

**Start-Up Boot Camp for  
University TTO Professionals  
and Inventors**  
**Session 4: *Funding Options  
and Opportunities***

Presented by:



Hello everyone, my name is Cindy McManus and I'd like to welcome you to today's webinar, *Start Up Boot Camp for University Tech Transfer Professionals and Inventors, Session Four, Funding Options and Opportunities*. I'd like to introduce your moderator, Gerard Eldering of InnovateTech Ventures. Hi Gerard.

**Gerard Eldering:** Hi Cindy, thank you very much. I'd also like to welcome everybody to today's session of the Start Up Boot Camp series. This series is designed to help you create and facilitate successful startups whether you're a tech transfer professional, lawyer, investor or academic, looking at taking the entrepreneurial path and again, my name is Gerard Eldering. I'll be serving as the moderator for today's session and I'm the president of InnovateTech Ventures, which is a technology transfer venture creation firm.

Now in our previous sessions, we talked about some of the big picture aspects around university startups, such as the early decision making process, looking at feasibility, bootstrapping and team building, then it was around financial aspects of the startup such as division of equity and issues like that and then also talked about business plans and how to put together a very powerful and effective business plan and today, we're going to dig deeper into the whole funding area of the startup business.

We've got a terrific panel with a lot of expertise in both investing and investing in startups and university startups. Kef Kasdin is joining us. She's a general partner of Battelle Ventures and Innovation Valley Partners. Kef focuses on investments in clean tech and communication technologies and works closely with national laboratories including Battelle Memorial Institute and Kef has been a speaker at autumn conferences on subjects around university startups as well. Bob Okabe is an angel investor and the university startup expert. He's made 13 investments in his own funds since 1995 and had one major liquidity event and several other events with a positive return of capital. He's also co-founder of angel groups and helped organized the Angel Capital Fund. He also serves as Director of the Angel Capital Education Association and we also have returning Adam Klotz who heads the GTC law group, LA office and Adam works in business transactions with a particular focus on merger and acquisition of VC and private equity funding and structuring and partnerships and limited liability companies and other areas so, I'd like to welcome our panel today. I know we've got a great session prepared.

If we can go to our first slide, I'll introduce us to the thought process here. So, let's assume one has a startup company and they've developed a solid business plan based on the discussion in our previous presentations and thought out a lot of the key elements, the first thing they have to ask when it comes to the aspect of funding is where are they in the process, what should they be doing as far as pursuing funding, right now and I'll make a couple of comments but then ask our panelists to jump in with their experience on that. One of the first things to look at with a company is what's the stage and very often the university technologies, especially as they're just emerging are still in the R&D phase and in many cases have a considerable amount of R&D left to go through and that's fine for a company but is very different than a company

that's in the position of being able to ship a product, maybe generate some customers. Another key benchmark is having those first paying customers and another one is being cash flow positive or basically profitable.

So those are all sort of stages and the type of funding that a company can go after in those stages effectively, varies a great deal and one of the most effective approaches although it carries some risk as with any of the approaches, is to rely on the so-called family and friends' money. So there might be money that an individual has themselves or can gather together through friendly sources and if a company can get started on that process and get closer to having a product on the market for first customer sale, they're going to be much better positioned to go and raise that capital.

Now, the third bullet talks about though needing to plan out, up to a year before you go after that type of capital so that's where entrepreneur needs to understand sort of the pathway and how far they can go with maybe family and friends or self-funding and when they're going to need to get that institutional or angel capital into the company and have that planned out in advance and I would argue from my experience that a wise entrepreneur walks a thin line on funding. They don't want to bring in funding too early because they're going to essentially give up much more of the company than they have to if they were able to wait say another six months or a year before they brought in the capital. At the same time they cannot make the mistake of being too late to bring in the capital and run out of cash, which is generally the sign of the death of the company. So with that, I'd like to turn it over to our panelists and ask if Bob could add a little bit more on the content of this slide.

**Robert Okabe:** Sure, I think the first thing that any entrepreneur or anybody evaluating an entrepreneur's business plan around the technology should think about is the funding and looked at broadly, you'd look at two things and the first is what needs to be financed. At very early stage technologies, a lot of technologies that come out of research institutions are pre-product and so a lot of the funding tends to go to R&D but there are different types of funding within that, e.g., if you're funding equipment, a lot of companies that sell equipment are for financing so you could lease or get a loan to buy a piece of equipment. If you're further along and you have sales, you can often finance receivables through a bank line of credit or sometimes, if the customer is a highly credit worthy customer, purchase orders to help finance the business and to keep it moving but generally, most financing is going to be for overall business operations. Once you've determined what that mix is, which may help direct you toward investor types, then the question is, is the request appropriate for each type? If I'm buying equipment, do I go to a leasing company? Do I go to the manufacturer, it's financing arm, if it's receivables are purchase order, like go to a bank, if it's other things.

So, I've self identified there, in that part of the structure and then the next thing is to look at how much money you need and it's really important again, to plan for the future. We hear that, not only from our personal financial advisor but it's absolutely essential in a business enterprise, especially in those types of startups that are going to require multiple rounds of funding to get to the point where they're going to be self sufficient and a lot of that happens, especially in the pharmaceutical side, if you think about the entire capital raising process and also the entire regulatory process. Nobody's

going to give you \$80 million on day one to fund all three phases of an FDA approval for a therapeutic. So you're going to have rounds of funding and each round will be a different size and may require a different group of investors. So, e.g., if you were looking at a small amount of money, one million or two million dollars over the life of the company and that's obviously not a therapeutic that might be something more like perhaps a simple medical device or engineered materials or material science related. You might look to angels or angel funds and they would be able to provide all of that capital but, you know, if you're looking at 5 to 10 million and up, you're probably going to get institutional money which starts at the more speculative phases with venture capital and ends in the more growth stage where you have revenues with private equity. So, understanding how far you're going to go along that spectrum and who you're going to be dealing with through the life of the company is important and even when you're evaluating a business plan to think about that in the context of how much the entrepreneur, the faculty member inventor is going to need and how they're going to get it because it would be just as advantageous for the company to get half way than they're not nowhere to go, kind of if you're going 60 miles an hour and then you run out of gas.

So, you know, understanding where in the continuum that is, is very important. It also helps you identify other sources, e.g. grants that the IRS TTR grants for startups that help you advance along the R&D process and myself and my colleagues here on your panel today will be talking more about those. So, when we look at the next page, we kind of say, well, the first thing that we're looking at here is what are the pitfalls to avoid? It's kind a refrain, how much we need and who we're likely to be talking to but what are the things to avoid is again, talking to investors who don't have a track record in your sector. It's very hard to talk to somebody about antibodies if they aren't normally or uncomfortable being a biotech investor, hard to talk about engineered materials and nano materials if somebody is a biologist and so, understand that they can talk your language and you can talk their language. It's easier to build up an affinity, an ability to have a rapport with an investor if that investor speaks the same language as you do.

The other thing is that oftentimes entrepreneurs and inventors want to tell you everything right away just because they're so excited about the opportunity and the technology and one of the things is run at 100 miles an hour and tell you everything and the investor, potential investor get inundated with all this information that he or she can't react to and so, it's important for your entrepreneur, for your inventor to understand that they should meter out information and get feedback. It's a dialogue, it's not a monologue and then at the end you say, will you give me money, it's important for that dialogue in that relationship to develop and when that relationship develops, to think that's when you have kind of that light bulb where the investor really gets turned on and I think Kef is going to address that.

