



Golden Seeds

Early Stage Capital MIT January, 2012

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About Anita: Corporate Life



About Anita: Angel Investor



About Anita: New Gig



**Discount Code:
Anita**



 Golden Seeds

dream it, design it, wear it.

The World of Angel Investors

- Individual angels
- Super angels
- Angel groups
 - Network-based
 - Fund based
 - Combination
- Angel syndicates
- Early stage venture funds/Micro-VCs

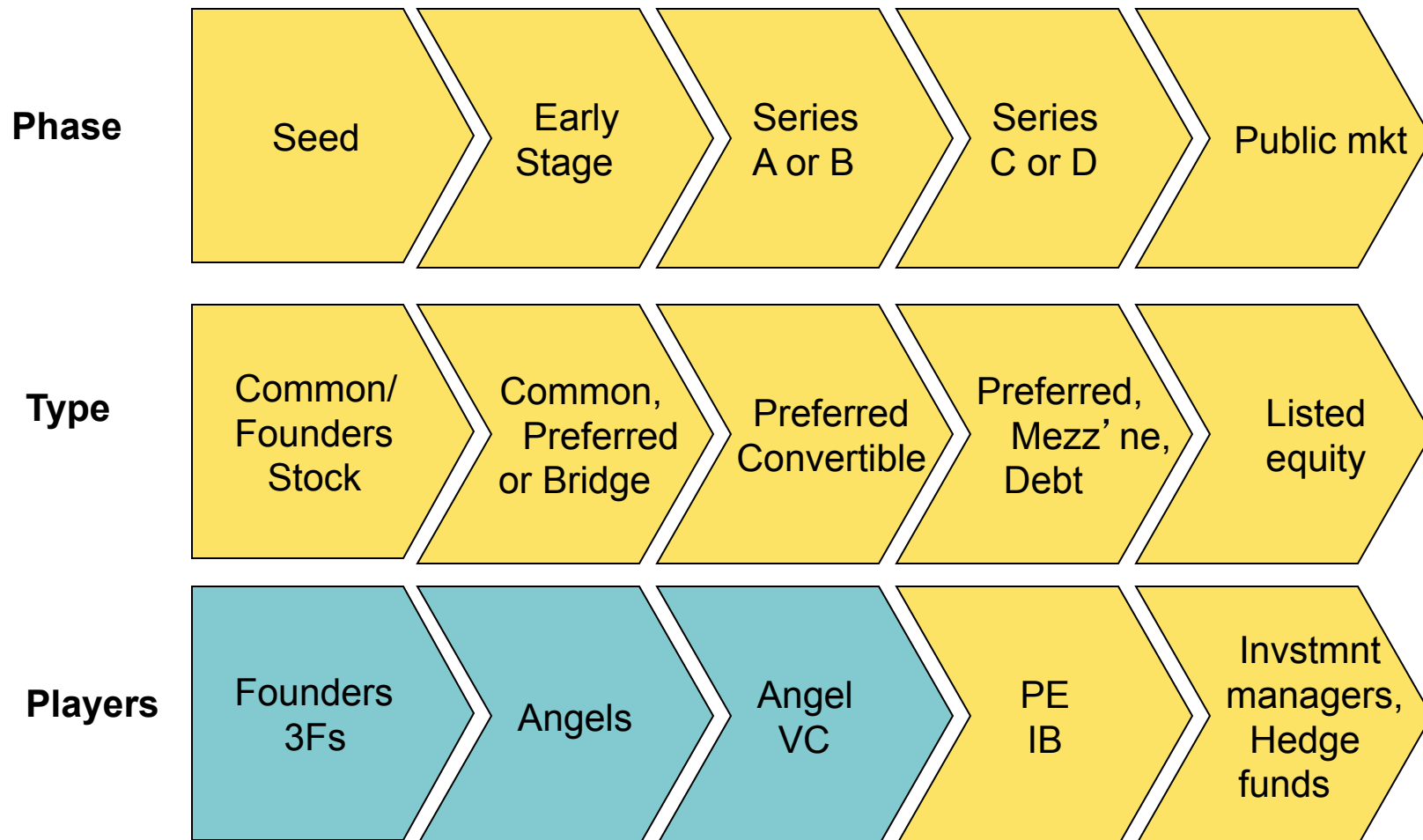
Participants differ in how much they invest, how they invest, and why they invest.

