WHEN VENTURE CAPITALISTS SAY “NO”

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Creative Financing Strategies and Resources

Ron Peterson

Commanche Press
Maryland

When Venture Capitalists Say "No": Creative Financing & Strategies

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ISBN: 0-9728246-1-8

Cover art designed by Windhaven Press

First printing March 2003

Design & typeset by Windhaven Press: Consulting & Editorial Svs, Auburn, NH (www.windhaven.com)

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

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To Gerry, Kirsten, Tess and Christian

INTRODUCTION

The art of raising money is the art of reducing risk.

Henry Ford became one of the world's richest men and forged an enduring legacy of building cars nearly one-hundred years ago without the facilities thought indispensable today. He didn't invent the automobile. Ford wasn't the first to market. He had no backing from deep-pocketed investment bankers. He had no network of well-to-do friends. Ford started his firm during the recession year of 1902. There were plenty of competitors. There were no venture capital (VC) firms, Small Business Administration (SBA) loans or government grants. He had never succeeded in business before. He had no experienced management team in place. He didn't have a written business plan and certainly not a Power-Point presentation. Sounds like a formula for failure, doesn't it? But just the opposite happened. Ford figured out how to get his financing and you can too. Ford developed a business model that circumvented the obstructions, determined what really mattered, and devised a way to make it happen. While other car manufacturers at the time were targeting the wealthy hobbyist, Ford looked for a different market—the mass consumer. In order to reach this market he had to have an automobile that was within this market's price range. To build cheaply he had to produce a standard model quickly. Without capital to buy parts, to build a plant, to inventory products, or hire salesmen, he had to generate capital from his operations and grow internally. Here is what he did.

After asking the people he knew—his friends and family—and following a failed first business, Ford raised a total of $40,000 from five investors whom he convinced that his business model would work. He next built a network of dealers who were eager to sell a low-priced automobile, and would pay cash when the cars were delivered (finding a way to generate cash flow). He contracted with parts suppliers and paid on a thirty-day invoice basis. With an initial ten workers who were paid $1.50 per day, he assembled cars rapidly. In July 1903 they started rolling out at the clip of one each ninety minutes, and were immediately sold to dealers for cash. He had the parts that he needed without paying for them, he booked revenues quickly, and he used the time spread between the sale of the cars and the purchase of parts to good advantage. Using this cash flow he built bigger and bigger operations, extended his dealer network, devised an assembly line process and eventually lowered his price from $850 for the original Model A's down to $500 for the Model T, introduced in November 1908.

Becoming a phenomenally rich man didn't require a fistful of cash to start but it did need serious study of opportunities and identifying what people really wanted. He went through all the steps to test the business, with the first and most important step concentrating on seeing if the cars would sell. Business after business has begun with little upside money but with a great deal of thought. Putting that thought in today and getting your idea across to potential investors will get you the capital you need. Wouldn't you want to invest in something that was as well thought out as Ford Motor Co., one that illustrated sales, showed internal financing for growth, and was conveyed to you with the passion of a true believer?

"Nothing is particularly hard if you divide it into small jobs!"
—Henry Ford

If you believe that things were different back in Ford's day and you have nothing to learn from examining hundreds of different approaches to forming and financing businesses, you should know that just a few years ago Michael Dell used a variation of Ford's financing technique to grow Dell Computer into the powerhouse that it has become. If you believe that the solution to your business growth lies in simply talking a venture capitalist or group of wealthy investors into backing your plan, and only need a list and some phone numbers, you may find yourselves in the company of empty-pocketed entrepreneurs and become frustrated at the whole process. Attracting capital today means devising an innovative business model and communicating that model to potential investors, wherever they are. If you're seeking the most creative ways of attracting capital and are willing to apply energy and thought to just what your business could and should be, this book is ideal for you. It doesn't really matter if you're an experienced businessperson or someone who has recently decided they wanted their own company—these pages are the best place to start.

Ralph Waldo Emerson told us "Build a better mousetrap and the world will beat a path to your door." Emerson was a preacher and essayist, not an entrepreneur, and following his advice has rung the death knell for countless would-be companies. You do begin with a superior product that is uniquely positioned in a niche market, but thinking you can stop there is a formula for failure. Raising capital today means you have to get out and sell the idea, and sell it hard. The pages that follow are designed to show you how to configure your business for funding success and how to tell your story. The first two chapters suggest how to organize and present your company to attract capital. The third chapter is the heart of the book and provides examples of how other companies were funded and grew. Additional sources of capital are described throughout the following chapters and the resources section contains references to tens of thousands more. Ways to gain attention and give you your best shot before potential investors as well as your business and marketing plan comprise the later chapters. I have included a special chapter on biotechnology because the long lead-time and torturous path to market in that industry suggest that if you can fund a life-sciences company you've got a good formula for nearly any industry. I have even included a chapter on venture capital despite the title of the book—if you frame your model correctly, chances of securing capital from these professional sources soar. Wherever possible I have included references to websites so you can access even more information and sources of capital. Entrepreneurs need not feel alone since so many organizations exist to help them.

I am indebted to many for their contributions to this book including: Dr. Bob Ouellette, who wanted to have better information on funding technology companies for his students; Erle Keefer, who found the innocence of entrepreneurs about the rigors of funding to be responsible for countless business deaths; Tor Soevik, who preaches that technology without an imaginative grounding in marketing, has little chance; as well as many others for their comments and suggestions such as Drew Field, Henry Hubbard, Dr. Jamie Love, Tom Mierzwa, Dr. Jennifer Miller, Dr. Robert Rosato, Susan P. Smith, Robert Steeves and Dr. Gideon Strassman.

A friend not long ago said; "I could have a proven cancer cure and

I still couldn't get financing." That's not true of course, but the difficulty of finding money can't be over-exaggerated. A number of newer CEOs spend so much time chasing money they have little time left to run their demanding companies. This is a very poor use of time since the preparation and insight that we illustrate in these pages can vastly reduce what most entrepreneurs see as the onerous task of begging from strangers. If you did everything right, money would come begging to you. You're welcome to make comments or suggestions or ask questions at www.threearrowscapital.com or via e-mail at tarrows@erols.com.

1 FORMING YOUR BUSINESS STRATEGY

"This is one of the classic times when startups happen. People are unemployed. They're thinking, 'I could take a job with a public company that's barely hanging on, or I could take this idea I've been working on and build a team, raise some money. What do I want to spend the next three years working on—realizing a dream or grinding away at a place where I'm as likely to get laid off as I am to get promoted?'" Venture capitalist Paul Holland in Optimize Magazine, December 2002.

