $125,000 in November of 2013, but did not hit their goal, so they were not able to take any of the money. They came back in the summer of 2014 and seemingly knocked it out of the park.

They had told supporters that they would start delivery in February of 2015, but production kept getting pushed back. To make a long story short, the company shut down in 2019, having never delivered over 20,000 of the orders that had been placed. Understanding your pricing and manufacturing issues is REALLY important.

RECOMMENDATIONS

Become familiar with the different rules for the different platforms. They review the campaigns, and have to accept them. I spent a lot of time for a campaign on Kickstarter, to be told it didn't meet their community guidelines, but Indiegogo was happy to offer it.

Do your research. Look at the different crowdfunding sites and see what has been successful and what has not.

Be sure to tell a great story. The success of your campaign will have a lot to do with the quality of your video.

Build your network before you need it. Your network is what will need to be used to light the fire for your campaign to go viral

Have backers lined up before you launch your campaign so you can show momentum early

This can be a good option for businesses that are not suited to equity funding

Debts

Debt is one of the most common means of funding for a business. Most people are familiar with debt. It is what we use when we buy a house, or a car, when we borrow the money from a bank. When you start a business, debt may be an option you want to consider. Debt is an important part of bootstrapping, that we discussed earlier.

Some of the good features of debt are:

- Usually cheap money
- Relatively easy to get
- Relatively quick to get
- Many different sources

Some of the different sources of debt are:

- Friends and family
- Banks
- Credit unions
- Credit cards
- Economic development agencies
- Investors

Some of the downsides of debt are:

You probably will have to sign personally

- It doesn't go away easily
- If the business fails you will still owe it
- Credit card debt can be expensive
- Companies earn money to hound people who owe money
- It can be a heavy burden

Sources of debt financing are plentiful. But remember, when you get debt, you are most likely going to be personally liable for that debt. This means that even if your business fails, you are still going to need to repay the debt. This can be a tremendous burden.

Terminology You Should Know

Some of the terms you need to know regarding debt financing are:

1. Term of the loan

How long the payback time is for the loan

2. Interest rate

How much interest you will pay on the loan

3. Prime rate

A prime rate or prime lending rate is an interest rate used by banks, usually the interest rate at which banks lend to customers with good credit.

4. Principal

On day one of the loan the principal is the original amount of the loan. As you pay down the loan, the principal amount of the loan is what the pay off amount would be if you paid the loan off that day.

5. Fixed or variable rate

Some loans have a fixed interest rate. Others have variable rates that are adjusted at different times (could be monthly, quarterly or annually) based on the prime interest rate.

6. Collateral

Something pledged as security for repayment of a loan, to be forfeited in the event of a default

8. Amortization Period

This is the time that the loan is spread out over. So for cars, people usually get 3 year or 5 year loans. The 3 and 5 years are the amortization periods of the loans. Some loans may be amortized over a longer period than the term of the loan. For instance you may borrow $100,000 that is amortized over 10 years, but is only a 3 year loan. This means that you will pay on the loan for the first 3 years as if it is a 10 year loan (lower payments) and then there will be a balloon payment at the end of the 3 years.

7. Balloon Payment

A repayment of the outstanding principal sum made at the end of a loan period.

SBA Backed Loans

The Small Business Administration has a program that backs loans for small businesses. They do not loan the money directly, but provides a guarantee to the bank of a portion of the loan, so it reduces the risk to the bank.

This makes it easier for small businesses to get the loan. One of the downsides of the SBA backed loans, is that they not only require a personal guarantee, but require you to pledge your home if you own one. This is a big deal that you should take into consideration if you are considering an SBA backed loan.

RECOMMENDATIONS

Below are some recommendations if you are considering debt financing as an option for your business.

Know Your Credit Score

First of all, know what your credit score is and what is on your credit report. I am amazed at how many people do not understand how credit scores and credit reports work. I say this, because it was late in life before I really understood how they work. There are some very counter-intuitive aspects of how credit scores work of which you should be aware. There are three primary reporting agencies for credit. Those are Equifax, Transunion and Esperion. You need to know what your credit score is from each of these agencies, because they can vary in a big way. If you have an unusually low score on one and not the other two, you need to find out why that is, because it could be inaccurate information.

Also be sure to know the difference between your credit report and your credit score. You are entitled to a free credit report each year from the different reporting agencies. They do not always provide your credit score with this credit report. Without the score, it can be very difficult to understand all of the intricacies of the entire report. A low score lets you know there is something wrong. The credit score is calculated based on an algorithm used by each reporting agency.

Credit scores typically range from 300 (very bad) to 850 (excellent).

Your credit score is basically derived from the following factors:

Total amount of debt	**Type of debt**	**Repayment history**	**Debt to available debt ratio**

You will be ahead of the game if you know what your credit score is when you go to the funding source. If your business is a startup, then the primary funding decision is going to be based on your credit worthiness, which is indicated by your credit score. If you have a less than perfect credit score, then it is good to know that going in and to be ready to explain it.

Know How Your Funding Source Works
Different sources of debt have different criteria on how they approve loans. Some of the primary sources of debt are banks, credit unions, economic development agencies, and individuals. Most of the time these funding sources have pretty strict guidelines on how they approve loans.

Some of the items they will look at are:

1. Credit worthiness of the applicant (your credit score)

2. Ability to repay based on cashflow

3. Collateral -what assets can they use to secure the loan

Economic development agencies may have slightly different criteria and may have more flexibility than a traditional bank. They may weigh how many jobs you are going to create and what economic impact you could have on your community if you are successful.

Some key questions to ask your potential funding source are:

1. What are your criteria for underwriting loans?
2. What credit scores do you look for?
3. What is your process for applying?
4. How are decisions made on the loans? Oftentimes different amounts will have different processes.
5. What are the typical time lines for the approval process?

If your funding source will only loan money to people with a 700 or better credit score, and you are at 650, then it is unlikely that you will be able to get the loan.

This is why it is important to know your credit score. Tell your lender that you have a lower credit score (tell them what it is) and ask them if you should apply, or wait till you have improved your credit score. This can save you a lot of time and effort.