Angels versus Venture Capital

- Angels are investing their own money
- Angels typically invest earlier than VCs
- Angels and VCs typically invest the same amount of capital each year (~\$20 B)
- Angels invest in ~100x more companies than VCs
 - 55,000 companies in 2008
- Not unusual these days to see both angels and VCs investing alongside each other



Where Do Angels Fit in the Funding Picture?



Is Angel Funding Right for You?

- High growth company
 - \$10 - \$15 million in revenue in five years
- Product not services
 - Food and fashion not suitable for angel groups
- Desire to exit within 5-7 years
- Willingness to give up equity in your company
- Capital requirements: \$100K to \$10 million



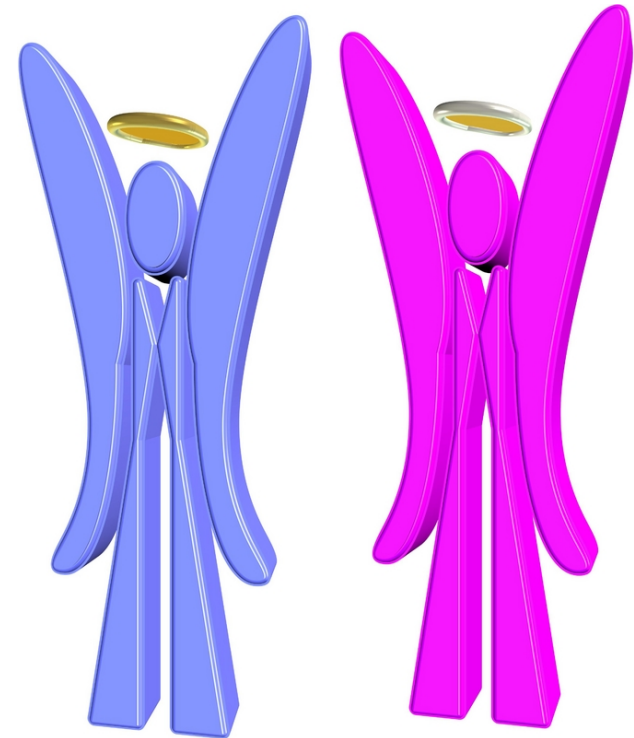
Finding the Right Angel Group

Every Angel Group has a Personality

- Types of deals they invest in
 - Industry sector
 - Stage
- Size of deals that they do
- Process
- How they invest
- Membership profile
- Ongoing engagement with portfolio companies

Finding the Right Angel Group

- 22+ Groups in New England
 - www.angelcapitalassociation.org
- Important to find the right fit
 - A long term relationship
- Do your homework!
 - Target those angels that fit your profile
 - Find a champion who
 - Knows the social rules of the road
 - Will sponsor you in to the group
- Engage early and informally
 - Leverage networking events in town