What to do first.

Terminology and players shift, depending on such things as the stock market, the economy, technology, fads, etc. The investment community regularly redefines the definition of what makes an appealing investment opportunity, depending upon variables such as these. During the Internet heyday early-stage investing meant a viable opportunity, in nearly any given stage of development, if the company had an engaging business plan and an attractive management team. Today, what constitutes an opportunity is far more rigorous, and is squarely focused on revenue as a way of limiting risk and showing full proof of concept. Investors still need a business plan and are looking for an experienced management team but they also need: some protected and valuable intellectual property (IP); evidence that a reasonable path for developing the product or service exists; proof that significant progress had been made towards proving out the market and demonstrating customer interest; a significant market potential; a product or service with clearly delineated milestones in terms of achievements, launch dates and revenue; and, most importantly, paying customers. Lots of young firms don't have all these ingredients but can still find the money they need by highlighting the elements they do possess and showing how the rest are going to be found.

Changing emphasis may be necessary to attract capital.Atto Bio-Science had to alter its business model from making microscope accessories to developing products for the biotechnology industry in order to raise $3 million in new financing. Atto kept its older business but realized both the growth and the funding were in other arenas.

Privately held Althexis and publicly traded Microside Pharmaceuticals succeeded in raising $60 million in private capital only after the two merged to form Essential Therapeutics, Inc. Cambridge Antibody Technology acquired cash-rich Oxford GlycoSciences for $177.5 million in stock while Oxford still had over $215 million in the bank!

Arradial was founded in late 2000 to produce research equipment for drug companies. As established equipment makers like Applied Biosystems and Waters Corp. faltered, investors steered clear of Arradial. The CEO refocused the company, used its technology to support its own drug-discovery efforts, and was able to generate new funding.

In the heyday of the Internet, Chemdex went public with a warning in its prospectus: "We have a history of losses and anticipate continued losses for the foreseeable future. We have had substantial losses since our inception. We currently expect our losses to increase in the future and we cannot assure you that we will ever achieve or sustain profitability." Machiavelli said: "Success or failure depends on conformity to the times." More recently, Gene Kleiner of premier venture capital firm Kleiner Perkins Caufield Byers said, "In a tornado, even turkeys can fly." Don't plan on being in a tornado again.

Form a story that investors will want to hear.

During the 80s, businessmen asked themselves, "how do I position my company and gain advantage in a *known* game (an existing or at least an understandable industry structure)?" The question now has become, "how do I divine the contours of an evolving and changing industry structure and, therefore, the rules of engagement in a new and evolving game?" Industries represent a diversity of new, emerging and evolving games. The rules of engagement are written as companies experiment, adjust their approaches to competition, find marketing opportunities, and otherwise fight to survive.

Amgen, destined to become the most successful of the first-generation of biotech firms, went through a difficult time in the early 1980s. Having pursued several technical paths with little success, Amgen was in the early stages of developing a treatment for anemia known as recombinant human erythropoietin, which stimulates and regulates production of red blood cells. A partnership deal with Kirin, a Japanese brewing company that was looking for a way of entering the pharmaceutical industry via biotechnology, provided additional funds at a critical time, and allowed Amgen to press on with the new drug. Patented in 1989 and launched two years later under the brand name EPOGEN, it became the first blockbuster drug to emerge from a biotechnology firm.

The best business opportunities.

Emerging technologies do more than change the technological skills needed to succeed, they change the relevant complementary assets, competitors and even customers. Technological change should be only one of the factors shaping an overall commercialization strategy. Complementary assets include access to distribution, service capability, customer relationships, supplier relationships, and related products. Any of these avenues offer a potential business opportunity. In fact, as long as the pace of technological developments stays strong and even accelerates, the number of potential businesses should grow dramatically.

A husband and wife team of Stanford University professors, Leonard Bosack and Sandy Lerner, needed to e-mail each other but found they couldn't because each accessed a non-compatible system. Their solution was the router, an instant hit, and they started and named the company "Cisco" to commercialize the innovation in 1984. The couple persuaded friends and relatives to work for deferred pay and financed the venture by running up bills on their credit cards. Sequoia Capital funded them in 1987, but only when they were profitable and doing over $3 million annually in sales.

SCENDIS began in 1984 as a consulting firm on workforce diversity and sexual harassment. The two partners gained their experience as federal employees and chipped in $3,000 each to their new firm. The first product was a newsletter on their specialty that went to states, counties, cities and other organizations that were sensitive to these issues. Their big break came when SCENDIS was asked to bid on a $200,000 study by the State of Ohio. They won by carefully surrounding themselves with the experts needed to do the work, as well as production of a beautifully crafted proposal. SCENDIS formed a team with big names in the industry such as Hay Associates and Deloitte & Touche, among others, and gained the credibility they needed. On the basis of that contract they became established experts and next went to the states of New Jersey, Wyoming, and Florida, and cities such as Philadelphia and Ann Arbor. When SCENDIS next wanted a high-profile job with Mitsubishi, they figured a frontal assault would get lost. They went through the union involved with Mitsubishi and won the contract.

Natural funding sources.

You can't tell the players without a program and the first thing to look at is the sea of potential funders that could float a white knight your way. Determine these sources by classifying the nature of your offering. Does your business model have legs? Do you have a product or feature that is a stand-alone business or one that is really a feature add-on to an existing product? If the latter, your best bet is probably to pursue a licensing or partnership agreement with a company established in the industry. Most investors aren't interested in funding a "one-trick pony," especially if the market is limited.

If the technology is a product rather than a feature, is it a platform technology that other work can build upon or is it an improvement on existing platforms already on the market? Platform technologies that can sustain added products or services offer the highest potential return for a new venture, but they are also riskier and require a well-delineated set of steps to assure an investor that things will work out.

Make the sale first.

Oracle's Larry Ellison gained a reputation for selling "vapor ware" in the early days of Oracle Corp. People claimed that he would promise *a product that hadn't yet been developed. His success stemmed from finding that he could work out the solution later. He delivered on his promises and delighted patient customers. Bill Gates has been similarly characterized as signing agreements for software as if it already existed and then going back to Microsoft to find a way of producing it. Mario Marino suggests, "if you're not out ahead of yourself, you're really not an entrepreneur." Marino and his co-founders began their telecommunications company with $600 each and eventually sold the business years later, for $2 billion.*

You don't need to re-invent the wheel, just make a better wheel.