This will also demonstrate to the loan officer that you are knowledgeable and transparent.

Equity

Where debt financing provides you a loan that has to be repaid at a specified interest rate, generally when you offer equity in your company, you are not required to pay the money back. The investor anticipates that you will increase the value of your company and at some point you will provide some type of exit event for the investor, either through an initial public offering (IPO), or through the sale of the company to an acquirer. This can make equity very attractive in some ways, but as with all things in life, you have to take the good with the bad. A few of the bad items of equity are, that you could lose control of your company if you end up selling too much equity, there are a lot of regulations around selling equity in your company, and it can take a long time to sell equity in your company. Let's look closer at equity financing.

When you sell "equity" in your business, this means you are selling ownership in your business. So if you are a C-Corp you are selling stock and if you are an LLC you are selling Membership Interests or Units. The nice thing about having one of these legal entities, as opposed to running your business as a sole proprietorship, is that you can sell off pieces of your company. We discuss "Valuation" in another chapter, but essentially the valuation of your company is what you and others think your company is worth. So if you have just developed a concept and you have recruited your first team member, you may be in the pre-seed stage, and you may be able to convince people that your business has a pre-money valuation of $1 million dollars. This means that if you want to sell $500,000 in equity in your business (stock), your post money valuation will be $1,500,000 and you will need to give up 33% of your business. Most people think that if they can maintain more than 51% of their equity they can maintain control of their business. Often times this is true, but often times investors will place restrictive covenants on the equity they purchase, which will limit what you can do in the business, even though you still own more than 51% of the business. For instance, they may not let you issue additional equity, they may not let you give yourself a raise, or declare a dividend, without the consent of the investors. This is often done by the investors owning a preferred equity class.

Let's dive into this idea of "preferred" equity a bit more. As a corporation, or an LLC, you can have different classes of stock (in the case of LLCs units). These different classes can have different rights associated with them. For instance, to make certain changes in the business, it may require a vote of the preferred equity members, not just an overall vote of the overall equity. The founder of the company will generally always own common stock. The common usually has fewer rights than the preferred.

When you sell equity in your company, you will need to sell that equity under an exemption which makes it a private placement of equity (as opposed to a public offering, which is where you want to list your company on a major stock exchange). Remember the SEC has regulations that cover selling equity in companies. There are lots of rules about what you can do. Most of these rules are found under the Securities Act of 1933. Yes, that is right, 1933. Now there have been lots of changes in this act since 1933, but many of the basic concepts were established way back then.

Now we need to provide some context as to why the offering of securities (stock and other instruments) became so highly regulated. As with so many regulations this points back to unscrupulous acts by shysters. The sale of equity as a way for people to make a lot of money became very appealing to fraudsters. So it became prevalent for some “stock brokers” to talk grandma into investing her life’s savings into a company that had little or no value. Then when that company failed, grandma lost all of her money.

The Securities Act set forth to stop these types of hustlers by requiring issuers of securities to register with the SEC. This registration process is expensive and time consuming. Today registering and offering your stock for sale on the public market is known as “going public”. A key component of “going public” is that now the company and its representatives can do general solicitations. That means they can advertise and try to sell their stock to anyone. So, until recently if you are selling private equity under an exemption, you could not do a general solicitation. This has changed with the recent crowd funding legislation that has passed.

The SEC put a regulatory framework around the sale of private equity and created a pathway to selling that equity publicly. In order to offer equity in a company, the entrepreneur needs to comply with the laws surrounding the private placement of equity, and to do this they must qualify for an "exemption" from registering their offering.

If the entrepreneur does not comply with these laws they can go to jail. The basis for these laws is that you must "disclose" all the material issues associated with your business and must be truthful in your disclosures. So if an entrepreneur just got sued by a huge multi-national company for infringing on their patents, this becomes a "disclosure" issue if they want to sell stock. They need to tell their investors that this has occurred and that it is a significant risk factor for their business. Does this mean they can't sell equity? Probably not, but it does mean that they need to disclose this to their investors. And a smart investor is going to think twice about investing in a company dealing with potential litigation.

So now if an entrepreneur wants to sell stock in his company, they are required to disclose all of the issues associated with their company. This requires disclosure documents and these disclosure documents are often times distilled into a private placement memorandum.

Recently there have been some major changes to the Securities Act. These changes include providing a framework for crowd funding (think of this as a mini-public offering). In order to sell your equity privately and not require a registration with the SEC, the entrepreneur needs to work under an “excemption”. Essentially under section XxX of the federal register there are several exemptions listed under which companies can offer to sell their stock to investors.

Below are some of the terms you should know as an entrepreneur seeking to raise equity capital:

Terminology You Should Know

S-1 Registration

- This is going public and a full registration with the SEC.

Regulation A+

- This is an exemption from full registration and allows a company to raise up to $20 million under tier 1 and up to $50 million under tier 2. There are more requirements for Reg A offerings than for Reg D and are more rare.

Regulation D offering (or a Reg D)

- This is an exemption that has several different parts.

Reg D- Rule 506 (b)

- This is an exemption for a private placement of securities. The issuer may not conduct general solicitation (advertise) and may have an unlimited number of accredited investors, but only 35 non-accredited investors.

Reg D- Rule 506 (c)

- Issuer may conduct general solicitations and is limited to ONLY accredited investors. The Issuer must verify that the investors are accredited.

Reg D- Rule 504

- Issuers are limited to raising $10 million and there are no limits to the number or type of investors.

Regulation Crowd Funding (CF)

- Issuers must offer their securities through a FINRA registered crowd funding portal. They are limited to selling $5 million. They may offer general solicitations and have no limits to the number of investors.

Accredited And Non-Accredited Investors

In Order To Sell Private Equity, There Is Quite A Bit Of Regulatory Issues Of Which You Need To Be Aware. Sales Of Private Equity Are Regulated By The Securities And Exchange Commission, And There Are A Whole Set Of Rules Around What You Can Do. A Major Part Of The Rules Revolve Around The Idea Of Accredited And Non-Accredited Investors.

