

“Real World” Money Options for Newbie Inventors and Startup Entrepreneurs

Some Old and Some New Places to Look for Money!

Windom Peaks Capital, LLC

Helping People and Businesses with Their Investment, Capital and Liquidity Needs



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- Ray Burrasca is a seasoned company finance professional and experienced corporate lawyer with over 40+ years experience in corporate finance, securities compliance and transactional law. He has practiced finance and corporate law both in privately-held and publicly-traded corporations settings, and has been involved in billions of dollars worth of deals on both Wall Street and in Silicon Valley
- In addition, Mr. Burrasca previously served as the chief financial officer of \$500 million dollar pulp & paper company located in the state of Maine, as well as the CFO of a startup game development company previously located in Colorado.
- Mr. Burrasca's experience includes all facets of corporate finance and private equity, including, among others:
 - registered and private securities offerings (including IPO's)
 - both private and public mergers & acquisitions
 - leveraged buyouts (including management-led, hostile and "vulture" fund driven)
 - mezzanine lending
 - venture capital and startups
 - hedging & corporate debt swaps and hedge funds
 - derivative securities

Part 1: Traditional Sources of Financing

In the United States, there are many myths about money being available for new inventions and business startups . . .

Here are just a few of them...

- Venture capitalists (or angels) fund most new inventions and businesses
- Banks lend to most new inventors and start-ups
- The SBA lends money directly to inventors and entrepreneurs
- Successful inventors and entrepreneurs rely on a single source of funding
- Government grants are a good source of money for inventors and entrepreneurs



But, contrary to the myths, the traditional sources of financing for most new inventions and business startups is actually very limited ...

- Solo inventor or entrepreneur with no money or assets, no family or friends with money or assets and mediocre credit – **SOL – No Options!**
- Solo inventor or entrepreneur with some money and/or assets and good credit – **Some Options**
- Solo inventor or entrepreneur with lots of money and/or assets and good credit – **Many Options**
- Inventor/entrepreneur or non-inventor entrepreneur with no money or assets and no family or friends with money or assets **but** with:
 - a “home run” “scalable” idea
 - in a very large potential market with low barriers to entry
 - extraordinary domain expertise in the industry or business area to which the invention or business relates
 - a dream “team” of founder employees, and
 - access to individuals who either know, or are, venture capitalists or professional angels



Have the Best Option of All -- Professional Angel or Venture Capital Money!!!

Solo Inventor

- Yourself
- The Three “F’s” (friends, family and fools)
- Commercial banks
- An angel
- Government grant (very rare)

Entrepreneur

- Yourself
- The Three “F’s” (friends, family and fools)
- Commercial banks
- An angel or VC
- Government grant (very rare)

The rest of the available sources depends on the nature of the business!!!

i.e., there are four (4) distinct types of entrepreneurial businesses: Small Business, Scalable Startup, Large Company and Social Business

Sources of available money would differ depending on how you and your invention / business are categorized and what your financial and credit position is before you attempt to secure financing.

**Let's chat, for a minute,
about those differences . . .**

Typical Inventor

- Includes scientists, engineers, technologists, mechanics and “tinkerers”
- Creative, idea people
- Love to explore and implement ideas
- Tend to view every aspect of life as a problem to be solved or a product to be improved
- Typically have multiple ideas for inventions
- Want to see their inventions “out-in-the-world” and want to make money on them.
- However, they often don’t have a clue about how to bring these inventions to market

THE INVENTOR: *“I DID IT! I’VE GOT IT!
MAYBE I SHOULD GO INTO BUSINESS.”*

Inventors who think they are entrepreneurs (in those situations where they clearly aren’t) are vulnerable to overemphasizing the importance of the idea / invention / technology

Truth: Often, inventors confuse inventing creativity with business acumen.

Typical Entrepreneur

- Innovative (but not necessarily “inventive”)
- Need for achievement; “the burning gut”
- Calculated risk takers; comfortable with risk
- Don’t need or like structure and definition
- Comfortable with ambiguity and uncertainty
- Value independence; **want to build a company**
- Don’t easily fit traditional company mold
- Want control over environment and destiny
- **Most start several ventures before age 20**
- **Often 1st child of parent who was an entrepreneur**

“Successful entrepreneurs are those who have built a network of smart, talented people around themselves and around their companies.”

Reid Hoffman
Co-Founder, LinkedIn
Partner, Greylock

What the Experts Have to Say . . .

So, what types of financing are available for the Solo Inventor who has an interesting invention, but not one that will attract, serious, professional Angel or VC money?