Turning a raw invention into an economically significant innovation requires a host of steps. Typically an extensive process of redesign, modification, and a thousand small improvements are needed to make it suitable for mass markets, for production by drastically new techniques, and by the eventual availability of a whole range of complementary activities. It's probably more important and profitable to figure out what ancillary services and products a new technology will require than trying to figure out the new technology itself (selling wheelbarrows to miners instead of panning yourself). The people who put the first computer together, the ENIAC at the University of Pennsylvania, didn't make a dime off the machine while many of the others who came later certainly did.

The real money will probably fall to enabling products and services that are needed for innovations such as information technology and biotechnology. Economic history suggests that sub-technologies, arrangements, and architectures are needed to adapt us to prime technical components. Given the potential of these two technologies alone suggests the rewards are likely to be huge. Harvard Professor Clayton Christensen suggests that the most viable sectors will be those that are not the most attractive to the established companies. Foresight and niches could pay big dividends. He says, "The first thing to find out is whether there is potential to create a new growth market, a new application, within the general industry dominated by an established company." The litmus test, "Is there a larger population of less skilled, or less wealthy, customers who could be pulled into that market? An innovation will get traction only if it helps people get something that they're already doing in their lives, done better." (Check out his website at www.innosight.com.)

Carve out a niche.

> *Phil Knight developed a plan to make low-cost running shoes in Asia and sell them in the U.S., as part of his work toward an MBA at Stanford. In 1964, Knight and his former track coach (whose hobby was handcrafting lightweight running shoes) each put in $500 to start the predecessor of Nike.*

Deloitte Consulting conducted a study of the most successful business models and concluded that most simply targeted customers whose needs had existed for some time—but were considered undesirable or unprofitable by existing firms. Instead of accurately predicting the future, they redefined the present. The Deloitte study suggests innovation is found by creatively addressing the questions of who, what and how—standards in journalism and sales. The corporate stars they looked at: (1) redefined customer segments and targeted those with under-served needs; (2) created new customer segments; and (3) changed the decision-maker within the existing customer base.

Having what customers want to buy.

Perhaps you should follow the more debatable approach of "ready, fire, aim" in order to gain feedback on your model as quickly as possible. What do you really know about your market and is it better to make some mistakes to rapidly find out what works? In order to help investors understand and share your vision it's essential that you gain a clear understanding of that market from potential customers and from experts in the field, before going further. Part of your funding proposition should be a market study that shows at least a survey of potential customers. This is really something you should do yourself and not delegate to market survey companies or others—you'll be surprised at how much there is to learn by being on the phone or in visiting possible buyers. Document the responses of your test subjects and later you may be able to solicit their help in reaching the milestones you or your investors establish. A marketing outreach can also serve longer term needs such as enlisting aid in finding capital, adding management, developing markets, looking for new applications—and especially in identifying customers. This is also a good time to make contacts with the variety of public service providers, government funding sources and other people that can help you grow the business. In the formative stages of your firm, enlist as many respondents as you possibly can—and then double that effort.

It's probably best to go out and even sell the wrong product or service so that you can determine what the right one is. Remember that each time Edison failed to make an incandescent lamp he was eliminating possibilities and getting close to the one that would work. Often, successful businesses have deviated considerably from their original ideas when opportunities presented themselves once they were up and running. It may be more important to be in business than to have the right model to begin with. Business failures can be anything but a failure if it quickens finding out what will sell. The best business ideas may not be obvious and require a failure or two to point you in the right direction. Failures become just a learning experience. Customer surveys can be invaluable but when conducted in the absence of the product itself, it makes it more difficult for the interviewee to understand just what you're offering.

> "*Fail often, fail fast, and fail cheaply." Mia Wenjen, founder of the firm Aquent, doing $200 million in annual sales.*

Matthew Haley, an executive in Accenture's Corporate Strategy and Business Architecture Group, suggests that all executives of a company should make sales calls. He's seen a lot of dumb luck that produced terrific successes because companies found out what would sell and what wouldn't. Haley says that selling involves looking for the ego need of potential buyers and that companies don't buy things, people do.

> *Don Britton found that his very first customer became an evangelist for his company, a small business computing solutions provider. That customer recommended him to friends and was responsible for bringing in the next customer and many more. When looking for capital, there is simply nothing stronger than to know that your solution will sell. This knowledge will permeate and energize any presentation—to investors or customers.*

Learn from customers.

Dell Computers is famous for listening to its customers and learning what they want. They prospered by eliminating the middleman (although they unsuccessfully once tried retail stores) and pride themselves on how close they are to their customers and what they learn about trends from this closeness. This was a fortuitous result instead of a conscious strategy since they couldn't hire middlemen to begin with anyway. They have advanced and executed the strategy beautifully, however. Much of Dell's success and their present marketing model stemmed from how they had to bootstrap themselves originally and, with few resources, needed to find substitutes. Not having access to capital and a name that opened doors proved beneficial and formed what became the heart of Dell's culture. Maybe you're better off than you think.

Gina Dubbe, a vice-president of early-stage venture capital fund Walker Ventures, and both an engineer and saleswoman by training, suggests that today you need to take a non-traditional route to get the money you need. She's a strong advocate of using public relations to get your message into the hands of potential investors. She also says you need sales and a proven marketing plan in order to get investors excited. Gina suggests that when you put your product in the hands of test customers (your beta test) you should write into the agreement a provision that your test site customer will buy the product if they really like it and keep it past the test period. When you get your first three orders, you'll have an insight into what matters most to customers and how you need to market your products. You'll be in a much stronger position to talk to venture capitalists and other investors when you can tell them that people bought and just what those customers said. Among her other suggestions are: focus on getting leads for sales from any of a number of sources; save money whenever you can to include printing brochures in black and white and having just a minimal website to start; and finding complementary companies in order to co-opt their customer base. Gina is at www.walkerventures.com.

Even when you feel that you have low expectations of funding from a particular angel group or venture capitalist, you're probably better off going through with a meeting and see what you learn from the experience. First, lightning may strike but more likely, every time you make a presentation and handle questions, objections, etc., you'll find out more about what needs to be done to convince people and your next presentation will be better.

Quitting your job and starting a company.