This Is Essentially Reflective Of The Financial Status Of The Individual Investor. That Is To Say Are They Considered To Be Rich (Accredited Investor), So They Don't Need To Be Protected As Much By The Government, Or Are They Poor (Non-Accredited Investor), So They Need Additional Protections From The Government.

According To The Sec, An Accredited Investor Is:

> a natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds $1 million at the time of the purchase, or has assets under management of $1 million or above, excluding the value of the individual's primary residence;

a natural person with income exceeding $200,000 in each of the two most recent years or joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year

So the advantage of an accredited investor is that under some offerings you can only have accredited investors and under others, the number of non- accredited investors you have is limited.

The Private Placement Memorandum

We discussed the regulatory issues associated with selling equity in your company. One of the key documents that you may be required to prepare is a Private Placement Memorandum, which is commonly referred to as a PPM. This is a document that is provided to the potential investors and it discloses the material facts of your business, including the risk factors. Another term for a PPM, is “Disclosure Documents”.

If you talk to an attorney they will tell you that you definitely need a PPM. As with so many things in law, there are some gray areas. There is no requirement for a “Private Placement Memorandum”. There is a requirement to disclose all of the material facts associated with the business including the risk factors. If you engage an attorney to help you prepare your PPM, you are going to pay between $7,500 to $35,000 for the document. And you are going to spend a lot of time with the attorney explaining your business to them.

Our angel investor groups do not require entrepreneurs to provide a PPM. Most of them do not have a PPM. Our due diligence report, essentially becomes the disclosure document for the entrepreneur and our investors. We review the key errors to identify the material facts around the business, including the risk factors. This document is provided to our members, and becomes the primary disclosure document. This is an advantage to working with formal angel groups for the investor.

Sources of Equity Investment

If you are looking for equity investors there are a few different groups that you can target. The first is what investors call the three “Fs”. That is friends, family and fools. Another group is what we call Angel Investors. Angel Investors are usually high net worth individuals (accredited investors) who like to invest in early stage companies.

Some angel investors are lone wolves and some join angel investor groups, who pool their resources to invest in early stage companies. Angel Investors will often focus on particular industries or particular stages of a business.

For instance, some Angel Investors may want to only invest in pre-seed or seed stage opportunities.

Another group of equity investors are formal venture capital groups. Venture capital groups generally invest at a later stage than angel investors do, but this is not always true. Venture Capital funds are usually formed as a Limited Partnership where the Limited Partners (or LPs) invest the majority of the capital and the General Partners (GPs) make the investment decisions. Often times the GPs are individuals with financial backgrounds and are money managers. Sometimes the GPs are entrepreneurs who have had an exit and are not investors themselves. Venture capitalists only invest in a small percentage of the companies who apply. They are looking for the very best companies and want to invest in opportunities that could potentially have very large returns.

Another potential source of equity investment is from strategic investors. Some companies will make investments in private companies that are strategic their business mission. Strategic investors can be very good for the entrepreneur, as they may also be a potential customer as well as an investor. These can be some of the most difficult investors to find, because most of the time these companies do not advertise that they will consider investing in private companies.

The financial potential source of equity investment is what we call Private Equity. Not, technically all of the investors we have mentioned, invest in "private equity", but "Private Equity" firms, usually make large investments in companies with significant operating histories and revenue. Many private equity firms manage billions of dollars of assets and invest tens of millions of dollars or more at a time. So this is not a likely source of capital for a startup, but it is worth mentioning as it is a term you may come across.

So in summary the following are the different sources of capital for entrepreneurs seeking equity investors:

- Friends, Family and Fools-your very earliest investors
- Venture Capital - Funds that are organized specifically to invest in startups
- Strategic Investors - Companies that invest in startups that align with their business objectives
- Private Equity - Usually investment firms that place large amounts of capital in companies with significant revenue and do not invest in startups

SECTION 5

SOURCES OF EQUITY CAPITAL

Friends, Family, And Fools (The 3Fs)

Whether you are approaching your friends and family for debt or equity, always be very careful in doing business with friends and family. Some of the worst experiences of my life have been working with friends and family.

Relationships can be destroyed when business and personal relationships are intertwined.

One of the things that you need to be very sure of, is that your valuation is realistic. Often times friends and family will invest because they believe in you. And most of the time they do not know how to value an early stage company.

So if you come to them with your billion dollar idea, and you are going to provide them 1% of the company for $100,000 (by the way that is a $10 million post- money valuation), this is NOT a good deal for them.

If you have never started a business and have no revenue, you need to be thinking in terms of a $500,000 to $1,000,000 valuation, not a $10 million valuation. Because if you need to raise more money (and you probably will need to raise more money), then you don't want your family and friends to be stuck in a down round (when the valuation goes down from your last raise).

So you sold your parents 1% of the company for $100,000, and now you need to raise $500,000 more, and you can only do it at a $2,000,000 pre-money valuation.

The value of your parents investment just went from $100,000 to $25,000. That is not a good thing. So be really careful about how you price your offering to friends, and whether you want to take the risk of losing their money.

Angel Investors

An angel investor is a high net worth individual who invests in early stage companies. Most of the time the investments they make are equity investments, but some angels will invest through over vehicles as well, including debt and revenue shares.

Most of the time (almost always), angel investors are accredited investors. Of the accredited investors out there, only about 4% of them participate in angel investing. Most people do not understand angel investing and in many cases don't even know what the term means.

People become angel investors for a lot of different reasons. Some do it, because they want to help entrepreneurs, and some do it because it is a fun hobby, and some approach it as more of an investment activity looking for strong returns. A few things you should know about angel investors is that the good ones invest in several startups.

They take a portfolio approach as this is the only way to achieve consistent returns in this space.

So when they make an investment, they may look at 100 companies before they decide to make an investment. So you have a very narrow window to get their attention and convince them to invest. Also, you need to remember that once they decide they are interested, this does not mean they will definitely invest.