**Kef Kasdin:** Thank you, Bob. So, in terms of the kinds of things that investors look at and I should preface this by saying I'm coming at this from the venture capital perspective and Bob, please do chime in if there are some additional criteria or different criteria from an angel perspective but from a venture capital perspective, the key is really having an executive summary or a PowerPoint pitch which addresses several key areas that investors are looking for and doing this

in a summary form to begin with, you can always go into more detail and answer questions later but this also helps to outline the key proof points of your story. So, the first thing really is, are you solving a problem and how are you solving that problem? How are you doing it differently from everybody else? So, is there a pain and what is your solution and then, more specifically, what is the technology and what are the barriers to other people addressing the problem in the same way? So, are there patents? Is there other intellectual property that creates a barrier for competition to replicate your solution?

In addition to that and this is probably one of the more difficult areas for a very young startup, especially one coming out of a university is, is there a management team and does that management team have relevant experience in the industry that the problem exist in, that you're trying to address? You need to explain the market opportunity and acknowledge that there's competition. There's always competition, even a, you know, sort of do it the same way you've always been doing it is still competition. So, acknowledge that there is, there are alternatives to your approach and try to highlight what the key differentiators are in your approach versus others. Because the investors need to figure out a way that they make money on this investment, you need to go into some financial analysis as well. How is this company going to make money, what's the business model? What are the revenue streams? How is the money that is being invested going to be used and what's the potential go to market and mark an adoption strategy that would turn this into a real business that could then generate returns for the investors. So those are some of the things that are helpful to outline.

I'm going to go into some more detail on this later on in the presentation. Just a couple of other points on this slide. When I talked about a technology and barriers to entry, the key really is something that, at least from the way we in the venture capital world look at it, is a really different approach, something that's a break through, something that's markedly different from the alternatives because it's typically difficult for a brand new, young company to attract customers if it's going to be providing something that's pretty similar to what already exists out there. So it really needs to be markedly different a breakthrough. We've already talked about the market adoption and that this is something that the VC needs to have some assessment, well, actually, achieve market adoption and the last bullet on this page which actually leads into some of the things on the next is, there are some horizontal technologies which could apply to many markets, materials technologies, Bob already mentioned, could be one example. What typically is a turn on for venture investors is some visibility and focus on a single, initial first market to address with that horizontal technology. Maybe there's upside to additional markets to address later on but it's actually very difficult for young companies to address multiple markets simultaneously. They're usually different buying criteria, different ways you'd have to approach those markets and that's just taking on too much. So, focusing on a single market and being able to tell a great story about that market is really, I believe, a key to success and a turn on for the investors. So next page.

**Adam Klotz:** I just wanted to chime in one thing. I think it's a different side of the same coin but I represent a lot of VCs and I represent a lot of companies going to VCs and a word you hear very, very often is scalability, just in terms of what –

Kef, forgive me for speaking for you but in terms of VCs but VCs are not looking to make 6, 8, 10 percent returns on their money They're putting up significant risk capital and looking for 20, 30, 40 percent returns and that requires the money they're putting to work to be putting into businesses with their really large scalable opportunities.

**Kef Kasdin:** Thanks for clarifying that plan, maybe we should go back a slide but are there any other comments from the other speakers about any other turn-ons we may have overlooked? Okay, so then, if we go to the turn offs which is some of them are sort of the flip side of what I have just described. One of the things that may be a pet peeve for me, as I don't like a lot of jargon and hype, we've gone through various different cycles of current key words beings sort of the hot words in the sector and my view is you need to have solid proof points and tell your story and not worry so much about whether you have to get the word nano in there or clean tech – whatever the latest buzz word happens to be. Just develop solid proof points about your technology and all the things we described on the prior page.

Second point, the claim of no competitors. I touched on this a little bit already. There's always competition, even if the competition is do it yourself or the existing technology and acknowledging that and understanding it goes a long way to impressing an investor, telling them when they ask, don't you have any competition and saying no, there's no competition, there's nobody's doing what we're doing, shows a lack of understanding of the way the market typically works. I already again touched on the other point in the flip side is multiple markets for a product or service are great for the long run but be able to focus on one to begin with and tell that story. The other thing that's usually a turn off is not having a realistic sense of the timing of the funding process and by that, we mean all the steps that it takes before you get somebody to write you a check and so understanding it's going to be a long process, understanding that there's a lot that's expected in terms of providing information over the course of that diligence and then also understanding valuation expectations.

I think we're going to talk about a little bit more of this also on this slide but markets speak to what your technology would be valued at or what your company would be valued at and not having a realistic view of what that might look like, not, e.g., having a sense of maybe what other similar technologies have been valued at, may set you up for some difficult conversations with the potential investor and the last point here on the turnoffs, is management team. I think if you were to ask most VCs what's their number one criteria when they look at an opportunity, it usually comes down to the team and the team needs to be proven, needs to have done this before in some way, have executed and have shown that they can execute and so, you know, not having the right people on the team and showing that they've done this before can be a real issue in terms of garnering investment from a venture capital standpoint. Now, I think, again, the issue with tech transfer is sometimes you don't have that team in place yet and so, we can talk more about how you may be able to massage that and other kinds of investments that might need to come first before the venture capital investment, in order to make sure that team is in place.

**Gerard Eldering:** Great, well thank a lot Kef and before we go on, I want to just talk about the last item on this slide here, a couple of the terms, you know, through our presentation, our speakers have been using different terms like pre-money, post-money valuation, dilution, even some of the earlier sessions and we realize that not every listener may understand all those terms so I'm going to ask our panel just to help us quickly understand what these terms are and how they're going to relate to the rest of our discussion today and Kef, do you want to take a shot on explaining this pre-money versus post-money?

**Kef Kasdin:** Sure. So let's say that you're trying to raise \$2 million dollars to establish certain milestones in your company and you go around to investors and somebody comes back to you with a term sheet and says, okay, I'm going to value your company at \$5 million plus money. What that means is after the \$2 million dollars goes in, now the company's worth \$5 million dollars. That means, simple math, before that money went in, the company was worth \$3 million dollars and so, essentially, what that investor said is, I'll invest \$2 million dollars but for that, I want to own 40% of the company, two out of five and whoever, you know, is already on board, the management team, the license holder, would own the rest. In other words, there was a previous value, an implicitly put on the company before that money went in and that is to call the pre-money value, in this case, the pre-money value would be \$3 million and the post-money value would be five.

**Robert Okabe:** I think it's important to note that valuation is not what's the accounting record say, it's what the market will bear, just as value of your own home, if you own your home is the market value in your neighborhood for houses of your size. It's not what did it cost to build in terms of the wood and the pipes and the wires, it's that kind of market value. So when you talk about a pre-money valuation or any valuation, it's really the market value. What are other early stage biotech companies being valued at? How big is the market opportunity for your company if you have a big market opportunity and a really transformed in a technology, you might be able to argue for a higher valuation. So there's an out to the whole process of valuation, it's not just GR accounting records say our remaining equity is at.