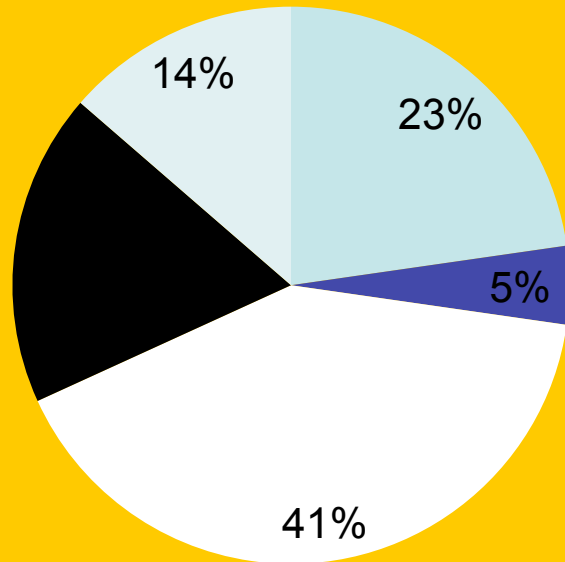


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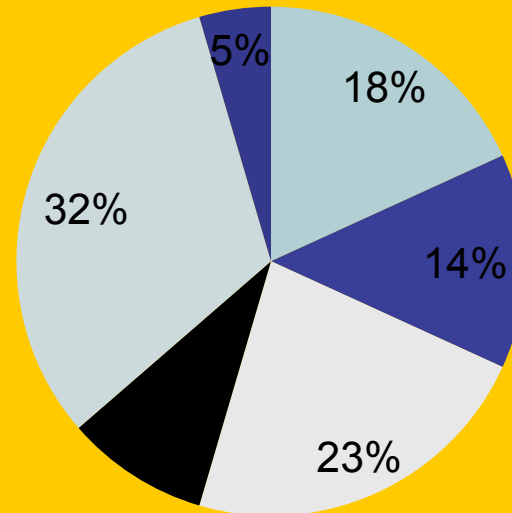
- One of ~22 **angel groups** in New England
- Mission driven: We invest in women led businesses across multiple industry sectors
- Founded in 2004
 - Forums in New York, Boston and San Francisco
 - One of the largest Angel groups in the USA with 200 members
- Network plus a fund
- We meet to look at company pitches 10x a year, at each meeting we see 2-3 companies

