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The Easy Way to Raise Venture Capital

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Chapter 1:

Raising Venture Capital

Introduction

What do all entrepreneurs have in common, whether they are only starting up or are already in a growth stage? They are always complaining about the lack of capital needed to advance their company further. Furthermore, one of the only ways to obtain this capital is by raising venture capital, which can be a trying and difficult process.

Despite the fact that venture capital funding fell during the 2008-2009 fiscal year, venture funding also picked up along with mergers and acquisitions. There is no question that there have been some tough times for both entrepreneurs and venture capitalists alike. There are signs that the VC funding will be back at the norm at the end of 2010. There is no question that in most cases, when entrepreneurs are looking to raise capital from angel investors or venture capitalists, the odds are almost always against the entrepreneur.

In most cases, the entrepreneur ends up dealing with conservatives who invest in start-ups, which involves a rather high risk to the investor. In any case, for an entrepreneur to have any chance in raising venture capital he has to do quite a bit of work and research to make sure that everything is right and that the investor agrees with his research. The most important thing to look at here is that you need to make wise decisions in your business plan and all your research when going to propose your company to an investor.

As far as different industries are concerned, venture capital firms usually invest in the industries and sectors that their partners have experience in. In most cases this primarily depends on the firm itself and the expertise of the partners in that firm. Through services that you can get online, such as VCgate, you can gain access to many investors with a wide range of different industry expertise. In fact, VCgate offers you over 4300 investors with all kinds of different industry, geographic and stage preferences. All of these preferences are very important in choosing investors.

The difference between angel investors and venture capitalists is that, on the one hand, angel investors invest their own money, whereas venture capitalists invest moneys from funds that they manage. Furthermore, angel investors are not professional investors, whereas venture capitalists and other institutional investors are professional investors. What does this mean? Well, it is quite simple. Angel investors usually invest their own money and since it is their own money, they have a wide range of different reasons for investing it. On the other hand, venture capitalists and equity investors invest on a professional basis and do not invest their own money. Institutional investors usually work for a private equity firm or, in the case of venture capitalists, a venture capital firm. These firms manage equity and the money invested usually comes from different funds. These funds can come from pension funds, endowments or the private funds of wealthy families.

An Idea Is Not Enough to Get Funding

Just having a big idea is not necessarily enough to get funding. This is the biggest mistake that most entrepreneurs make. You might have the greatest idea in the world, but if you do not have the meat to back it up with, no one will talk with you. Furthermore, most people who like to invent a particular product need to apply for patents, and this in itself can be a painful process.

You have probably noticed that as an entrepreneur, you have been bogged down with so much information that you may be lost or not even know where to turn. Some of you may even think that you are way over your head. You need to know how to successfully raise capital, hire the right people and define your right position in the marketplace. All this can be very difficult and many people often spend quite a bit of their own money to start a business and to have a business plan done by a professional who knows what he or she is doing. Some people can spend over $20,000 or even more before ever contacting a venture capitalist or other investors. Furthermore, reading the wrong sources can make you make some serious mistakes that can result in you not getting the funding that you so desperately need.

By reading the Raising Venture Capital the Easy Way guide, you can see years of experience in handling all kinds of different methods of raising capital for your enterprise. You will learn the best tactics from raising capital to hiring the right people. You will also learn how to build your brand, define the right market position, establish the proper entry strategy and prepare for a potential exit strategy. You will also learn to go from being a one-man-band to building a board of advisers, all while making money and growing your company.

Although angel investors may simply invest because they might like you, it takes a whole lot more to get the interest of a venture capitalist. You need to remember that there are a lot of entrepreneurs out there doing the same thing that you are doing, that is raising capital. You need to make a good first impression and a pitch that can really sell.

Despite the fact that VC investments fell almost 50% in the first quarter of 2009, there is still quite a bit of venture capital funding available for those companies which show great promise. You need to keep that in mind when you are ready to seek funding for your start-up.

The Venture Capital Industry

The venture capital industry should be better called the private equity industry. What is private equity, and what is venture capital? Well, equity is the value a company accumulates as it grows and makes more profits. This equity is usually placed in funds that investors invest into start-ups, like yours. You also need to keep in mind that when a venture capitalist invests in your company, he is buying a part of your company's equity and will want a certain percent of the company. This means that most venture capitalists will expect to hold an agreed upon number of your company shares or at least to have a seat on your board of directors.

Venture capital and private equity

In a nutshell, venture capital is a subset of private equity. Venture capital is private equity that is specifically earmarked for funding start-up companies, like yours. Basically, when an investor invests venture capital into your business, he is basically buying a share of your company. Equity is what your company is worth, and the more institutional investors that you have, the less equity your company holds. The main case with venture capitalists is that when they invest money in your company, they want to hold a certain amount of your company's equity, which is measured in shares. Many venture capitalists will also ask to have a seat on your board of directors.

The process of obtaining venture capital

Unlike with angel investors, who invest their own money, venture capitalists have a much stricter process in making their investments. Know that venture capitalists have a big responsibility on their shoulders because they are investing other people's money, so they want to make sure that the money they invest will go into a business that is more than likely to be successful. Venture capitalists and other institutional investors have to answer to the people who hold the funds that they invest. This means that venture capitalists will want to see that the companies they invest in are successful and will eventually gain profits. These same venture capitalists are also judged by how their investments are performing and are also compensated for the investments that provide a high return. Hence it is in their interest to have a very strict investment process, which makes entrepreneurs have to prove to the venture capitalists that their company is worthy of their investments.

In most cases, venture capitalists usually will invest in companies with a large market potential with the potential yearly cash flow of at least $20 million and are looking for growing companies. Many venture capitalists were also either entrepreneurs or held key management positions in companies themselves. Hence, they will invest only in the industries they have experience in. This is because venture capitalists who worked in a particular industry know that industry very well, and their experience in that industry enables them to make decisions that manage the risk when they invest in a particular company. Furthermore, upon exit, venture capitalists intend to make at least 15% on each of their investments.

How do angel investors invest and what kind of profits do they expect?

As mentioned before, angel investors are mainly private wealthy individuals who invest their own money, and there could be many different reasons why angel investors invest their money in a company. Angel investors can take much bigger risks when investing than venture capitalists and other institutional investors. Angel investors primarily invest up to $500,000 in start-up companies and some expect a 25% return on their investment. Many angel investors will also have several different investments to spread out their risk and opportunity. Furthermore, because angels invest their own money, their funding is very limited and you need to make sure that your projections on meeting milestones are accurate and not under estimated.

The greatest risk with angel investments is that, should you not play your cards right, you can seriously jeopardize the investment or run out of the investment capital rather quickly. Some other angel investors like to see their investments triple within two to five years.

Angel investors are fully aware that some of their investments will fail, so they tend to calculate their risks and opportunities and will invest in largely untapped markets with a strategic defensive position. Unlike venture capitalists, who more than likely want a seat on your board of directors, angel investors rarely seek a seat on your board of directors or demand a large number of shares in your company. Some angel investors like to add value to the companies they invest in by either using their fund-raising skills, mergers or acquisitions and sometimes even international marketing. Angel investors are good as first time investors because they can provide you with the first sum of capital to get your company on track. Furthermore, many angel investors have connections with venture capitalists and other investors who can get you larger funding.