It means that you have generated enough interest that they will now conduct more due diligence (we talk more in depth about due diligence later).

Some angel investors invest on their own and some join angel investing groups. As members of a group they can now pool their resources and look at more companies and conduct more in depth due diligence, than they may be able to do on their own.

Remember that each year about 70,000 startups are seeking funding from angel investors and only a small percentage of those secure funding. There is a lot of competition for the funds that are available.

Venture Capital

Venture capital (VC) is a more formal and professional form of equity investment. With venture capital there is a General Partner (or GP) that makes investment decisions and runs the fund, who then secures Limited Partners (or LPs), who invest their money in the hopes that the GP will make wise investment decisions.

Venture capital has changed a lot over the years. As the funds have become more successful they have become bigger. So they have to make bigger investments. So there has been a natural shift to venture capital investing in later stage deals. We now have a new category that you never heard about 20 years ago and this the “pre-seed” stage. Angel investors will often invest in the pre-seed stage and VERY few venture capitalists today will invest in that stage. Some venture capitalists will invest in seed stage opportunities, but this is because they have shifted the meaning of "see stage". Twenty years ago, we would have called a pre-seed stage deal, a seed stage deal. But VCs want to place largest investments and so the new category materialized.

VCs are only driven by financial performance. Whereas angel investors often have a motivation beyond strictly financial, VCs are totally financially driven. John Mackey the founder of Whole Foods has a great quote. He said, "VCs are like hitchhikers with credit cards. They get in your car, and as long as you take them where they want to go, they will help pay for the gas. But if you get lost or wander off the road you promised you were going down, they will hijack the car, throw you out and bring in a new driver."

Venture capitalists are often times referred to as Vulture Capitalists. They can be very brutal and only care about the financial returns. I think one of the contributing factors to this reputation is that often times VC funds are run by finance people who have never started a business on their own. They are very well educated, very smart people, who have never walked the entrepreneurial path themselves. It can be frustrating sitting in front of a 30 something year old, who has never taken a risk in their life, and they are your judge and jury on whether you get funded.

As you grow your business and you require additional capital, it is likely you may have to go down the venture capital path. Typically VCs invest in later stage seed and series A rounds. Depending on the size of the fund they may invest from $500,000 (for a very small fund) to over $5 million. Remember, some of these funds have billions of dollars under management, and they have to place that money in good companies in a timely manner. This has driven the average venture capital investment up over the years.

Strategic Investors

Some companies invest in startups. These companies have a financial motivation, but unlike VCs, where the financial motivation is the only motivation, companies are often times strategic in their investment decisions. They look for companies that are going to help their core business. This class of investor is harder to find, but they can great investors, because they could potentially be customers as well as investors.

Private Equity

I am only going to comment briefly on private equity or PE firms. Technically angels and VCs are private equity investors (the equity they purchase is private, not publicly traded). But in the industry, most of the times when you are talking about private equity firms you are talking about companies that place large investments in established private companies. Private Equity groups do not invest in startups. They place larger investments in companies with strong operating histories. So this is not a group you would be looking to go after to invest in your startup.

Finding Investors

In some ways it is easier than ever to find investors, but it is still not easy. There are lots of resources on the internet and lists that you can find. The issue is finding the RIGHT investors.

You can waste a lot of time reaching out to the wrong groups. You really need to understand in which types of deals a particular group has interest. If you have a software play, then you don't need to waste your time with a group that is primarily interested in biotech.

If you are pre-seed stage deal, then you don't need to waste your time chasing groups that only invest in Series-A deals. So finding the right investor is really important.

Finding Angel Investors can be challenging. There are several different types of angel investors. There are individual angel investors, and there are angel investor groups. Finding the ones that work individually can be most challenging, because they often do not broadcast broadly that they are angel investors.

These individuals are usually found through knowing someone, who knows them. Most communities have individuals that will invest in early stage companies, but often times, you need to be a part of the entrepreneurial ecosystem and know someone in the ecosystem that knows the investor, before you can find them.

Finding angel investor groups is usually a little easier. They actually do broadcast more broadly that they are looking for deal flow. They often times have open calls for investment opportunities, but I always recommend seeing if you can get a warm introduction to the people who run the group, rather than submitting an application cold. It is more likely to get a serious look if you have been introduced by someone they know.

The Pitch

Although you may need a pitch deck for other types of investors, equity investors will absolutely expect it. The pitch deck is a really important document for you. This presentation has to convey to the audience the essence of your business and at the same time engage their interest. Below is an article from my business partner Eric Dobson with some pointers on “the Pitch”.

Pitching for an investment is not an easy thing to do. It is part art and part business acumen. The short version is the pitch should mimic a great business plan in structure and flow, but be told as a story. It ultimately depends on your style of presentation, but the most straightforward delivery is always the easiest on both parties (one slide per):

Cover Page with logo - start with your background and WHY you are doing this.

Statement and magnitude of the problem – what is the problem, how big is the pain, how are you addressing it?

Product/service – what is your product, how does it address the problem, and why is it unique?

Market overview – how big is the market (total addressable market) and what niches do you intend to exploit in what order (market segmentation, "beachhead" strategy)?

Competitive landscape – who else is out there, what do they look like, and how will you win against them?

Business model/marketing plan/sales plan – how will you make money, how will you get your message to your market, how will you sell to them?

Target customer value proposition - who is going to buy your product, why will they buy it, how much will they pay, and what is their ROI?

Team – why is this the right team to win in the marketplace, why should the investor trust you?

Summary and thanks with contact information

WHAT NOT TO DO

DO NOT PUT VIDEOS IN YOUR PRESENTATION! EVER! They suck the life out of the room and distract from you.

DO NOT DO A LIVE DEMO! EVER! Nothing wipes a potential investment off the table faster than a failed demo.

DO NOT HAVE TWO PEOPLE GIVE THE PRESENTATION! EVER! Two speakers dilutes the message, breaks the engagement, and distracts the audience.

DON'T RUN LONG! EVER! Being efficient with investors' time shows maturity and respect. Otherwise, you will lose their engagement.