Yourself

- Sell unwanted stuff (unwanted personal property – the “tag” sale and “Craig’s List” approach to self-financing)
- Borrow against bank and other savings accounts
- Money from your investment accounts (stocks and bonds); 401(k)’s and Self-Directed IRA’s
- Loans collateralized by the family home or other real estate
- Credit cards

Friends, Family, Fools

- Friends and family that know you are largest source of capital next to personal funds
- If you use them prepare to lose them
- Do not get them involved in the business unless their experience warrants
- Prepare the divorce papers in advance
- Ideally you want “silent partners”

Commercial Banks – SBA Loans

Commercial lenders, like other types of banks, rely on the five “C’s” to determine the acceptability of a business loan applicant. The five “C’s” are:

- **Character** – As determined by your “friendly” credit bureau – FICO Score
- **Capacity** – Do you have the cash flow to repay the loan? If you can’t, are you willing to give a personal guarantee?
- **Capital** – What kind of money (cash only!) are you putting into the deal?
- **Collateral** – What else do you have that we can slap a lien on?
- **Conditions** – Will you accept constraints on how you conduct your business that will sometimes cause your business to resemble a pretzel??

In Colorado, for instance, the best place to look for an SBA-guaranteed loan is either with Wells Fargo or Key Bank. Together, they do a lion’s share of the SBA business in the state and both are “preferred lenders.” That means if your application passes muster with their underwriting departments, the chances of getting your loan are pretty good. Passing muster with their underwriting departments is the hard part, however.

Individual "Amateur" Angels

- People who may know you, but whom you don't ordinarily consider to be personal friends (hard to meet!!!!)
- For whatever reason, they "love" your idea
- They are "amateurs" in the angel arena, not "professional" investors.
- If you use them prepare to lose them
- Do not get them involved in the business unless their experience warrants it
- Prepare the divorce papers in advance
- Ideally you want "silent partners"

Government Grants

- If your idea or invention is in a particular area that the government is interested in funding, e.g., homeland security or national defense, you may have a shot at some early-stage funding; however, very few ideas fall into this category!!!
- Also, get a professional to help you write your grant proposal; the application process is hard to master and an expert can get you a long way down the path . . .
- **ALSO, BEWARE!!!!** Such funding normally comes with significant strings attached!!!!

By way of contrast, what types of financing are actually available for the Entrepreneur???

It depends on what type of entrepreneur he or she is ...

There are 4 Types of Entrepreneurs

Small Business
Entrepreneurship

Scalable Startup
Entrepreneurship

Large Company
Entrepreneurship

Social
Entrepreneurship

Small Business Entrepreneurship

- “Lifestyle businesses”
- \$2 million, \$10k salary to the owner
- Bootstrapped (capital, own/family)
- Profit means the family eats
- Overwhelming number of entrepreneurs and startups in the U.S. are in small businesses
- My wife (FLeCusa International)

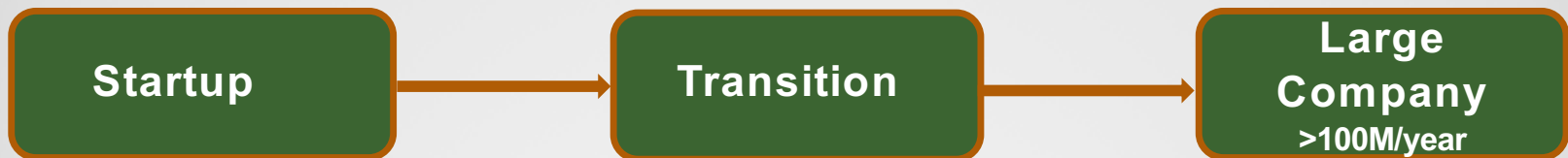
Startup

**Small
Business**



Scalable Startup Entrepreneurship

- Start with goal to build a large company
- Starts in small offices with an idea
- Hunts for profitable business model
- Once founded, needs external venture capital to scale and fuel rapid expansion
- Accountability, board members, forecasts, other agendas
- Success is 3X or better ROI via sale or IPO
- Aggregates around technology centers
- Makes up very small percentage of entrepreneurs and startups
BUT attracts, historically, almost all of the risk capital (and press)



Large Company Entrepreneurship

- Often called “intrapreneurship”
- Disruptive innovation triggers need to start new division
- Often formed as a “skunk works” project
- Success is new revenue and profit for parent company
- Intrapreneur gets paycheck and funding from large company



Social Entrepreneurship

- Recognizes a social problem, uses entrepreneurial principles to organize, create, and manage a venture to make social change (a social venture)
- Corporate social entrepreneurship is often a for-profit business achieving a social goal and profit at the same time
- Businesses meet social needs
 - health care, poverty, education, energy, agriculture, the environment
- Few, if any, paid a salary

Simplified Chart of Differences

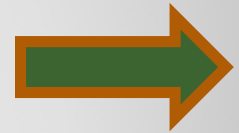
	Personal Risk	Financial Goal
Small Business	High	Feed the Family
Scalable Startup	High	Get Rich/Implement Vision
Large Company	Low	Feed the Family/Get Promoted
Social	Moderate	Save the World

Summary

- Four different types of Entrepreneurship
- All searching for sustainable business model
- All types have similar entrepreneurs: resilient, agile, tenacious, passionate
- All types require fundamental business principles and practices
- Differences include different levels of tolerance for personal risk, size and scale of vision, and personal financial goals

So, What Types of
Financing Were Available
for the Different Types of
Entrepreneurs and Their
Businesses???