> *Larry Ellison was a computer programmer working on a database for the CIA (code name "Oracle") when he read an IBM paper on relational databases. He started a consulting company with two colleagues to develop these kinds of databases. A friend invested $6,000 but otherwise the young company bootstrapped itself, signing clients, doing the work, getting paid and developing the database product. They luckily wrote software in IBM's programming language, which soon became a standard, and the rest is history.*

Ellison isn't the only one who used a consulting company to generate the revenues needed to start a company. Gold Wire Technology, Inc. was begun by four MIT grads with a product they wanted to build. They didn't want to deal with VCs and give anything away (or couldn't anyway), so they started renting themselves out as consultants. They were paid well and put something like seven or eight hundred thousand dollars in the bank. Soon they could say: "Okay, you stop consulting, stay here and start developing the product. We'll go out and bring in the money to bring this thing alive." Gold Wire then added more consultants and kept peeling them off to man the company when they could afford it. By the time they had a working and demonstrable product, they could confidently shop it to the investment community and to lots of contacts they made through their consulting work.

> *Michael Dell hired high-school classmates to sell the Houston Post to newly married couples, taking in $18,000. Once in college he began selling the unsold stock of local PC dealers to businesses. He had taken apart an Apple II computer and noted that roughly $600 worth of parts made up at least a $2,000 retail price machine. With this kind of margin, he felt he had plenty of room to undercut prices and still make a profit.*

You can start from scratch or perhaps look for an existing business that you can materially augment. Maybe a company that has no marketing expert or where a businessman is tiring and could use a CEO would be good targets. Business brokers will have listings of companies. www.businesstown.com has information on selling a business and references a dozen other websites that provide opportunities and added background for this kind of effort.

Position your products or services to fit a customer's need.

Can you think differently about the market and come up with something useful? Phillips Lighting introduced a new type of fluorescent lamp that featured an extended lifetime, lessened energy usage, and a considerable savings over its life versus the competition. Marketing of the new lamp was frustrated, however, when purchasing agents in the U.S. failed to respond to the savings that were at the core of the benefits. Buyers were put off by a purchase price that was more than 25% higher than they were used to paying. It wasn't until Phillips changed its marketing emphasis, switching its target to chief financial officers, (CFOs) instead of purchasing agents, that they started to see sales. CFOs are interested in the bigger picture of corporate savings while the agents could only see the purchase cost. Phillips soon had a quarter of the U.S. market as a result of the new strategy.

If you offer a radically different approach that's difficult for people to understand and use in their daily lives, you may have more difficulty finding investors. Scott Cook needed $2 million to begin the financial software company, Intuit. A succession of "no thanks" to his pleas for money just confirmed to him that he had something truly novel. There were already at least two-dozen personal finance products on the market at the time but none of them were really simple and intuitive to use like Quicken. He had interviewed hundreds of people in the computer industry who had tried existing software to see what was wrong with these products, a technique of listening to the customer that he learned while working at Procter & Gamble. All the venture capital firms he spoke with passed, in every case finding something in the business model they didn't believe would work. He spent over $300,000 of his savings and his parent's money in the process. Investor capital finally came in from two wealthy parties referred by one of his associates, and he was on his way.

> *Thomas Edison threaded his electrical wiring through the emptied interior gas lines of homes to a bulb that sat where a gas flame burned before. He wanted to insure that buyers felt totally comfortable with the conversion and that changing to a new system wouldn't clash with their daily habits. Today we call this gradual change a "bounded equation."*

Think about taking an idea from one industry and applying it to another. Tom Stemberg organized the superstore Staples when a friend and Harvard Business School professor suggested that he apply what he had learned about distribution techniques while working in the grocery business, to another category of merchandise. The professor said that he should look for one that was growing faster and was poorly served, which turned out to be office supplies. The investment-banking firm of William Blair put up cash for its initial growth and later took the company public. Another early investor, Bessemer Venture Partners, helped the company obtain one of its biggest suppliers. Old friends and early investors, as Stemberg found, can give you a lot more besides just the money.

Become a salesperson.

When out seeking capital without a background in sales, you have an important handicap that needs to be corrected. Effective face-to-face selling is critical for entrepreneurs in all stages of growth. If you have to choose between the elegance of your technology and your ability to sell, choose the latter. Economic history is littered with stories of number two winning out because of this factor. Former IBM chairman, Thomas J. Watson, Jr., stated in a 1990 memoir: "In the history of IBM, technological innovation wasn't the thing that made us successful. Unhappily, there were many times when we came in second . . . [but] we consistently outsold people who had better technology, because we knew how to put the story before the customer, how to install the machines successfully, and how to hang on to the customers once we had them."

If you're new to sales, a good place to begin is with Dale Carnegie's "Six Principles to Make People Like You." The advice resonates today just as it did when first published in 1936.

- "Be genuinely interested in other people."
- "Smile."
- "Remember that a person's name is to that person the sweetest and most important sound in any language."
- "Be a good listener. Encourage others to talk about themselves."
- "Talk in terms of the other person's interests."
- "Make the other person feel important—and do it sincerely."

Ralph Waldo Emerson also said, "Every man I meet is in some way my superior, and I can learn of him." If there is any secret to sales it is to respect the person that you're speaking to and don't be intent on hammering them with every aspect of your business model. If you don't listen, there's precious little that you can learn. A little information is usually all it takes to elicit interest. Chapter nine in this book on public relations and elevator speeches will point you in the right direction. Another thing that you'll find about sales is that you never sell something to a person as much as you give information to them, and then they decide to buy it.

The section, "Resources," contains a number of references to sales texts that may help you but the best that I've ever seen never appears under the rubric of "sales." *The Dialogues of Socrates* by Plato illustrates the technique that Socrates used to persuade someone to alter his opinion and see things Socrates' way. All he ever does is state a fact and then ask a question. I've never seen anything more effective in making a sale. After all, a real sale means that the buyer saw the advantages and made the purchase decision himself or herself, with no one twisting their arm.

Sales books usually suggest things to say or not to say and illustrate a systematic way of conducting a campaign. Each person that you talk to or otherwise reach, and has the wherewithal to make an investment with you, is your prospect until they either finally say yes or no. Many people will want to think it over, investigate the proposition or otherwise need time to talk it over with others, etc., before they write a check. While many salesmen in fields such as automobiles will say you have little hope with these people you'll find that's not true. The best thing is to organize a way to keep in touch with anyone who has shown some interest. Regularly get back with more information, new facts, developments, or other information to keep you fresh in their mind. Drop them an e-mail with some information on the company, the market or other tidbit. I think calling people all the time is an intrusion and a simple note permits them to control their response to you and keeps a good relationship. A real sale always permits the buyer to be in control and never to feel forced in any way.