WHAT TO DO

You want your audience focused on you, not reading your slides. Some presenters like more slides, some people like less. Plan for 15 minutes (in this case, 1.5 minutes of talk per slide or adjust accordingly) of pitching and the same in Q&A (generally). Include only the relevant, salient facts that make your case most truthfully and appropriately. Do not put prose in your presentation, just bullet point the talking points – 5x5x30 is the rule: five bullet points of five words each in 30 point font. Stay away from industry jargon and buzzwords, they sound trite or erudite and are off-putting.

Make sure you describe the product/service, but do not deliver a dissertation on your product. IF YOU CAN'T DESCRIBE YOUR PRODUCT IN ONE SENTENCE, START OVER. The first mistake most people make is focusing 90% on the product and 10% on the market, competition, business model, financial projections, and exit strategy. The opposite is the correct way to do it. Investor's foremost desire, once they understand your product, is to know you understand how to compete, make money, and return capital. It is not about what you want to tell them, it is about what they want to hear. Strive for elegance in simplicity. In the investor’s mind complexity is not a barrier-to-entry for fast followers, it a barrier-to-entry for investors.

The investor does not care that a razor is a hollow cylinder that is approximately six inches long and .3 inches in diameter, which is the minimum physical requirement to hold a series of hardened steel blades that are .01 inches thick by one inch long honed with a diamond to incredible sharpness and durability. He cares that it removes facial hair and makes him more attractive to the opposite sex. Sell the value of your venture/technology/service, not the structure or nuts-and-bolts of the IP.

Raising capital is a relentless pursuit of credibility. Be respectful, be intelligent, be truthful, be succinct, keep it simple, and get to the point. Leave out the hyperbole, investors see through that immediately and you lose credibility. You need to illustrate the BIG picture in the form of a story with a logical flow that the investor can relate to (personal experience, industry example, business case). Use simple graphics and charts that are easy to understand to explain your venture whenever possible. Nothing sells better than sales traction with a compelling marketing and sales plan.

Investors genuinely care and want to help you. Remember, you are pitching to folks that are experts in some sort of business, just not yours. Treat them with the respect they are due. Q&A is the MOST important part of the pitch. Leave more time for discussion than you use to pitch.

Otherwise, you will lose your audience's attention and investment. You want your audience to ask meaningful questions – this shows engagement. If they don't ask questions, you have lost their engagement and are not going to get their investment. Let them be the smartest people in the room, but have the answers. They will guide you to what is most important for them to make a decision on an investment. Once you have sold, stop selling....that is called "unselling" and it works marvelously.

Final Thoughts

We strongly recommend watching Simon Sinek's

TED talk:
http://www.ted.com/talks/simon_sinek_how_great_l eaders_inspire_action.html

It will change your concept of sales and marketing....and raising capital, which is essentially marketing and selling shares of your company!

Practice delivering this presentation in the mirror and time yourself. If you don't like your presentation, no else will. This is not rocket-science.
Give investors what they want.

Equity Crowd Funding

There are a few different types of crowd sourcing. There are the GoFundMe types of crowd funding, where you are essentially seeking donations, there are the rewards based crowd funding platforms, such as KickStarter and IndieGogo (see our earlier chapter), and then there are the equity crowd funding platforms. I am going to focus on the equity crowd funding category, as this is the one I am most knowledgeable about.

Equity crowd funding sites are regulated by the

Securities and Exchange Commission and must register with FINRA (Financial Industry Regulatory Authority). One of the nice things about equity crowd funding is that you can do general solicitation. That means that you can advertise your offering and get interest from people who you do not know. This is a relatively new mechanism for selling equity in your company, and has only been around for a few years.

In order to do crowd funding you must sell your equity through a FINRA registered crowd funding portal under the Regulation CF excemption. Currently there are about 42 registered crowd funding portals. Some of the more popular portals are:

- Start Engine
- WeFunder
- AngelList
- SeedInvest
- Fundable

Different crowdfunding sites have different processes and fees. Some of the sites charge an upfront fee and they assist you with your disclosure documents, and take a piece of the raise. Upfront fees range from free to $7,500, and the percentage of the raise ranges from 3% to 7%.

One of the nice things about a Regulation CF raise is that you can have accredited and non-accredited investors. Many formal angel investing groups do not like Regulation CF raises.

One of the reasons is that you can end up with a lot of people on your cap table, and particularly having non-accredited investors on your cap table could pose potential risks down the road.

There are ways to address that now, but it adds expense and complexity for the entrepreneur. When the Regulation CF mechanism first came out, they did not allow for the use of Special Purpose Vehicles (SPVs). SPVs are usually LLCs that are setup for the special purpose of an investment in a private entity. So the entrepreneur may have hundreds of people who have invested, but only one entity will be on their cap table.

This is a much more palatable mechanism for sophisticated investors, but there are still angel groups who won’t invest in a regulation CF offering.

SECTION 6

THE OFFER

In this section we will discuss the different instruments that can be used to raise money for your business. When you raise money you need to have an ask. Components of that ask are:

How much money?
What is the valuation? (what do I get for my investment)
What is the instrument?

The primary instruments for raising money for your business are:
Convertible Debt
SAFES
Straight Equity
Preferred Equity Common Equity

Convertible Debt

In the past when an entrepreneur wanted to raise money there was always the argument of what the valuation of the company should be. The convertible note was developed to help avoid these arguments between investors and founders.

The concept is essentially that as an investor I am going to loan you the money, and then when you raise your next round, I am going to convert to equity, but at a discount to what the price of your next round is. So now we are not arguing about valuation and we can let the next round of investors set a price for the company, and hopefully the entrepreneur has been able to make a lot of progress and significantly increase the value of the company.

That concept has evolved and now there has been an additional feature added to this. So now for a convertible note we have an interest rate, a discount rate (discount off the next round's price), and now we have added a cap. So the entrepreneur is now capped at what the next round price can be.