Angel investors, also known as business angels in some investment communities, also tend to be successful entrepreneurs themselves and therefore see the difficulties that new entrepreneurs face when raising the capital they need to get their companies up and running. This is also telling in the fact that most angel investors make their investments from funds made from the profits of their own businesses. Angels have the know-how that experienced entrepreneurs have to make a business successful and are more than likely to sympathize with an entrepreneur with whom they invest.

Chapter 2:

VC Funding and Equity

Private Equity

Private equity is privately owned assets. In other words, equity is a word that describes the assets that a company has or the net worth of a company. In effect, when a venture capitalist or other equity investor invests in a company, he or she is actually buying a portion of that company's equity. Private equity is equity that is privately owned and is usually managed by private equity firms in funds which can be of either pension funds, endowments or the funds of the privately wealthy.

Venture Capital

Venture capital is also private equity. Like private equity, venture capital is invested in companies, but it is primarily invested in companies which are in their early stages. With early stage companies, the risks are rather high and the profits can also be rather high. In most cases, venture capital is private equity that is earmarked for new startup companies. An investor who invests venture capital or works for a venture capital firm is known as a venture capitalist.

How Do Venture Capital Firms Make Their Money?

Venture capital is not a business loan or debt capital. Investors look for new opportunities to invest their client's money. In most cases, if an entrepreneur has a new product or service that shows to be of great promise, he will make on investment in that company. Investors usually do not continue to invest in the company for the duration of a company's life. Usually, the typical venture capitalist will invest in a company for a period of time, between three to five years. During this time period, venture capitalists often do not leave after just supplying funding, but they continue to supply other valuable resources as well. It is in the interest of the venture capitalist for the fledgling company to do well. This means that not only does the company need financial backing, but also resources that can give it new market leads and other industry related help that can benefit the company in the long run. Most venture capitalists will invest only in sectors and industries that they have experience in. Venture capitalists will also have connections related to that sector and will have their experts in that industry who can help the new entrepreneur along the path to success. Much of this expertise can come from portfolio companies, which are other companies that the investor has invested in.

Now, how do investors make money? Well, this is done when they make their exit. An exit occurs when the investors leave the company after the company has been established and is starting to make profits. Most often, exit strategies can be anything from liquidation to IPO. The point is that if your company is doing well, there would probably be no need for liquidation. So, then how does the investor get his or her profits? Simple. Investors usually make their money by selling their shares to other companies, investors or potentially on the stock market.

What Attracts Investors to a Company

As mentioned before, one of the biggest differences between angel investors and venture capitalists is that a venture capitalist is a professional investor and does not look to help a given entrepreneur out financially without expecting to gain a substantial profit from his investment. Let us make things clear. An angel investor might also aid the entrepreneur by helping research market data and other crucial parts of the business plan, which can help the entrepreneur eventually find a venture capitalist in the future for larger funding amounts. The venture capitalist looks first and foremost at your business plan. This does not mean that you give up your business plan right away. In fact, that would be a mistake. When approaching a venture capitalist or

other kind of equity investor, you should first write up a teaser e-mail that briefly explains what your company is about and what products or services it provides. This is to get the investor interested.
The next thing is your executive summary. The executive summary is a shortened form of your business plan. A good executive summary should be no longer than two or three pages. Even three pages may be too much for an executive summary. Basically, your executive summary is a short outline of your business plan that points out the key features of your business plan that you believe the investor should be interested in. This is very important. You need to understand that institutional investors are opportunists. This means that if they see an opportunity in your company to make big profits, they will invest in your company. Investors will want to make sure the potential profits outweigh the risks of their investment. This is why it is crucial that you should do all your market research. Market research is crucial because you can be assured that venture capital firms have their own market researchers who also research the market data of your sector. If you make a mistake, they will catch it.

What is good market research? There are many aspects of your business and its market that you should research. For instance, is there a profitable demand for your product or service? What are your barriers of entry? Barriers of entry are also very important. A barrier of entry basically describes things that you can benefit from but without them your competition is at a disadvantage. It is very important to have barriers of entry, especially for those of you entrepreneurs who are in highly competitive industries, such as the electronics, healthcare and IT industries. You need to have barriers of entry, and you need to explain why they are good barriers of entry. A barrier of entry can be anything that is unique that you have, which your competitor cannot take advantage of. Barriers of entry can be anything from new revolutionary technologies or services that are legally protected. Protection can range from having patents to being able to monopolize real estate in order to provide a specific service. For those who want to expand your company abroad, you can discover that some countries will offer important national property to foreign businesses for a given price or lease. Tapping into those resources can provide your company with barriers of entry in that market. How? Well, if you go into a country that is encouraging foreign investment and wants the business of foreign companies and you lease large amounts of land or other resources, you can leverage a monopoly in that particular market. It's that simple.

Here is another example of a barrier of entry: Running an electronics company and having a new gadget or device that can do something the competition cannot is a profitable barrier of entry. A specific example of this is Apple's iTunes. As the mp3 player became popular, there were many small competitors in the market. When Apple joined the market with its iPod it accompanied the mp3 player with iTunes. With iTunes, Apple was able to create a one-stop-shop for all those seeking to purchase music for their iPods. The specific barriers of entry that Apple created were the legal rights to sell and distribute a large portion of online music sales. This brilliant move prevented start-up companies from providing the same services as Apple, giving Apple an almost impenetrable barrier for others seeking to access the mp3 and online music sales market.

So, what do these two examples show? Simple. There will always be competition in any sector. However, the investor wants to know whether he or she is investing their client's money in a company that can survive and be successful in face of the competition. Not every company can stand up to the competition. This is why barriers of entry are so important to your business plan. Investors want to know how you will stand up to your competition.

When is it Time To Consider Venture Capital

How can you figure out whether you need venture capital or private equity for your enterprise? Well, entrepreneurs need to first see whether they exhausted all the other capital they have access to in building their enterprise. In other words, a company should be rather low on equity when it is considering private investors. There are several different sources of equity capital that your company can collect.

A. Friends and family

B. Angel Investors

C. Venture Capital

D. Strategic or corporate investors

E. Private equity firms

F. The entrepreneur's own capital

An entrepreneur should all available capital resources from themselves, friends and family before seeking an outside investment. Furthermore, the entrepreneur also needs to calculate the size of funding he or she needs for their company. For those seeking capital of $500,000 or more they should specifically search for venture capital. For smaller investments, you are better off seeking an angel investor or debt capital. You also need to know the different kinds of funding stages. These are described below.

A. Pre-seed funding: Pre-seed funding is funding that is needed prior to physically constructing the enterprise. Usually this funding goes to putting together a good business plan that can impress potential investors when the time comes.

B. Seed funding: Seed funding is funding that is needed to start building the company. Some companies can even skip this funding phase, but seed capital is usually the capital that is needed to get the basics a company needs to get started. Usually at seed stage, a company is not yet ready to open for business, and this funding is usually used to buy office space, real estate or equipment needed to produce the company's product or service

C. Early stage funding: This is usually the funding where venture capital is sought. A company is just about ready to open its doors and needs additional capital for salaries.