**Kef Kasdin:** Yeah, let me add to that as well that it's typically not at this stage some sort of a discounted cash flow analysis of future earnings because it's very difficult to do that. So I would completely agree with what Bob said that it's, it definitely is more art than science, it hopefully is based on other experiences that investors had with other things they've seen in the market but it is not – there's usually not a huge amount of calculation that's gone into these numbers. It's more rule of thumb.

**Gerard Eldering:** Right. Kef and Bob, I wanted to ask – there's, I assume, little or no correlation between the amount of research investment that's been done since, say the university inventor has raised a million dollars in grants and spent that on development of the technology, does that directly relate to the valuation?

**Robert Okabe:** Not directly. I would say it's more indirect and it really has to do with how far along the technology is because, remember that every investor who's putting in new money is helping take the company from where it is today to the next milestone or to a saleable product or to profitability so that investor's really looking forward and looking for a return on his or her money looking forward. So, what gets embedded in that pre-money valuation is what is the value of what had happened to date. So I think that the amount of research dollars comes into play only to the extent that it has moved the technology and the product and the company further along that it's peers.

**Gerard Eldering:** Okay, great, great and could either of you or Adam talk about the term dilution a little bit and how does that fit into the picture?

**Adam Klotz:** Yeah, just that, I might be happy to talk about dilution. Dilution is pretty literal, if you, you know, if you take a very strong something and you add it, it becomes weaker. In the dilution sense is, if there are 100 shares outstanding and the founder owns all of them, the founder owns 100 over 100 or 100% of the company. If the investor comes in and puts up a million dollars for another 100 shares, there has been dilution because now the founder owns 100 shares over the total of 200 shares or 50%. Since the investor has taken 50% and the founder has 50% and the founder has been diluted by 50% from 100% to 50% and it's really always just remember your fractions and you can understand dilution.

**Robert Okabe:** Right, and I think the value of dilution is understanding what that means, it's just not the percentage, it's also the value so e.g., I would say to everybody in the audience, would you rather own 1/10 of 1% of Google or 100% of my firm, RPX Group. Now, we're a wonderful company and we do great things but you'll be able to buy a Ferrari with you 1/10 of 1% of Google so it's okay for your percentage ownership of the company to go down, in effect you're being diluted so long as the total value of the company goes up because that means the total worth of your portion is going up. So dilution is not necessarily a bad thing, you may own a smaller percentage but if the pie is getting bigger at the same time, the total value of what you own is increasing then you also have to look at how that value is moving forward in terms of the milestones the company is meeting.

**Gerard Eldering:** Well great, thank you. Thanks for comments. Bob, I think at this point, we can turn it over to you and take us on to the next slide.

**Robert Okabe:** Sure, those of you who are actively involved in marketing technologies to licensees whether start ups or established companies, you know, a lot of times you'll hear from the potential licensee that the technology's not far enough along, that it's too early for us or there's too much risk embedded in it and one of the great things about starting a company is that you can find risk taking entrepreneurs and risk taking investors who will invest at those early stage because they really see the potential and they're willing to work to try to maximize that value but sometimes, even for the entrepreneurial community that risk can be daunting. So what's happened in the last five to seven years is an increased



focus on what we're calling here today translational research funding. In translational research funding, it's really kind of a bridge for moving the technology from where it is at the very fundamental level to moving it forward to the point where it might be more attractive to either a licensee or to a startup. Translational research funding is sometimes called proof of concept money. At national labs, there's a category called LDRD – laboratory directed research and development. It's really additional funding more focused on research than product development in moving forward a technology to the point where it's more attractive to either licensees or the entrepreneurial community and so, what it does is it reduces the risk, right? As everybody wants to reduce their risk, whether they're an investor, whether they're an entrepreneur, whether it's a technology transfer office marketing the technology. So the idea that you can de-risk a technology if you can then make it more attractive to those constituencies.

How to obtain it? It depends on the organization. A lot of universities have set up proof of concept centers or what are called translational research or innovation funds. I know that we've three universities who are in the process of raising what they're calling either an innovation fund or translational research fund or a proof of concept center fund right now. The process tends to be different but it is a little bit more like applying for a grant than looking for risk capital. Some, like at National Labs, they have formal processes for LDRD or translational funding and it sometimes involves peer review. It generally isn't an equity investment, usually a translational research funding will come without those strings attached so that's a very positive thing. The ability to move the technology closer to the marketplace or at least be able to have the marketplace feel that some of the risk has been taken out is very attractive. One of the challenges in translational research funding is that the business perspective isn't always inserted so while you may be getting feedback of this is what we need before we're interested. It's important to talk to potential licensees or potential entrepreneurs who're going to take this and put into a company to understand what are the important milestones to reach with this translational money.

So overall, translational research money is very attractive to investors because they don't have to put up the money but they can see whether the technology is going to make a milestone or whether a big chunk of risk or uncertainty can be taken out. One of the turnoff is that it can be a slow process, it can take a while for the process of obtaining translational research funding. Some states provide translational research or proof of concept or matching funds for this type of activity and that can be a long process. Frankly, at some institutions it is run more like a grant process and so you have to follow the avenues in your grants, your translational research grant than even if the results might suggest that if you move your technology in a slightly different direction than the grant said, it might be more attractive to the marketplace. Common things to be aware of when you're doing translational research funding is to figure out what the right milestones are, what you're going to accomplish and how that sets the technology up for acceptance by either licensees or by entrepreneurs and I think among the pitfalls to avoid is understanding that there is a time limit. It's not that you're worried about when the patent is going to expire although in some cases that may be an issue. It's keeping up a level of interest when you're dealing with licensees or with entrepreneurs, they want to know that progress is being made and it's being made in a timely manner but oftentimes, a lot of the translational research happens back at the lab, happens on

campus or in a strictly research facility and that sense of urgency can be lost and it can really kind of slow down investors' interest or entrepreneurs' interest in a translational research result and so, I think – but overall it's a great opportunity to move the technology forward without having to have that investor/entrepreneur or investor/inventor friction but I think once that passes, then you start to get into, you know, that relationship, that investor relationship and you start and I think on the next page, Kef will be talking about seed capital, correct?

**Kef Kasdin:** Yes. So, seed capital. So what do we mean by that? Usually it is small amounts of money, this does typically come from some kind of investor though. I'll talk about the different types in a minute but typically under a million dollars and it's usually to fund proof of concept so it's similar to what Bob was talking about but now this is more investment oriented capital as opposed to research funding. It is typically for a development stage, pre-revenue companies though there is a trend now in funding primarily software companies with small amounts of money that look like seed funding but can really take a company much further and that's just because of some of the advancements in software development tools which allow for software to be developed for very little capital. So with that exception aside, but if we're talking about biotech or clean tech, typically seed funding is not going to get you all the way to a viable business, it's going to prove out the technology to some clear milestones where we would then be able to raise some more substantial amounts of money to continue the business forward. So the pros of seed funding them are that it's staged funding to certain milestones and it allows for limited amount of capital to prove out the concept and then be able to go raise more capital on having taken out some of the risk. The cons as I said, it's not usually enough to get to self sustaining business and therefore it's important to think about the structure of that seed funding because you're going to have to raise later stages in investment and depending on how that money has come in with strings are attached to it, may or may not make it easier to raise more money later.