A Golden Seeds Snapshot

\$29M invested in 42 companies since April 2005

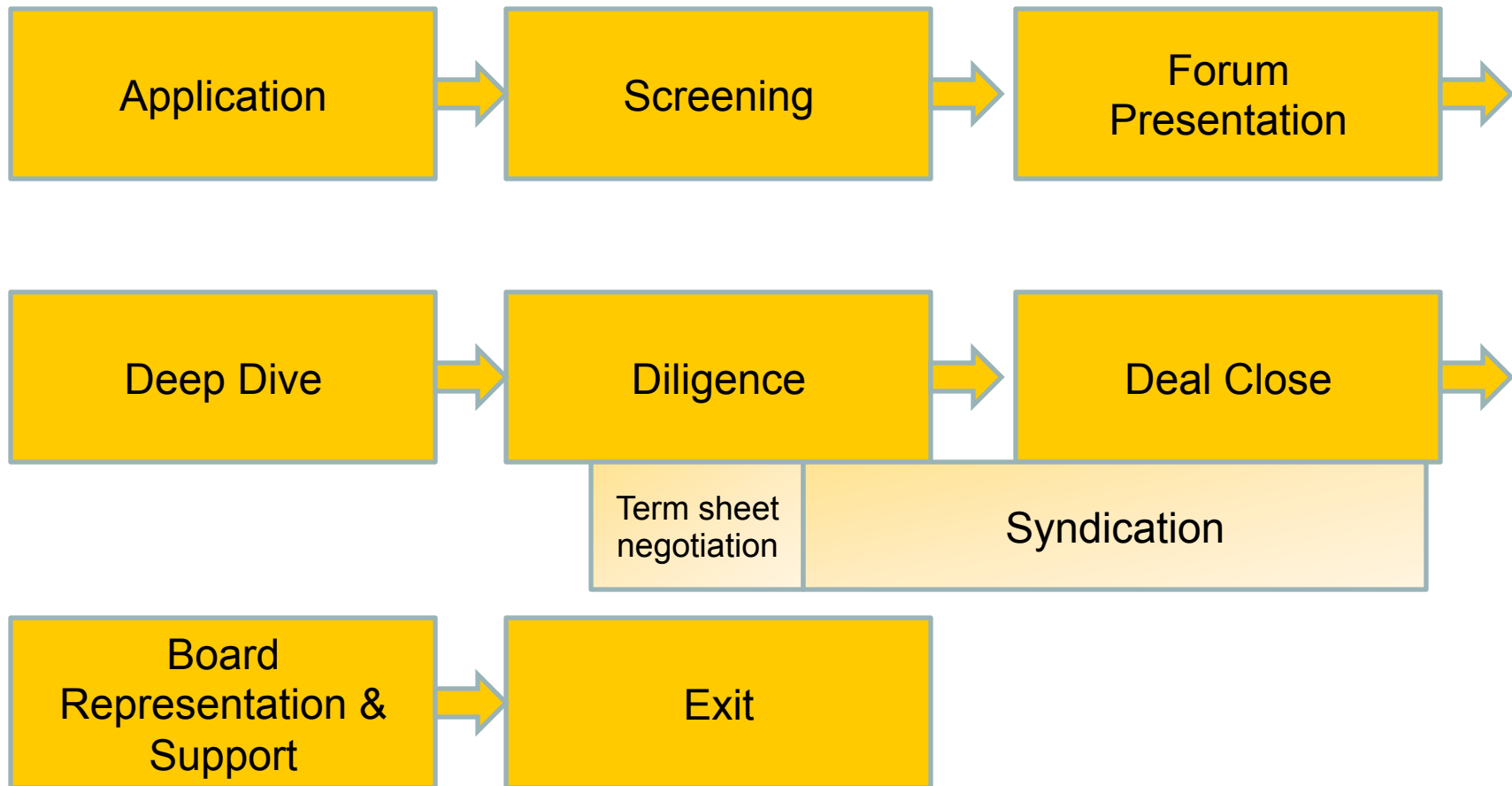


- Software
- Hardware
- Consumer Goods
- Media
- Life Sciences



- New England
- New York
- Mid Atlantic
- Mid West
- West Coast
- Canada

The Golden Seeds Process



Thinking About the Term Sheet

Economic

- **Valuation**
- **Anti-dilution**
- **Liquidation Preferences**
- **Option pool**