D. Later stage funding: This kind of funding is also known as expansion or growth stage funding and is earmarked for companies who are doing well and are seeking to expand into new markets.

Seed funding is less commonly invested by venture capitalists. Seed funding is not necessarily a large amount of funding. Seed funding can be as little as $100,000 all the way up to $500,000. Rarely does seed capital reach past $1 million. Furthermore, seed capital can be raised from all kinds of different sources from angel capital to friends and family to the entrepreneur's own funds. Only 15 to 25% of venture capital firms invest in seed funding.

There are several different ways that entrepreneurs raise the seed capital they need to get their companies on their feet. Some of these methods include the more conventional ways of raising seed capital, including raising debt capital from a business lender, merchant bank or finding an angel investor who is willing to invest seed capital into the business. Other more ingenious entrepreneurs raise seed capital through a combination of means, such as raising debt capital, sweat equity and funding from friends and family. Venture capital is usually raised with early stage funding, i.e. series A or series B funding. In most cases, venture capital firms will not invest less that $1 million in a company.

The Benefits and Drawbacks of Venture Capital

Though venture capital can provide you with the much needed capital to advance your company, you need to lay out all your options before partnering with a particular venture capitalist or venture capital firm. As mentioned before, venture capitalists are equity investors. In short, when a venture capitalist or other equity investor invests in your company, they are actually buying part of your equity. This basically means that when an investor invests in your equity, you will have to agree with that investor on particular terms of how much equity they will receive upon their exit from your company. In many cases, you and your cofounders need to divide up shares of the company. This means that before the investor enters, you and your cofounders must agree on a certain amount of shares each. For example, if your company has four cofounders, you can divide your company's stock into 100 shares. Each share would then be 1% of the company stock. You and your other three cofounders would each own 25 shares and 25% of the company. When an investor wants to invest, they too will want to have part of the equity. This means that you will have to redistribute the shares of the company and/or the shares will also need to be diluted to accommodate the investor's conditions. Now the company shares will need to be divided from 100 shares to 150 shares. This means that 150 shares equal 100% of the company stock. Here is where the math needs to be done. You and your cofounders will no longer own 25% of your company, yet you have more shares to be able to give the investor their desired portion. For example, your prospective investor will want to have 20% of company shares. This means that your shares will need to be laid out in such a way to make sure that you and your cofounders still own a majority of the company. You might want to set up a system that allows you and your cofounders to hold 75% of the company shares and your investors 25% of the shares. This all depends on the terms that you and your investor agree upon.

The Board of Directors Controls the Company

You are probably familiar with the term Board of Directors, but have you ever figured out what that term actually means? Well, the board of directors is the board that controls the company, how the company is to chart its course for the fiscal year. In short, whoever is on your company's board of directors controls your company. This is very important to know; unlike angel investors, who rarely ask for a seat on your board of directors, venture capitalists and other institutional investors almost always do. You need to remember that venture capitalists invest in equity, which means that when they invest in your company, they buy some of your equity. Hence, it is in their interest to exert some kind of control of your company and will want to see that you gain equity and they make profits off their investments. The best way for investors to exert control of your company is to request a seat on your board of directors. Usually, venture capital firms will require their investment partner, who invests in your company, to have at least one seat on your board of directors. So how can you maintain the majority control of your company? Simple, the board of directors can be shared with both the investors and the executive team. If the majority of the seats on the board of directors are held by the executive team and the company founders, then the company is controlled by its executive team and cofounders; if the majority of board seats are held by the investors, then the company's investors control the company.

Having investors on the board of directors is not necessarily a bad thing. You need to remember that venture capitalists are not really interested in taking full control of a company they invest in, unless they see the management to be unbelievably incompetent. In fact, having some investors on your board of directors can actually benefit your company because investors have business connections that can benefit your business. Companies that investors invest in are known as part of that investor's portfolio. Portfolio companies usually work closely with their investors and often advise them how the market of a given sector works. You need to also keep in mind that many venture capitalists and other equity investors were either entrepreneurs or held key executive positions in large companies themselves, so they have the entrepreneurial experience and the proper connections which can be vital for a new start-up business to be successful.

Chapter 3:

How to Present your Business Plan

Do Investors Want to See Your Business Plan?

You have a good business plan, and you are ready to make contact with a prospective investor. Do prospective investors want to see your business plan? Well, the answer is yes and no. A business plan is a serious document and a well thought out business plan which is also well researched has lots of information and investors are very busy people and do not have the time to read the entire plan. Furthermore, your complete business plan contains all your commercial secrets, intellectual property, patents and other product secrets, which you would not want your competitors to gain access to, so the business plan needs to be done in three versions. The first version is an executive summary, which is in general a stand-alone document that is one to three pages. The executive summary is a short form of your business plan that explains the highlights of your business plan. You should keep in mind that the executive summary may be requested by some investors right away, but in most cases, you will want to send a prospective investor a teaser e-mail first.

The Business Plan

The business plan is the key document of your company. The business plan has everything that is important for the creation of your company and investors will want to see it eventually. The business plan is a very important document that covers every minute detail of your business. It explains how your company is to execute each milestone, who your competitors are, what the market shows, etc. Market data is very important. Is there demand for your product? What does your product do that is unique, and can it fill a void in the market? The business plan should have the full amount of funding you need to run the company, and the money should be broken down within a budget and divided up into funding needed for each milestone, executive salaries, employee and staff salaries, unexpected expenses, etc.

The business plan is very important and basically serves as a map of how your business is expected to grow. You need to start your business plan by starting out with your vision. Again, the vision is what you envision your company doing. What will your product or service do? Does your product fill a void in the market place?

Again, you need to add who is on the executive team of your company. The plan should indicate who the company's founder or founders are and who is in charge of the company finances. You should also state who your legal counsel is and his or her experience. You need to also budget how much the salary should be for each executive on the executive team. Furthermore, you should state who serves what function on the executive team. Who is the CEO, CFO, COO, President, etc?

Your milestones need to be stated clearly and in the finest detail. Milestones are very important because they indicate the step-by-step achievements that you seek to complete for your company to be established and then to start business. You need to set reasonable time periods for each milestone to be completed. The first milestone should always be acquiring the key components in getting your company established. These components should include real estate, where the company headquarters are to be located, construction, renovation and/or the purchase or rental of the building which will house the company offices and production line. Company offices need to be furnished and equipped with computer and telecommunication equipment. This should be covered in the first milestone. If you are manufacturing a product, you should also add the purchase of a manufacturing center and equipment in the first milestone. The first milestone should always be getting the basics which the company needs to function. In some cases, a company may already be operating on a small scale and is seeking funding to expand. In this case you need to state what equipment you already have, how you are functioning, what your market is and what revenues you have generated thus far.

The second milestone should indicate your marketing plan. What markets are you planning to attack? How will you market? Will your executives or their representatives attend trade shows and seminars for your company? How much funding will you need to conduct your marketing campaign? Furthermore, your marketing campaign should be broken down into different steps. How much marketing will you be doing on the traditional media, such as in TV, radio and print advertising? With the Internet; will you have a company website that will feature your product or service? How will you market your website to get the highest amount of traffic possible?