"I lost more hair doing this than I did raising children." Sandeep T. Vohra on searching for funding, netting a total of $22.4 million for his company, Optinel Systems.

Carry one other business adage with you, "If you've made the sale, shut up and get out." The theory is that once the deal has been agreed upon, the best possible outcome for you is already in the bag so the only change that could come has to be worse. Not doing so has been a mistake made hundreds of thousands of times.

Discovering investors through telephone calls or knocking on doors of people to tell them about a company has financed countless entrepreneurs. Sales cold calls are difficult for most people to make and the fear of rejection has stopped many entrepreneurs from ever getting very far. Inc Magazine's website lists a number of ways of getting over fears of making sales calls including articles on techniques for starting the conversation and what to do when you hear a "no." www2@inc.com will give you this material in a guide written by Jennifer A. Redmond. Houston, TX-based Michelle Nichols, writing in *Business Week*, has a list of "15 Power Selling Words" that she suggests using frequently and will help make your sale (includes "you" and "urgent" at www.savvyselling.biz).

Money at the outset.

> *While you may think there's no place you're going to get several million dollars to start and grow your firm, think that a number of companies were begun with less than $10,000. These included: Apple Computer; Mary Kay Cosmetics; Lillian Vernon; The Limited; Dell Computer; Gateway 2000; Papa John's Pizza; Nantucket Nectars; Ernest and Julio Gallo; Microsoft, and scads more.*

GeneDx was started in late 1999 by two researchers at the National Institutes of Health (NIH), Sherri Gale with 16 years of experience and John Compton with 10. Neither had any business experience, both were Ph.D.s and their research was fulfilling. Their work in genetic markers for orphan diseases (those with less than 200,000 patients, or about 6,000 such diseases) showed a service they felt was essential. Believing this program was especially important, they approached NIH about expanding it—the answer was "no." They next thought about setting up a non-profit to do the same thing on the side, but NIH said they would have to forfeit their jobs. They then decided to chuck their jobs, start a company, and perform the service. They each put up $14,000 from savings, began the company, and never looked back. Their first revenue of $512 came in on opening day. GeneDx revenues come from individual tests and research contracts. They found space in a Maryland incubator and nine months later received a $141,000 award from a group known as MD BioTech (a public entity that receives royalties from the company). Gale and Compton felt they won the award because they were showing revenues. Paying themselves no effective salaries at the outset, they gradually changed that as they grew. Nine months after the MD BioTech award, Sequoia Bank extended them a $100,000 line of credit, which they have never had to use. In the second full year of operations GeneDx revenues are close to $1.2 million with margins of about 35 percent. They receive calls from venture capitalists all the time asking if they want any money, and the answer is "no, our revenues are all that we need for our growth." They have 9 people, can barely handle the business coming in, and need to hire more. Sherri Gale suggests that the incubator (which she first thought was some kind of babysitting space) has been a godsend. An incubator gave them affordable space, help right down the hall, a succession of classes on business topics and incalculable emotional and technical support.

At the same time GeneDx illustrated their beginnings during a seminar at Johns Hopkins, two other presenters talked about how they formed their companies and their experiences with an incubator. Marlenix was spun-off from a company that was losing focus, and took over a product the original company was no longer really interested in. Starting with an item that has revenues is often all that is needed to begin a company, with the notion that other products or services can come later. Marlenix is rolling more products out the door, has a couple of small business grants, and looks like a winner. The third presenter was a scientist with impeccable credentials who had been involved in three other startups. His science is associated with a new technique for recombinant DNA. He raised $7 million in venture capital, received $3.5 million in NIH SBIR grants, but was still only 18 months away from running out of cash.

Does gender make a difference? An axiom in entrepreneurship is "When a man starts a new company, the first thing he does is to rent expensive office space, get really nice furniture, and hire an attractive secretary. When a woman starts a business it's more likely that she begins on an ironing board in her basement." As a girl, Ling Chai escaped China inside a crate and later started a software company in the basement of her home (that now does $50 million in annual revenues).

Investor's perception of you.

Some businesses like Compaq and Sun Microsystems secured funding quickly because they had either strong technologies or highly experienced teams. These factors reduced their perceived uncertainty and permitted them to attract funding required to start out on a larger scale, accelerating their growth. Compaq and Sun received venture capital funding from Sevin Rosen and Kleiner-Perkins, respectively, firms in their own hometowns.

As a caveat, attempting to raise initial capital that will not be needed until after a significant milestone is passed, or really before its required in the company's growth phase, is a subtle signal to prospective investors that the entrepreneur is not confident about the future prospects of the venture. If you need a pile of cash that will be dormant until you draw upon it, does that mean your company may not be so attractive in the future?

Handling negotiations.

The best situation in hunting capital is to become such an attractive proposition that everyone wants a piece of you. Ideally, you'd like to be involved in a bidding war where several interested investors bid against one another for the right to invest. It's true that when you get one investor with a big name involved, others are likely to follow. Dennis Roberts, an experienced investment banker, said that he had a client who had an offer on the table to buy his company for $9 million. When Dennis finally joined the discussion, the offer immediately went up to $11 million, reflecting the belief by the buyer that hard bargaining by an experienced outside party was about to start. Dennis expanded the bidding by contacting other firms, and after a lengthy process the company was sold for $38 million. The interesting part of this success included the fact that not only did the final purchase price increase by a hefty multiple, but also the accepted bid wasn't even the highest figure that was finally bid. The terms of the accepted offer were more attractive than those given by the highest bidder, something Dennis has seen countless times.

There are a number of university business school courses and books on negotiation that are worth investigating. The Wharton School at the University of Pennsylvania has one of the oldest and best courses.

The book *Getting to Yes* is a must read for anyone about to embark on a serious sale. One of the most important lessons taught in all the courses and books is that when entering negotiations, you should look at it as if you were sitting in the other person's seat, not just your own. This kind of perspective allows insight into the process and will be advantageous to you.

If you've found potential investors slow to write their checks or they otherwise find reasons to stall, they probably believe they're the only interested party. Better to be seen as a short-term opportunity that's going to be snatched up by others if you don't act now. That won't occur unless you find several interested investors by spreading your net widely and making a good case. Even if one investor seems fine, try to increase the pool as much as possible. Corporations who both invest in you and offer your company partnering advantages may be a preferred source. If nothing else, the extra interest you generate may up the bidding or give you better terms than originally offered by venture capitalists, business angels or Wall Street investment banking firms. Think of whatever you can do to make yourself as attractive as possible. Have you spoken to a large number of venture capitalists or strategic partners and learned what they're interested in? Do you have a variety of funding alternatives?