This cap was not as prevalent 20 years ago, but now is found on almost every convertible note that is done. So the argument has moved from "what is your company worth today" to "what should the cap on valuation be for the next round".

So how a convertible note works, is that if an entrepreneur is looking for $1 million for their business, the investor will loan them $1 million with an interest rate. Upon the next financing, the investor agrees to convert to equity (usually the same class as the next investors get) and they will convert at a discount.

So let's say the convertible note has an interest rate of 8% and a discount rate of 30%. If after one year the entrepreneur raises money at a $10 million valuation, the investor in the convertible note will convert their initial investment and their accrued interest into equity at a $7 million valuation (the discount).

Now if the note has a $5 million cap on it, the initial investors would convert at the $5 million valuation.

Components of a Convertible Note:

- Investment Amount
- Interest Rate
- Term
- Discount Rate
- Cap

SAFEs

A SAFE is an agreement that was developed by Y- Combinator and stands for Simple Agreement for Future Equity. This has some aspects of a convertible note, but is not debt. This is a very founder friendly instrument and is not used much in our region (our angel investor groups are based in Knoxville, TN, Nashville, TN, and Louisville, KY).

Essentially this is a contract that says an individual can purchase equity at a discount to the next round. It is similar to a convertible note, in that it is not actually equity, but it has fewer protections for the investor than debt.

Due Diligence

Once you have secured the interest of an investor, they are going to do their due diligence.

Depending on the investor, this can be a pretty in-depth process. They are going to dig into your business deep to understand what the issues are and to make sure that what you have represented to them is accurate.

The Oxford Dictionary defines "due diligence" as: a comprehensive appraisal of a business undertaken by a prospective buyer, especially to establish its assets and liabilities and evaluate its commercial potential.

Although the investor is not buying the whole company, they are a buyer of a piece of the company and as such they need to have a good understanding of where the business really stands. Entrepreneurs are the ultimate optimists. And their assessment of where their business is, may not be an accurate assessment. This is where due diligence comes in. The investor really needs to dig into the company and find out where things really stand.

We at the Sheltowee Angel Network are attempting to standardize the due diligence process across multiple different angel groups. Currently different groups have much different standards and processes for due diligence. This can be a challenge for an entrepreneur, because if they have multiple angel groups as investors, they may have to go through multiple different due diligence processes. Due diligence can be a huge time drain for the entrepreneur.

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At the Sheltowee Angel Network we have broken the due diligence process into the following areas:

- Entrepreneur and Management
- Team
- Product
- Business Model
- Markets and Marketing
- Sales Plan
- Competition
- Competitive Advantage
- Legal and Regulatory
- Intellectual Property
- Valuation, Terms and Use of Funds
- Potential for Investors
- Financials
- Exit Strategy
- Other Investors

Entrepreneur & Management Team

This part of the due diligence process looks into the backgrounds of the individuals running the company. This can include background checks and a check of references. If the individuals have issues that have not been disclosed this can be a major red flag. Past felony convictions, particularly if those charges involve fraud, can make it really easy to make a decision on whether to proceed. Rarely is that cut and dry, but we have seen cases where it is.

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Product

Due diligence on the product can include looking at the supply chain and verifying cost of goods for the product. Can they really make the product for the price they say they can? What volume can they deliver if the product takes off? An item that is associated with the product, but is looked at as a separate issue, is intellectual property. We talk about that later.

Business Model

What is the business model for the company and how realistic is it? Is it a subscription model for a SaaS company? Is it an advertising model? Looking at the business model and how it companies to other companies and other business models needs to be covered under due diligence.

Markets and Marketing

How big is the market? How big does the entrepreneur think the market it? These questions can often have much different answers. The entrepreneur often thinks that his market is bigger than what it is and really understanding how they are going to reach that market through a marketing plan is very important. Third party validation (by you or one of your due diligence team members) of these items is important.

Sales Plan
They have identified the market and have identified the marketing plan, now how are they going to sell? Is the CEO the lead sales person? Do they have someone else? If the CEO is the lead salesperson, does he have the skills and does he have the bandwidth to run the company and sell the products or services.

Competition
What is the true competition for the product or service? Too many times I have heard, “we don’t have any competition”. This is a big red flag. There IS ALWAYS competition. No matter what the product or service, you have competition. Truly understanding what the competition is and how strong it is can be very important. If the company is competing with one major company, or multiple fragmented players can have a big impact on the business.

Competitive Advantages
Does the company really have a competitive advantage? If they do, what are they? This is very important in the positioning of the company and how the company approaches sales and marketing.

Legal and Regulatory

Legal and regulatory can have a really significant impact on some companies, particularly life science companies. If the company has to take their product through the FDA, this becomes a major factor. Other areas such as gaming and FinTech companies can also be heavily impacted by legal and regulatory.

Intellectual Property

Does the company have IP that can be protected? This is usually in the form of a patent, but can sometimes be in other forms such as trade secrets. Some industry sectors such as life sciences are highly dependent on IP. It is good to have an IP attorney on your team to help with the due diligence in this area.

Valuation, Terms and Use of Funds

What valuation is the entrepreneur putting on the company? What are the terms of the deal and how are they going to use the funds. These are important questions to answer. If your entrepreneur is raising a million dollars and they have decided to lease grade A office space and buy the executive a new Porsche, then there is probably a problem. This happens more often than you would think.

Potential for Investors
What is the financial potential for investors, but also what is the potential for investors to have an impact? Are they developing a life saving therapy, or a green energy product that can have a strong beneficial impact on the environment? These are impacts that can be very rewarding above and beyond financial returns.

Finances
The financials of the company are important. Both their historical financials (what have they done with the money) and their future projections. Looking into these numbers and seeing how they plan to structure the business financially is important.

Exit Strategy
How do they plan to exit the company? This is really important for investors, because this is how they make their money. Do they plan to sell, conduct an IPO, or have some other plan for exiting? If they have another plan, is it realistic?

Other Investors
If the company has other investors, this can be an important factor to look at. Are they easy to work with? Do they bring value to the table above and beyond their financial contribution? If they invested in early rounds are they investing in this round? If they are not investing in this round, why not?