In terms of where you can go to look for seed funding, one source is angels and Bob will talk in a minute more about angels and that part of the industry. There are, in certain regions around the country, economic development organizations. Usually there're combination public/private partnerships. So some of it is state or local monies combined with some business expertise that can be a source of seed funding as well. So depending on what region you're in, you can look at whether such organizations may exist and may have capital to provide for opportunities like this and then it also can be venture capital funds who invest in seed stage. Now, I will admit there are very few, unfortunately, venture funds that will invest in the seed stage but one emerging trend are what are sort of called feeder fund so these are funds that do only seed and then are set up by larger funds who would then come in for the next rounds of financing and that's a structure that exists in some places so we'll come back later to sort of doing your homework about who might fit this mold but those are typically the kinds of places you could look for this seed funding. I think we can go back, go on to the next slide.

So, specifically with regard to seed funding, what are some things that, you know, would be turn ons or turn offs. So because it's a small amount of money, it's a story that talks about capital efficiency, how to use that small amount of money effectively to deliver on certain development milestones is key to raising that money so that you know you're going to be able to get to an answer, whatever that answer might be about the technology on this little bit of money and then a reasonable development timeframe. So I think Bob alluded to some for but if you, even if it was only say \$500,000 but you said, gee, it's going to take me five years to develop to that milestone, that may not be something that would be very attractive to a seed investor who does need to see some output, some return for that money in some reasonable period of time and even if it's an economic development organization, they need to sort of start to show that jobs are being created or there're some good outcome. So, you know, too long a timeframe for development is not going to be attractive but a relatively sort of one to, one year, one to two year time frame might be more reasonable for seed investments and the flip side of that is if you're asking for too much money. So typically, if you need \$5 million to get to key milestones, that's probably too big to be viewed as a seed investment but if there was a way to break that 5 million into more sizeable chunks, that would prove out some milestones and that might qualify and again, this issue of if it takes too long, it's probably going to lose interest from folks who are looking to see some outcome to their investment dollars. So I think with that, we're going to talk specifically now about the angel part of the equation.

**Robert Okabe:** Sure, thanks, Kef and I think what you're seeing here is the development of a process and think of it like a relay race, translational research funding is much more lab and institutionally internally focused, seed funding search could be externally focused, people are investing capital but as an investment rather than as a continuation of research but their goals aren't necessarily wholly financial from seed funds or associated again with economic development and other initiatives and so now we're crossing the next leg in the relay race and start to be run by financial investors and the first leg of financial investing is often the angel funding and angel capital is money provided by individuals. It's typically their own money and they are accredited investors and the definition of an accredited investor is somebody who has a level of financial sophistication and because we don't take tests, although I would argue that we should, the criteria for being accredited investor revolves around either a person's net worth or how much money they make and so, there are specific guidelines which you actually will potentially be changed in the new financial reform legislation but an angel is typically an accredited investor.

You don't really want to take, you know, \$25,000 that is the life savings of you know, of an assembly line worker and put it into a startup so you're looking at accredited investors. They also have more to invest for deal and have deeper pockets. An investor, we're defining here for purposes of our discussion, is somebody who doesn't work for the company, although there are people who certainly may join a start up, put money in and be a member of the management team and, but we don't really kind of consider them angels in that they are not purely investors, they're also working at the company, they're helping it grow, they're probably taking a salary, etc. but they're all taking ownership, they're becoming part of the shareholder base and they're joining the entrepreneurs and the university should the university take equity.

So, gee it sounds like okay, I can get money from people, rich individuals or people who qualify as accredited investors but you know, how much is really available? According to the most widely quoted statistics from the University of New Hampshire, Center for Venture Research, angels invested \$17.6 billion in 2009 and distributed that amount to 57,000 companies. To give you a little bit of scope, according to National Venture Capital Association, the entire venture capital industry invested about \$17.7 billion, so angels actually, in terms of dollar funding, are about the same size as the venture capital industry although that money is distributed among a wider number of firms. So I'm not sure it has as much kind of jet fuel power per company as venture capitalists can provide. Now, about 250,000 in any given year are estimated to participate in the funding of somebody's entrepreneurial exercise, so it's a very diverse and dispersed pool as well, you know, they don't cluster at the local Starbucks and so finding angels is part of the process of obtaining angel capital.

So on the next slide, what we'll talk about in terms of the angel process is what are the advantages of working with angels? Well, angels are relatively patient, an experienced angel knows it can take a long time for a company, an investment in a company to pan out and they can wait because the only real person that they have to answer to are either themselves or a spouse or a family member. People who invest other people's money sometimes have specific time limits on returns but that can change that dynamic a little. Angels actually tend to be surprisingly knowledgeable about industry sectors. Well over two thirds of angels in the most prominent study of angel investors were ex-entrepreneurs and they tended to invest in fields related to their entrepreneurial activities, so they often have some understanding of the business which would make logical sense. You would invest in something you understood rather than in something you didn't understand. Because they are also ex-entrepreneurs, they're often willing to mentor and to provide support to a young growing company. In my role as an angel, I've been on advisory boards, I've been on the board of directors, there just can be – happy to be there as a sounding board because if I can spend 30 minutes with an entrepreneur, an inventor that helps move the company forward, that's a great investment of my time to help increase the probability that my financial investment will grow as well. Angels are in it for more than just the money. If they wanted to make a return without having to work hard, they could give their money to a financial advisor. Remember the criteria for accredited investor, actually the current criteria is a net worth, after all debts of over a million dollars or an annual income of 200 to 300 thousand dollars a year. So these are people who could find people to invest their money for them and so they're doing it really, you know, to participate in the process. Angels often have great local networks that are usually prominent people in the local business community. They can connect a startup with the right professional help: lawyers, accountants, maybe landlords so they can be a great resource for the company too. The challenge is they don't have as much money, while they may have significant personal net worth, they may not want to put all of it into a startup. If you've got a biotech that's going to need \$80 million for FDA approval, unless the person is a billionaire, you're not really going to get that from one angel and so you have to aggregate a number of angels together to get the amount of money that you need. So you end up having a lot of shareholders and if the angels don't themselves form a group and have a leader, then what

you often have is you're dealing with many individuals and an inventor who's the CEO or an entrepreneur has to understand that the care and feeding of investors is sometimes a fulltime job.