It does make a difference where you locate.

> *A key element in raising money for the new biotech company, Vertex, in 1989, was the assembly of a world-class group of researchers. Founder Boger located his company in Cambridge, MA and recruited five senior faculty members at Harvard for his Strategic Advisory Board. Recruiting big names was doubly impressive since at the time nearly 200 biotech companies had emerged and were struggling. Only Genentech earned a regular profit and even that was small. Biotech wasn't in favor but Boger made an excellent case and recruited the names he needed, largely by making it easy and convenient for them to participate.*

Locating your new company among others that share your market or technology, an industrial cluster, can be valuable to any new enterprise. Talent is available nearby and often governments and universities offer cash or services to foster new businesses.

Joseph Schumpeter told us in 1934 that innovation in the form of new technologies or combinations that disrupted the prevailing equilibrium would usher in gales of creative destruction. Schumpeter said that innovation arrives in clusters and argued that newly formed firms commercialize inventions, increasing overall demand, causing economic growth, destroying the existing market structures and redistributing wealth among the remaining firms in the market. Not only does it arrive in clusters, but it also is best nurtured in a cluster.

Working with other people.

If you can avoid going it alone so much the better. A partner can be there to shoulder the burden, to bounce ideas off, and be there when things are rough. Also, Edward Roberts at MIT's Sloan School of Management found that the number one characteristic of successful companies was the early hire of a marketing person, usually not later than the number three person. There's little percentage in going it alone and much better to have someone alongside, especially if they have a feel for a market.

Gunther Than, founder of View Systems, Inc., was sitting in his lab at 11:00 PM one night musing about the difficulties of being an entrepreneur. He noted that he was constantly looking for money and for clients and he noted how difficult it was, even with a compelling technology. Gunther noted how lonely it was to be the only person whose shoulders bore responsibility for success or failure. He thought of the income he could have had if he had stayed as the vice-president of a technology company and the shorter hours that he would've spent. Still, he recognized how driven he was so he had no other path.

Your formula for success.

Professor Amar Bhide, one of the leading experts in growing a company, suggests seven principles for successful startups, "get operational fast; look for quick break-even, cash-generating projects; offer high-value products or services that can sustain direct personal selling; don't try to hire the crack team; keep growth in check; focus on cash; and cultivate banks early." Bhide also argues that providing large amounts of capital to all comers leads to a misallocation of resources. In his view, much of the distinguishing features of promising start-ups derive from their capital constraints. "Meager funding forces entrepreneurs to conduct low-cost experiments that help resolve market and technological uncertainties and prepare the ground for subsequent large-scale investment."

> *An article at www.WSJ.com reported that a Taos, NM psychotherapist opened a business that offered artists a combination of gallery space, a studio and lodging with other artists, turning it into a thriving little enterprise. What makes this company interesting is that the entrepreneur was suffering from bad health and needed to find a service that fit their own physical limitations. The suggestion was that ailing entrepreneurs might expect to actually improve their health by owning a business.*

Muscular dystrophy devastated Gary LeTourneau's body but his mind is sharper than ever. He develops games that can be downloaded from cell phones and his company, www.paletsoft.com, represents a model of distribution, production and content that gives him a chance of building a real success. You can give Gary an idea or a situation and he'll probably have made a game to deal with it in just a day or two.

You'll need different types of money.

Most companies will employ a mix of financing and other strategies needed in their various phases of growth, largely as a function of their progress, what they learn, and the opportunities that open to them. Collateral Therapeutics, Inc., a San Diego, CA based cardiac gene therapy company was formed by a scientist/venture capitalist, Dr. Fred Reich, in concert with a research scientist, Dr. Rich Hammond. Hammond had developed a potential alternative treatment for cardiac problems while working at the University of California (UCSD) and a VA hospital. Reich had the big German pharmaceutical company, Schering AG lend the new firm $500,000 for startup costs and agree to millions of dollars in investments, milestone payments, royalties and other resources over a five-year term. The young company later raised an additional $3 million from the Welcome Trust in the U.K., garnered over $25 million in a Bear, Sterns-led IPO, another $10 million in a private placement and was eventually bought out by Schering for over $100 million. Not only capital, Schering was a partner in research while also providing help in regulatory matters, manufacturing, distribution and sales for any products that came out of the work. Collateral itself greatly expanded its research capabilities by licensing technologies at universities and other organizations and by paying for research to be conducted in related cardiac gene therapy fields. By raising capital in stages, like Collateral, the founding members of firms can potentially own a larger share of the venture at the end, when real progress is made.

GovCon, a company bought out by Vertical Net, began by putting the Commerce Business Daily, a government publication, free on the Internet. They built up a user list of 100,000 and used the demographics of that group to develop and sell contracting services. Governments have many resources that can be tapped and also help you along since your startup business costs are deductible.

Dispel common myths about starting a business right now.

Rob Adams, the founder of incubator AV Labs and head of Austin Venture's bootcamp for entrepreneurs, has an engaging book called *A Good Hard Kick in the Ass* that illustrates myths that need to be quickly dispelled in your search for money. Simply, the following are *not* true:

- Good ideas are scarce.
- I know my customer.
- I have to ship the killer product.
- I must raise a lot of capital quickly.
- Investors fund business plans.
- Investors want their money back quickly.
- Advertising is the hallmark of a good marketing plan.
- I can use partners to sell my product.

Rob's bootcamp is a two-day session that exposes attendees to world-class venture capitalists, service providers, authors, et al. (www.garage.com/bootcamp). Bootcamps for entrepreneurs are becoming more popular and a check with your local business school may turn up something interesting. In Maryland www.mdhitech.org/Entrepreneur/Bootcamp has details that seem typical. On the West Coast, www.garage.com runs a half day camp and a full two-day session on financing.

"All we need to start a business is 150 cars, 4 employees, and 15 rented parking spaces." Stelios Haji-Ioannuou, founder of easyGroup. All his companies "are service-oriented and share a 'recession-proof business model' with the following components: a price-elastic demand curve (consumers will use the service more frequently if it costs less); high fixed costs; low marginal costs per customer; yield management that ensures assets are utilized as much as possible; no frills; the ability to outsource tasks to the customer; exceeding customer expectations ('under-promising and over-delivering'); and prices that dramatically undercut the competition's." www.hbswk.hbs.edu, 12/03/2002.