The other milestones should cover what you plan to market first. You need to provide a realistic step-by-step plan on when you plan to open for business and what you will produce first. Then you will need to clearly state what you plan to market next. For example, one particular company deals with beekeepers and wants to improve the beekeeping industry in its geographic area. The company right now is somewhat functioning without investment, but with an investment, the company could also be accelerating its business and market other products.

The Executive Summary

The first part of the business plan that you should have prepared to present to investors is your executive summary. Before you make your executive summary, however, you should work and perfect your business plan first. Though you only show your actual business plan to the investor when he is ready to seal a deal with you, you can use the full business plan to make your executive summary. The primary purpose of the executive summary is to show the highlights of your business plan. The primary purpose of the executive summary is to get you in front of a serious investor. Below is an example of how the executive summary should look.

HBI Medical Company
Executive Summary

Vision
The vision of HBI Medical Company is to create medical devices that can disrupt the markets and treat medical conditions, many of which require hospitalization. It is our goal to create devices that can either reduce hospital time for certain procedures and others that can become out patient. We already have some intellectual properties which are the designs for special laser surgeries to aid the removal of organs, such as the prostate gland or uterus in patients who have cancer. Currently these procedures require two or three days in the hospital, but with our lasers and fiber-optic cameras, the hospital time can be significantly reduced.

Dr. Gela Bendeliani, MD, CEO and Cofounder
Dr. Zurab Merabishvili, MD is an oncologist and specialist in surgical procedures where cancer has been detected in its very early stages. Educated first at Tbilisi State University, he went on to finish his studies at Moscow State University in 1973 and then came to the United States and completed medical school at the University of Chicago School of Medicine. While at the University of Chicago School of Medicine, Mr. Merabishvili took part in breakthrough studies in the treatments and cures of various cancers.

Dr. Mahatma Pateeth, MD, CEO and Cofounder
Originally from India, Dr. Pateeth has come to the United States to study medicine and has become a specialist in oncology and in the surgical removal of tumors and non-vital organs that have become cancerous. He believes in founding a company that can produce the types of devices which can improve the quality of life of cancer patients who need to undergo surgery to remove cancerous growths and reducing the duration of time that is required in the hospital.

Edward Koch, Legal Counsel
Mr. Koch is an attorney whose expertise is in business law with companies in medical, healthcare and life sciences industries. He is also a specialist in medical malpractice suits. Mr. Koch is an attorney who has been in the medical legal field for over twenty years and is an asset to our company.

Brief Summary of Milestones to be Met

Milestone 1: Creation and Establishment of HBI
The first milestone is to establish HBI Medical Company. For this we will need to purchase real estate for our company offices, laboratory and manufacturing center. We will also need to develop our products. We do have a ready prototype of the laser device that can remove tumors and cancerous non-vital organs and it is scheduled for clinical testing in the next year.

Milestone 2: Establishment of Effective Marketing Campaign
To effectively solicit our products to hospitals and medical institutions, we will need to run an effective marketing campaign that will require our representatives or executives to attend medical trade expositions throughout the world and show how our products work. We will also want to have a website and other marketing tactics aimed at medical professionals who deal with cancer surgeries.

Milestone 3: Manufacturing and Distribution of Our Products
We will need to build a manufacturing center and have the necessary equipment and technology to mass produce our products and technologies for sale to hospitals and medical institutions globally. For the delivery of our products we will need to have a reliable distribution system that can effectively deliver the technology and its replaceable parts to the medical institutions and hospitals that order our products.

Customer Analysis

There is always a compelling need for new technologies designed to fight and treat cancer. Though we cannot guarantee whether surgery will eliminate the growth and spread of cancer in the body, because of different conditions, such as metastatic cancers that can spread throughout the body, our devices can shorten the time of recovery in the hospital after surgery.

Conventional Surgery Versus Surgery with HBI Technology

In conventional surgery, a surgeon usually has to cut a person open and remove the cancerous organ or tumor, then, close the incision. This requires a long period of recovery in the hospital after the surgery, and many patients will have extended recovery time at home, preventing them from doing their daily activities until the surgical incisions are fully healed. Our technology can cause a disruption in the markets because the following:

A. Our machines incorporate both a small laser lamp, which can be inserted in a small incision, and a fiber optic camera accurately searching for the affected organ or cancerous mass. The surgeon can monitor the surgery through a television monitor and successfully remove the affected area with the laser. This eliminates the need for cutting open areas, such as the abdomen to find the mass or the affected organ. Our machine also has a small vacuum tube which can clean out whatever matter gets removed and is not burned off with the laser.

B. Conventional surgery can require the surgeon to cut through muscles, causing longer healing time and requiring the patient to be in the hospital anywhere from a couple days to a couple weeks, this also raises the possibility of infection. Our devices have a laser lamp which burns the target, minimizing the risk of infection and the small incision required to allow for the insertion of the robotic arm that holds the fiber optic camera and the laser and vacuum tube is of minimal size, minimizing the time required to be in the hospital and healing time.

Competition and Barriers of Entry

Though there is always competition in this market, the greatest barrier of entry that HBI Technology has is that despite there is robotic surgical machinery around, very little is done and has been proven to be successful in preliminary studies as our technology has experienced. Some of the barriers of entry to our technology are as follows:

A. Other robotic surgical devices have different arms that employ cutting devices to actually cut the area off and risk the area cut-off to fall into the body and making it difficult for the surgeon to find it and remove it. Most areas where the affected area needs to be operated on, the laser burns the tumor, and very little if any bodily matter is left to remove. Furthermore, the laser and the vacuum are equally positioned so that the vacuum tube can readily remove whatever matter the laser does not burn.

B. In organ removals, such as prostate and uterus removal, our laser technology can carefully cut up the organs in small manageable pieces that the vacuum tube can suck safely out of the body, eliminating the large incisions required with the conventional surgical procedures for such surgeries.

Financial Plan

We are looking to raise $2 million in capital to realize our technology. The table below indicates approximate figures that are required for all the milestones mentioned in this plan.

Company Budget

Milestones	Amount in US Dollars
Creation and Establishment of HBI	1000000
Establishment of Effective Marketing Campaign	200000
Manufacturing and Distribution of Our Products	700000
Executive and Employee Salaries Combined	100000

Note that the above example of how an executive summary is supposed to be written is not of a real company, but you should get the picture. It is very important that the executive summary is brief and concise. The main purpose of the executive summary is to get the investor to see a glimpse of your business plan and get him to want to be more interested in the opportunity you can provide

The Slide Presentation

The next stage of presenting your business plan is your slide presentation. There are several presentation programs available to use, but the best known ones are Apple Keynote and Microsoft PowerPoint. The slide presentation is more detailed than the executive summary, but still not the fine detail that you have in your actual business plan. There are key things that you need to keep in mind when you put together your slide presentation.

A. Do not drag on the presentation. Like the executive summary it needs to be short and to the point, but unlike the executive summary, it needs to have more information about your business plan and how you plan to execute your milestones. You should include a brief description of each phase of each milestone. The slide show should also include more detailed information about your market analysis, competitors and barriers of entry. You should also include all the accounting information that is broken down from the amount of capital you are asking to raise. You need to remember that the investment comes in a series of tranches that are determined by the amount of capital needed to meet each milestone.