Control

- **Board**
- **Protective provisions**
- **Pre-emptive rights**

Valuation

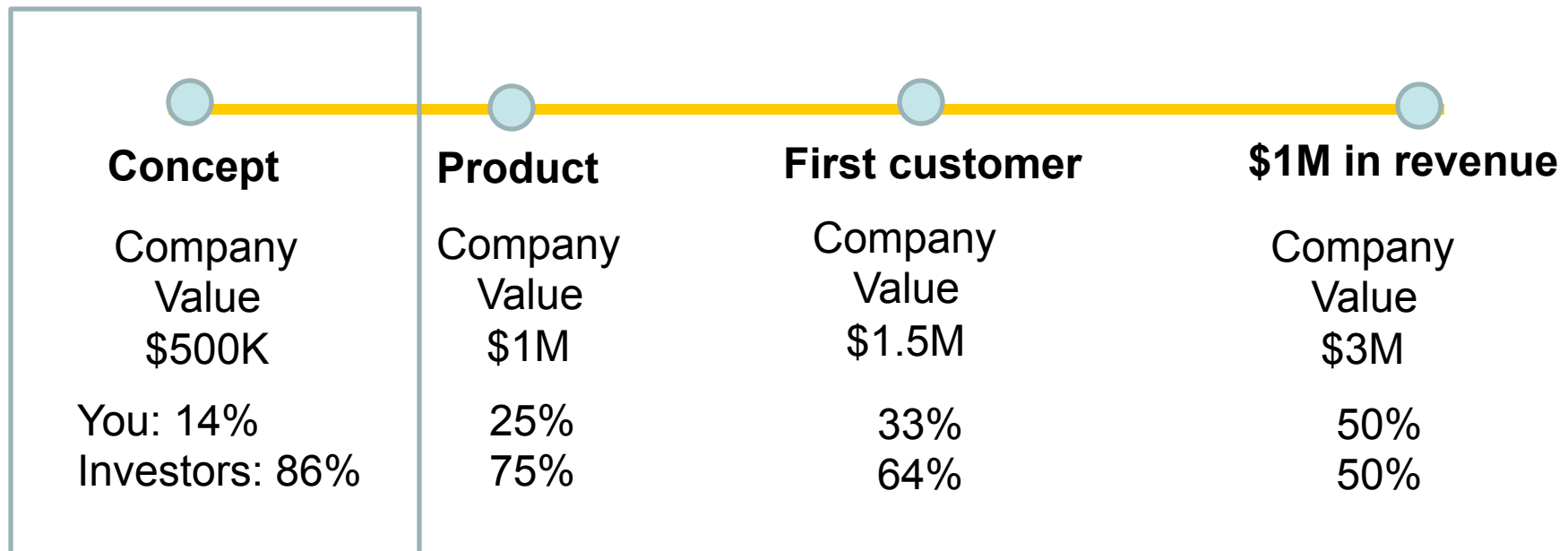
- **Art as much as a science**
- **Key factors**
 - **Stage of the company**
 - **Strength of the team**
 - **Product and IP**
 - **Market opportunity**
 - **Execution plan**
- **Industry comps important**
- **Market environment a contributing factor**
- **What's your goal? What's my goal? Are they different?**