There are some angels who, you know, they're kind of got the bug and they really want to kind of get involved with a company and sometimes their experience isn't always relevant, you need to manage that and there's limited national networks, you know, a lot of technologies that come out of technology transfer offices have national, if not global appeal and when you're looking at an investor to provide value other than his or her money, angels typically don't have the kind of national and global networks that venture capital firms do. So as we look on the next page, what we'll talk about is how to connect with those angels. Well, there are angel groups, as Gerard mentioned at the beginning, in his kind introduction of me, I'm on the board of something called the Angel Capital Education Foundation and we're a non-profit that works with organized angel groups and we think there're about 300 organized angel groups in the United States and probably another 150 to 300 around the globe. A lot of those angel groups are affiliated with a university. I'm actually speaking to you today, not from my office, but from the campus of a university that has an angel group and so, universities often form angel groups to support entrepreneurial ventures from students and from faculty. Professional service providers consult with lawyers, CPAs, often have contacts in the angel community, especially in professional services like accounting and law where a lot of clients of individual clients of the firm are successful entrepreneurs who are willing to be angels. So a lot of communities, economic developments also provide introductions to angels. Couple of cautions, do not use brokers. There're lots of people out there who will sell you access to angels for a fee, those people are rarely respected by either the investors or by the services community and so you know, it's a little bit of a business where you don't have any way to assess the success rate or the professionalism or the capabilities of a broker until after you've gone through the process and so many times it can be money wasted. I'm pretty adamant about that, you know, good angels will make themselves known and they'll make themselves found for free although angel groups sometimes do ask for an honorarium just to cover their own costs of managing their angel group. Websites are kind of anonymous. There are matching websites that will match startups to investors and those, you know, they've had successes but most angel investing is very personal, it's my money and I'm putting it into something that I believe in, that I want to touch, that I want to feel and if you think about kind of what you see in terms of online dating, how does online dating with most people still make that personal connection and I think most angels tend to work the same way. You need the right material to engage with an investor and I know we're going to talk about in the session next week but very briefly, you need an executive summary, a kind of couple pages in your resume of your company and it's opportunity and the technology, a full scale business plan that describes that in more detail. A start up needs to be able to put together an effective presentation. If I was evaluating whether I was going to license to a company or a potential startup, I'd want to know about their ability to raise capital, I'd want to – I'd probably ask them to pitch to me and a financial model, they need to be able to have kind of a road map of where they're going, how much capital they'll need and how far they'll get on the capital that they receive.

So, we move forward then, to the next slide and talk about what angels like and don't like and as I said, angel investing because it's early stage, is a very personal process, you know, an angel is basically looking into the future. Very few university technologies can be sold to customers right out of the box, right from the get go, especially in therapeutics and devices that have a regulatory process and that may be different for a software or an educational product but that's usually not the case and so angels really are looking into the future and you know, really need to make that connection. So what they tend to like are strong market opportunities, you know, to be able to grow into something that is growing rather than fight to get market shares in a segment that's kind of flat, you know, how unique is the technology? Is it something that can be worked around, e.g., in the software world, software can be copyrighted but it's really hard to patent. So a lot of software companies really kind of maintain the so-called stealth mode because they need to get their products out there because it can be worked around, it's really not that unique but in university research developed technologies, especially in the life sciences, you can get developed, some really unique things that have a high level of intellectual property protection.

The terms of the license. You know, at this point, everything is so speculative, the simpler, the better, you know, I understand that nobody, no investor and no university wants to leave anything on the table, they want the best deal possible but at this point, when there's so little capital and the risks are so high, the transaction friction of a drawn out negotiations are expensive process to develop the documentation around a therapeutic that may not come to market for 8 to 10 years. That can really reduce the level of interest of an angel investor who doesn't want to see a significant portion of his or her capital go toward things that don't move that technology forward.

Fragmented competition. If there's not an 800 pound gorilla in that market, it often says one of two things, (1) is the market really not big enough for somebody to really develop scale but also who's going to buy it, remember in the end every investor wants their money back with a profit and every entrepreneur and employee in the company as well as the university should you accept equity, wants to be able to get their money back until at some point you need to be able to see who will buy the company or whether or not you'll be able to do an initial public offering but what is that path to exit and can you see it? If you can't see it, then it's hard, it's like somebody coming up to you and saying, "can I borrow \$20.00?" If you can't see a path for them to pay you back, you're less likely to give them the \$20.00 than if you're not and that same principle applies to any equity investor in a company.

The last thing I think is having an entrepreneur that's willing to listen and understand the process. On the other side, this is not a process for iteration. According to the Small Business Association, entrepreneurs started about 600,000 companies a year. As we talked about a few slides back, maybe 50 to 60 thousand of them get funded by angels so it's less than 10%. So, you know, there are lots of opportunities out there and what an angel wants to see is a very complete business opportunity and by complete, I think one of the things Kef talked about was a flat point technology or technology that can move into multiple markets as horizontal opportunities, you know, a restrictive license to one or two fields of

views limits the flexibility of the company to salvage the work they've done and move forward, you know, do apocryphal stories, you know, both Lex and poly carbonate that you see on the side of hockey arenas and post it notes were effectively mistakes. Technology moves in a different direction than it would intended but it became a big hit and so if you have a restrictive license to a certain field of use, you may not be able to exploit what you find when that happy accident comes along. And then entrepreneurs, entrepreneurs need to be flexible, they need to be coachable, they need to be teachable because again, angel investors are in it to be participants, they don't want to take over but they want to help and they're looking for that kind of beneficial relationship between the company and themselves.

So finally, I've had to kind of wrap up the angel investor perspective on slide 15. How do you talk to angels? Well, angels use the same language and terminology as venture capitalists because a lot of angel deals, especially the life sciences end up in the venture capital world. So we talk the same language because we're part of that continuum. We talk about pre-money and post-money and we talk about dilution and you know, we talk about participation and all those fun deal terms that sound like gibberish at first but when you get to know them, they have real value in the process of creating a company but, you know, have reasonable expectations for terms and conditions, especially in valuation. Yes, your company may be worth a billion dollars some day but that some day isn't today and so you have to understand that while it may become a billion dollar company, it's not worth a billion dollars today. Things to avoid is make one of the things that I personally dislike and I think this is a little bit more of a personal dislike than a market norm is a private placement memorandum. You know, we want to negotiate a fair deal but when somebody presents a private placement memorandum and says, this is the deal, take it or leave it, it really inhibits that dialogue. Pressing for a fast closing, it's kind of like when you're in college and your roommate asks you for 20 bucks, well, they usually ask you for 20 bucks when you're flat broke, you know, companies, entrepreneurs, inventors who are going down the entrepreneurial path need to understand that if they have the resources and the ability to take the time to negotiate the best deals, it'll work for themselves, their colleagues, the other employees as well as the other shareholder and really, again, from a lot of it's factors and valuations that in the end for investors, is all about the money but when angels are done, we really kind of transition to venture capitalists and that's where Kef is the expert so I'll pass it on to her.

**Kef Kasdin:** Great, thank you. So if we move on to slide 16, so what is venture capital? Just like with angel funding, it's capital invested in usually new or rapidly growing companies but the difference is VCs don't invest their own money, they invest money that comes from sources such as university endowments, pension funds, banks, corporations or sometimes, you know, collections of high net worth individuals and that probably would be the closest to the angel examples that Bob gave but for the most part, this money is coming from other sources and that does create a different matrix for returns specifically. Just like with angel investing, this is cash coming into the company in exchange for some piece of the company, some ownership, some equity position but of course, this is not a liquid stock, it is still in a privately held companies in most cases, unless you're talking about very late stage private equity firms that would also invest in the public markets and so, there has to be some way to get that stock to finally realize a return later on. VCs are

still taking very high risk and therefore expect high returns and that's because the people who give VCs the money are expecting those high returns. They have other places to put their monies. Venture capitalist is considered an asset class by folks like university endowments but endowments will invest in all sorts of other types of investments across the whole spectrum and they do view venture capital as in the high risk side but that means they need to see high reward and so that's what drives venture capital and I think as was mentioned earlier and that's why VCs tend to look for things that are truly breakthrough and high growth because we need to see that pay back.