B. Remember that the slide show presentation is designed so that an investor can review the opportunity with his partners, experts, associates and market analysts. You may also be present when your slide presentation is presented so the investment team can ask you questions about your venture. This means that your slide presentation should be about ten slides with the font no smaller than 40 points. The slides should be professionally done with a professional display. Keep in mind that you need to have all the data in the slide presentation accurate, you do not want to look naive. You should carefully research all your market data and have your sources where you got your data clearly present so the investors see that you have done the research. If you need to, you should spend the extra money to hire a market analyst to do some of the more difficult work in this matter. You can bet your top dollar that investors have their market analysts and other experts who will also look at your slide presentation, and they will ask you questions. These questions can be difficult and you need to be prepared to answer these questions confidently, otherwise it will show that you are not experienced and you will probably not get funded.

C. Never falsify data. Investors are very savvy in the markets that they invest in, and they have many resources available, from their analysts to their portfolio companies, who can give them the real data and it will show if you falsified the data. It is always good to be honest and not to lie when doing business.

The average slide presentation should be about a half-hour, and you should be prepared for scrutiny

The Complete Business Plan

The complete business plan is the main road map of your company and how you go about executing the business actions and your plan of attack. Your business plan is the last thing you need to show the investor, and the time to show this to your investor is only when the investor is serious about making a deal. This is the most important document of your business, and you should guard it with your life. You definitely do not want your competitors to gain access to your complete business plan, since it has everything you have to beat the competition or to manage strong barriers of entry.

Some of the information that you have on your complete business plan can be the type of information that your competition will die for. This is why your complete business plan needs to be the most closely guarded secret in your business. You should also hire legal counsel who is competent in writing nondisclosure agreements that you should convince your investor to sign before revealing your complete business plan. A nondisclosure agreement is a legal binding document, and it can safeguard your trade secrets, intellectual property and patents.

Remember, if you do everything right and you make sure that investors you contact have the industry preference, geographic preference and stage preference that matches your company, you can raise the much needed capital for your company, and you can do it. You can also save a lot of time and completely bypass the preliminary search for the right investor if you buy the VCgate Venture Capital Database, which is an online database that gives you access to over 4300 venture capital and private equity firms worldwide. The VCgate Venture Capital Database allows you to search for investors by industry, geographic or stage preferences. You can also e-mail each or as many investors as you want with the single click of the mouse directly from the database. Give it a try. Good luck!

Chapter 4:

The Investment Process

Early Stage Funding

Early stage funding is the first stage of actual serious funding, and it is in this particular stage that venture capital funding usually falls in, whereas seed funding is usually comes from either angel capital, debt capital or capital from other alternative sources. Venture capital is also private equity; however, the difference between them is that venture capital is private equity that is earmarked for start-up companies and early stage companies.

Early stage funding is usually divided in two series or rounds of funding. These rounds of funding are series A and series B, and are discussed in greater detail below.

Series A funding is the first round of funding given in early stage funding, and the amount of funding for series A can range on average from $2 million to $5 million. In some cases, with investors who have deeper pockets, the funding can be even more. The object of series A funding is to provide the start-up company with enough capital to meet operational or pre-operational expenses for the next six months to five years. What is series A used for? Well, series A can cover a wide variety of expenses, such as product development, assembly line construction and employee and executive salaries. The important thing that needs to be kept in mind is that milestones need to be set and met in a timely manner. The $3 million investment is never given in one lump sum, but in a series of tranches. Each tranche issued is a given sum of money to meet the set milestone. Upon meeting one milestone, the next tranche is issued to meet the following milestone, and so on. Once the series A funding round has been completed, each tranche has been issued and all milestones have been met, the company and its investors can then determine when to start working on series B funding.

Series B funding is funding that follows the series A round of funding and is usually a larger sum of money than the series A funding round. Typically, a series B round of funding can generate a start-up from $5 million to $10 million in capital. If there is a strategic corporate investor involved in the series B round of funding, this round of funding can even generate up to $20 million in capital for the start-up company. Series B funding basically serves the same purpose as series A funding, but for a longer period of time, allowing the start-up to open for business and start generating profit.

Both series A and B funding rounds are usually dealt by venture capitalists or strategic corporate investors. The key thing to take into consideration with early stage funding is that it should only be pursued once you are certain that your product or service prototype is ready for production and that you are either ready or close to being ready to open for business. By the end of series B funding, you are expected to already be in business and you should already be starting to generate profits.

Company Assessment

One of the most important parts of the investment process is the assessment of companies that investors are looking to invest in. There are many things that venture capital firms look at when assessing a company for a prospective investment. So, what do investors exactly look at when they assess a company? Well, one of the key factors is the company's management team. The management team is very important and how the management team functions is just as important. How capable is the management team of your company and what impression does your management have on the investor? Is your management team competent and can it run the company in such a way that the company is successful? The management team means quite a bit to the investor. The reason is that the management team is the company's governing body, and the way the management steers the company can determine whether the company is poised for success or failure. Having a management team that is highly efficient and has the ethic of getting the job done is essential to win favor with investors. If your management team executes the decisions wisely and the company moves forward, you are more likely to get funded. On the other hand, if your management team performs poorly and the people on the management team do not have a good team ethic, with everyone doing his own thing, investors will be turned off because this kind of disorganized management will more than likely lead the company down the road to failure.

So, how do venture capital firms assess a company's management? Well, this is done in a step-by-step fashion as shown below.

A. How does the management execute important decisions during critical stages of a company's life? Can the management work together as a team, gets the job done and make decisions that have effective results?

B. How does the management know their industry and market? Does the management team have people on board who have the necessary expertise to keep ahead within their respective market?

C. Has this management team succeeded before in prior companies? Who is in the management? Investors look at whether companies maintain management. Moreover, if individuals leave a company to become entrepreneurs, investors look to establish the success or failure rate of these past employees.

D. Can the company's founders and management see eye-to-eye? This is also very important. Why is this so important? Simple, the founder of the company may not necessarily be an expert of the industry. This means that he should be obligated to hire people in management who are experts and have a good deal of knowledge in the market sector or industry. Furthermore, the experts that are in management need to be able to work together with the company founders and other executives.

The Partnership Between the Venture Capitalist and the Entrepreneur

The most important thing you need to take into account when seeking venture capital is that you and the venture capitalist you are seeking funding from form a partnership. Now, what does this mean? Well, the venture capitalist has the same goals as you do. He wants to make money, so it is in his interest that your company is successful. The more successful your company is, the more profits the venture capitalist makes off his investments. This means that you and your investor work closely together and share each other's expertise during your partnership. The venture capitalist will more than likely ask to have a seat on your board of directors to have some kind of control of the company.

Step One of the Investment Process: Marketing Your Company to Investors

How do you find investors for your company? Well, how do you find clients to either buy your product or use your service? Marketing. Well, when looking for investors, you need to do the same thing. You need to market yourself, and you need to be able to sway the investor in taking interest in your company. There are several different ways that you can market your company to investors.

Networking is one way you can market yourself to investors. If you are one of those entrepreneurs who are more fortunate to know investors or people who are active and know people in the investor community, you can network with these individuals and find investors. One benefit of networking is that you might be invited to some of these closed cocktail parties where investors meet. You can pitch your venture there and might find an investor who is interested.