In the early 1990s small business wealth accounted for 56% of total business wealth but an SBA survey found that figure dropping to 43% by the year 2000. Economist Joel Popkin suggests that the stock market boom in the late 1990s incorrectly shifted this figure since small business wealth is privately held and is typically not listed in stock market quotes. Small businesses are more and more the wave of the future and the place to create wealth.

The German poet Goethe told us that when we fully commit ourselves, strange and wonderful things happen. Doors open and opportunities arise that never seemed obvious before. When you make the decision to pursue your vision, these doors should open for you as well. The rest of this book is devoted to ways to help open those doors.

2 Designing Your Business

Jim Barksdale upon joining Netscape: "Look, if we want to be a leader, what we need to do is find a parade and jump in front of it."

Early American economic history is a tale of small business growth. When you find a product that sells or you can enhance the practices of an existing business with low revenues, you have a chance for a winning formula. The U.S. Army keeps a weapons museum at Aberdeen, MD so that researchers can reference solutions in the past. A little research on past business models can help you as well. Do you see anything here for you?

- Tom Watson took over the moribund Computer Tabulating Recording Company in 1914, renamed it IBM, and quickly doubled sales. The company had been organized 18 years earlier with good technology but poor marketing. Watson was the top salesman for National Cash
- Register (NCR) and started his career as a traveling organ salesman. The emphasis on sales still characterizes IBM today.
- SmithKline was a Philadelphia apothecary that supplied quinine to U.S. troops during the 1846 war against Mexico, spirits of ammonia during WW I, and amphetamines just after WWII. With impressive sales from each of these medicines, growth was a natural.
- Genentech was founded in 1976 by a venture capitalist, Bob Swanson, and a microbiologist, Herbert Boyer. Initial products were sold to other companies and they outsourced most corporate infrastructure such as manufacturing and sales until revenues were established.

APPENDIX B: SMALL STOCK OFFERING REQUIREMENTS

List of items needed to file a registration statement with the SEC and NASD (these two filings must be simultaneous while filing with the states can be done later). Send a check to the NASD for filing, zero to the SEC for a Regulation A and $92 per million of registration for an SB-2. A registration fee with the NASD is computed at $500 plus .01% of the gross proceeds of the offering or $100 per million plus $500. The SEC will require two years of audited statements for an SB-2 and three years for an S-1. While the SEC does not require audited statements for a Regulation A, many states will require an audit. You can often file in those states without your audit completed but you won't be qualified until the audit is final and reviewed. It is materially better to file with audited statements at the outset. Each state in which you choose to sell stock will also require a registration statement and a filing fee.

Check the following and provide the items or the information that you now possess. If much of the following appears foreign to you, don't worry, a number of models can be easily accessed. Much of the following you may have in your possession but the list is designed to trigger memory and completeness. Please remember that the basis of SEC registration is "full disclosure." DON'T HIDE ANYTHING. Please also note that the SEC wants to know complete details on ownership to insure that assets and revenues are indeed company property and will not be siphoned off instead of benefiting the new shareholders. You may only make statements of fact or reasonable expectation and sales rhetoric and hyperbole will be required to be struck out of the document by the SEC. While your business plan is designed to illustrate your vision of where you want to take your company as well as its past and present, this is a legal procedure and the task is to successfully take it through those hurdles. Rarely will a prospective buyer ever make his decision to buy or sell exclusively on the basis of your offering document but you do want it to look professional.

Note that service professionals will provide much of the following for you but you need to be familiar with all of the kinds of information and documentation that will be required. Also note that you will be responsible, either through your CFO or CPA, for the financial statements, calculations and accounting registration responses.

Business plan
Financial statements
Date and state of incorporation
Exact corporate name, address, telephone number, fax and e-mail address
Employer tax identification number
Do you have a web site and if so what is the address?
Articles of incorporation
Bylaws
List of investors in the prior twelve months with their home and work addresses; the dollar amount; price and number of shares and basis or means of calculating the price; telephone numbers; identification as to accredited, sophisticated or non-accredited. Services (if any) provided in full or partial compensation for stock.
List of the board members and management-team with their respective educational backgrounds, home addresses and their employment for the last five years including the month and year. Identification of the CEO and CFO. Also, if they or anyone in their immediate family holds a security license or are otherwise employed by a brokerage firm.
Stock option plan (if any) and agreement.
Management's Discussion and Analysis of Financial Condition according to the SEC instructions
Identification of the corporate secretary.
Number of shares outstanding and authorized.
Share and option ownership of management and anyone owning more than 5%.
The dollar amount that you want to capitalize the company at (for $5 million, what percentage of the firm are you giving up?).
Size of offering

Employment agreements
Copies of any significant agreements or material contracts including lease agreements
Opinion of counsel
Consent of auditors and counsel
Lock up agreement for management's shares.
Salaries of corporate officers
Shares of stock held by corporate officers
Have any corporate officers ever been involved in security fraud or felonious activity?
Number of employees
Number of square feet occupied and rent or lease terms.
Involvement in any legal proceedings
Plan for use of the proceeds of the offering
Indebtedness to be paid from the proceeds
Plan to acquire any companies
Affiliates
Projections for growth over the next three years and the next five need to be made. Bottom line earnings are expected in those projections. (Note: when you figure the capitalization above, you should be able to demonstrate high compound growth in the value of shares by year five. Venture capitalists are typically looking for at least 30% and you want to give your shareholders equivalent compensation for their risks.) Projections *do not* go in a registration statement, but they do go in a private placement or other form of non-registered business description.
Good color pictures or schematics that can tell the whole story of the company's products/services, etc., in a glance. These can be used in the final printed offering circular.
Added products/services/markets that you're thinking of bringing out in the next few years.
Description of your R&D activities.
Registration in New York State requires the identification of officers and directors to include: place of birth, telephone number, social security number, date of birth and residence for the last five years.
Glossary of technical terms.
List of competitors and the differences between them and your company.

Citations for claims to include the publication or authority and description of the journal or organization.

A canvass of your present shareholders, officers, directors and affiliates to see if anyone is associated in any way, marriage or other relationship, with any member of a broker-dealer, a National Association of Securities Dealers member-firm.

Checklist of items:

Signature page with a majority of board members plus the CEO and CFO as signatories.

Individual state registration letters signed by the CEO.

Samples of standard or special agreements the company is a party to.

Signed underwriting and selling agreement.

Signed employment agreements.

Signed lock-up agreements.

Signed consent agreement of the auditor.

Signed opinion of counsel.

Signed escrow agreement.

Tombstone.