I Need \$3M: Option 1

Option 1: Raise the whole amount

Option 2: Raise a little bit now, the rest later

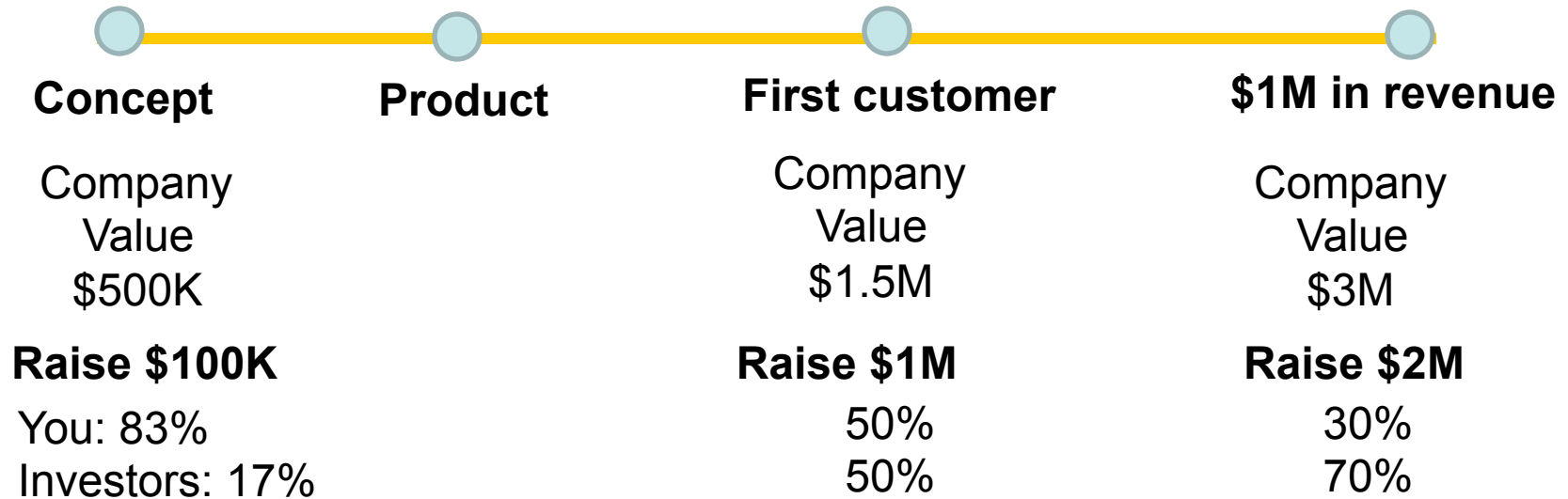




I Need \$3M: Option 2

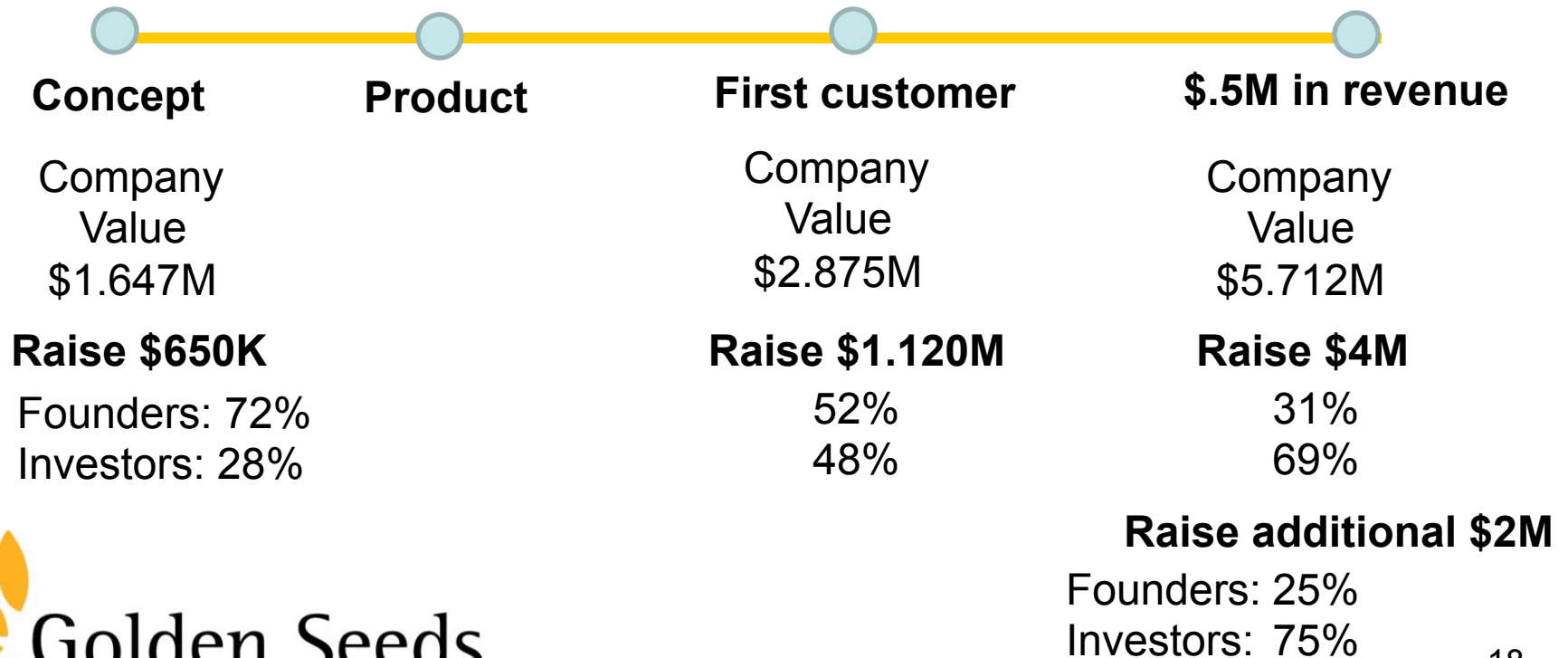
Option 1: Raise the whole amount

Option 2: Raise a little bit now, the rest later





Company X



Employee Option Pool

- **Employee option pool**
 - Up to 20% of post-money valuation
 - Calculated in the pre-money valuation
- **Vesting**
 - Four years/1 year cliff
 - Single or double trigger
- **Example:** Pre-money \$1.0M, Raising \$1.0M