Risks
Clearly understanding the risks associated with an investment is important. And when you are investing in an early stage company, there are lots of risks. The background of the entrepreneur, the market they are selling into, their ability to raise additional capital. All of these things are important considerations.

In conclusion, due diligence is important, but it is also time consuming. The quality of the due diligence is often directly related to the experience and knowledge of the members of the due diligence team.

CONCLUSION

In conclusion, securing the needed capital for your business can be challenging. Understanding what the different options are is really important. Also knowing what options are truly available to you, is very important. If you are starting a boutique as a lifestyle business, then angel investors and equity capital are probably not options for you. If you are brand new startup with no assets, no cash flow and a bad personal credit score, then bank financing is probably not available to you. But the hallmark of a good entrepreneur is finding ways to succeed when most of the world thinks you are going to fail.

Below are a few thoughts and recommendations for you.

1. **Remember it is about people.** You are going to need a great team. Even if it is just you starting out, be recruiting good people to help you achieve your goal.

2. **Be ready to put your best foot forward.** Present you and your business in a professional fashion.

3. **Know what funding sources are realistically available to you.**

4. **Know your credit score** (this is good even if you are not going after debt now).

5. **Talk to other people who have done it.** Find out what their experience was.

6. **Don't quit your day job.** If at all possible, keep a pay check for as long as you can until you get your business off the ground.

7. **Find the right balance of preparing and launching.** It is easy to over prepare and to avoid launching.

8. **Know what your ask is.** Know how much money you need and how you are going to use it.

9. **Know the difference between your pre-money valuation and your post-money valuation.**

10. **Remember you are going to get a LOT of "no"s.** Don't let this discourage you.

RECOMMENDED RESOURCES

Books

The Lean Startup Get More
The Culture Code The E-Myth Backable

Podcasts

How I Built This
The Science of Success

Appendix A-Terms You Should Know

Ammortization

Articles of incorporation Articles of organization

Balloon Payment Business Plan

Cap Table

Collateral

Common stock Convertible Note Corporate by laws

Disclosure documents Down Round

Due diligence

Family office

Full ratchet

Interest

Leading a round

Offering documents

Operating Agreement

Pitch Deck

Post Money Valuation

Preferred equity

Pre-Money Valuation

Priced Round

Principal

Private placement memorandum

SAFE (Simple Agreement for Future Equity)

Side car deal Stage

Term sheet Valuation Valuation Weighted ratchet

Appendix B- The Realities of the Entrepreneurial Path- A Cautionary Tale

If you are reading a book about the $355 Startup then I would think you are predisposed to starting your own business and are, or strongly considering becoming, an entrepreneur. There are some incredible aspects of being an entrepreneur and owning your own business. But then there are also some really harsh realities to the path. When I started my business in 2001 I had experienced small failures in business, but I had never experienced catastrophic failure. In 2008 I started another business called LifeTrack. I had a major client at the time for Sheltowee and started LifeTrack as a second business.

I came to the idea of LifeTrack while visiting the doctor with my wife. Every time we would go to the doctor we would fill out that stupid clip board with information that we had filled out a hundred times before. I started developing a product that was the size of a credit card, was personalized and stored all of your medical records. I recruited one of my best friends who was an emergency room physician to invest with me. He loved the idea and a lot of other people did too.

We recruited a lead sales person who served as the President of the company and we started the business as a multi- level marketing company in January of 2009. We got some decent traction coming out of the gate, but it was in the midst of the economic downturn, and it was tremendously difficult to raise equity capital. Roy and I invested about $250,000 each in the business. We generate sales of about $400,000 that year, but we could not sustain the business. In December of 2009 the wheels were staring to come off the business. The gentlemen we recruited to the business as President was... well let's just say, less than ethical, and by January of 2010 I could not sustain the business. I had customers that I could not service and no new sales coming in. It was awful.

By March of 2010 I was going into a deep depression. I couldn't pay the bills of the company and I was experiencing a catastrophic failure. The customers thought I was a crook and my friend and partner was faced with the reality that I had failed him. It was not a happy time. I had read about the fact that most entrepreneurs fail in their business endeavors, but that was not going to be me. I had experienced small failures and thought I had learned enough from those small failures to avoid this catastrophic failure. The depression continued to worsen and before long I was in a very dangerous life threatening position.

I failed. This was not how the movie was supposed to end. In December of 2009 I took out a loan on my family farm and by January that money was gone. I bet the farm and I lost. I was supposed to pull it out in the very end. You have seen the movie, right? Everything looks hopeless and then something miraculous happens and it gets pulled out and becomes a great

success. Well this did not happen. No miracles.
As a matter of fact things only got worse. One of the people I brought on board to help me towards the end, sued me. He was one of the only people who got paid (I paid him $25,000 to come on board). And HE SUED ME. He did not live up to any of his contractual obligations... AND HE SUED ME. I was dumbfounded.

It took me years to recover from that experience. I continued running my Sheltowee business, but I was completely shaken. This experience had a huge impact no my wife, my parents and my close friends.
I share this, because we often hear about the Steve Jobbs, the Mark Zuckerburg, the Elon Musk and the other entrepreneurs that took incredible risks and went on to become billionaires. But we never hear about the people who took tremendous risks and then failed.

There are many more of these people who fail and are never heard from than who succeed and make it big. I tell this as a cautionary tale. This path is hard. This path can be brutal. And there will be times when you feel like you are all alone on this path.

But remember, “It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat."

I am not a timid soul.

So I have shared the cautionary tale, now let me tell you the amazing things about being an entrepreneur. The first and most attractive to me, is that I work for myself.

My efforts and hard work accrue value to me and I am responsible for my destiny. I have the potential to hit a home run (for me this is a transaction of $30 million or more). I also have the opportunity to pursue my passions through my work. I LOVE what I do. I can't imagine the concept of retirement, because I already do what I love doing. And finally, I have the opportunity to help a lot of people and to have a major societal impact through entrepreneurship. I talked about those difficult times, but those difficult times are what made me who I am today. The fire of the furnace has strengthened the metal, and made me a better person. Since that time I have helped start and fund multiple businesses. I have helped raise over $100 million for various companies and have personally invested in dozens of companies. It can be a rough path, but it can lead to amazing places.