Specimen of security.

Original signature corporate resolutions (form U-2A) for each state filing.

Signed and notarized uniform applications for each state filing.

Residence street address of officers, directors and principal shareholders.

Dilution, capitalization and use of proceeds checked by the CFO.

GLOSSARY

For a comprehensive glossary on investing, with particular reference to venture capital transactions, go to http://vcexperts.com/vce/library/encyclopedia/glossary.asp. The SBA has a link to dozens and dozens of glossaries at www.sba.gov/hotlist/busstart.html including highly specialized listings such as "Glossary of Object-Oriented Terminology for Business, Insurance Glossary, Netlingo Internet Glossary, and Glossary of Leasing Terms" to name only a few. www.geneed,com has a comprehensive Life Sciences Glossary.

Accredited Investor. As defined in rule 501 of Regulation D of the Securities Act of 1933, as amended, an accredited investor means any person who comes within any of the following categories, or who the issuer reasonably believes comes within the following categories at the time of the sale of securities to that person: a bank, insurance company, registered investment company; and employee benefit plan; a charitable organization, corporation, or partnership with assets exceeding $5 million; a director, executive officer, or general partner of the company selling the securities; a business in which all of the equity owners are accredited investors; a natural person with a net worth of at least $1 million; a natural person with income exceeding $200,000 in each of the 2 most recent years or joint income with a spouse exceeding $300,000 for those years and a reasonable expectation of the same income level in the current year; or a trust with assets of at least $5 million not formed to acquire the securities offered, and whose purchases are directed by a sophisticated person.

Business Angel. A high net worth individual with an interest and knowledge in a particular business sector, often because that is where he or she gained personal wealth. Business angels can help a stat-up company with their considerable experience but can also cause considerable harm if they are naïve about the needs of the business. An angel will frequently become an active advisor to the company and often take a seat on the board.

Blue-Sky Laws. Each state has statutory laws governing the distribution and sale of securities. These statutes vary widely in their terms and scope and need to be examined closely before soliciting investment capital.

Bridge Financing. Money that is provided to a company that is expecting to go public, usually within 6 months to 1 year, or is initiating its next stage of financing. It is often structured so that it can be repaid from proceeds of a public underwriting.

Early-Stage Venture. Firms that have a substantial risk of failure because the technology behind their production or the logic behind their marketing approach has yet to be proven. The objective of an early-stage venture is to grow fast enough so that it will be able to go public or be sold to another company.

Equity. Ownership interest in a company or corporation that is represented by the shares of common or preferred stock held by the investors.

Equity Stake. An equity ownership position in the company that is provided to a funding source, usually lenders or other investors, as compensation for providing management consulting, financing, or miscellaneous services.

First Stage. A stage of development in which the company has expended its initial capital and requires funds, often to initiate commercial manufacturing and sales.

Follow-On/Later Stage. A subsequent investment in which the company has expended its initial capital and requires funds, often to initiate commercial manufacturing and sales.

Form S-1. The most comprehensive registration statement to be filed with the SEC by companies that wish to offer securities to the public.

Initial Seed. A relatively small amount of capital provided to an investor or entrepreneur, usually to prove a concept. It may involve product development, but rarely involves initial marketing.

Intra-State Offering. An offering of the sale of securities within the borders of a state in which the company is registered, and requiring state securities agency clearances.

Internal Rate of Return. The discount rate (or interest rate) at which the present value of the future cash flows of an investment equals the cost of the investment. Present vale is the value today of a future payment, or stream of payments, discounted at some appropriate interest rate.

Investment Bank. Usually a registered broker-dealer that undertakes the sale of securities or otherwise seeks to secure capital for companies.

Later-Stage Investment. An investment strategy for financing the expansion of a company that is producing, shipping and increasing its sales volume.

Later-Stage Venture. Firms with a proven technology behind their product and a proven market for it. Their risk is based on a myriad of uncertainties that affect small business, including the feasibility of their business concept. They have a proven technology and a proven market for their product, are growing fast and generating profits, and need private equity financing to add capacity or to update their equipment to sustain their fast growth.

Limited Partnership, A form of business organization that offers limited liability to the investors who become limited partners and, in certain cases, also offers tax benefits. Limited partnerships are often used for certain types of investments, such as those in research and development and in real estate. Limited partners enjoy limited liability for the debts of the firm, to the extent of their investment in the business. Limited partners have no voice in the management of the partnership. They merely invest money and receive a certain share of profits. There must be one or more general partners who manage the business and remain liable for all of its debts. A limited partnership is organized under state statutes, usually by filing a certificate and publishing a notice in the newspaper. The statutes, codified in many states as the Uniform Partnership Law, must be strictly observed. The death or bankruptcy of any one of the general partners dissolves the limited partnership.

Private Placement. An offering of securities that is exempt from federal registration and limited in distribution to certain types of investors. Generally, no more than 35 non-accredited investors may participate in the offering but an unlimited number of accredited investors may be shareholders. Similar to a prospectus, a private placement memorandum (PPM) is usually written and offered to investors along with a subscription agreement.

Prospectus. A disclosure document prepared to provide potential investors with detailed information regarding the purchase of securities, including debt or equity offerings, or limited partnership offerings. As it pertains to a registered offering, the prospectus is part 1 of the registration statement. The prospectus must be delivered before the consummation of any sale pursuant to a registered offering.

Registration Statement. The disclosure document filed with the SEC and state securities commissions in accordance with securities laws.

Restricted Shares. Shares of a company's stock generally obtained in a private placement that cannot be sold to the public without registration of the shares or an applicable exemption.

Second Stage. A stage of development in which working capital is provided for the initial expansion of a company that is producing and shipping and has growing accounts receivable and inventories. Although the company has clearly made progress, it may not yet be showing a profit.

Securities Act of 1933. The basic legislation that governs the offering of securities to the public. The objectives are to (1) require that investors receive financial and other significant information concerning securities being offered for public sale and (2) prohibit deceit, misrepresentations, and other fraud in the sale of securities.

Seed Stage. Companies at this stage have not yet fully established commercial operations, may still involve proving out an idea, and involve continued research and product development.

Small Business Issuer. A company incorporated in the United States or Canada that had less than $25 million in revenues in its last fiscal year, and whose outstanding publicly held stock is worth no more than $25 million.

Third Stage. The stage of business development in which funding is provided for the major growth of a company whose sales volume is increasing and that is beginning to break even or turn profitable. These funds are typically for plant expansion, marketing, working capital, or development of an improved product.

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