Same sources that were available to the Solo Inventor but, in addition, the Entrepreneur had other sources as well . . .



A Partial Picture of the World of Finance for Entrepreneurial Enterprises



Part 2: A New Day Dawns

Crowdfunding!

The Game Changer

**But, What is
Crowdfunding?**

crowd·fund·ing

'kroud ,fəndiNG/

noun

noun: crowdfunding; noun: crowd-funding

1. The practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet

Is Crowdfunding
something new?

NO! . . .

- Crowdfunding has been around for centuries. It's been used to support causes of all kinds (e.g., theatrical productions, musicians, etc.), e.g.,
 - Shakespere
 - Subscription business model which was used in the 17th century to finance book printings
 - 19th and 20th-century theatrical Broadway productions
 - Statue of Liberty
- Gathered crowds would:
 - Listen to presentations
 - Ask questions of the fundraisers
 - Share in the excitement, and
 - Ultimately, make donations.
- Today we have the internet -- opens up a host of new possibilities and applications for crowdfunding.

Is Crowdfunding legal?
And, if so, which types?

- Until very recently, Crowdfunding could only be donation / rewards-based.
- That is, with certain very limited exceptions, it was illegal in the U.S. for a private company to sell its stock to the crowd in a private placement (*i.e., not in an IPO or DPO*) in order to raise money for its business.



But donations, on the other hand, were permitted – ***For example***, here are some donation-based crowdfunding platforms that are currently operating in the United States . . .

Has this changed recently?

Yes! The “JOBS” Act was passed by Congress

- April 5, 2012 -- Obama signs bipartisan-supported “JOBS” (“Jumpstart our Business Startups”) Act. Upon signing, Act becomes the law of the land.
- Among its many provisions are special sections directed to “accredited” investors (Title II) and “non- or unaccredited” investors (Title III) and even one directed to both accredited and non-accredited investors (Title IV).

What does the new law
permit?

- New law's "crowdfunding" provisions make it possible for the general public to "crowdfund" startups and small businesses, and receive stock (equity) in exchange for their support.
- Law also legalizes the formerly prohibited practices of conducting a "general solicitation" and "advertising"
- This means startups and companies pitching their offering can use the internet (and, in certain cases, even the social networks like FaceBook(tm), LinkedIn (tm), etc. to raise awareness of these investment offerings.

Huh? Doesn't this take
80+ years of federal and
state securities law in this
country and turn it on its
head?

YES!

- For the first time since 1933, ordinary individuals, looking for funding can sell stock in their companies to members of the general public without a registration statement in effect and without having to qualify for any of the traditional “safe-harbor” exemptions. If you want to raise more than \$50 million, however, those investors will need to be accredited investors and you must comply with the SEC’s Rule 506(c).
- And, there’s nothing that the individual states can do to prevent those sales! (**NOTE**: However, they do retain the right to enforce the anti-fraud provisions of both state and Federal law)

Are there limitations on how much you can take from an individual investor?

It depends on who the investor is and what section of the JOBS Act you're relying on ...

No!

Title II - ACCREDITED INVESTOR CROWDFUNDING

No limitation on amount of investment by accredited investors.

Yes!

Title III - NON-ACCREDITED INVESTOR CROWDFUNDING

Investments from individual investors (computed on an individual-investor-by-investor basis) cannot exceed the following:

- If investor has net worth or annual income of less than \$100,000 -- greater of \$2,000 or 5% of such investor's net worth or annual income in any 12-month period.
- If investor has net worth or annual income equal to or greater than \$100,000 – not more than 10% of such investor's net worth or annual income, subject to an investment cap of \$100,000, in any 12-month period.

Yes!

Title IV – REGULATION A+ INVESTOR CROWDFUNDING

Investments from individual non-accredited (or unaccredited investors) (computed on an individual-investor-by-investor basis) cannot exceed the following:

- 10% of such investor's net worth or annual income, in any 12-month period.