So if you move to the next slide and let me go through so why would you want to talk to a VC given all the restrictions I just gave you? Venture capitalists really provide several other services, if you will, beyond just the money. VCs do have experience guiding young companies through the process of growth and eventually into some sort of an exit whether it be to go public or to be bought by another company. VCs usually do have board seats and I'll get back to that in a minute but the VC advice comes in many forms and is really through ongoing communications, not just at board meetings, especially the early stage VCs are very involved in providing financial, strategic and operating advice but they're not running the company and there is that distinction is really still as advisory roles but very active engagement to help the company succeed. VCs typically will have connections to strategic partners, to customers, to other sources of financing down the road and can also assist with the recruitment of people onto the management team and a VC, unlike typically angels and I know there's a wide spectrum there, a VC actually always assumes that there's going to need to be follow-on rounds of financing and usually will reserve capital for those later stages of financing and milestones still have to be met, company still has to be making progress so there's no guarantee that that VC will continue to make investments in the company but they've typically set aside monies in order to be able to do that and so they could be a source of future funding as well as being able to attract other venture investors.

The venture community is relatively small and collegial, sometimes certainly is competitive but there are lots of networking opportunities that are broad in geographic scope and across sectors as well so there are ways to attract other venture investors into subsequent rounds of financing into the company. So that's part of the value of bringing on a VC is having this tool kit of sort of future potential that a venture capitalist can bring to the company but it certainly comes with some strings attached and so if we move to the next slide, some of the issues here are that VCs are not passive investors. They are very active and so that's just more of a mindset and that set of expectations around how to engage with venture capitalists. Venture capitalists do expect to have board seats and to also receive certain kinds of information on a regular basis but again, they're not running the company but some people are sensitive to that but there are requirements that do typically attach to a venture capital investment and then terms of a VC deal. My advice, and we'll come back to this later, is get yourself a good lawyer who understands VC terms cause some of the things are sort of sacrosanct and can't be changed but VCs do have expectations around protections of their interests. Remember, they've got these big university endowments, etc. behind them and so they have fiduciary responsibility and therefore, have certain terms that must be there in order to affect the transaction and there usually are sometimes sort of priorities placed on when money does come



back to the company through a sale or through going public, there're certain, you know, priorities potentially for those venture investors over others. We move to the next slide.

So, how do you find those VCs? So, my first piece of advice is do your homework, this is just like market segmentation and market research. Not all venture capitalists are the same. So find the VCs whose interests are aligned with yours in terms of stage of investment, in terms of sector of investment. Also, make sure they're not already invested in somebody who's a competitor unless you really want that and some VCs will invest in multiple companies in the same sector but probably not the first place you'd want to go and reveal all your technology secrets. So be educated about who you're talking to and identify those who are the most likely to be a fit and then, you know, figure out where you can find them and there are places where you can go, you can try to go to venture capital events where those VCs are showing up, conferences, trade shows, networking events that are typically held in major cities all over the country and that attract both companies and universities as well as the money folks. Check their websites for places where you might be able to find them, maybe there're some open to the public events but try to find an opportunity to get in front of them. I will tell you that typically while we certainly look at every plan that comes in, the ones we spend more time on tend to be those who have been referenced in, in some way. So that's another piece of doing the homework is figure out a way, just like you do with a customer, for a product, figure out how to get to that VC through connections, through networks because that is a more likely way that you'd get the attention of the venture capitalists and once you do get the attention, then understand that it's a long process and if there's interest, there might be an initial phone call. If the interest continues, the VC's going to want to do a lot of homework and a lot of due diligence about the company, about the technology, the business plan, everything we've already spoken about. The more information you provide at that point, the more informed the decision, the VC's going to be able to make and then, you know, that then continues to face to face meetings, probably many of them. So the point is just, there's a lot to this and one of the ways you can tell when you've got a venture capital's interested is that they're walking through these steps and they're spending time and trying to understand the business and the proposal that you've put before them. If you don't hear from them for a while and they haven't really done anything, chances are they're not really that interested.

So if we move to the next slide, I think what I'm going to do in the interest time and because we've already covered this, is skip over this slide and then just on the next, yeah, so I'm going to just skip over slide 20 since I've already covered all these points and we can come back to them during the Q&A. Just a few things on the bottom of slide 21, I'm sorry, if we could just go back, there are some terms here that we've talked about, we talked about a few terms before, some ones I will add since I sort of referred to it a little bit, liquidation preference. What this typically means is, as a venture capitalist will ask for if a company and liquidating is not a bad thing, if a company is sold, is acquired by another entity, then usually the VCs will sort of ask for a certain amount of the proceeds to be taken off the top and distributed to the VCs before being distributed to the common shareholders. I always want to point this out specifically for folks who are licensing technology in exchange for stock because typically that will be common stock and you should just be aware that

typically there's going to be a layer on top that goes to the VCs first. That's what a preferred security is all about, the preferred in a preferred security which is the typical form of a venture capital investment is that notion that if a company gets sold, maybe that, you know, the amount of money that was invested gets to come back first and then a participating preferred means essentially the VCs get to double dip, they get their money back and then they still get to participate as a percent of their ownership in whatever remains of the proceeds. You may say, "boy, that doesn't sound very fair" but again VCs are taking a lot of risk and it's partly what the market will bear and depending on the climate in the market, if these other terms that are presented and there aren't any alternatives, it's typically what's done. Usually that participating preferred gets some sort of a cap so it doesn't become too outrageous but it is a factor in the way that investors look at the opportunity and then we already talked about dilution so what anti-dilution is, is some protection over being diluted and there're very swarms of this but again, these can get a little hairy and a little out of hand, depending on the market climate in which these deals have been structured but they're something called a first full ratchet anti-dilution which basically says that the investor can essentially take advantage if there was a down round, if the pricing of the new investment is lower than what it had been before, they can take advantage of that new price. So, it can be very detrimental to the common shareholders to the original, you know, entrepreneurs in the company if those kinds of draconian terms, hopefully are a thing of the past but they do crop up, especially when the market climate is not so ideal and so for something to be aware of and be sensitive to.

So, if we move on to the next slide, so a few of these we've already touched on but just a few pitfalls to avoid. One of my pet peeves is, you know, talking about gee, if you only had one percent of a huge market in order to be successful, because part of the problem is how do you get to that one percent and are you even looking at the market correctly? What I typically like is understand your customers and understand you sort of build it from the bottom up if you had X number of these customers and they were each buying this amount of the product or service you could see how you could build up a business of a certain size rather than coming at it from the tops down of huge market projections and you only need to get a little bit and it's just a pet peeve that it's always better to describe your market in more concrete, realistic terms. We already talked about not recognizing the competition and the management team issues, you know, don't be shy about acknowledging weaknesses. All of the companies have weaknesses and actually being knowledgeable and cognizant of those weaknesses shows that there's experience around executing on businesses and that not everything works out the first time around and while VCs may not necessarily be as patient as angels, there's a recognition that there're going to be bumps in the road and the more upfront you are about understanding those bumps, the better that relationship will be. I think, in terms of the term sheet mistakes, as I said before, just get an experienced lawyer who's done VC transactions before because they can explain what's sort of boiler plate, no negotiation and what can be negotiated and don't only focus on the valuation that tends to be that's what entrepreneurs or technology holders will look at is what do you value me, that's a very personal reaction, this is what you think I'm worth? But there's a lot more usually that goes into those VC terms and I think I've alluded to some of those issues that needs to be understood before getting into them and again,

a good advisor, a good lawyer can help you understand those issues. So I think with that, well, I'm going to turn it back over to Bob to talk about yet another source of capital which is lines of credit.