	No Option Pool	10% Post Money Option pool
Effective pre-money valuation	\$1M	\$800K
Founder	50%	40%
Options		10%
Investors	50%	50%

Option Pool – Company X

The option pool will be increased before the financing by 640,000 shares to provide an additional 10.0% new stock option pool, post money, for future employee grants. Options shall vest over four years, with the initial 25% vesting after one year of service, the remainder vesting monthly thereafter.

APPENDIX

Before the Term Sheet -- Diligence

- **Product** – idea, IP, differentiation, market opportunity
- **Profits** – business model
- **Plan** – execution plan -- good idea of the steps needed to create a scalable business model
- **Promotion** – the “go to market” strategy – sales and marketing plan
- **People** – a team to meet the needs of the business

First Time Entrepreneurs

- **Without a startup track record, funding can be a challenge**
- **Moving from negative to positive**
 - Communicate relevant experience
 - Hire a compelling management team
 - Surround yourself with experts
 - Show us some milestone accomplishments
- **Don't ask us to take a leap of faith – show us how you are going to be successful**

Anti-Dilution

- Protects investors in the case of a down round
- Two approaches
 - Full ratchet
 - Weighted average (takes into account the magnitude of the lower priced issuance)
- Results in a new conversion price for the investors – not additional shares

Anti-Dilution – Company X

Adjustments and Antidilution:

Conversion ratio adjusted proportionately for (i) stock splits, stock dividends, reclassifications and the like and (ii) on a broad-based weighted average basis for issuances of shares, Common Stock or derivative securities at a price per share less than the then-effective conversion price, subject to customary carve-outs.

Pre-emptive Rights/First Refusal

- Enables investors to retain their current ownership percentage as the company raises more capital.
- Company X

Pre-emptive Rights:

The holders of the Preferred shall have a right to purchase shares in other equity offerings made by the Company (subject to standard exclusions) in order to maintain the same ownership percentage in the Company. The holders of the Preferred will have the pro-rata right to purchase any under-subscribed shares of other stockholders. This right will terminate upon the Company's initial public offering.

Right of First Refusal:

The Company will have the right of first refusal to purchase any shares offered for sale by stockholders, subject to standard exclusions.

Liquidation Preferences

- Who gets what in the event of a company liquidation
- Preferred versus Participating Preferred
- Liquidation multiples

	Preferred	Participating Preferred	Participating Preferred 2X Multiple
Investment	\$5M	\$5M	\$5M
Post-money investor ownership	50%	50%	50%
Company sold for	\$20M	\$20M	\$20M
Investor gets	\$10M	\$12.5M	\$15M
Company gets	\$10M	\$7.5M	\$5M

Liquidation Preferences – Company X

In the event of a liquidation, dissolution or winding up of the Company or a merger or similar extraordinary transaction, the holders of Series A, A1, and A2 (“The Preferred Stockholders”) as a class on a *pari-pasu* basis will be entitled to receive an amount equal to the Original Purchase Price plus any accumulated but unpaid dividends; then the Preferred Stockholders as a class will participate in the remaining assets ratably with the holders of Common Stock (calculated on an as-if converted to Common Stock basis). Liquidation preference to be paid in cash to the extent available.

Protective Provisions

- Dictates the actions that require shareholder consent
- Dictates what type of consent is required
- Examples of provisions:
 - Changes in the senior management team
 - Dividends
 - Additional borrowing in excess of \$100,000,
 - Transfer of assets not in the ordinary course
 - Mergers and consolidations
 - The issuance of any senior or pari passu debt security
 - The alteration of the number of issued or authorized Series A Preferred shares,
 - The issuance of aggregate indebtedness or capital expenditure in excess of \$100,000 that are not already included in a Board-approved budget, other than trade credit incurred in the ordinary course of business.