Contacting investors cold, literally means that you are contacting investors whom you do not know and who might take interest in the opportunity that you are providing. Contacting investors cold can be rather difficult because you will have to get through all their filters and other security features that many investors have set up to protect themselves from fraud and poor business plans. There are several ways you can contact investors cold, but you need to keep in mind that you should contact investors who are experienced in your industry and sector. Some useful cold contacting tips are listed below.

A. VCgate is a great tool to find investors for your venture. What is VCgate? VCgate is software that you can buy online and download to your computer. The VCgate software interface gives you access to a database filled with over 4300 venture capital and private equity firms, angel investors, private investors and strategic corporate investors. The good thing about VCgate is that it even gives you access to secret investors who do not publically advertise their services.

B. After finding a list of potential investors to contact, you need to create a high concept pitch and a teaser e-mail. The high concept pitch is great because it can be used for both marketing your venture to investors and, once you get your funding, you can use that same high concept pitch to market your product or service to the general public. The high concept pitch should be very short and should liken your product or service to something well known. For example, when Dogster was looking for funding, the founders coined a pitch saying "Dogster, Friendster for Dogs." Everyone knows what Friendster is and so dog owners can see that Dogster is a social network aimed for them. This is an excellent example of a good high concept pitch. Investors also know about Friendster and how profitable Friendster is. Investors therefore caught on to the high concept pitch and invested in Dogster. This allowed Dogster to grow and become one of the major social networks for dog owners in the U.S. and Canada

C. The teaser e-mail. The purpose of a teaser e-mail is to entice the investor into taking interest in your venture. The teaser e-mail should include some of the things that the investor would possibly be interested in, such as what your company does, how you think your product or service will fare in the market and why you think it will be successful.

D. The elevator pitch or the cocktail pitch. This is a small pitch that takes about the same time that you and the prospective investor ride in an elevator. You can make this same style of pitch to an investor you might meet at a cocktail party, if you have the privilege to attend such an event.

Step Two of the Investment Process: Presentation of the Business Plan

Your business plan is a very important document, and I would suggest that you do not contact investors until you have your business plan ready with the meat that investors will be looking for. Though the business plan is very important and investors will want to see it at one time or another, this is not the first thing to show the investor. Well, if the business plan is so important, why should I not show it to the investor right away? The answer to that is because the business plan is a very serious document which is a detailed road map of your company - the different phases you intend to execute to realize your company. The business plan should cover each milestone in the finest detail possible, economic projections and market research. You may have to spend money in having a business plan done professionally, but it is worth it. Many entrepreneurs can spend over $50,000 to have an effective business plan done. Some of the things that a business plan should include are as follows:

A. **The executive summary** should be the presentation part of your business plan. The executive summary is what you show investors first, and therefore it should be a separate document in itself. Before doing your executive summary, you should first make your full business plan so you can refer to the plan when drafting the executive summary. The executive summary should be ideally between one to three pages. The object of the executive summary is to show the highlights of your business plan. The executive summary should briefly discuss what your milestones are and how you intend to meet these milestones. The executive summary should also have some information about market data. Remember, investors like numbers, however, never over inflate or make your numbers too low. Do the research. If you cannot do the research yourself, hire a market expert to do the research for you and spend the extra money. It is worth it.

B. **The slide presentation** is the next step of your business plan. Again, this is not the complete business plan, but it shows more than the executive summary. You need to keep in mind that your business plan can hold sensitive information pertaining to your company, such as trade secrets, intellectual property, product designs and patents. It is important to keep in mind that an investor you may approach could be investing in your competitor, and getting a hold of your business plan would be a great boon. The purpose of the executive summary is to get you in front of an investor. Once you are in front of the investor, you need to show the slide presentation. So why the slide presentation, and how should it be done? In many cases, when you meet an investor, you will be presenting your venture not only to him, but to his experts and other partners in the firm. Venture capitalists work with other partners in a firm, and the firm decides whether the investment goes through or not. The slide presentation should be done with a presentation program, such as Microsoft PowerPoint or Apple Keynote. The presentation should be about ten slides, and the fonts should be a large enough to be easily read by everyone in the room.

C. **The actual business plan** is a rather serious document and can be many pages. The business plan should cover every milestone in the finest detail. Under each milestone, you need to explain each phase milestone and phase, in addition to how you plan to execute each phase. You need to explain the different strategies you plan to employ to execute each phase. In most cases, the strategies need to have alternatives in case one strategy does not work. You also need to evaluate the risks involved and how you plan to manage the risks. Risks are the events that can damage your company if something goes wrong. Risks can vary from business to business and these risks can affect how the company operates and the profits that it can make. Other parts of the business plan need to include your accounting information. You need to have the entire amount of capital you are looking to raise, and this amount needs to be broken down into a budget that covers all the costs to meet each individual milestone. These costs should also include a sum of money to cover the salaries for the executives; that means you, your cofounders, other on your executive team, management and staff. You need to project how many people you will have to hire in management positions and how many people you will need to hire as employees and staff. What will be the functions of the managers? How many people will each manager oversee? You will need to have management for the different departments, such as HR, marketing and operation. If you are a company that produces a particular product, you will need employees to deliver the product to market. You will need drivers for the trucks to deliver your product to stores. You will need people to work the assembly line, etc. How much do you intend to pay each employee per hour? All this needs to be figured out and this needs to be added in your budget and all of this needs to be figured out as well as when you intend to hire these particular employees. You will not need people to work the assembly line if your product prototype is not yet developed. Furthermore, you will not need drivers when your product is still in the prototype stage. This is why milestones need to be clearly stated and each tranche needs to cover all the expenses for meeting each milestone. For this reason, it may not hurt to pay the extra money to hire a CPA to do all the accounting for you on this part of the plan.

D. **Market projections** and market research should also be included in your business plan. Market research and your potential profit projections are very important. You need to understand that investors are opportunists and look at risk and potential gain. This is why you need to accurately research your market sector, take surveys, find out what is lacking in your sector and see how your product or service can fill that void.

Risk Evaluation and Management

As part of the business plan, slide presentation and the complete business plan, you need to evaluate your risks and what risks require risk management. Investors also evaluate risks because they want to make sure that the risks are as minimal as possible and the profits are as large as possible. Never hype up the potential profits and never underestimate your risks. Be realistic because investors have their experts who know how to evaluate risks and if they see that you have greatly underestimated your risks and overestimated your potential profits, they will not be very likely to fund your venture.

How can you evaluate and manage risks? Risks depend on your market sector and industry. Risks are basically events that can affect your company and disrupt your company's cash flow, potentially doing serious and permanent damage to your company. All business has its share of risks, some of which are greater than others. These risks can range from economic risks, such as financial crises, which can hurt business, to physical risks, which can directly impact employees, clients and infrastructure. In doing your business plan and getting it ready to present to investors, you should identify each risk and have a plan about how to address and manage them. This is crucial because investors look at risks and the strategies to manage these risks.

Due Diligence

Due diligence is very important in the investment process because your investor scrutinizes everything in your business plan to allocate what funds that they can invest in your venture. When dealing with a venture capital firm, you need to take into account that these firms manage funds that can sometimes be over several billion dollars.