Robert Okabe: Sure and we're not going to spend much time on this. One of the things that people new to the process is why can't you go to a bank and get money? And the answer is that banks, I think, as Kef described earlier, really do their lending, mortgage market notwithstanding, on analysis and analysis means that you've been in business, you can show sales, you can show profit, you can show results and most licensed technology, their licensed into startups can't do that yet. It may be especially in the case of a therapeutic many years before even the first dollar of revenue comes in. So, you know, when you look at the bank process, we'd like to spend a couple of minutes and give you a flavor of what banks will do and where they might fit in. Banks will finance equipment, just like they'll finance houses or cars or boats, things they can see and touch, things that generate cash, like receivables or purchase orders. Sometimes they'll do working capital but that's really again, an operating business. Banks will lend you money, they'll also lease an asset to you or they can give you a line of credit and again, this has to do with the working capital process. So if we go to the next page, let's kind of talk very briefly about pluses and minuses.

Well, one of the big pluses about borrowing or working with a bank is it's not equity. If you're an owner, if you're a university or institution, is an owner in the company as well as the entrepreneurs and the equity investor, such as angels or VCs, if the company grows in value, that stays with you, the bank doesn't get a part of it, they don't get that equity upside. It's relatively low cost with capital, you know, a loan or lease will come with an interest rate. That interest rate is typically lower than what an equity holder will require for a return. There're lots of banks out there, I mean, even today, there're still over 13,000 banks in the United States and banks tend to use standardized products that's easy to compare the terms. Challenges of banks, they want their money back so they can be impatient. If you have collateral, just as if you have a mortgage on your home or a loan on your car, they want a lien or a security interest in that asset. Sometimes banks are willing to lend to companies but they want restrictions on what the company can do and that's really hard for a start up to do and you know, you have to give them money, you have to pay interest. So those are the advantages and disadvantages and if we move to the next slide, how do you connect with bankers? Well, there are 13,000 banks, there are – you can find them through your current relationships, a lot of the large banks will also lend to small businesses. If you're in a smaller community or you're looking for a small bank because you think that Citibank or Chase or Bank of America won't care, you can often work through civic groups. A lot of local bankers belong to your chamber of commerce, your rotary alliance club, economic development organizations can also help because they tend to know which banks are willing to look at earlier stage firms but you do have to have established financials and the process can be slow. So as we continue to move forward so we can give the audience time to do Q&A on the next slide. What do banks like? They like the hard assets, they like companies that have sales and positive cash flow, they like to be first in line to get their money back and no senior creditors. They like it when there's a guarantee. A lot of small businesses if you've ever run or know somebody in your family who's in a family business but sometimes you have to give personal guarantee that

you'll pay it back even if the company doesn't work out and they like to know that they'll lend money to people who don't need it so companies with low leverage. They don't like intangibles, they like things that they can get money out of, they don't like companies that are losing money or have poor financial controls, they think one of the four Cs of banking is character, so they sometimes look at your personal credit and your personal credit history, even if it's not directly connected to the company.

So, on the last slide, it's kind of summing up how do you talk to bankers? Well, you need to understand that process, you know, it's a closed door process and they're just going to come back to you with your answer, yes or no. They, you know, you keep an active dialogue. Every dealing with an investor, whether a bank or an angel or venture capitalist dialogue, not a monologue and understand what the specific restrictions of a bank passage would like. Things to avoid, you should lend money if you need, because we're all going to be millionaires. They need things they can touch and see and then sometimes taking the first deal instead of the best one. Banking takes time and hopefully, you have the time and the ability to negotiate for the best deal rather than being capital starved.

**Kef Kasdin:** Okay. So, this is now the last section in terms of sources of funding, it has to do with government funding and SBIR grants, etc. There are lots of programs available out there, grants.gov is a good place to go in terms of the federal grants, one that I'll highlight just because it's familiar to me through my work through Cleantec and with the National Labs is some of the Department of Energy funding, specifically RBE, and other grants that come out of the DOE. Typically the loan guarantee program is for later stage financing of actual manufacturing employment but RBE is really meant to do some of those translational funding we talked about in the beginning of our presentation today and could be a source so you can look for other opportunities like that through grants.gov. There are also SBA programs, specifically the SBIR is really the most well know. These are typically small, they're typically in phases but they can be very useful tools to bootstrap a young organization and prove out some milestones. Then, we already talked, there are some state economic development authority types of programs that may also exist that are typically around job creation and typically focused on depressed areas or areas that meet certain criteria in terms of job declines so that those are places to look as well as some incubator sources. So if we move to the next slide, so the pros of these types of funding, there can be some substantial amounts, especially things like RBE or some of the loan guarantee programs so they can be sizeable but the con of that is that they're very competitive as a result.

They are non dilutive which means there's no ownership impact so this is money that really typically does come with very few strings attached. I think where the strings come in is that these are government funds and therefore means there's typically more oversight and there are more rules, especially around accounting for how that money is spent and reporting back on it and so, you just need to be aware that there's no free lunch out there and even this kind of money does come with some things you have to do differently. Typically these opportunities are narrowly focused so there are certain RFPs you have to sort of fit the mould of what that particular request for proposal is looking for and see if that doesn't take you

too far off the path you are already on and you know, it's usually a lengthy application process so it's an investment of time and energy up front for, you know, a competitive process that may or may not work out and the other downside is some of the information you provide because it is to the government may become public so you need to be sensitive to that. The pitfall I already alluded to, there's some of this government oversight may actually increase the need you might need to have sort of a separate account to, you know, keeps a separate set of books essentially to report to the government, maybe some other software you'd have to buy for reporting purposes. So that does mean a higher burn rate so the whole thing is, is there pay off for that relative to what you're trying to accomplish with the money?

So those are some of issues that come up. The last thing I wanted to touch on in the next slide is with regard to intellectual property and you know, please, if anyone else wants to join in here but generally, there shouldn't be any IP risk to a company of government funding. There are some kinds of contracts with the government which require for IP rights to be jointly owned, one of them is what's called a CREDA, which is typically done with a laboratory, that stands for Cooperative Research and Development Agreement but going back to the issue around information becoming public, it would be useful to have an IP counsel review the grant submission to make sure that it's clear what is going to be made public and what you can restrict as confidential and then, it's always a good idea to file the invention disclosures or provisional patents so that there's more protection before any disclosure is made. So those are just some pointers but again, I will stop and see if anybody else on the panel may have some additional thoughts on the government funding or the specific IP issues. Alright, if there isn't, then I'll turn it back over to Gerard.

**Gerard Eldering:** Great, thank you Kef. So, we'll talk about a couple other items but then we want to make sure we leave some time for some Q&A with our audience here. One area we want to comment on is having reasonable expectations of dilution. I have found as I've worked with university inventors and gone through the concept and gone through spread sheets showing the dilution that there can be a lot of discomfort as they start to see a spreadsheet that shows their initial whatever, 30% ownership, 40% ownership might be diluted to two or three percent in years out with multiple rounds of investment but it's important to come to understand how that process works and Bob sort of pointed it out at the beginning, would you rather have 40% of a company that has no liquid value at all or maybe it's worth \$500,000 versus owning 3% of a company that is about to be acquired for half a billion dollars or more and that's sort of the thinking and I would encourage folks to get educated on that, read different materials if you're going to get into that realm and Bob and Kef, any comments on that?