Checklist for issuers under the CROWDFUND Act of 2012

The following information must be submitted to the Securities and Exchange Commission, as well as funding platforms and broker/dealers, and must be made available to potential investors in order to list securities for sale to the general public:

- Legal name, legal status, physical address, and website address of the issuer;
- Full names of the directors and officers (and any persons occupying a similar status or performing a similar function), and each person holding more than 20 percent of the shares;
- A description of the business;
- The anticipated business plan;
- A description of the financial condition of the issuer, including, for issuers with aggregate offerings in the preceding 12 months of
 - i. \$100,000 or less—
 - The income tax returns filed by the issuer for the most recently completed year (if any); and
 - Financial statements certified by the principal executive officer of the issuer to be true and complete in all material respects;
 - ii. More than \$100,000, but not more than \$500,000
 - Financial statements reviewed by an independent CPA, using GAAP or standards and procedures established by the Commission; and
 - iii. More than \$500,000
 - audited financial statements;
- A description of the stated purpose of the offering;
- A statement of the intended use of the proceeds of the offering;
- The target offering amount and the deadline to reach the target;
- The price to the public of the securities or the method for determining the price;
- A description of the ownership and capital structure of the issuer, including—
 - Terms of the securities of the issuer being offered and each other class of security of the issuer, including how such terms may be modified, and a summary of the differences between such securities, including how the rights of the securities being offered may be materially limited, diluted, or qualified by the rights of any other class of security of the issuer;
 - A description of how the exercise of the rights held by the principal shareholders of the issuer could negatively impact the purchasers of the securities being offered;
 - The name and ownership level of each existing shareholder who owns more than 20 percent of any class of the securities of the issuer;
 - How the securities being offered are being valued, and examples of methods for how such securities may be valued by the issuer in the future, including during subsequent corporate actions; and
 - The risks to purchasers of the securities relating to minority ownership in the issuer, the risks associated with corporate actions, including additional issuances of shares, a sale of the issuer or of assets of the issuer, or transactions with related parties; and
 - Such other information as the Commission may, by rule, prescribe, for the protection of investors and in the public interest;
- Comply with such other requirements as the Commission may, by rule, prescribe, for the protection of investors and in the public interest.

In addition, there will be substantial disclosure burdens imposed on the startups (and their founders) who seek funding on these platforms.

Despite the burdens, the
opportunity it presents are
significant . . .

The new crowdfunding provisions represent an unparalleled opportunity for the little guy/gal, without a big, scalable business idea, to raise capital.

- Crowds can have intelligence and wisdom.
- But, first, they need to learn the difference between “fraud” and “failure” and how to distinguish one from the other.
- Social networking allows for an entirely new level of transparency
- Potential investors can
 - ask questions
 - receive answers
 - confer with other crowd members, and
 - ultimately create a virtual crowd capable of turning dreams into reality, and invested cash into profits.

Crowds can be powerful things . . .

**Crowdfunding comes with
some risks, however . . .**

- Any early stage investment in a company comes with a substantial risk of loss.
- Investors who participate in crowdfunding will need to be apprised of, and should fully understand, the risks and be prepared to accept them and to lose all monies invested because startups often fail – i.e., distinguish “fraud” from “failure”.
- To the extent reasonably practicable, entrepreneurs need to fully disclose the specific risks associated with the investment.



..... and, don't foreget These Guys

But, which one?

Come find out by calling +1 303-910-2344

How To Delete All Bookmarks x Windom Peaks Capital, LLC x +

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**But, until you do, here's
some tips for investment-
based campaigns...**

10 Tips for a Successful Crowdfunding Campaign *

1. Plan your campaign far in advance
2. Decide on a donation or investment campaign
3. Have a proper business plan (ES & Deck)
4. Make your story compelling
5. Start a social marketing campaign
6. Constantly promote your fundraiser
7. Include informative and engaging videos
8. Being unique really does count!
9. Pick the right type of crowdfunding site
10. Know and understand your target audience

***StartingTrends, <http://www.startingtrends.com/10-tips-for-a-successful-crowdfunding-campaign/>**

Last thoughts ...

"Welcome to the age of the crowd. Just as distributed computing projects like UC Berkeley's SETI@home have tapped the unused processing power of millions of individual computers, so distributed labor networks are using the Internet to exploit the spare processing power of millions of human brains.

The open source software movement proved that a network of passionate, geeky volunteers could write code just as well as the highly paid developers at Microsoft or Sun Microsystems. Wikipedia showed that the model could be used to create a sprawling and surprisingly comprehensive online encyclopedia. And companies like eBay and Amazon have built profitable businesses that couldn't exist without the contributions of users"

Wired Magazine, The Rise of Crowdsourcing
http://www.wired.com/wired/archive/14.06/crowds_pr.html

The Rise of Crowdsourcing

Crowdsourcing

+

Crowdfunding

=

?

(perhaps a new way to create companies instead of just stand-alone inventions?)

The Future?

Thank You!

Windom Peaks Capital, LLC

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