Protective Provisions – Company X

Without the approval of the Preferred Majority voting separately as a class except as otherwise required by applicable law, the Company will not (i) pay dividends on Common Stock, (ii) increase or decrease the number of authorized shares of Preferred Stock (iii) take any action that materially adversely alters or changes the rights, preferences and privileges of the Preferred Stock, (iv) alter Fairhaven's Series A2 Board seat (v) modify the Company's certificate of incorporation or bylaws in a manner which materially adversely impacts the Preferred Stock, (vi) create any senior or pari passu security, (vii) effect any transaction in which control of the Company is transferred or in which the Company sells substantially all of its assets or merges with another entity, (viii) increase or decrease the size of the Board of Directors, (ix) increase the number of shares authorized or reserved for an employee stock option plan or similar arrangement, (x) engage in any repurchase or redemption Common Stock or Preferred Stock except for purchases of Common Stock at cost

upon termination of service or the exercise by the Company of contractual rights of first refusal over such shares, (xi) engage in the sale, transfer, or encumbrance of technology other than licenses granted in the ordinary course of business, (xii) engage in the liquidation, dissolution, recapitalization or reorganization of the Company, or (xiii) make material changes to the Company's line of business.

Board Composition



- **Three to five board members**
 - **CEO**
 - **Investors**
 - **Independent**
- **Augmented by board observers**
- **Frequency of meetings**

Company X



- **Four board members**
 - **CEO**
 - **2 Investors**
 - **1 Independent**
- **Augmented by 3 board observers**
- **Frequency of meetings: Monthly**

Other

- Non-Competition and Non-Solicitation and Agreements
- Non-Disclosure and Developments Agreements
- Information rights
 - annual and quarterly financial statements
 - a capitalization table

Convertible Notes

- **Reward for de-risking the business**
 - Discount into the next round (10 – 20%)
 - Warrants
- **Aligning interests**
 - Valuation cap

The Goal



- **Both sides satisfied**
- **Interests are aligned**

Success Factors

- **The starting point**

- Find the right group (s)
- Find a champion in the group!
- Know when to engage
- Develop a compelling investor presentation and executive summary

- **Engagement**

- Understand the process and follow instructions
- Ask questions, we want to give you the chance to be successful
- Follow the presentation guidelines
 - Stick to 10 minutes and focus on all the elements of your business
 - **Be confident**
- Know your business – particularly the numbers!
- Be responsive to requests for diligence materials

A Connected Community

Dear Fred,

Just wanted to respond further to your question about security with the Redlight software. Upon further reflection, **I think that your alarmist questions about security are absurd.** People today put their lives on the Internet, expressing themselves in infinite ways.

Redlight software is just another means of self-expression, and is **perhaps too ahead of its time for your comfort.**

We are going to build this company with or without the nickels and dimes from your club.

Sincerely,
John Smith



And They Said No.....

- Understand the “no”
 - What does no mean
 - Why are they saying no
- Regroup and keep going
- Circle back



Creating an Effective Presentation

- Elevator pitch – who are you and what do you do and why?
- Market opportunity
 - What is the problem you are solving
 - How big is the market
- Product or service (intellectual property)
- Target clients and business model
- Go to market strategy
- Competitive landscape and advantage
 - Barriers to entry
- The management team
 - Hiring plan
- Financial summary, including last year's P & L and 3 year projections
- Funding needs for this round & use of funds
 - history of funding to date
 - pre-money valuation



What is Your Funding Strategy?

- Where are you in your development?
- How much capital do you need short term?
 - What are the milestones can you achieve with the capital you bring in?
 - Will these milestones create increased value?
- How much capital do you need long term?
- Where do you want to end up?
- What sort of resources and connections do you need?