When doing the due diligence process, investors generally investigate the following:

A. The company background, such as how the company originated, why it is being started and what the idea was behind creating the company;

B. The management's backgrounds, such as trustworthiness, previous achievements and capabilities;

C. The business plan information, such as your company's functionality, execution and milestones;

D. The company's finances, such as personal investments, purchase and sale contracts, expenses, costs and other equity;

E. Employment agreements, such as payment plans, work conditions and employee benefits; and

F. Other documentation, such as previous letters of intent

Chapter 5:

Business Ideas, Intellectual Property, Trade Secrets

Trade Secrets

Every company who prepares to start a business has its trade secrets. There will always be competition, but you need to have something unique that your competition does not need to know about. These are trade secrets. It is very important for you to keep these trade secrets in tact when you are presenting your venture to venture capitalists. The main thing you need to keep in mind is that your competitors have their investors also. This can make searching for your investor a mine field. How do you keep your trade secrets secret? Simple, you need to request the prospective investor to sign a nondisclosure agreement. Trade secrets are very important for any entrepreneur. Think about it. You have a secret idea of a product that you know will be very popular, and your competitor's investor gets a hold of it and starts putting millions of dollars into it and gives it to your competitor. You will not be able to compete. This is why nondisclosure agreements are important and essential to protecting your trade secrets.

Business Ideas and Intellectual Property

Like with trade secrets, business ideas and intellectual property are just as important to protect, but especially in the case of intellectual property, you have more legal avenues to protect it than trade secrets. First, before learning how to protect intellectual properties you need to know exactly what intellectual properties are. Intellectual property basically refers to either scientific or mathematical formulas, hypotheses and sketches that can lead to the development of a particular product, drug, computer program or chemical solutions. Intellectual property can also be an invention. There are many new kinds of gadgets out there that require some kind of intellect to create. For example, if you have invented a particular gadget that can simplify a particular task or chore in life, that is an intellectual property. Good examples include the Apple iPod and Bluetooth accessories. Now, because these inventions were thought out and developed by various different individuals, the recipes for these gadgets and the formulas for chemicals used in a variety of industries are not of the public domain. If they were of the public domain, then the inventors of these products and the entrepreneurs who produce them would not be making their millions off them. The way that intellectual properties are protected is by applying for a patent. A patent is available in almost all of the countries in the world, but in the United States patents need to be applied for with the United States Patent Office. Having a patent in your name is the best way to protect your intellectual property. The only way a corporation can get your intellectual property once it is patented is for you to legally sell the patent to that particular corporate entity. Having a patent for your intellectual property is very similar to having a copyright for your written material.

Legal Counsel and Your Investor

Why is having legal counsel important? There are many reasons why entrepreneurs need some kind of legal counsel when starting a new business and seeking investments to raise capital for their businesses. The primary reason why you need legal counsel is to be protected from possible legalities that can come up anytime during the life of your business, these can range from difficulties with seeking funding to possible lawsuits. Does having legal counsel mean that I need to hire a lawyer? Well, in a nutshell, yes. It is a good idea to have a lawyer or a group of lawyers to consult on a variety of legal issues revolving around business. There are many pitfalls out there, and you need to be protected.

Why should you have your legal counsel present when you want to seal a deal with an investor? There are many reasons why. Investors make deals on a regular basis, whereas you might be making business deals with your investor two or three times in your lifetime. Investors know what they want, and you need to protect yourself from being taken advantage of. When you hire legal counsel for business purposes they should know business law. These lawyers know the laws that investors and their legal counsel know. Your legal counsel can protect you from different tricks investors might have to exert more control over your company than you are willing to give. Some of these things tricks are as follows:

A. **Legal identity of your company** is one of the main reasons why you need legal counsel to establish your legal identity. This means that your business becomes incorporated or becomes a corporation. In the United States, there are several different kinds of corporations, and your legal counsel can advise you to establish the best corporate entity for your company. In the United States, corporate entities are (C) corporation, (S) corporation, LLC or limited liability corporation, LP or limited partnership, and Ltd or limited corporation. In England, in general the corporate entities are similar to those in the U.S. Other countries have their own abbreviations to establish corporate entities. In Germany, for example, you can see many established companies are either GmbH or AG. In the Czech Republic, you have SRO as a corporate entity. In the former Soviet Republics, you have all kinds of corporate entities which can be completely different from those in the West. For example, in Russia, you can have companies with the abbreviations being either OOO or AO. AO means "auctioneer's society," whereas in Ukraine, you can see the corporate abbreviations as TAO - which has practically the same meaning as AO in Russia. If you are the founder or the CEO of a company who plans to expand into international markets, you might want to have legal counsel in all the different countries that you plan to do business, as foreign countries have different laws that affect how you do business in those countries. For example, you may be a (C) corporation in the United States, but when you open a branch office in, say, Germany, your German branch may have the corporate entity of either GmbH or AG. If you have a branch office in Ukraine, you could be titled as TAO or in Russia AO or OOO.

B. **Your legal counsel's role in the investor's terms sheet** can also be of benefit to make sure that there are no loopholes that can make you surrender more profits to your investor. As mentioned before, investors know business law like the back of their hand and you may not be able to catch loopholes as easily. This is why your legal counsel can be helpful in this respect. The primary reason is that your legal counsel should be competent in both business law and corporate law. Your lawyer should have experience with the legalities involved in signing any kind of contract, including terms sheets. The important thing that your lawyer needs to look into is that when contracts are signed you have rights to your intellectual properties and profits, while the investor has their respective share of profits.

How to Protect Your Company from Anti-Dilutions

What is anti-dilution? Well, this has to do with the shares of your company's equity or your company's net worth. As mentioned before, when an investor invests money in your company, he is buying some of your company's equity. This means that you will have to dilute some of the shares of your company stock. For example, you begin a company together with a couple of other partners, you and your partners own shares in the company stock. If you and three other partners cofound a company divide your company's stock into one hundred shares each share then represents 1% of the company stock. This means that if you divided your company stock equally amongst yourselves, all four of you should hold 25% of the company's stock each.

Now, however, the investor steps in, and he also wants some company stock, so you need to dilute your shares. This means that 100 shares equaling 100% of the company stock can no longer be applicable. You and your cofounders currently own 25% of the company stock each, but your investor will also want 25% of the company stock, so how can you correct this problem? Simple, you need to dilute your shares and instead of the company stock being divided into 100 shares you will need to divide the company stock into 150 shares. You and your cofounders may still have 25 shares each, but you no longer own 25% of the company stock. The shares have been diluted in order to accommodate the investor's condition, and the investor gets his share in the company shares. This basically means instead of each owning a quarter of the company stock, you and your cofounders would own one-sixth of the company stock each and the investor would own two sixths of the company stock. This is because now, instead of 100 shares in the company, you have 150 and each stock has been diluted, and one share is no longer one percent of the company stock. Now, you do not want to dilute the stocks too much, since the more investors you have come on board, the more the stocks will have to be diluted. Should a strategic corporate investor want to come on board, you should be able to protect yourself from anti-dilution. Anti-dilution basically means that the investor dictates the shares in the company not be diluted, hence preventing new investors from having their share in the company stock.