GLOSSARY OF TERMS

Accredited Investor

An individual or institution that meets certain income or net worth requirements, as defined by the Securities and Exchange Commission (SEC), and is therefore permitted to invest in certain types of private securities offerings.

Ammortization

The process of gradually paying off a debt over time, typically through regular payments of principal and interest.

Angel Group

A group of angel investors who pool their resources to invest in startups.

Angel Investor

An individual who provides capital to a startup company in exchange for equity or convertible debt.

Articles of incorporation

A legal document that establishes a corporation as a legal entity and outlines its purpose, structure, and governance.

Articles of organization

A legal document that establishes a limited liability company (LLC) as a legal entity and outlines its purpose, structure, and governance.

Balloon Payment

A large lump-sum payment that is due at the end of a loan term, typically used in loans that have lower periodic payments.

Burn Rate

The rate at which a company is spending its cash.

Business Plan

A comprehensive document that outlines a company's goals, strategies, and tactics for achieving success.

Cap Table

A document that outlines the ownership and equity structure of a company.

Co-Investing

When two or more investors invest in the same startup.

Collateral

Property or assets that are pledged as security for a loan.

Common stock

Equity securities that represent ownership in a company and entitle the holder to a share of the company's profits.

Convertible Note

A debt instrument that converts into equity at a future date or milestone, typically at the next financing round.

Corporate by laws
A legal document that outlines a corporation's internal rules and procedures, including the responsibilities of its directors and officers.

Crowd Funding
The practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the internet.

Disclosure documents
Legal documents that provide information about a company's financial performance and operations, typically required by law for public companies.

Dilution
The reduction in the percentage ownership of existing shareholders in a company due to the issuance of new equity.

Down Round
A financing round in which the valuation of a company is lower than in the previous round, resulting in dilution for existing shareholders.

Due diligence
The process of investigating a potential investment opportunity to ensure that all information is accurate and complete.

Equity Crowd Funding
The practice of raising capital for a startup or small business through the sale of equity securities to a large number of investors, typically via the internet.

Exit Strategy

A plan for how an investor will sell their ownership in a company to realize a return on their investment.

Family office

A private wealth management firm that provides investment and other services to high-net-worth families.

Founders

The individuals who start a company.

Full ratchet

A provision in a convertible note or other equity instrument that protects the investor's ownership percentage by adjusting the conversion price in the event of subsequent financing rounds.

General Partner

The manager of a venture capital fund who is responsible for investing the fund's capital in startups.

Interest

The cost of borrowing money, typically expressed as a percentage of the amount borrowed.

Lead Investor

The investor who takes the largest stake in a financing round and typically negotiates the terms of the investment.

Leading a round

Taking the initiative to organize and coordinate a financing round.

Limited Partner

An investor in a private equity fund who provides capital but has limited liability and no involvement in the day-to-day operations of the fund.

Liquidity

The ability to convert an investment into cash quickly and easily.

Offering documents

Legal documents that outline the terms of a securities offering, including the risks and potential rewards.

Pitch Deck

A presentation that outlines a startup's business model, market opportunity, and growth plans, typically used to pitch to investors.

Post Money Valuation

The valuation of a company after a financing round has taken place and new capital has been invested.

Preferred equity

Equity securities that have preferential rights and privileges over common equity, such as priority in receiving dividends or proceeds from a sale of the company.

Pre-Money Valuation

The valuation of a company before a financing round has taken place.

Pre-Seed

The earliest stage of startup funding, typically used to develop a product or concept.

Priced Round

A financing round in which the valuation of a company is set and the investors receive equity or convertible debt in exchange for their investment.

Principal

The amount of money that is borrowed or invested, not including interest or other fees.

Private placement memorandum

A legal document that outlines the terms of a private securities offering, typically required by law for offerings that are exempt from registration with the Securities and Exchange Commission (SEC).

Pro-Rata Rights

The right of an existing shareholder to maintain their ownership percentage in a company by investing additional capital in a subsequent financing round.

Runway

The amount of time that a startup's cash balance is expected to last, typically measured in months.

SAFE (Simple Agreement for Future Equity)

A type of convertible security that allows investors to invest in a startup without setting a valuation at the time of investment.

Seed stage

The stage of startup funding that typically follows the pre-seed stage, used to develop a minimum viable product and test the market.

Series A

The first formal financing round for a startup, typically used to fund initial growth and scale operations.

Side car deal

A separate investment made by an individual or entity alongside a larger investment made by a venture capital fund.

Stage

The phase of a startup's development, typically categorized as pre-seed, seed, early stage, or growth stage.

Term sheet

A non-binding agreement that outlines the key terms and conditions of a proposed investment, typically used to negotiate a final deal.

Unicorn

A startup company that has reached a valuation of $1 billion or more.

Valuation

The process of determining the worth or value of a company.

Vesting

The process of earning ownership or equity over time, typically used to incentivize founders and employees to remain with a company.

Vesting

The process of earning ownership or equity over time, typically used to incentivize founders and employees to remain with a company.

Waterfall Distribution

A method of distributing proceeds from a sale or exit of a company, typically used in private equity and venture capital funds.

Weighted ratchet

A provision in a convertible note or other equity instrument that adjusts the conversion price based on the amount of investment in subsequent financing rounds.

SPV

Special Purpose Vehicle is a legal entity that is setup to hold the investment into another entity. This is often an LLC and it aggregates the investments of several entities or individuals and ends up being only one entity on the cap table instead of multiple entities.

First of all to love my God with all my heart and all my soul. To use my skills and gifts to have a positive impact on humanity that is felt beyond my lifetime and beyond the physical realm, while continuing to strive to become a better person by continually improving myself spiritually, mentally, intellectually and physically during my life.
-- Alex Day

SHELTOWEE
Network