**Robert Okabe:** No, I think that's a great summary.

**Kef Kasdin:** Yeah, I agree.

**Gerard Eldering:** Okay, and let's go to the next slide and we'll just a couple more some data that our panel members have put together, I'll just review very briefly. So one of the big issues and we all get asked this frequently is, what's the

state of the investment landscape right now? Things really changed starting in 2008, of course, with the financial crisis and they continue to change and the bottom line is indicated on the slide right now that certainly things are improving in the overall economy, the venture capital firms and this is going to vary by fund and by sector and by region of the country but in my experience, there's a lot less activity in the very early stage investments from the venture capital firms, a lot of them are holding their funds to invest in firms they've already invested in, to do their later stage or they may be looking at investment in companies that are profitable and been around for years and need some more funding but basically a lower risk profile. So that's certainly a consideration in there and if any of our panel members want to add any on that?

**Kef Kasdin:** Well, just to reference the other bullet on this slide, NASVF is the National Association of Seed and Venture Funds and in the interest of full disclosure, I'm on the board but NASVF conducted a study with Temple University that actually did provide some data over the increase, especially in sort of the early stages in angel and seed investing and plans to invest more money in this next year so, it does look like there're some positive glimmers of hope regarding the industry.

**Gerard Eldering:** Great, thank you. On next slide then and final, we want to talk a little bit more about the angel investment and Bob's given some good data and pointed out some of these data points in here but I think the bottom line is that angel investments can be a very important source of funding for the startup companies and there are a considerable number of the angels out there while the activity has declined with the overall economy and I've certainly spoke to some angel investors that just got to a point where they were not comfortable taking risk with more of their capital or had capital that their value had declined significantly where they backed out of it but that said, there still are angel investors and I think there's a few of them who view this as a key time to get into the markets to invest in companies and as we come into a recovery, they'll see that value go back up.

**Robert Okabe:** I think that's right, we, the Angel Capital Association, which is the trade organization for angel groups had their conference in May and in 2009, the conference had barely had 300 people, this year they had 440. So there's definitely an increase in interest out there.

**Gerard Eldering:** That's great, that's great. And I just want to take a moment and go back. In the very beginning, we talked about the pre-money and post-money and Kef talked about that and a question arose about how does the arithmetic work on that. I want to ask Kef to answer that for us and then we'll move over to our Q&A session. Kef, can you comment on the math?

**Kef Kasdin:** Sure, I can try. So technically, yes, there could be some other differences between pre and post-money that don't have to be the amount of dollars going in and typically, e.g., that could be if an option pool has been set aside for management but isn't, you know, wasn't sort of fully spoken for in the pre-money valuation, then that would increase the post-money valuation but not be actual dollars going into the company. So that could be one scenario. There may be

other scenarios that are non-cash that increase or decrease that delta between the pre and the post money. I was just trying to give a simple example before, just to sort of set the stage of what we mean by pre and post but yes, it sometimes can get more complicated in terms of figuring that out, yes.

**Gerard Eldering:** Great.

**Adam Klotz:** To kind of follow up on that there's this really neat little website called [www.ownyourventure.com](http://www.ownyourventure.com) and it has this little interactive page on the website where you can actually see the effects of dilution through multiple rounds of financing, you can see how big each financing is with the pre-money and post-money valuation, the size of the option pool and it will tell you how much of the company each party will own after that and it's a free service. It was set up by a bunch of entrepreneurs so if you want to play with dilution and scenarios and multiple rounds of funding, it's a fun little tool.

**Gerard Eldering:** Great, great. Well, thanks Bob and Kef and so let's move on to our Q&A session and Cindy, I would like to ask you to get us started on that.

**Cindy McManus:** Absolutely, thank you very much and thanks to all of you, a lot of great information. Alright, at this time we're going to conduct the Q&A session. So, let's give folks a moment to get themselves into the queue. Gerard, I'm going to hand things back over to you for questions and chat while we wait.

**Gerard Eldering:** That's great. Thank you and so Bob and Kef, I wanted to throw out and Adam, a question, we've talked a bit about kind of a venture capital modeling companies that are going to really grown and go through multiple rounds of funding, I wanted to direct, I'm going to start with Bob, have you seen people successful with smaller models where they built a company that may be 5 or 10 million dollars in value and had an exit or created some wealth for themselves and maybe done that without multiple rounds of funding?

**Robert Okabe:** Oh sure, I think it happens quite a bit. There are a lot of angel groups in smaller communities and you have to remember that 60 to 70 percent of the venture capital is concentrated in a few states, so there's dozens of states out there where there isn't much venture capital and the businesses that are created end up getting going to exit can be smaller. It's a matter of being prudent about the return on capital and how much capital you need. Now, you know, it obviously can't happen in a biotech or drug discovery process where you have a regulatory process but in software and tools and especially educational software that'll a lot of academic institutions can create. That definitely happens with both a good cash flowing company and a reasonable exit in a smaller company.

**Gerard Eldering:** Great and Adam or Kef, anything to add to that?

**Adam Klotz:** Yeah, I'd say, I mean I'd see as many of those, if not more, I mean, very often and those tend to be more of a, you know, local community, local investor and so in a small manufacturing operation or distribution company or you

can make a nice 8, 10, 12 percent return on your money from an angel perspective. In a business perhaps someone who sold their company and is looking to be a consultant and sees a, you know, a younger person with a business out there, there are lots of opportunities and there are plenty businesses that, you know, have 10 million a year in sales or 20 and it's a regional business and a distribution company or something, maybe someone will buy them in the long term but it's never going to be a NASDAQ traded company but it's capital constrained and it might be management constrained and there are opportunities to invest in that type of company and to grow it, you know, modestly and make a very nice return but there's not a VC anywhere who would find it appealing.

**Gerard Eldering:** Right, right, so people can be successful without having to shoot to be the Google.

**Adam Klotz:** Yeah, no and a lot of, I mean, a lot of family owned businesses, you know, the majority of businesses really are that model, you find a niche, you execute on it well, you watch the P&O very carefully, you make good margins but it is not viral, disruptive, nano or insert other buzz word here. It's just, you know, my father owned the company that did the electrical plating of monopoly pieces. It was good business, successful business so.

**Gerard Eldering:** That's great. Alright, well thank you very much, Adam, great discussion today, a lot of information and I think covered the funding spectrum very well. I want to thank our panelists for their time and the valuable insights and for our audience members joining us today, I just want to talk briefly about our next session. So we're going to talk next week about the pitching techniques, assuming you've got that business plan put together and identify those investors you want to go in front of, how do you deliver that well, what are the preparation strategies, delivery techniques, how do you get the results and close and get that investment from those investors or get that sale completed. It'll be another great session. With that, I'll thank the audience again and turn it over to Cindy.

**Cindy McManus:** Alright, thanks Gerard. We'd also like to notify you of another timely distance learning program titled: *Prevent Faculty Disputes from Turning into a Declaration of War*. Disputes can take many forms for the most common and arguably the most difficult to manage revolve around inventorship issues. That's why we've lined up tech transfer legal experts to provide detailed guidance on navigating the thorny issues so often involved in these disputes. Visit [www.technologytransfertactics.com](http://www.technologytransfertactics.com) or give us a call at 877-729-0959 to register today.