The Board of Directors Controls the Company

In some cases, there are companies whose stock is owned more by the company's investors than the company's founders or executives. Logically, you tend to think that since the investors own more stocks in your company than you do, they can exert the control of the company, but that is not necessarily true. How can you still control the company and still reap the profits that you are entitled to? Well, that all depends on who sits on your board of directors. The executive team and the management actually execute all the operational decisions of the company and steer the company's business, but who controls the company, what the company does and what exit strategies the company is to take when the investors choose to make their exit are the decisions of the board of directors. In short, the board of directors is the controlling body of the company. The people who sit on the board of directors call all the shots, so it is important to have seats on the board of directors. If your investors have the majority of the seats on your board of directors, they in effect control your company, and they can basically do what they want with your company. This is why ideally the board of directors should have its seats equally divided among both the investors and company executives. The more you have of your executives on the board of directors, the more control you have of the company.

It is a fact that as a condition of funding your company, most venture capitalists and strategic corporate investors will request a seat on your board of directors. This is not necessarily all bad because if you have a couple of your investors on the board of directors, and the majority of the board is filled with your people, you still control the company. Investors on your board are valuable, as they may provide personal insight, they might bring in outside experts and/or they may provide other stabilizing factors to the board and company.

Strategic corporate investors can also be of great benefit to your company. How? Well, not only because strategic corporate investors have very deep pockets, but they invest in companies whose products may provide a symbiotic relationship for all parties. This means that their funding will help you develop your product or service and later you may get contracts with those corporations, generating huge profits.

Chapter 6:

Know the Lingo and Understand Different Things Before Signing the Terms Sheet

Pre Money Valuation and Post Money Valuation

Upon seeing an investor and while the investor starts inquiring about your business, he or she will want to evaluate your company. By this, he or she will want to know what your company's pre-money valuation and what the projected post-money valuation will be.

Pre Money Valuation
What is pre-money valuation? Pre-money valuation is what your company is worth before the investor invests in your company. This needs to be calculated, and many investors will have their experts who will calculate how much your company is worth before the investment. Pre-money valuation may also determine how much capital your prospective investor might actually want to invest in your company. So how is pre money valuation determined? Well, to tell the truth, there are several factors in determining the pre-money valuation of your company. Several things that determine your company's pre-money valuation are listed as follows:

A. Intellectual Property - Intellectual property can add quite a bit of value to a company, depending on what kind of intellectual property the entrepreneur brings to the company. If an entrepreneur is in the medical field and has intellectual property that can tackle otherwise incurable disease, then that property may add tremendous value to a company. Likewise, new technology that can simplify every-day tasks can be considered intellectual property. Intellectual property can refer to unique formulas or inventions that can improve life or industry.

B. Physical Property - Physical property includes equipment, machines and computers.

C. Real Estate - Real estate can also add to a company's pre-money valuation.

Now, with all this information, your investor can determine that your company's pre money valuation could be possibly valued $10 million, depending how much of the above three assets your company has. The amount can be more or less. This can determine the value of your company before you get the funding from the investor.

Post Money Valuation
Now say your company has a pre-money valuation of $10 million. Post-money valuation determines the value of your company after the investment was already closed. The post-money valuation will be the value of your company before the investment plus the money given to the company after the investment. So if your pre-money valuation is $10 million and your investor agrees to invest $5 million in your company, your post-money valuation would be $15 million.

Chapter 7:

The Action Plan to Get Venture Capital

Initial contact with an investor should be rather simple. What is important is that you make an initial contact with the investor and build rapport. This is very important because you need to sell your venture to the investor. Selling your venture is the same thing as marketing your product to a customer. You need to convince the investor that your venture is the perfect opportunity just as you need to convince your customers that your product is just right for them. There are several ways to build rapport with an investor.

If you are invited to a closed cocktail party and you meet an investor, simply introduce yourself and begin a simple conversation. Talk about something in general first, such as the weather or about what is going on at the party. Maybe you can strike up a conversation about the music that is playing at the party or the food. Now the two of you begin a conversation, and you can then mention your venture. Once you have built your rapport with the investor, he or she is more than likely to listen to you when you are ready to propose your venture.

Contacting investors cold can be rather challenging, but with such resources like VCgate, you should send a small teaser e-mail which should be a brief description about your business and why it would be a great opportunity. It may be difficult to build up rapport with an impersonal e-mail; however, if the teaser e-mail is written right, the investor would be at least enticed to look into your venture. Once you get a response, then is the time to build the rapport with the investor and get to know him or her. You should also add the high concept pitch in your teaser e-mail.

Present your executive summary when the investor requests more information about your venture. There are, however, some investors who request the executive summary right away. The executive summary should be no bigger than two or three pages. The purpose of the executive summary is to get you in front of a serious investor and organize a meeting where you can discuss the details of your business venture.

Once you have a meeting with an investor, you should have a slide presentation for the investor to view and the slide presentation should be created from a presentation application such as Microsoft's PowerPoint or Apple's Keynote. The slide presentation should last no longer than 30 minutes, and you should have it visible for the entire room.

Prior to presenting your business plan, you need to hire legal counsel and prepare nondisclosure agreements before presenting it to your investor. A nondisclosure agreement can help you protect your intellectual property.

1.When an investor does the due diligence of your business proposal, you need to make sure that everything is accurate, and when sealing a deal, you should be sure that you have at least half of the equity of the company.

Chapter 8:

Funding Terms and Their Definitions

Consolidation
When a company undergoes consolidation, it can have a variety of different meanings. A classic definition of consolidation is a company that is looking to be merged with another company. Some investment firms, however, define consolidation as an amalgamation.

Recapitalization
Recapitalization is the restructuring of a company's debt and equity to make it more stable.

Restructuring
Restructuring is a step a company takes when it encounters problems. The primary reason for restructuring is when a company is in debt and needs to reorganize its finances, management and other key operations.

Seed Funding
Seed funding is the funding a company receives when it is just starting out. The seed funding round is the funding a company seeks to develop its product or service and purchase the necessary equipment and real estate to begin operations.

Later Stage
Later stage, also referred by some investment firms as either expansion or growth stage is the stage when a company seeks capital to expand its operations into new markets. During this stage, a company primarily requires bridge funding. The company is already in a mature stage.

Series A Funding
Series A funding is the first round of early stage funding. Companies seek series A funding to provide them with enough capital to operate from six months to two years.

Series B Funding
Series B funding is the second stage of early stage funding and is usually given to companies who are preparing for mezzanine funding.

Leveraged Buyout or LBO
A leveraged buyout, also known as an LBO, occurs when a company is looking for funding to acquire a smaller company and the licensing of the acquired company's products or services.

Management Buyout or MBO
A management buyout, also known as an MBO, is the acquisition of a smaller company by a larger company. In an MBO, the company works together with the management of the company it is looking to acquire. In an MBO, the management of the acquiring company acts as the management of the acquired company.

Start-up
A start-up company is a company which is in its early stages of formation

Mezzanine Funding
Mezzanine funding is funding given to a company that is in mezzanine stage. Mezzanine stage can best be defined as the middle stage of a company's life. Mezzanine funding is primarily intended for companies who are preparing an initial IPO or initial public offering. An initial public offering occurs when a company prepares for public trading on the stock exchange.